



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)



SIXTY-SEVENTH MEETING
WASHINGTON D.C. – APRIL 13, 2003

DC/S/2003-0008

April 13, 2003

Statement by

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Iraq is on everybody's mind. The country will need massive outside support when hostilities cease. Successful reconstruction can best be achieved through the common efforts of the international community. That will clearly require a UN mandate through a Security Council resolution. On such a basis, the Nordic and Baltic countries firmly believe that the World Bank and the IMF should play important roles in the reconstruction of Iraq, as they have done in other post conflict situations, most recently in Afghanistan. These institutions are particularly well suited to survey the economy, assess reconstruction needs, coordinate donor participation and provide financing. They will be indispensable in addressing the issue of Iraq's debt and foreign obligations, a necessary undertaking that can only take place within a multilateral framework. As partners in a concerted effort, the Nordic and Baltic countries stand ready to participate in the reconstruction of Iraq on the basis of a mandate from the UN.

The Millennium Development Goals - let us concentrate on getting the job done

Some people are questioning the realism of the Millennium Development Goals (MDGs). Yes, it is true that the challenge facing us is enormous. Yes, we do need to scale up our efforts. Still, the Nordic and Baltic countries feel that it is not particularly productive to discuss the realism of the MDGs at this point. Instead, all our efforts should be concentrated on getting the job done.

Concern about the additional financing needed in order to reach the MDGs is legitimate. The mobilization of adequate resources heavily depends on how developing countries manage to live up to the commitments they made in Monterrey. At the same time, there is no doubt that the developed countries must come up with significant additional funding if we are to achieve the MDGs. However, at this meeting we must also focus our attention on how we can effectively and efficiently use the money we already have.

The monitoring of actions and policies to achieve the MDGs must be anchored at the country level

The international community is struggling to find ways of reaching the MDGs, not least ways of measuring progress in achieving them. At the last Development Committee meeting, the members stated that there is a need for a clear framework identifying responsibilities and accountabilities by which progress can be regularly monitored. "Who should do what?" turned out to be an issue.

The Nordic and Baltic countries appreciate that a division of labor is required for monitoring. However, the discussion on mandates must not divert attention and energy from doing the actual work that needs to be done. Nor should we be so preoccupied with the concept of monitoring that it becomes an end in itself. This will certainly not benefit the poor in developing countries. The UN has - unquestionably - been given the responsibility for reporting on progress towards reaching the MDGs. So what role does this leave for the World Bank?

We agree generally with the attempt made in the DC document "Achieving the MDGs and Related Outcomes: A Framework for Monitoring Policies and Actions" to answer that question. The Bank has a role in monitoring – reviewing and analyzing – actions and policies deemed conducive to achieving the goals, while monitoring the actual achievements should primarily be

the role of the UN. Monitoring the policies and actions of all partners behind the Monterrey consensus on the one hand, and monitoring actual progress in meeting the targets on the other, are obviously not two separate tasks. They are interdependent and require close collaboration between the Bank and the UN.

The issue of monitoring, including the division of labor must be dealt with at the country level. A situation must be avoided, where each institution establishes its own separate framework and set of indicators for monitoring progress. The set of indicators to be used might, however, vary between countries. Monitoring is in the end the responsibility of the country itself. Monitoring of the MDGs cannot be seen separately from other monitoring initiatives and activities - and must clearly build on them. Capacity constraints at country level mean that external assistance in monitoring is required. Within the Poverty Reduction Strategy Paper (PRSP) process and existing donor coordination mechanisms, it is important to agree on ways of monitoring policies, actions, outcomes and impact – with a special focus on increasing national capacity in this area.

Like all other development institutions, the Bank also needs to monitor its own activities in order to make sure they contribute towards reaching the MDGs. This, however, will require different methods than in the past. There is general agreement on what it takes to foster development, including pooling of resources and increased aid in the form of budget support. This, together with the fact that money is fungible, makes it increasingly difficult – and perhaps counterproductive – to attribute results to single institutions or countries. We all need to explain to our national constituencies that it is no longer possible to follow each dollar, euro or krone all the way to a particular recipient – in many cases not even to a specific sector. Instead we need to look at the total effect of our joint efforts.

