Statement by Heidemarie Wieczorek-Zeul
Federal Minister for Economic Co-Operation and Development
Germany
Introduction

While our meetings are taking place, people in Mozambique are still battling with floods; relief and reconstruction needs will absorb much of the capacity originally intended to support poverty reduction and development.

The social and economic fragility of poor countries, their sensitivity to natural or man-made crises, again underlines the continued need for a concerted international approach to fight poverty and demonstrate global solidarity. The international community, developing and developed countries alike, have responded to the said crisis in a spirited manner. But the devastating crisis in southern Africa highlights once more the need to push ahead a civil “rapid reaction group” – and an early warning system for man-made crisis - as I have proposed for the EU in order to enable the international community to react in time and as effective as possible.

1. INTERNATIONAL FINANCIAL ARCHITECTURE AND REFORM OF THE INTERNATIONAL FINANCIAL INSTITUTIONS

Increasing globalisation and deepening international interdependencies are posing new challenges to the International Financial Institutions, at the same time underlining their indispensable role for the international community.

On the occasion of last year's Annual Meetings a number of key measures have been agreed to ensure a more resilient International Financial Architecture; we welcome the progress achieved so far and the constructive role played by the World Bank, the IMF and other international institutions in this regard. However, there is no time for complacency. Ongoing efforts to strengthen the International Financial Architecture need to be complemented by corresponding efforts to make development policies work more effectively. It is obvious that issues related to the International Financial Architecture and those related to poverty and development can not be separated.

Therefore, continued reform of the IFIs should aim at strengthening the institutions and increasing their effectiveness on the basis of an effective division of labour and efficient co-operation reflecting the interdependencies between poverty on the one hand, and financial stability at the national and global level on the other. Furthermore, with the implementation of the enhanced HIPC Initiative now gaining
momentum, country owned PRSPs will provide a truly common framework for development co-operation activities, in particular comprising World Bank support and the poverty focused IMF facility for the poorest countries (PRGF). Effective co-ordination among all donors thus does emerge as a concrete policy option reducing recipient countries administrative burdens and enhancing the impact of scarce resources.

Germany is strongly interested to enhance public and parliamentary awareness for the work and objectives of the multilateral institutions. In a globalsing world, the need for sound global policies and regulations is overwhelming. Therefore our taxpayers rightly expect us to make effective use of these institutions unique comparative advantage.

Critical reflection and constant evaluation of progress and impact in a transparent manner is therefore indispensable. On the other hand, civil society and the public at large should be able to take advantage of the huge expertise of the institutions in terms of development and poverty reduction. In the information age, the IFIs role in collecting, providing and exchanging information will become much more important than in the past.

Since neither development nor financial stability are products readily available on the market, but rather the results of sound policies in an enabling national and international framework, we should safeguard the integrity of the International Financial Institutions through continued gradual reforms, instead of threatening their very existence. Market forces alone will not suffice to meet the challenges of globalisation. They have to be complemented by strengthened multilateral institutions.

2. INTENSIFYING ACTION AGAINST AIDS

The HIV/AIDS situation constitutes not only a grave health and social problem. In many countries it has turned into a substantial development crisis and even a threat to peace and security. All fields of social and economic development are adversely affected. In those countries that are most seriously hit, the disease is in danger of destabilising social order. As a consequence, all areas of co-operation must address the HIV/AIDS issue. It is of crucial importance for the international community to succeed, in
addition to mobilising the required resources, in making HIV/AIDS a mainstream issue in development co-operation.

One key element in our strategy will therefore be to bring about changes in attitudes. To this end, the governments of the countries affected, as well as all relevant organisations and institutions, must show unqualified commitment. This is why I welcome the initiative for an "International Partnership Against AIDS in Africa," which emanated from a group of African countries and is supported by a broad international coalition. What is vital now is that the existing capacity and measures be harmonised so as to obtain maximum effectiveness. Germany will support the initiative. We intend to strengthen our co-operation with our partner countries in their fight against AIDS. Special attention must be devoted to the situation of women and children, who are most severely affected by the epidemic.

In view of the current situation in many countries, the international community should also address the issue of how HIV/AIDS can be dealt with in crisis affected regions. These external circumstances not only impede interventions against the disease but also contribute, in turn, to accelerating its spread. Fighting HIV/AIDS and pursuing an effective policy of crisis management must therefore go hand in hand.

Trade and Development

There was a consensus among DC members, and it was our central message last year, that there is a need for trade reforms to contribute to growth and poverty reduction and a need for supporting developing countries' reforms and implementation of WTO commitments through technical assistance.

This implies the integration of trade reforms into a comprehensive development strategy, as pointed out in this meeting's DC document. I support this approach explicitly. It ensures that complementary measures required for trade liberalisation are taken into account from the outset in trade reform, and that the different reforms are coherent and well sequenced. In addition, a realistic time schedule is envisaged for their implementation.

I encourage the World Bank and the IMF to promote this approach on the country level, to identify conflicting goals as well as best practices, and to support co-ordination efforts for trade-related technical assistance. The World Bank and the IMF should review this process and elaborate a progress report in due course.

Beyond the reform areas highlighted in the document, such as the improvement of market access for developing countries and the liberalisation of developing countries' import policies; the future trade agenda should also focus on the following items:
- The issue of intellectual property protection. The developing countries have much to gain and much to lose in this field where regulatory work is becoming ever more urgent. I am thinking here, e.g., of the protection of genetic resources or the protection of varieties.

- The issue of special treatment of the developing countries within the WTO system. This subject comprises not only technical assistance and preferential market access issues. It also includes waivers for developing countries regarding WTO commitments. Just one example: the suggestion to operationalise Article XVIII of GATT and to adjust it to the changes, which have taken place in the developing countries since the beginning of the 1950s.

