DEVELOPMENT COMMITTEE

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on the
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Statement by

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On behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

Statement to the Development Committee
of the Honourable John Manley
Minister of Finance of Canada

Introduction

At Monterrey, in March of this year, leaders, together with Finance and Development ministers from developed and developing countries, achieved a remarkable consensus on the fundamental approach to helping countries achieve the Millennium Development Goals. This approach will see increased development resources focused on countries that can use them effectively. Leaders reaffirmed these same principles at the World Summit on Sustainable Development last month in Johannesburg. Our challenge now is to act on this new momentum to move from a theoretical framework to sustained implementation of the development agenda.

HIPC

Debt sustainability is an important component of the broader global attack on poverty. High debt levels remain a burden to poorer countries – a burden made heavier by the HIV/AIDS pandemic in many African countries. Our first step must be to make good on our existing commitments to fully implement the enhanced HIPC Initiative. The existing HIPC framework is flexible enough to provide heavily indebted poor countries a strong basis for a sustainable exit from debt problems. However, four major outstanding issues remain to be addressed:

1. getting all creditors, including the private sector to, to participate in the Initiative;

2. ensuring that donors provide enough money to the World Bank-administered HIPC Trust Fund to help pay the cost of debt reduction by the international financial institutions;

3. allowing for flexible consideration of additional debt relief for those countries completing the HIPC process, should their economic circumstances merit it; and

4. finally, the Bank and the Fund must make sure that their HIPC analysis is more accurate up front. Export and growth projections must be more realistic and better take into account potential downside risks.

The HIPC Review, which we and other shareholders called for at the last meeting of the Development Committee, usefully highlights the significant challenges facing the world's poorest countries as they progress through the Initiative. Unfortunately, too many HIPC countries are moving slowly through the Initiative with nearly half of all HIPCs having fallen off their Fund programs recently. Many others needed or have chosen to take more time to complete their Poverty Reduction Strategy Papers (PRSPs). Moving forward, we need to give due consideration to the underlying governance problems and capacity constraints that are at the root of these problems. We also need to ask ourselves whether it is sound policy to delay the award of irrevocable debt relief if a reforming country takes its time to develop a high quality PRSP based on extensive consultations with civil society, parliamentarians, the private sector and other stakeholders.

However, no amount of debt relief or aid can guarantee long-term debt sustainability. The HIPC Initiative only offers an opportunity that countries must themselves seize. It is clear that sound policies, good governance, prudent new borrowing, and sound debt management by HIPCs, will be necessary to build upon the HIPC Initiative in order to avoid a relapse into debt problems. We need to transform these sentiments into concrete actions, to challenge ourselves to develop innovative support mechanisms beyond debt relief, to think about the real drivers for lasting growth, a resilient economy and debt sustainability. There are a number of difficult questions that we need to consider carefully. How can HIPC countries strengthen governance? How can the international community best reinforce their efforts and contribute to longer-term growth and debt sustainability? How competitive are HIPC countries? How competitive can they be? Are they winning or losing market share in the industries most vital to their economies? What lessons can we learn from the successes of Tanzania and Mozambique in maintaining debt sustainability beyond the completion point? What are the lessons of the failures of others?

Implementing Monterrey

Based on the lessons of over 50 years of experience, Monterrey has forged a common approach to development. It affirms the fundamental importance of a development partnership between developed and developing countries grounded in mutual commitments, responsibility and accountability.

The evidence is incontrovertible. Countries assimilate financing best and reduce poverty fastest when they invest in their people and when they create the institutions that empower their people. The Monterrey Consensus recognizes stronger economic policies and improved governance as key developing country responsibilities. Our mutual experience also reinforces the lesson that country ownership is a fundamental requirement for effective development. Notwithstanding initial problems, PRSPs are an increasingly important development instrument. They give voice to country ownership, foster better developing country poverty reduction policies and offer developed countries a mechanism for better targeting and coordinating their assistance.

This last point is critical. For aid to be effective, developed countries must target it better. Far too often complex and duplicative donor reporting requirements have proven overly onerous for recipients. Progress in untying aid is a measure of our joint commitment to increasing the efficiency of aid utilization, the promotion of local ownership and capacity building.

We support efforts to improve the efficiency of the delivery of development assistance through an increased focus on support for sectoral programmes and budgets. Before this can be done, however, recipient countries must improve governance and their capacity to use such aid effectively. Where there are fundamental problems with expenditure management, data collection and public accountability, the risks are high that sector and budget support will be misused.