Such an approach to aid delivery will obviously require that the developing countries deliver on their part. Development will not happen unless the developing countries themselves create an environment conducive to the effective use of development assistance, poverty reduction and growth.

Harmonization is about making the PRSP process work

The High Level Forum on Harmonization in Rome in February was a timely initiative and marks a milestone on a challenging path. Harmonization is about making aid more effective in a true partnership between developed and developing countries. It is about simplifying administrative procedures and thereby enabling developing countries to steer their own development process better. It is a vital part of making the PRSP process work.

At the international level, we all agree on the need to harmonize procedures and practices. Following up at country level is, however, more difficult than we like to admit. In spite of what we - as donors - say in international fora, we evidently still prefer to be able to trace our funds to specific activities in order to be accountable to our own constituencies and parliaments. While supporting and participating in the PRSP process, we continue with our own parallel procedures and systems – as shown by the Strategic Partnership with Africa (SPA) peer review that was carried out a few months ago. As far as the Bank is concerned, there is still a tendency to use the traditional project approach when it comes to implementation. In some countries, the Bank

continues to use its own procedures and implementation units. This could obviously result in the Bank's activities becoming separated from the joint activities being developed on the ground. This applies, for example, to the activities under Sector Wide Approaches (SWAPs), which have proven to enhance harmonization among participating donors. Another problem for the Bank is the lack of incentives for staff, particularly at a field level, to work on harmonization issues. Coordination and harmonization are time consuming – and do not necessarily translate into tangible results that can be attributed to the individual staff member.

The developing countries should take the lead in the harmonization process at country level and provide systems that can ensure accountability. Bilateral and multilateral agencies, on the other hand, have a responsibility for adjusting their administrative practices and procedures. Making our procedures for aid delivery sufficiently flexible to be harmonized at country level requires considerable political will to overcome traditional thinking. The Nordic and Baltic countries are ready to make this effort. We firmly believe that we are obliged to translate all the good harmonization practices that we all have praised into a different way of working at field level. In accordance with this, the Nordic countries, together with the Netherlands, Ireland and the UK, have entered into an agreement with the Government of Zambia on a “Harmonization in Practice” initiative. The objective of the initiative is to enhance the effectiveness of the partnership with Zambia, under the leadership of the Government of Zambia itself.

PRSP – an organic process and not a static document

The Nordic and Baltic countries have been strong supporters of the concept of PRSP and its underlying principles since the very beginning. We are convinced that the approach represents a major step forward – both because it provides national governments with a holistic approach to reducing poverty, and because it enables donors to deliver aid in a more coordinated and effective manner.

There is a long way to go before we can say that the PRSP approach has fulfilled its promises. First of all, the PRSPs have yet to be turned into operational plans. This was one of the main shortcomings pointed out by the Strategic Partnership with Africa mission to three African countries late last year, and it was again pointed out in a recent pilot study carried out by the Nordic countries in seven countries on the role of the Bretton Woods institutions in the PRSP process.

The lack of prioritization in the PRSPs and their tendency to lack a framework for implementation are major weaknesses. This is probably why the Poverty Reduction Support Credit (PRSC) preparations have become the driving force for implementation in some countries. Another problem is that the Bank and the Fund still use conditionalities that are not included in PRSPs in the PRSC and Poverty Reduction Growth Facilities (PRGF).

It is vital that a country's PRSP continues to be the platform for Bank and Fund lending, as well as for donor coordination and support in general. If this is not the case, the PRSPs risk becoming irrelevant. The PRSP must not be regarded as a static document, but as a continuing process that will gradually lead to a framework on which we can all base our support – with no additional strings attached.