- Finally, the issue of how WTO rules can contribute to enhancing the social situation in the developing countries. How can it be ensured that access to essential medicaments does not deteriorate, despite the strict WTO rules on patent protection? Do we need special rules for developing countries in order to ensure food security?

With regard to market access, I would like to reiterate the commitment of Germany and the entire EU to grant duty free and quota free access to essentially all exports of the Least Developed Countries. Other countries are encouraged to follow this example.

**IBRD's Financial Capacity**

As requested by the Committee at its last meeting, the Bank has presented an update of last year's comprehensive analysis of the Bank's financial capacity. It is gratifying that the report confirms that the Bank's financial capacity remains sound. In light of the favourable developments in the global economy referred to in the report, it is to be expected that the demand for IBRD lending will decline during the current fiscal year, allowing lending levels to stabilise again at a lower level. Given the projections of the report, we assume that the Bank will be able to stabilise the risk-bearing capacity needed to maintain lending levels, retain the AAA rating and also ensure income transfers for the poorest countries through contributions to IDA and HIPC in the future. It should be reiterated that any assessment of the different options presented for further consolidating and strengthening the risk-bearing capacity and the financial flexibility of the Bank in the long run has to be based on the principal objective of Bank lending, which is to contribute effectively to the reduction of poverty in the world and the achievement of the International Development Targets. Projections have to take into account different views on the future role of the Bank in financial crisis. We believe that offering short-term crisis lending is not the mission of the Bank, but long-term development financing. Projections that take account of changing global conditions have to assess risks for the Bank caused by increased capital volatility but also stabilising effects resulting from ongoing efforts to strengthen the international financial architecture.
**Small States**

Small states, as highlighted in the Task Force's Report, do face special problems, mainly due to the limited size of their economies, their low capacity to diversify risk at the national level, their physical location and, in the case of Small Island Developing States (SIDS), their susceptibility to natural disaster. Many problems reflect global processes and increased interactions between states and regions at several levels, such as the change of the global climate and the changing structure of global trade regimes.

The design of global structures for the benefit of worldwide development has special relevance for many small states. Germany supports all endeavours that lead to better consideration of the special interests and needs of developing countries in the WTO. We are committed to continuing our support to the Global Environment Facility as well as to the implementation of the Rio Conventions.

We endorse the Task Force's call for enhanced regional integration and collaboration as well as capacity building to support the small states' development and transition strategies in order to enable them to profit from globalisation. Furthermore, efforts should be increased to improve donor co-ordination and enhance the effectiveness and efficiency of support efforts by the Bretton Woods Institutions, the Regional Banks, the United Nations and the EC.

**HIPC/Poverty Reduction Strategy**

Our support to the Enhanced HIPC Initiative and the Poverty Reduction Strategy philosophy reflects the need to focus attention and resources on the very key obstacles causing and sustaining poverty.

We strongly support the Poverty Reduction Strategy approach, facilitating ownership and expanding participation and consensus building in national policy making. Poverty Reduction Strategy Papers are intended to be effective and efficient tools in the hands of governments, ensuring that local and external resources are spent effectively on the very key obstacles to growth and poverty reduction. In this framework, participation of the people should ensure that policies adopted are based on a broad consensus and objectives and priorities set are relevant to the needs, problems and requirements of the poor.

Good governance is key for lasting success of poverty reduction efforts. Public and parliamentary support of the Initiative in developed as well as developing countries will critically depend upon the degree of credible change resulting from the Initiative, in particular in the area of good governance. Whenever disputes or conflicts arise while we are further implementing the Initiative, this principle should always be upheld.
Bilateral and multilateral donors should make Poverty Reduction Strategies the basis of their assistance; to facilitate this mainstreaming exercise, further efforts should be made to harmonise bilateral aid practices so as to reduce administrative pressure on national authorities. In this regard we also welcome the shift in the role of the World Bank and the IMF away from heavy-handed policy prescription towards facilitating country ownership. This requires a great deal of training of staff, as well as reconsidering the skills and organisational structure required.

Poverty Reduction Strategies will provide the framework for sustained efforts to address poverty. Achieving good quality Poverty Reduction Strategies and, at the same time, avoiding delays in the provision of HIPC relief to countries with a good track record, poses one of the most prominent and urgent challenges to all of us. With a view to mitigating this counterproductive trade-off, the application of Interim Measures, reducing debt service already after reaching the decision point, should be increased to the extent possible.

Concerning the issue of financing the Enhanced HIPC Initiative, substantial progress has been made since the Annual Meetings. The EU is committed to contributing more than one billion Euro, more than two thirds of which will be transferred to the HIPC Trust Fund. In addition, many EU member countries, including Germany, are making bilateral contributions to the HIPC Trust Fund, totalling more than US$ 650 million. I welcome the recent announcement of a major contribution by Japan and I would like to encourage all countries that have not done so to finalise internal budgetary legislation necessary for the timely provision of their contribution. Nevertheless, there is some way to go before we can declare that overall funding is securely in place for all HIPCs due to reach their Decision Points within the next 18 months. In particular, I would urge the regional and sub-regional Development Banks and bilateral creditors outside the Paris Club to do their utmost to mobilise available reserves for the financing of their share in the Enhanced HIPC Initiative.

In order to strengthen debt sustainability beyond the effect of the measures under the Enhanced HIPC Initiative, the German government has decided to cancel 100% of pre-cut-off-date debt owed to it by eligible HIPCs. This will increase debt cancellation by the German government under the Cologne Initiative to about DM 10 billion.