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INTERACTIVE THEMATIC SESSION

Financing Growth and Development

1. The session was co-chaired by H.E. Mr. Donald Kaberuka, Minister of Finance and Economic Planning, Rwanda, and Mrs. Eveline Herfkens, Minister of Development Cooperation, Netherlands. The lead agencies for this session were OECD and World Bank, who also prepared a background paper on “New Partnerships for Financing Development in the Least Developed Countries.” The session was based on a round table format, where prepared interventions were discouraged, and an open discussion between ministers and other high-level representatives of LDCs, development partners and international organizations was encouraged.
2. The round table covered three core themes:
 - (a) What should LDCs do to devise and implement poverty reduction programmes?
 - (b) What are the responsibilities of the donor community?
 - (c) Can a framework of mutual commitments for the international community be developed?

What should LDCs do to devise and implement poverty reduction programmes?

3. The debate was based on three key issues related to LDC initiatives: ownership, good governance and mobilization of domestic resources.

4. *Ownership.* Assuring ownership in the development and implementation of poverty reduction strategies was seen as a key challenge in current international efforts to assist LDCs. All the speakers from LDCs reinforced this point. In this regard, LDCs were encouraged by the new approach of Poverty Reduction Strategy Papers (PRSPs) developed in the context of IDA and HIPC assistance, but they understand that only time will reveal whether this new approach can result in a positive outcome. Some LDCs reported initial positive experiences and also pointed to their own responsibilities, for example in strengthening dialogue mechanisms to allow a more participatory process at the national level.

5. *Good governance.* Good governance was recognized as being an important component of any development strategy. Key problems include lack of transparency in electoral, budgeting and decision-making processes and slow, ineffective or inefficient bureaucracies. Several participants stressed that LDCs are serious about good governance in their own interest and that good governance should therefore not be imposed as a conditionality. The root of the problem is in fact due to LDCs' capacity shortages – both in resources and human capital.

6. *Mobilization of domestic resources.* Although LDCs recognize that they are resource deficient, they have not always paid sufficient attention to using their available resources more efficiently. If efficient means existed for mobilizing and allocating domestic capital, LDCs could make more targeted and specific calls for international capital, either in the form of official development assistance (ODA) or international capital flows. It was also stressed that the goal of halving the proportion of people living in extreme poverty and suffering from hunger by 2015 requires, among other things, significant and steady increases in GDP growth rates in LDCs. To that end, LDCs, with the support of their development partners, would strive to attain a GDP growth rate of at least 7 per cent per annum and increase the ratio of investment to GDP to 25 per cent per annum. ODA continues to play an essential role in achieving these targets. However, LDCs should seek to reduce dependence on ODA. Moreover, development plans should include “exit strategies” as growth takes hold and capacity to mobilize domestic resources increases.

What are the responsibilities of the donor community?

7. This part of the debate focused on initiatives that donors could take, individually or collectively, to increase the volume of aid and improve its quality.

8. Donors recognized that the wide variety of donor reporting and performance requirements and their often complicated administrative procedures impose high transaction costs on LDC Governments. Donor representatives agreed on the necessity to keep or make criteria for aid allocation as simple and as transparent as possible. It should be easy for recipient LDCs to understand donors' rationales for aid, in particular the relative importance given by donor agencies to LDCs. Greater aid efficiency requires, among other things, consultations between donors with a view to promoting complementarity and avoiding duplication and inconsistencies of programmes for LDCs. Therefore, a harmonized system of aid allocation procedures and technical assistance is required that could better coordinate and substantially increase aid effectiveness.

9. Some progress has been made in harmonizing aid programmes and reducing transaction costs for recipient LDCs. For example, the Netherlands, Norway, Sweden and the United Kingdom have harmonized their procedures for health sector aid programmes in the United Republic of Tanzania. The success of this harmonized effort could serve as an example for other countries and sectors.

