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On the  
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Statement by

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European Commission





EUROPEAN COMMISSION

DG DEVELOPMENT

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The question today is **how to reach the MDGs**? The collapse last week of the talks in Cancun certainly makes the task more difficult. The Doha Development Agenda is an essential element of the international response to the Millennium Declaration. There is no sustainable poverty reduction without growth. And trade has proven an important engine of growth in the countries that have made a dent in poverty.

The European Union is serious about **making trade work for development**. I am glad that we have pushed for concluding the agreement on essential drugs before Cancun, which will assure that poor countries **can** buy medicines for AIDS and major killer diseases at more affordable prices. My colleagues went to Cancun with development oriented proposals on agriculture and cotton, but these were not even discussed. Now we all need to look at the situation with an open mind. The European Union will continue to dialogue, and carefully analyse what went wrong and where the real problems are. We remain committed to a rules-based multilateral trading system. If we are all serious about poverty reduction and the MDGs, we must get the Doha Development Agenda back on track.

Citizens of every country are **entitled** to reductions in poverty, and they have the **right** to better education and health care. We can and must achieve the end to hunger, ignorance and disease to which humanity has aspired for generations. For these legitimate expectations to be met, we need to see action. The message on **aid volume** is clear: the outcomes of Monterrey were a good start, on which we must deliver, but they are not enough. We need to **increase aid** volumes **sharply**. The developing world can make good use of much higher aid to achieve the MDGs more widely.

There is some good news on ODA: At the UN Conference on Development Finance in Monterrey, the **EU** committed itself to reaching an average ODA/GNI ratio of 0.39% by 2006, as a first significant step towards the UN target of 0.7%. This translates into an extra € 23 billion in EU aid between now and 2006 and an additional € 8 billion every year thereafter. **Already**, just one year on, budget increases announced by Member States for 2003 mean that the EU is **one third** of the way towards our Monterrey target. The European Commission is charged with monitoring annually the way we live up to these and other commitments – *e.g.* on aid effectiveness – that the EU has made.

We must not let essential initiatives like **debt reduction** detract from the increased aid effort. HIPC was intended to be additional and we should make sure it is. The European Commission has taken an active role in HIPC and has recently increased its contribution to over €1.6 billion: € 934 million as a donor to the multilateral HIPC Trust Fund, and €680 million as a creditor to finance the settlement of its own claims. But the HIPC Initiative will close before long. We are under pressure to take the next step, but new initiatives should be

assessed with regard to their impact on the distribution of aid. This is why I have launched a study on the options beyond HIPC, the results of which I expect to share with you early next year.

Development finally depends on **developing** countries' own actions. Sound policies and improved governance, including reductions in corruption and improvements in human rights, are essential for progress. We have warmly welcomed the NePAD Initiative, and even more so the launching of the AU, as well as other examples of developing countries taking charge of defining and monitoring their own agendas.

**Governance** is the basis for the functioning of any society. But we need to sharpen our concept of governance and define practical ways to build capacity for better administrative governance, and hence for better public services. For this to work, we must seek synergies between all our instruments, as well as building on our political dialogue mechanisms: the aim is not to create a new form of conditionality but to find pragmatic answers of helping to improve people's lives – even and in particular in countries with weak policies and institutions.

Violent **conflict** is the ultimate failure of governance, and a crucial barrier to reaching the MDGs. African Heads of State called on the EU to set up a **Peace Support Operations Facility** to help the African Union take forward its peace and security agenda. The Commission is working on a proposal, though work still needs to be done on issues such as ownership, accountability and ODA eligibility.

But support for “sound” policies must not lead us back into the old ways of conditionality that have failed before: the **ownership** principle – which is central to the PRSP approach – demands that sectoral, cross-sectoral and macro-economic policies be developed by the countries themselves, and draw in the full range of domestic stakeholders, from all parts of Government and the society beyond.

Monterrey also includes commitments on aid **effectiveness**. The papers for this meeting have some important messages here. First, aid needs to be better **aligned** with national strategies. In poor countries that means with their **PRSPs**. We must heed their warning: this alignment – including donors' processes – has been too slow.

Secondly, more support for **recurrent costs** is required. Of course this should be within coherent nationally-owned policy and resource frameworks. The right way to provide such support is then through **budget support** wherever possible. For this, we must get away from old habits of wanting to know where “our” dollars or euros went. Fiduciary concerns are real, but they are collective risks and we need to make much faster progress towards joint work on budget support that tackles these fiduciary risks through support for financial management improvements. These will also help to deal with corruption. The Commission is moving firmly in this direction, and is working closely with the World Bank and other partners on public financial management.

The staff papers also draw our attention to the important balance between growth and service delivery as tasks for government in reducing poverty. We need both. I welcome the recognition of the importance of **infrastructure** for both growth and access to social services. The Commission is a major provider of funding for infrastructure, so I am pleased to see this getting its rightful place as a key contribution to poverty reduction, alongside health and education spending: they are important complements to one another. I look forward to

substantial investment by the World Bank and others in essential infrastructure, for example in Water and Energy and other key areas of infrastructure development.

Another key to growth can be the reform of state owned enterprises which have been a problem in many countries. Privatisation should not be the only solution considered. I urge decision makers to examine all options and to pay attention to the **regulatory framework**. It is also important to ensure transparency of the process and to put in place effective monitoring mechanisms.

The Development Committee in 2002 called for “regular monitoring and review of the policies, actions and outcomes needed to achieve the MDGs”. For this, we need to have a co-ordinated, credible and shared approach. There is increasing recognition in the donor community that the aid relationship needs to shift its attention to **results**. There seems to be a risk that we stop at the policies and actions, and lose sight of results. The Commission has already begun to shift away from making demands about inputs and policy prescriptions, to a focus on outcomes, and I warmly welcome closer recent collaboration with Bank staff, particularly on results-based monitoring.

Second, monitoring progress must include monitoring **developed** countries’ progress with their Monterrey commitments. I am pleased to see the Bank working on more rigorous systems for this.

Thirdly, I also hope that the monitoring of results will keep a careful eye on **gender**-sensitive indicators. Without these, the admirable rhetoric on gender risks evaporating when we get down to implementation.

I would like to finish where I started: **Volume** matters. So does **quality**. It is up to us to make sure that we provide both.