Statement by

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Spain
1. Aid Effectiveness and Financing Modalities

We firmly believe that a larger, more predictable and more effective volume of aid can make a significant contribution to accelerate the progress towards the achievement of the Millennium Development Goals (MDGs). In fact, it is in due account of this conviction that Spain has committed to double its current levels of ODA, reaching 0.5% GNI in 2008.

As part of this compromise, the IDA14 replenishment that is now under negotiation offers, in our view, a magnificent opportunity to effectively channel an increase amount of resources. And, therefore, we encourage other donors to also consider this mechanism as a useful and pragmatic option to enhance the flows of development assistance to developing countries.

We are convinced, however, that despite the significant donors’ pledges to increase ODA made in and post Monterrey, these commitments are by no means commensurate to the magnitude of the challenge that entails achieving the MDGs by 2015. For that reason, we have decided to get actively engaged in the effort to identify new and innovative financing modalities that may enable us to mobilize the substantial additional resources that are still needed. Spain, formed part of the working group that produced the report for the International Meeting on Action Against Hunger and Poverty convened by President Lula on September 20th 2004. This effort has already brought about a number of alternatives, all technically feasible, and what it is needed now is a thorough analysis of each one, try to resolve the problems they may pose and to moving to a decision making process as soon as possible.

Yet, it is imperative to emphasize that this effort to mobilize an enhanced amount of aid flows has to come along and serve to support developing countries’ commitment to firm up a solid track record of macroeconomic and political stability, good governance and strengthened institutions. Both elements have to go closely linked as aid alone will not solve the poverty problem. In fact, the key of success lays, first and foremost, on the ability of developing countries to increase and sustain their rates of economic growth over a long period of time. Only in this way, developing countries will be able to mobilize the primary financing sources of development: domestic resources and foreign direct investment while improving, at the same time, the absorptive capacity to make an effective use of an increase external assistance.

The success will also critically depend on two other conditions. On one hand, on our ability to find a long term solution to the unsustainable levels of debt that many low income countries face -and that constitute a real impairment to their capacity to grow and develop-. And on the other, on a decisive action from the international community on
trade. The Doha Agenda provides the framework to work together and a successful conclusion of this Round of negotiations would be a major push forward. Yet, it should be stressed, that for developing countries to be able to reap the benefits of trade they will have to have a sufficient capacity of response and this will require, in many cases, the implementation of a comprehensive behind the borders reform agenda.

2. Strengthening the Foundations for Growth and Private Sector Development: 
Investment climate and infrastructure development.

We would like to commend the Bank for an excellent work in improving its diagnostic tools to better assess the set of factors that constitute the investment climate. Furthermore, we welcome its strengthened support to assist developing countries in establishing those conditions that the public and private sector need to play their complementary roles: the public sector creating enabling conditions for private sector investment and the private sector investing productively and creating jobs.

Private sector investment is a major driving force of growth, job creation and poverty reduction and, hence, a critical pillar in a country’s process of sustainable development. Unfortunately, however, experience shows that in many countries, governments continue to exercise a not so positive influence on the investment conditions, due to the impact that its policies and behavior has in the costs and risks that firms take into account in their investment decisions. As the Bank has been able to quantify, the cost associated to corruption, inadequate regulatory frameworks, infrastructure disruptions and lack of security in contract enforcement, can amount to 30% of the sales. This is a cost way too high and, therefore, imperative to be reduced.

Improving the investment climate has to be a clear priority for developing countries in the fight against poverty. It, certainly, means setting up and implementing a very broad structural reform agenda that will accompany the countries’ efforts to improve macroeconomic and political stability. Implementing such a broad agenda can in no way mean trying to take up everything at the same time. Its implementation has to have a sound sequencing and pace stemming from the countries’ own circumstances and, most importantly, the authorities determination to pursue the reforms. We believe that the Bank has the experience and the knowledge to play a key role to assist countries design and implement this agenda and urge it to strengthen its efforts in this respect.

We welcome the increased attention given to infrastructures as a key determinant of a sound investment climate. Insufficient infrastructures do not only hamper the ability of firms to compete and get productivity gains but can also seriously undermine a countries’ capacity to grow on the medium run.

Developing countries’ infrastructure needs are huge. The fiscal adjustment processes of the last two decades have been implemented notably by means of a cut in infrastructure investment and in many countries this reduction has not been taken over by the private sector. Moreover, in a number of countries the private sector has had to retrench as
governments with their policies have not been able to ensure adequate rates of return and, even in some cases, have not respected their contractual obligations.

Designing and implementing stable, effective and transparent regulatory frameworks together with finding appropriate ways to enhance the fiscal space are the two most critical tasks that developing countries have to accomplish to be able to mobilize the adequate level of resources from all sources, public and private, to finance their huge infrastructure needs.

The Bank can play a key role in assisting countries in this endeavor. We believe that the Bank reengagement in the provision of infrastructure services is timely, most necessary and support the flexible and pragmatic approach it has put in place.

3. Voices and Participation

We believe that enhancing the voice and participation of developing countries and transitions economies in the decision making process of the BWI is a legitimate claim to which we have to respond.

We welcome the measures that are being undertaken by the Bank as they have a real practical relevance. However, we should be more ambitious in addressing this issue and consider those measures of structural nature that, although more sensitive -as they affect the governance structure of the Institution- are far-more reaching in ensuring not only that all countries adequately heard in the decision making processes but, also, that all countries are adequately represented.

4. Debt Sustainability

We broadly support the proposed framework for debt sustainability in low income countries, a framework that correctly emphasizes that while creditors and donors can help the primary responsibility of achieving a long term exit to an unsustainable build-up of debt lies in the countries themselves.

This new operational framework is still work in progress and has to be subject to further refinements. The thresholds require further thought as setting them too high may end up leading countries to re-enter in the trap they are trying to get out of. In the same vein, we have to let room for flexibility. Domestic debt should also be taken into consideration.

Finally, we urge the Bank and the Fund to work closely together in the DSA so as to be able to put together a common sustainability analysis. We cannot afford the possibility of having the two Institutions reaching to different analysis.