Statement by

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Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
We welcome the opportunity to continue our deliberations on the pending development agenda framed in the progress toward achieving the Millennium Development Goals (MDGs).

Global Monitoring Report

Let me begin by expressing our appreciation to the Bank and Fund staff for the enormous effort placed in the elaboration of the Global Monitoring Report (GMR). This report was awaited with great expectation by the development community, since it conveys a more concrete meaning for the framework of mutual responsibilities and accountabilities agreed upon by developed and developing countries following the Monterrey Summit. No doubt that the roadmap leading to the implementation of policies and actions is conducive to attaining the MDGs by 2015.

This first attempt to deliver the GMR is in line with the expectations of the developing countries. It describes in a balanced way the progress (or lack of it) in the implementation of policies and actions for which developed and developing countries are accountable in our joint effort to reach the MDGs.

We strongly support the priorities for actions set in the report, in particular, we believe there is the need for a more decisive move in the area of multilateral trade liberalization, whereby the developed countries should have a leading role by example. We also concur with the GMR emphasis on increasing the quantity and quality of aid and on improving the overall coherence of policies to maximize their development impact. Also, we agree that the priorities for the developing countries should be on improving the investment climate, in particular by strengthening property rights and the rule of law, and on improving delivery of basic services to empower the poor. At the same time, we think that developed countries have the responsibility of contributing to a more stable world economic environment conducive to growth in all regions.

Multilateral Trade Liberalization

Multilateral trade liberalization, as materialized in a successful conclusion of the Doha Development Round, can have the more significant, efficient and timely impact to achieve the MDGs. A Doha result of substantial liberalization, including the agricultural sector, would bring dynamic gains in income of about US $500 million per year by 2015 and would lift 140 million people out of poverty. This self evident gains (they do not have the transaction costs of delivering aid), coupled with the direct effect they have on income and permanent employment creation, place these results as a first priority objective to advance towards the MDGs.
In this respect we welcome the detailed account of the GMR on progress or lack of it, in the quest towards multilateral trade liberalization. We consider the new metrics in the report as an advance in the monitoring of trade openness. In particular, this is the case with the inclusion of Total Support Estimates and Producer Support Estimates to monitor protection in OECD countries. We also see as a positive event the use of the Trade Restrictiveness Index, which though imperfect, is a good first attempt on this issue.

For the next report we would like to have a more in depth treatment of the development impact of remittances, as compared with traditional aid flows. Our working hypothesis on this issue is that remittances are more efficient because they act as a negative income tax and have much lower transaction costs than traditional aid. We would also like to see, in the near future, some simulations of the effects of multilateral labor market liberalization. This is the other big impact measure to equalize world labor income, one that augments significantly the effects of liberalizing the market for goods.

Aid Quantity and Quality of financing modalities

Let us now discuss the issue of aid, including financing modalities and the quality of aid as reported in the GDR and other related papers.

On this topic, we want to focus our comments in four points. First, the efficiency in the use of aid resources, including the role of recipient countries as well as the role of donor countries. Second, the predictability and flexibility of aid, which is related to overall efficiency, but for analytical reasons, allow us to treat these factors separately as well as give our opinion on the IFF (International Financing Facility). Third, within a broad perspective on the issue, the relation between the amount of aid and the absorptive capacity of such aid. And fourth, a source of financing not yet discussed in this forum which, due to its potential effect on the volume and quality of financing, cannot be left undisclosed. Here we want to make reference to the liberalization of trade in goods and services.

Let us now spell our main points:

First, improving the efficiency in the use of aid can make a significant contribution to reduce the financing requirements to meet the MDGs. In particular, we need urgent work on speeding up the implementation of a harmonization agenda, not only to reduce the bureaucratic burden of cross and multiple conditions but, mainly to coordinate work on environmental and fiduciary safeguard policies. The theme of tied aid is another area where there is an opportunity for a very effective and quick way of improving aid efficiency. We propose to widen the definition of tied aid in the GDR to include technical cooperation and other special purpose aid. Under the scope of this measure, there is still a long way to go for untying aid. In addition to efficiency gains brought about by untying aid, there are also significant positive externalities on capacity building of local staff. We call on all donor countries to untie aid following the example of the UK. This measure alone could bring efficiency gains as large as 6 billion per year, according to a World
Bank study. Recipient countries, on their part, need also accelerate reforms to streamline their public expenditure management systems and strengthening their systems of control, among others.

Second, we all know that the unpredictability of aid flows substantially contributes to diminish aid effectiveness. It is in this context that we strongly support the idea of the IFF. By front loading future aid commitments, based on the premise that the rates of return of aid are higher than the cost of borrowing for donors countries, the IFF would bring the necessary additional volume of aid in a predictable way to finance social investment. This would represent a substantial progress towards the MDGs. We would suggest that IFF funds be channeled mainly through multilateral financial institutions, which, according to many studies, have been proven to have better targeting mechanisms than bilateral donors, specially the larger ones. Channeling IFF funds mainly through multilateral institutions would also allow a better pooling of the risks derived from development investments.

Third, on aid volume and absorptive capacity, we are of the opinion that, if the IFF succeeds in raising an additional 50 billion per year over and above the 18 billion in new commitments already pledged to date, a problem of absorptive capacity could arise. Studies (cited in the GMR) by the World Bank assert that the absorptive capacity of the receiving countries is currently in the order of 30 billion per year and that such capacity can be gradually enhanced as polices and governance reforms deepen. We would therefore recommend that when developing the financing plan to launch the IFF, interventions be designed in order to alleviate this possible restriction.