National ownership versus donor expectations continues to be a dilemma. Real changes will not happen without national ownership. At the same time, donors have a legitimate right to expect countries to follow policies that will lead to growth and poverty reduction. Donors have the right to ask for systems to be put in place that will ensure transparency and accountability.

Poverty and social impact analysis is one way of dealing with this dilemma. National governments must choose their own policies, but they should be assisted in making well-informed choices. In order to make optimal choices, the impact of alternative options on poverty and social conditions must be analyzed. Furthermore, such analyses are crucial for stimulating national debates and discussions on the different paths to development. This broadens the scope of ownership, which then becomes more than ownership by the ministries of finance and planning.

Poverty and social impact analysis is resource intensive. Nevertheless, such analyses are likely to increase the probability of a chosen policy leading to the desired results. The Nordic and Baltic countries urge the Bank to make an assessment of the financial implications for the institution of making systematic use of poverty and social impact analysis. A cost-benefit analysis would facilitate an informed discussion in the Bank's decision making bodies on how this work should be funded. While we believe that the Bank should base its activities on the systematic use of poverty and social impact analysis, it should be clear that the Bank is not the only institution that can do this job. Other donors and civil society institutions have been carrying out similar activities for several years. The Bank and others must build on these activities, fragmented and ad-hoc though they may be.

The Nordic and Baltic countries would underline that such analysis is the responsibility of the countries themselves, as is the case with the monitoring and measuring of policies and results in general. Therefore, poverty and social impact analysis should be part of the country's general efforts to improve analysis and monitoring.

Scaling up is crucial, but it will only work if it is a part of national structures and processes

Like all other development initiatives, "Scaling Up" must be based on national ownership if it is to succeed. Local needs and goals as expressed in national strategic frameworks must be the basis for assigning priorities. A country-specific approach that involves the mobilization of funds, utilization of SWAPs, pooled resources and harmonization efforts on the ground is essential for progress.

Fast track initiatives may be an appropriate means of providing additional funding quickly. It is, however, crucial that such quick financing mechanisms are properly coordinated with national structures and processes. It is also important that better use is made of existing aid allocation instruments, in order to ensure complementarity and leverage rather than creating new structures. Fast track initiatives should be directly linked to - and be part of - PRSPs and other national strategic processes, such as SWAPs.

If we are to make progress towards achieving the MDGs, appropriate financing must be secured. The international community committed itself in Monterrey, Doha and Johannesburg to scaling up the efforts to reach key MDGs; education health, HIV/AIDS and water and sanitation. It is disappointing to note how major partners within the donor community are failing to live up to these commitments. We urge all donors to follow up on the commitments made, and to provide funding in forms recommended by the Bank - meaning funding that is pooled and untied in order to support national priorities.

Enhancing the voice of developing countries is also about increasing their capacity at country level and strengthening links between Executive Directors' offices and capitals

The Nordic and Baltic countries welcome the initiatives taken to strengthen the voice and participation of developing countries in the decision-making bodies of the international financing institutions. This is a key element of the Monterrey consensus and is intended to strengthen international dialogue and cooperation. As a general principle, the Nordic and Baltic countries believe that the existing parallelism in the governance structure between the two Bretton Woods institutions should remain intact.

A package of initiatives, that combines longer-term steps to enhance the voting strength of developing countries with shorter-term initiatives to facilitate their enhanced participation, is needed.

We support the proposal to increase the number of basic votes for each member country, which would reduce the significance of the economic weight of the respective countries.

This should be combined with efforts to strengthen the capacity of the constituencies, both at the EDs' offices and at country level. In our view, increasing the capacity at the country level – specifically that of the national authorities in charge of World Bank issues – is crucial to giving the developing countries more of a say. Improved contact between constituency offices and capitals is of great importance in this regard, and we support the proposal by the African EDs to establish better communication links between the capitals and the EDs' offices. The Nordic countries would be prepared to facilitate and support efforts to improve interaction between developing countries' EDs' offices and the national authorities.

