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Statement by

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Implementing The Monterrey Consensus

My constituency countries returned from the World Summit for Sustainable Development (WSSD) with the impression that the international community has an impressive track record in reaching agreements. Johannesburg contributed to the adoption of a number of targets, to a clear recognition of the integrated nature of the three pillars of sustainable development (environment, economic and social development) and to widening the scope on international problem resolution by bringing the private sector and NGOs on board. It will be a challenge to integrate the WSSD targets in the MDG framework. The three pillars of sustainable development clearly translate into a continuing need for coherent policies. Involvement of the private sector and NGOs should result in partnerships, thus combining efforts of stakeholders in order to tackle specific problems.

In Johannesburg we shared the feeling that the international focus in the coming years should be on implementation. The Netherlands Prime Minister Jan Peter Balkenende said in his speech "we have done the talking, let's now do the walking". Now is the time for action and implementation; I am pleased that this is firmly on the agenda of this DC meeting. The WSSD could have been clearer on the need for an integrated follow up to summits of this type; in particular where the relationship between WSSD and Monterrey is concerned. We welcome the proposal of the SG UN to monitor the implementation, also at the national level.

The follow up to the Monterrey consensus covers many fields, and it should also encompass matters such as trade for development, including phasing out subsidies and market access, as well as Official Development Assistance (ODA). With three case studies and a proposal to strengthen our focus on results, this DC meeting centres on practical matters. I welcome the three cases, which illustrate the urgent need to push forward with implementation, and I fully support the lessons and conclusions the World Bank draws from them. I believe they show us the right way to speed up progress towards achieving the MDGs. As the World Bank points out in its DC paper, the way in which we deliver aid in practice is an important factor in achieving better results. However, it is not only a matter of shifting to performance-based aid allocations. Though this is a key measure which, as the Bank rightly points out, is crucial for increasing aid effectiveness, I believe that issues like partnership, coordination and respect for the country-driven nature of policies and systems are equally essential for successful implementation. Many countries, including within my constituency, have devised national development plans, and target Education for All, water & sanitation and HIV/AIDS. They need support, in terms of capacity building and financial resources, to implement them. At the same time, however, they have to juggle with donor projects and international initiatives and demands. Strategic alignment, harmonisation and coordination among donors are therefore major challenges.

In terms of implementation, this means that donors should stop imposing their well-intentioned programmes and policies on developing countries. They should stop supporting activities that are not part of national strategies and start aligning aid to national priorities and systems. Decisions on funding should be made in consultation with recipient governments and other donors, so that a division of labour can be achieved among donor agencies. Donors must take account of developing countries' frequently limited institutional capacity and reduce the transaction costs of aid. We have talked at length about the need for harmonising donors procedures, and this is another area where effective implementation, with a focus on results, is now a must. These are the principles that will underpin my work as Dutch Minister for Development Cooperation. I intend to participate in joint missions and joint administrative arrangements wherever possible. Like developing countries, donors should be monitored for their performance and taken to task in forums like the DC or the DAC when they do not deliver. I want to be held accountable for such efficiency, and I invite other donors to do the same. I believe that this is in the spirit of Monterrey, where we all agreed on mutual responsibilities and obligations.

My constituency countries welcome the World Bank's suggestion to assess the performance of individual agencies for their inputs into the development process. To this end, I suggest that the DAC Task Force on Donor Practice should draw up broader assessment criteria than the usual indicators. The newly established monitoring system for IDA includes process indicators, for instance the number of country analyses carried out. It is a useful system, but I would propose going a step further and including partnership and donor behaviour indicators. Uganda could serve as a model here. Its PRSP specifies a number of criteria for good donor and government behaviour, i.e. “Jointly set output/outcome indicators”, “Develop uniform disbursement rules”, “End individual, parallel country programmes and stand-alone projects” and “Continue to increase the level of untied sector budget support and progressively reduce tying of procurement”. We need practical measures like these to guide implementation and to serve as yardsticks for assessing donor performance. I am committed to using these yardsticks and will continue untying Dutch aid and replacing stand-alone projects by supporting Sector Wide Approaches and PRSPs.