Fourth, we think that any analysis of financing for development is incomplete, if the issue of trade liberalization in goods and services is not also taken into account. We all know that expanded trade is by far the most efficient way of transferring resources to developing countries. It does not need harmonization, and is a source of permanent employment creation. It is well documented that the potential gains from partial merchandise trade liberalization, plus the elimination of agricultural export subsidies and domestic support, could bring more than US $ 500 billion in real income gains by 2015. Moreover, remittances of foreign workers to their home countries, currently at 93 billion per year, are almost double ODA flows, despite the significant restrictions to the movement of labor across national borders. There is great potential to substantially increase financing for development, if progress in liberalizing trade in goods and services in the context of the Doha round is achieved. We call for a global effort in making the Doha round a success in the spirit of the Monterrey agreements.

**Debt sustainability**

Given the significant financial gap to finance the necessary programs to achieve the MDGs and the vulnerabilities of the economies that increase their debt burden, it is imperative to address the debt sustainability issue. Even in the case of countries that have completed the HIPC exercise, it is very appropriate to think in advance of a more lasting
solution, which the HIPC initiative by itself can’t resolve. In this context, we believe it is most appropriate to work in the HIPC front as well as in other alternatives to achieve long-term debt sustainability in low income countries. To this end, it is necessary not only to assure additional funding for topping–up the HIPC countries debt reduction needs, but also to find ways to extend the sunset clause for accessing the HIPC initiative. Such measures would be subject to circumstances that would justify such extension. Using the HIPC mechanism at its maximum, including the reforms to fulfill its conditions, will contribute to the easing of possible problems of debt sustainability in the future.

We understand that the basic responsibility to achieve debt sustainability is within the countries themselves, that is, by improving the quality of the country’s policies and institutions. However, it is also true that specially low-income countries are dependent on aid flows to ease the debt burden. Repayment possibilities on a sustainable basis are closely related to the lending policies of the creditors, the additionality of concessional funds, and the availability of instruments and mechanisms to ease the impact of exogenous shocks. To this end, we welcome the proposed new framework for assessing debt sustainability in low-income countries, as this will provide a more systematic basis for analyzing debt sustainability prospects. We hope that the discussions of the World Bank and Fund will soon bring about a fully operational framework.

Role of the Bank in the Middle Income Countries

We welcome the renewed and much needed Bank’s support to the Middle Income Countries (MICs). We believe that the Bank should substantially increase its involvement in the MICs, home to over 80 percent of the developing world’s population, and over 70 percent of the poor. Greater Bank’s involvement in the MICs will produce synergies and increase Bank’s effectiveness in low-income countries, and will strengthen the Bank’s financial health. Involvement with MICs has been the core business of the Bank, and it has to be again.

Lending to MICs has been reduced drastically in the last 15 years. According to the latest Quarterly Management Report, current estimation of IBRD commitments is between $9.5 and 10.8 billion, well below the pre-crisis range of $14.2 to $16.9 billion per year. Worse yet, this trend is not expected to be reversed in the next three years, when the average forecast of commitments in the order of $10.6 billion.

In retrospective, the 2001 Task Force on the World Bank Group and the Middle-Income Countries, focusing mainly in non-lending services and in adding conditionalities to the existing lending framework to the MICs, failed to address the main issue of the contraction in lending to the MICs. We find that it is an unfortunate omission, considering that the Bank’s comparative advantage rests mainly on the joint supply of advice and financing. This is the main feature that distinguishes it from regular commercial banks or agencies in the private capital market.
Indeed, it is recognized that the contraction in lending to the MICs is mostly due to factors that could have been controlled by the Bank. The contraction resulted mainly from the stringent and bureaucratic application of fiduciary and environmental safeguard policies, coupled with inflexible lending programs, as inscribed in extremely rigid CASs.

Top level management has already examined the needs of the MICs and is working on an action plan to increase Bank’s support to MICs. Furthermore, other initiatives such as modernizing operational policies, instruments and processes could contribute to address the gradual restoration of Bank’s business in the MICs.

We concur with many of the management proposals to increase Bank engagement in the MICs. In particular, with the certification of countries to apply their own fiduciary and environmental safeguard systems to Bank projects, the flexibilization of the CAS composition and the expansion of the CAS envelope to well performing countries as well as to countries that show progress in reforms. We also welcome Management’s proposal to simplify investment lending, in particular with simple and repeater projects.

All these proposals are important steps in the right direction, but on the other hand, it is only the beginning of the long road to reengagement. We ask staff for periodic reviews of progress in implementation of the proposed plan of action and ask management to report to the Committee on this topic in the next meeting.

Voice

The solution of the voice issue needs substantial amount of trust and a renovated spirit of mutual responsibility and accountability as agreed in the Monterrey Summit. Increased voice in decision making in the BWIs for the developing countries would substantially raise the ownership of reforms and improve development effectiveness. We are of the opinion that political will mainly on the side of the developed countries, is essential to move forward in this issue. This is, in our opinion, a pre-condition to establish a road map to address the issue. Finally, we want also to highlight that the voting issue and the board issue are not separable and need to be part of a simultaneous integral solution.