Capacity building within the context of other World Bank related processes, such as the Integrated Framework, PRSP and poverty and social impact analysis, is also important. Supporting efforts that enhance the capacity and ownership of developing countries in their bilateral relations with the Bank and the Fund is an essential component in a comprehensive package of measures designed to increase the participation of developing countries.

Increasing the participation of developing countries in the Development Committee, the International Monetary and Financial Committee and the IDA negotiations would also enhance, widen and strengthen their influence. These are important arenas for discussing and formulating development policy in general, and Bank policy in particular. However, this should not be done in a way that affects the current constituency based system, whereby the country represented on the Board also participates in the DC and the IMFC.

Finally, it is essential that the internal organization of both the World Bank and the IMF buttress and support the increased participation and influence of developing countries. The current efforts to enhance transparency and openness are very commendable, but they need to be intensified.

HIPC - calculation of completion point topping up

The Nordic and Baltic countries request a revision of the current methodology for calculating the possible need for “topping up” of debt reduction when HIPC countries reach their completion points. The extraordinary debt relief provided by some bilateral creditors should not be included in the calculations. There are two reasons why we feel a revision of the current methodology is necessary;

Firstly, it distorts burden sharing between bilateral creditors. In cases where “topping up” is needed to help safeguard debt sustainability, creditors that grant 100 per cent debt reduction de facto subsidize those that still do not. The HIPC burden sharing formula is thus distorted. *Secondly, and most importantly, it deprives debtor countries of additional debt reduction.* Whereas unilateral debt reduction beyond standard HIPC terms (90 per cent reduction) is intended to provide HIPC countries with an extra cushion against unforeseen events, the current methodology nullifies this cushion. Some HIPC countries may not even qualify for topping up, whereas they would had the methodology been revised. The current methodology thus neutralizes debt reduction that was meant to be additional.

In plain language, those who benefit from the fact that many creditors are *doing more* are bilateral creditors *doing less*; not the debtor countries. Therefore, in our opinion, the current methodology clearly goes against the very grain of the HIPC initiative itself.

Our clear preference would be to revise the current methodology. Should that prove difficult, individual countries in our constituency may take practical steps to make sure that any extraordinary bilateral debt relief is provided in such a way that it is not included in completion point debt sustainability analyses.

We must walk the talk

The Nordic and Baltic countries commend the management of the Bank for what seems to be a genuine will and intention to harmonize and be a true partner. However, like in most development agencies there is still a long way to go before policies and good intentions are reflected at all levels and in all activities of the organization.

We welcome the process initiated by the management to change internal procedures and administrative routines, and the intention for the Bank to take a back seat in some countries and processes. We urge the Bank to continue to move towards more joint implementation, aligning support with Sector Wide Approach Programs and basket funding where such mechanisms exist.

We note with satisfaction that the Bank now emphasizes that there is no such thing as a blueprint for effective reforms and policies that applies to all countries. We are pleased that the Bank in its

ongoing work to revise the policies for structural adjustment lending, has declared that detailed and specific normative guidance on the content of appropriate country policies will no longer be given. If countries are to formulate and implement their own policies, the Bank will have to take a step back, let the country do its own assessments, and give it space to try out its own measures - while providing the necessary advice and support.

The Monterrey consensus illustrates how interdependent the different aspects of development are, and how the various actors are linked to each other. The World Bank does not operate in a vacuum, and can hardly be held accountable for everything that happens in developing countries. The point has clearly been made that the ultimate responsibility for progress rests with the developing countries themselves.

However, the Bank does have a special role and a special responsibility. This is obviously partly due to its financial means, but it is also due to its technical expertise and central role in designing development policy. The Bank should therefore be in the forefront in terms of translating these policies into action, and provide us with a role model in this regard. The Bank should also encourage an open and candid debate on development policy issues.

As for those who almost instinctively try to blame all ills on the World Bank, no one is better suited to prove them wrong than the Bank itself. As Mark Twain once pointed out, for the critical bystander few things are more annoying than having the target of your criticism actually setting a good example.