Another step forward in the debate on monitoring results is the Bank’s proposal to focus on evaluating donor agencies' collective contributions. Indeed, it is not useful to try and evaluate the impact of individual donors. It is only desirable for internal accountability, to reassure courts of audit that our euros are being spent properly. I do not think it will be difficult to convince the Dutch court of audit to stop trying to keep track of the Dutch euro in splendid isolation, because I have realised that its effectiveness will be far greater if it is considered within the framework of national budget systems as a contribution towards joint activities. Abandoning explicit recognition of our own contribution is a fair price to pay for better results. I realise that this shift in approach may be too hard to swallow all at once. We will have to chew it over, in this DC meeting and in other relevant forums. We can however take the first steps in the right direction by harmonising the indicators from our respective monitoring systems and moving as far and as fast as we can towards the targets and indicators included in countries’ own PRSPs. What matters most is greater accountability to the people of the recipient countries. Seen in this light, it is paramount to use their monitoring systems to measure results and improve them where necessary.

Progress in implementing Poverty Reduction Strategy Papers (PRSP)

I welcome the progress made by the PRSP countries and want to express my appreciation for the active support given by the World Bank and the IMF. This progress report identifies the challenges arising from implementation of PRSPs. However, I would have liked a more explicit report on responses to the recommendations from the PRSP Review. I am pleased to read that the Multidonor PRSP Trust Fund has got off to a good start. The Netherlands helped to establish this fund with the aim of building capacity in PRSP countries and promoting cooperation between UN agencies and the World Bank in the PRSP process. I regret to note that many UN agencies still play no significant role in the PRPS process at country level, although they have a clear mandate to monitor poverty, promote good governance and build capacity in civil society organisations. I therefore urge the World Bank to seize every opportunity to build stronger partnerships with the relevant UN agencies. The recent introduction of IDA grants gives me more reason than ever to keep close track of relations between the UN funds and programs and the World Bank. The IDA donors have requested intensified partnerships in the fields of HIV/AIDS and post conflict countries in particular. It is here that IDA will provide grants instead of credits and will move closer to the UN mandate. I suggest that the next PRSP progress report should highlight the relationship between the World Bank and the UN agencies.

We now have nineteen full PRSPs. Their quality varies. In many cases, social policies are set out in more detail than economic policies. Much work remains to be done in fleshing out the relationship between economic policies and poverty outcomes. I am pleased with the proposal submitted by the World Bank and the IMF to assist countries in developing alternative macroeconomic policies and fallback scenarios. Support for thinking through various policy options can enhance country ownership, since fully informed choices increase commitment.. Fallback scenarios are relevant for countries with vulnerable economies which may be affected by external shocks. We would welcome the Bank and Fund to carry out further research to help us anticipate such shocks and maintain past achievements on the road to development.

Although progress has been made on many fronts, some fundamental issues still need to be addressed. Are the policies of PRSP countries more pro poor than before? Are they more likely to result in less poverty? I call upon the World Bank and Fund to allocate sufficient budget and to expand their Poverty and Social Impact (PSIA) work. Both multilateral and bilateral donors should take serious account of the PSIA frameworks, and, together with the developing countries, use these for informed policy making. One area of economic policy which should receive more focused attention in the PRSP dialogue at country level is private sector development and trade. Last year, the World Bank Group finalised its Private Sector Development Strategy which focuses sharply on poverty reduction and contains innovative elements such as output-based aid. I would like to encourage the World Bank to introduce elements of this strategy into the PRSP debate at country level, in particular during consultations with the private sector. The same applies to its Trade Strategy (Leveraging Trade for Development), which can be seen as complementary to the Private Sector Development Strategy. I find it encouraging that the World Bank recently established a Trade Department to improve the institutional capacity to respond to the growing demand for trade-related services. The Trade Department has an important role to play in carrying out research that will help make trade policies in both industrialised and developing countries more pro-development. The whole range of the World Bank's work on trade and private sector development should be fed into countries' PRSP dialogue. I urge the Bank, in conjunction with UNCTAD, ILO and WTO to take this up as a priority in the run up to the next trade round. If it is to be a development round, we will have to start doing our homework now and prepare countries, in both the developing and industrial world, to develop trade policies with a maximum impact on poverty reduction. In this regard I would also like to commend the Bank and Fund for their contributions to the CIS-7 initiative, which broadly supports the development path of the CIS countries, and, amongst others, is aimed at regional cooperation amongst some of my constituency countries, and help them exploit their growth potential through building market institutions and trade.

