Statement by H.E. Pedro Malan
Minister of Finance
Brazil
Let me start by thanking the Canadian Government for organizing this Development Committee meeting on such a short notice. It is positive that we are able to meet here in Ottawa after just a short delay from the originally scheduled dates. The IMF and World Bank semi-annual gatherings of ministers from around the globe to discuss the state of the world economy and the pressing issues of development constitute an important aspect of the international financial architecture which is worth preserving.

Impact of Recent Events on Low and Middle Income Countries: Response by the World Bank Group

2. The world economy was already showing worrisome signs of a slow down prior to the tragedy of September 11, as the three major economic areas unexpectedly converged to lower growth. Such a simultaneous downward trend had not been experienced in recent decades. Negative externalities were already in place as far as developing countries are concerned, such as a continued decline in the price of most commodities, lower private capital flows to private firms in those countries, high volatility in financial markets, and reduced demand for exports. Yet recent events did significantly accentuate negative trends and may have disproportionate impact on many developing countries, some more severely than others, through different channels, such as trade, finance, tourism cancellations, among others, depending on individual country circumstance.

3. The fundamentals in many key countries, both developed and developing, continue to be strong, and should form a good foundation for recovery in the not so distant future. The rapid and coordinated response, in particular by monetary authorities of the US, Europe and Japan has been of critical importance to help improve the prospects of recovery.

4. For many developing countries a major downside of the present situation is the heightened uncertainties in global financial markets in the short run, due to the flight to quality movement. Given very low levels of interest rates, particularly in the US and Japan, one can expect a gradual ease of present conditions, although the precise timing is yet unclear. In this context the IMF and the World Bank Group have a role to play in smoothing out volatility and providing resources to maintain ongoing reforms and investment programs.

5. In recent years the World Bank adopted several new lending instruments, the most recent of which was the Deferred Draw Down Option for adjustment loans. This diversification was quite appropriate as it now places the institution in a somewhat better position to respond to the present challenge, where countries face different needs. Just as important as the availability of different lending instruments is the ability to use them in a flexible manner under current conditions. For countries facing increased financing gaps, in particular in cases of sound macroeconomic policies and reform programs, higher levels of adjustment lending can be very effective. In the case of the existing portfolio, there are several measures which can be put in place to enhance the Bank’s assistance. Restructuring of projects in case of changes in country circumstances or emerging priorities can benefit clients. With regard to investment lending, at present, many countries are faced with the situation of large amounts of committed resources which are not being disbursed in the expected schedule due to fiscal constraints on counterpart
This presents high costs to borrowers because commitment fees remain in place, but
countries do not have access to resources. Therefore, a temporary “frontloading” of
disbursements through increased percentages, with compensatory reduction in disbursement
percentages in outer years, associated with an increase in cost-sharing limits by the Bank, can
ensure that committed resources continue to flow to borrowing countries as necessary. We urge
the Bank to take this route, as was mentioned in the document and is permitted under existing
policies.

6. On the non-lending area, we support the proposal to expand the FSAP exercise and to
include anti-money laundering methodology as part of the assessment. We also welcome the
initiative to provide technical assistance and training programs, particularly for countries with
the greatest need to up-grade their legal, judicial and financial supervisory standards. However,
for the program to be meaningful, more important than the quantity is the quality of those
assessments. Final reports need to be really useful and practical for local authorities. Even prior
to recent events it seemed that overstretching of existing resources to execute joint Bank/Fund
assessments in too many countries per year could be compromising quality. Serious
consideration must be given to this issue.

7. In terms of new initiatives by the World Bank Group to respond to the present situation,
we would very much like to welcome IFC’s proposals to mobilizing funds from the markets
through new options. Private capital flows to private companies in developing countries had been
dropping continuously since the Asian crisis. IFC’s role to catalyze private finance to the private
sector in client countries is of utmost importance for the development process. A vibrant private
sector is the best engine for economic growth. The Corporation, however, is much too small for
the needs of capital in all borrowing regions, in particular in a moment of increased risk aversion.
Therefore, the creation of new instruments to leverage new finance such as structured techniques
using IFC umbrella will provide a great contribution. Many corporates with access to
international markets in normal time may face higher refinancing risk during flight to quality
periods. Although, because of their normal market access, such corporates no longer form part of
IFC’s core clients, serving them in the current juncture will help smooth out any credit crunch in
many developing countries.

8. It is yet unclear what the demand will be for IBRD lending in the coming year, but we
are pleased to know that the Bank retains enough risk bearing capacity to respond in the
immediate future. It is nevertheless worrisome that previous expectation to build additional
capacity in 2002 will be difficult to materialize. Exploring measures to strengthen the Bank’s
finances in coming years should be a priority matter.

United Nations Financing for Development Conference

9. We welcome this good opportunity for a closer partnership between the Bretton Woods
institutions and the UN system. It serves to remind us of the fact that the IMF and the World
Bank were created in a United Nations Monetary and Financial Conference. There was a clear
view that economic difficulties of the 1930’s were a major factor leading to WW II. The
circumstances have changed considerably since then but the main lesson remain: a world with
too many excluded people is potentially much more violent. Prosperity and economic stability go hand in hand with peace and security.