10. It was stressed that donor assistance should be programmed in accordance with LDCs' development strategies. This means undertaking multi-year commitments that dovetail with LDCs' medium-term expenditure frameworks. A number of LDCs also suggested that aid programmes should also be "contra-cyclical", to compensate for significant losses in export revenues in situations of falling commodity prices.

11. It was emphasized that the donor community needs to ensure that their trade and other policies are coherent with development objectives. In this regard the donor community could provide greater access to their markets for LDC products, scale back subsidies for their own agricultural sectors, promote foreign direct investment in LDCs and provide sustainable financing of projected debt relief. Donor Governments should avoid recruiting the best local civil servants to implement their projects.

12. Some other recent trends in aid have had a detrimental effect and are in need of review. Several LDC representatives point out that aid programmes should pay adequate attention not only to social sectors, but also to infrastructure projects, which were noted to have positive implications for poverty alleviation and economic growth and development. Public/private partnerships are important in this context.

13. While recognizing the need for participatory processes in the design of poverty reduction strategies and the role of NGOs in implementing such strategies, some LDC representatives called for greater accountability of aid programs channeled through international NGOs.

14. Several participants underlined the need for special measures for LDCs emerging from internal conflicts. Timely delivery of post-conflict aid is essential for the consolidation of peace processes.

Can a framework of mutual commitments for the international community be developed?

15. Good progress has been made over the last decade in reaching common ground on development challenges and approaches. A plea was made to harness this consensus into a “compact” between development partners in a framework of mutual accountability with clear commitments by donors and recipients. The aim of such a “compact” would be to provide predictable, medium-term and harmonized resources for development based on participatory country-owned national strategies embodied in PRSPs. This concept has recently been advanced under the aegis of the Economic Commission for Africa, through the “Compact for African Recovery”. While the diversity of country-specific circumstances must be recognized, the “compact” is also relevant for LDCs in other regions. Indeed, ministers from Cambodia and Haiti expressed their interest in such a “compact”.

16. Recipient countries’ obligations, as discussed in the first segment of the session, centre on promoting sound domestic policies and institutions, in particular, by encouraging domestic resource mobilization and creating an enabling environment for pro-poor growth.

17. The key obligation for donors, as discussed in the second segment of the session, is to guarantee adequate and predictable financing of all approved PRSPs. The donor community should ensure that no LDC in compliance with its own obligations is unable to fully implement its development policy due to lack of external aid.

18. This requires a reversal of the declining trend in ODA. It was pointed out that there are important constituencies in developed countries that support ODA. Therefore, the public opinion arena will indeed favour larger ODA allocations if it is shown that it has a real and positive impact in reducing poverty in developing countries. Governments and civil society should show political will to boost public support for ODA. Recently, Luxembourg joined four other Development Assistance Committee (DAC) countries in reaching the target for ODA of 0.7 per cent of GNP.

19. There is also a need for benchmarks, both for monitoring development strategies in LDCs and for measuring the extent to which donor countries are integrating their aid programmes in this new partnership. Peer screening or evaluation by various parties could be a strong tool. Some useful insights and experiences have been acquired in the field of third party monitoring. There is also a convergence of views on the need to develop a set of criteria for monitoring donor performance.

1. Role of the Conference

20. Participants highlighted the fact that the Conference was instrumental in stimulating some important results in the area of financing growth and development. In the build-up to the Conference, the OECD-DAC agreed on a recommendation to untie aid to LDCs, and the

European Union finalized its Everything But Arms (EBA) Initiative. There is a renewed focus among European donors on the 0.7 per cent ODA target, including the targets of 0.15 per cent or 0.20 per cent of GDP as ODA to LDCs. Moreover, the enhanced HIPC, though still not fully financed, is largely on track. Still, these results should be seen as another step forward in a long-term process. In this connection, participants were looking forward to continuing the dialogue on “Financing for Development” in the preparation of the 2002 conference in Mexico.