Africa

I note with concern that economic growth in Africa is slow and too limited to reduce absolute and relative poverty. This places severe constraints on internal, African financing of the Poverty Reduction Strategies. It was therefore important that the G-8 put Africa and the New Partnership for Africa's Development, (NEPAD) on their agenda last June. I hope they will quickly implement their Action Plan which provides for an increase of their ODA to Africa. We have to reverse the current downward trend in ODA to Sub-Saharan Africa, which declined from US$ 20.7 billion in 1992 to US$ 12.7 billion in 2000.

I find it encouraging that the process of accelerating political unity in Africa was brought forward in Durban last July. Follow-up action on the African Union-NEPAD nexus is urgently required. I am pleased that good governance and in particular conflict resolution and prevention play the leading roles in NEPAD. They should be implemented swiftly, together with the other elements of NEPAD. Implementing NEPAD is of course primarily the responsibility of African leaders and societies. But it is up to the international community to support NEPAD and the underlying political process. As donors we can make a significant contribution and I believe that the World Bank has a special responsibility here. I call on the Bank to take up the challenge and to explore ways of increasing the flow of aid funds to Africa without endangering African ownership of the development process.

I would like to point out that a number of African countries – for example Sierra Leone, the Democratic Republic of Congo, Burundi and Angola – are currently trying to resolve conflicts or have recently made progress with a reconciliation process. I am therefore considering supporting those countries that have taken credible, lasting steps towards restoring peace and order and promoting reconciliation. A regular or structural type of financial assistance based on performance criteria may not yet be feasible for these countries. In the interim, however, the donor community can play a role in strengthening political stability and accelerating governmental reforms, i.e. by providing technical advice. I am pleased that the World Bank has taken a similar stance in its policy for Low Income Countries under Stress (LICUS).

For those countries that have emerged from violent conflict, an important step on the path back to development is the clearance of arrears at the IFIs - a requirement for normalising lending relations. African countries which do not feature in the press every day should be given the same attention as countries like the Democratic Republic of Congo. The Netherlands has on several occasions contributed to post-conflict arrears clearance. I would like to encourage the World Bank and the IMF to work with the African Development Bank in seeking tailor-made solutions for these post-conflict countries in Africa, based on a framework of agreed principles, such as fair burdensharing and consistency in approach. A step forward towards achieving fair burdensharing by bilateral donors would be to consider these contributions to arrears clearance as official HIPC contributions and to channel them through the HIPC Trust Fund, which is managed by the World Bank. In general terms, arrears clearance should be an integral part of the HIPC Framework.

<u>The challenges of the Heavily Indebted Poor Countries (HIPC) Initiative</u>

My constituency regards the HIPC Initiative as more than a flow of debt relief funds and from this wider perspective I see significant achievements. The Initiative has promoted important reforms like country-owned poverty strategies and medium term expenditure frameworks (MTEFs). It has also helped to change the way donors work, supported efforts towards lowering aid transaction costs and led to a much sharper focus on monitoring results. What is more, in many countries expenditure on social sectors has increased substantially thanks to reductions in debt servicing in combination with growing concessional loan and grant financing and more foreign direct investments. However, despite these significant achievements, the HIPC Initiative should not be presented as a clear-cut success story.

Implementation is giving rise to practical problems, while some fundamental challenges are not being addressed. I shall discuss some of these problems and challenges below.

First of all, the issue of funding the financial gap needs to be addressed. Secondly, full creditor participation is a must. More transparency, and other measures may be taken to ensure creditor compliance. Thirdly, exogenous shocks may put some HIPCs at risk of going off track in implementing their PRSPs. What is needed here is better monitoring and surveillance of these shocks, preferably by the IMF and the World Bank. I am therefore delighted that this is acknowledged in the DC documents. Let us now agree on concrete steps.

Improved debt and fiscal management

We need to address the fundamental challenges of the HIPC Initiative: ensuring comprehensive debt management and sustainable fiscal management of the national poverty reduction programmes. Comprehensive debt management should in my view include all types of old and new public debt - bilateral, multilateral and domestic. Furthermore, macroeconomic policy, as formulated in the PRGF programmes, should be consistent with debt management. For example, targets relating to the budget deficit or to official reserves can have an impact on debt flows and therefore on debt sustainability. Debt sustainability indicators should be used as an analytical tool. I regret to note however that they are currently formulated in such a way that they only serve as triggers for debt relief.