On the developing country side, strong policy frameworks, reinforced by good governance and transparency is key. The work that the Bank is doing to improve its assessments and reporting of governance performance supports this objective. We welcome the Bank's decision to publish the country categorizations under its annual Country Policy and Institutional Assessment (CPIA) process and encourage the Bank to make this assessment process more inclusive and transparent, including through increased consultations with developing country governments and civil society.

Strengthening Institutions and Governance

More broadly, robust institutions are crucial to empowering the poor and promoting longer-term development. Strong institutions can ensure that the benefits of development accrue to the largest possible number of citizens. There is a direct correlation between higher per capita incomes and the rule of law, the protection of property rights, the enforceability of contracts, and the absence of corruption. Conversely, there is an equally strong correlation between high levels of corruption associated with weak state structures and institutional capacities, and lower growth and lower per capita income. Corruption diverts resources from state budgets and weakens macroeconomic stability. And the consequences – reduced social spending, inflationary environments – are usually felt disproportionately by the poorest and most vulnerable.

A state capable of enforcing the rule of law is a fundamental prerequisite for building stronger and more effective institutions and improving governance. However, in many developing countries this capacity is very weak and this allows corruption to flourish. Moreover, institutions in these countries are often ineffective in overcoming the resistance to reform by strong constituencies that benefit from the status quo.

Development policy and development assistance, if they are to succeed, must attach priority to helping governments, and societies more broadly, create the institutions that foster growth and equity. These include:

- institutions that enable women and men to fully participate in civil society and to make their needs and wishes known;

- political institutions that restrain authorities from arbitrary actions;

- institutions that hold authorities accountable to the public for their actions and which safeguard fundamental human rights; and

- financial institutions that can extend financing to the poor, and especially to women.

Building and strengthening institutions is a complex task. While there is no single model for success, analysis of country experience does yield important lessons. Determined political leadership can be effective in overcoming the resistance of vested interests to reform and institutional building. However, equally important in fostering institutional change is transparency and open access to information. The World Bank has a particular strength in analyzing institutional capacity gaps and in providing assistance for institution building. The World Bank's 2001 World Development Report on institutions for development expanded our understanding of the challenges ahead. We will continue to look to be Bank to work closely with its partners in this critical development area.

The technical assistance and capacity building work that the Bank and Fund are now undertaking in financial sectors is a good example of institution building. This work helps countries with weak financial sector regulatory capacity better tackle the critical issues of money laundering and the financing of terrorist activities. It also helps these countries meet their international obligations in these areas. This work is particularly important for many of the small states represented in our constituency. These states are making a determined effort to address these issues and, looking forward, they must be assured of adequate technical assistance and capacity building resources to support their work.

Education – A Critical Investment in Human Capital

Investment in institutions must be complemented by investments in human capital. Universal access to basic education is the best avenue for ensuring that the poor have the opportunity to help themselves. Educating children, particularly girls, helps families earn more income, reduces infant and maternal mortality and, over the long-run, breaks the cycle of poverty. Educating women may produce the highest return on investment in the developing world. In April 2000, at the Education for All (EFA) meeting in Dakar, development and education ministers established six goals, including achieving universal access to primary education of good quality by 2015. The Millennium Development Goals also reinforce the importance of completion of primary education by all. Delivering on this commitment is an important step towards ensuring that all are able to benefit from the advantages of a global economy. World Bank analysis suggests that, with determined efforts on the part of both developing and developed countries, this goal is within our grasp.

Over the past year Bank staff have worked closely with UNESCO, developing country governments and bilateral agencies to develop an Action Plan and "fast tracking" proposal to help countries implementing good education plans achieve the Dakar and MDG goals on primary education. The Canadian/Irish/Caribbean Commonwealth constituency would like to commend staff for their efforts and encourages donors to back up this initiative with financial support. Indeed, our approach to supporting EFA builds on the key elements of the Monterrey Consensus and should serve as a model for international support for national efforts in other sectors.

We have seen considerable momentum build over the past year behind the EFA process. Canada is pleased to have played an active part in this international effort, through our role as Chair of the G8 Education Task Force, our involvement in the deliberations of this Committee and through our participation in the EFA Partnership Group that is working to develop the fast-track initiative. In addition, Canada will participate in the upcoming EFA High Level Group meeting in Abuja and will co-chair a meeting of donors in late November.