10. Shared prosperity is all the more important today as nations get closer together via improved communications, transportation, trade and finance. As Jim Wolfensohn correctly points out in his Note to the Development Committee, we all need to recognize our interdependence, and “how we manage our interdependence will determine whether we are intimidated or empowered by the bonds that unite us” In the long run, a world where globalization brings benefits to all will be more stable and safer to all peoples. Conversely, a world where too many countries continue to face challenges may be less safe for all. Consequently we urge the developed countries in particular to ponder over old lessons and take the opportunity, especially as we launch a new round of trade talks in Doha and prepare to discuss finance for development in Monterey in the coming March and be more forthcoming towards the needs of others. Given the hyper prosperity enjoyed by countries of the North in the last two decades, it is inconceivable that they cannot reduce barriers to exports from developing countries and increase official finance. Trade, in particular, is probably the best way to produce and share prosperity.

11. We agree that the contribution the Bank and Fund can bring to the conference in Monterey should concentrate on the five issues noted in the document, some which have been discussed by the Development Committee in recent meetings. Namely, the five themes are operationalizing the development goals and ODA requirements to reach them, investment climate, integration in the international trading system, harmonization among multilateral development banks and financing of global public goods.

12. We strongly support the reaffirmation of the commitment to reduce extremes forms of poverty by at least half by 2015 and achieving the other development goals. However, this commitment pertains to the international community as a whole and not only to the developing countries. As has been recognized, the objectives of poverty reduction will depend on sound domestic policies by developing countries themselves, on actions by developed countries and on systemic issues. Therefore, as indicators are defined to monitor progress towards achieving these objectives, these indicators should encompass critical issues for the success of the objectives such as the evolution of the levels of ODA, real improvement in market access, aid coordination, among others. In this connection the proposal to double ODA from current levels seems appropriate.

13. The conference should consolidate more broadly two important principles mentioned in the document which are already largely consensus with the Bank and the Fund, namely, that a) sound domestic macroeconomic and governance environments are important pre-requisites for efficient use of both domestic and external resources and b) that national ownership is necessary for external support to be effective. At the same time the recent creation of a task force within the Bank to address the needs of poor performing low income countries, with a primary focus on capacity building, is timely and appropriate.
HIPC/PRSP Progress Reports

14. The Progress Report on the implementation of Poverty Reduction Strategy Papers recognizes that initial timetable was proven too ambitious. This new requirement placed on low-income countries highly dependent on foreign aid has proved burdensome, in view of limited local analytical and implementation capacity. Assuming more realistic expectations, as suggested in the report, is a positive step, just as recent initiatives to set up specific trust funds by bilateral donors to provide capacity building to countries in need. Also important is the recognition that the PRSP process should not undermine local representative institutions. In fact, institution building and consolidation should be one of the indicators to gauge success of this program.

Harmonization of Operational Policies and Procedures – Progress Report

15. It has always been our view that minimizing costs to the client countries should be at the forefront of any exercise harmonizing operational policies and procedures. Therefore, we are heartened that during the first stage of the process there is agreement among donors that building capacity and reducing costs to recipients are to be the primary objectives of this process.

16. Also important, present attempts at harmonization among donors in low-income countries need to be more vigorously pursued to ensure maximum benefits. It necessitates in the initial stages, the institution of simple standards and common principles which can be adopted by those countries. This will in turn relieve the burden of more cumbersome standards in particular on countries with weaker capacity, thereby increasing compliance and improving output quality.

17. It is quite clear that in undergoing such an exercise that there are some risks involved and we would appreciate some discussion in the next review of these risks and the recommendations and suggestions for addressing these. It would be useful if the next report could be more detailed in outlining specific achievements with a timetable for achieving future actions.

Progress Towards Education for All

18. The report presents a sobering picture of the progress since the Dakar World Education Forum, as over 100 million children remain out of school, mostly in Africa and South Asia. It is thus appropriate that the World Bank undertakes to prepare an Action Plan which could add to efforts by other international institutions such as UNESCO and individual countries so the 2015 goal of education for all children be attainable.

19. Education is crucial for productivity, higher GDP growth, competitiveness, democracy, preventive health, and many other aspects determining sustainable development and poverty reduction. The approach adopted in the report of viewing education in the context of the needs of a dynamic economy, where production in all sectors is increasingly knowledge based. The reports quotes very interesting research showing that although quantity and quality are important factors of GDP growth, quality matters the most. As a corollary, beyond focusing on volumes of
spending there is a need to consider effectiveness of such spending, as well as performance and completion rates by students. It would be useful to have, in the broader document under preparation for the next Development Committee meeting in the Spring of 2002, further elaboration on such issues as quality targets, effectiveness of expenditures, monitoring and evaluation of indicators, which are mentioned in passing in the progress report.