In dealing with debt management we should realise that what really matters is the broader issue of comprehensive fiscal management. We should therefore now shift our focus to expenditure and fiscal management in its entirety. An essential step, which has been largely ignored in my view, is the costing of PRS. A recent SPA paper reveals that only Uganda and a few other countries have managed to cost their PRS reasonably well and that the World Bank Source Book is providing little guidance in the first steps of the costing exercise. I urge the Bank to take this issue seriously. It is only when we know the costs of a PRSP that we can turn to the question of how to finance it (by debt, domestic resources or external aid). In other words, proper fiscal and debt management is only possible if it is informed by cost estimates of national policies under the PRSP.

The financial sector as an urgent 'beyond HIPC issue'

Financial sector development is one of those issues reaching beyond the HIPC Initiative that we, as a donor community, may have overlooked for some time, despite the fact that we all agree that HIPCs should stimulate domestic savings and strengthen their financial sector. I am pleased with the efforts of both the World Bank and the IMF in the Financial Sector Reform and Strengthening (FIRST) Initiative and the Financial Sector Assessment Program (FSAP), but I think that more can be done. Financial markets will be the main vehicle with which we can sustain the benefits of the HIPC initiative. We should prevent a situation in which HIPCs, having depleted their debt relief funds, have no domestic market for obtaining sufficient credit and generating adequate savings. This ties in with my earlier statement about the need to develop trade and private sector development policies (cf. PRSP). It is self-evident that export will help generate domestic resources and that private sector development goes hand in hand with trade expansion and financial sector development.

The donor and IFI role in the HIPC Initiative in the context of the Monterrey Consensus

I propose concrete actions to address the above-mentioned issues. First of all donors and institutions should honour their pledges and make new commitments to fill the financing gap. I hope that the G-8 will soon clarify their statement made in Kananaskis and indicate how much they will each contribute towards financing the current gap of US $ 800 mln or more. Of course the Netherlands is prepared to play its part. At the moment we are the second largest donor, after the US, in terms of disbursements. On the basis of burden sharing, I will consider extra contributions, once other donors have made new pledges.
Second, the Bank and Fund should engage in closer monitoring of the balance of payments of HIPCs, so that the impact of exogenous shocks on the debt situation becomes visible as soon as possible.
Third, it should become standard practice to offer HIPCs capacity building assistance, as part of the debt relief package, in the area of internal ad external debt management.
Fourth, better quality development aid for HIPC countries is necessary. ODA should be made more effective. My proposal is that we should start with untying all aid to all HIPC countries as soon as possible. We also need far more ODA if we are to achieve the MDGs by 2015. My constituency welcomes the agreement made in Johannesburg, that achieving time paths towards 0,7 % is now an internationally agreed responsibility. The Netherlands continues to provide 0.8 percent of its GNP for ODA but we cannot do this alone. The "G-0.7-countries" will continue to push for other donor countries to set out specific time paths of all the towards the 0.7% GNP/ODA target.
Fifth, preferential market access for HIPC countries is needed for acceleration of economic growth; progress on the Doha round is important. This issue could be followed up in the WTO Working Group on trade, debt and finance. HIPC countries should simultaneously work on export diversification, to reduce the dependence of their national economies on the price development of only a few commodities.

I note with regret that worrisome developments take place in the context of overall ODA flows to developing countries. I refer to the outcome of the thirteenth replenishment of IDA, which led to a substantial grant window of roughly 20 %. Introducing grants will lead to a lower level of reflows and therefore lower available resources for future IDA. The solution which was adopted does not ensure up front full financing of the cost in future. In addition to this future financial risk, the IDA deputies also confirmed the ‘pay as you go’ approach towards financing the HIPC cost for IDA. It is possible that the future volume of IDA will be smaller than the current levels. It is somewhat cynical to realise that in such a scenario it would be the developing countries themselves which pay for HIPC-debt relief and IDA grants. Developing countries with good policies and political commitment deserve a better treat from the donor community!