The time to act is now. Canada's commitment to achieving the goal of universal primary education for girls and boys by 2015 is clear: we will quadruple spending on basic education between 2000 and 2005. In addition, the Prime Minister has pledged that Canada will double its spending on basic education in Africa by 2005.

In its recently published review, Ireland Aid reinforced its commitment to education and primary education in particular. Support for education is a key element of Ireland Aid's overall commitment to reduce poverty and to promote sustainable development. Substantial additional resources will be available for the education sector in countries where Ireland Aid is working as well for NGOs, international education bodies and institutions. Ireland's commitment to education is reflected in increased support for this sector over the past number of years. In 2002, Ireland Aid will spend 14 per cent of its budget on education, enabling Ireland to make a significant contribution to improving the delivery of assistance for education.

Ensuring that Development Assistance is Effective

Having outlined an agenda for more effective development, we must also ensure that the right mechanisms are in place to help us all remain on track. This requires both better monitoring and evaluation of efforts by both developing and developed countries, as well as stronger accountability to stakeholders. This will allow us to assess better what works and what does not, so that we can further improve aid effectiveness.

Results measurement is often a matter of capacity. Developing country governments must be able to gather reliable information on which to base and to track their investments. We support the strong emphasis in the Bank's background paper on the need to build statistical capacity in developing countries. But we also recognize that the results agenda must move forward at a reasonable and realistic pace. There are tremendous cultural, capacity and coordination challenges to be overcome.

The issue of tracking the results of development investments, however, is no less a priority for development assistance providers. The challenge going forward for donors is for bilateral and multilateral development assistance agencies to improve their own analysis to ensure that their investments support the development agenda of recipient countries and lead to measurable improvements.

But better measurement and monitoring is not enough. One of the key development lessons is that our actions must be focused on achieving concrete results in terms of sustainable development and poverty reduction. Recognition that good policy performance improves aid effectiveness must drive a results approach. However, both recipients and donors must be held accountable for development outcomes. Moreover, accountability is a matter of resolve. And it is not a short-term concept. For developing countries, accountability means transparent decision-making and meaningful consultation with stakeholders. For developed countries, accountability means they must remain engaged with their developing country partners over the longer term, through ups and downs. They must also truly listen to the needs of developing countries to ensure that the supply-driven mistakes of the past are not repeated.

Freer Trade – an Important Element of the Monterrey Consensus

At Monterrey, and again in Johannesburg, leaders reaffirmed that trade is key to development. While good macroeconomic frameworks and good governance are fundamental to development and poverty reduction, developing countries must have opportunities to trade in the global marketplace if they are to prosper. We look to the World Bank and IMF, in support of the WTO and the Doha Development Agenda, to enhance their own analysis of how developing countries can best take advantage of the global trading system. In particular, we would look to these institutions to assist countries with particular needs and vulnerabilities – in Africa, among the small island states and landlocked developing countries.

Development partnership implies freer trade. However, trade distorting agricultural subsidies in the developed world continue to depress global markets for developing country products. The financial impact of these subsidies on the developing world considerably exceeds the value of developed country official development assistance. Moreover, trade barriers, in both developed and developing countries, continue to depress exports from Least Developed Countries. Countries must commit both to work towards the elimination of trade-distorting subsidies and to improve market access for the world's poorest countries. Earlier this year, Canada announced that, effective January 1, 2003, it would provide with duty-free and quota-free access to its market for virtually all products from Least Developed Countries.

Conclusions

The evidence is that development assistance is being targeted more effectively today than it was ten years ago. This is encouraging. But more must be done to ensure that each development dollar produces its maximum impact on poverty reduction and helps us to achieve the Millennium Development Goals. We know what needs to be done.

While the responsibility to accelerate development lies with developing countries, the international community has a responsibility to support the efforts of countries undertaking concrete measures aimed at achieving lasting poverty reduction. Indeed, Monterrey called upon us all to contribute adequate development financing for countries implementing good policies. It also looked to the international community for support for capacity and institution building. And Monterrey challenged us all to be catalysts for stimulating foreign private investment and trade and for creating a global environment which is fully inclusive and equitable, one in which all participants – large and small – can reap the full benefits of globalization.

Looking forward, the challenge that both developing and developed countries face will be to maintain our resolve, to keep our efforts focused where there will have maximum effect and to build actively a genuine and long-term partnership that will yield tangible results. But most importantly, this new partnership must rest on deeper mutual accountability that will produce development results on the ground that will better the lives of the poor in developing countries.