Statement by

H.E. Horst Grebe López
Minister of Economic Development
Bolivia
Representing Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
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I) Aid Effectiveness and Financing Modalities

We welcome the significant work put into the elaboration of this topic for our meeting. We are running out of time, and in order to accelerate the international development agenda towards the Millennium Development Goals (MDGs), we need more and better aid, which is a challenge for both borrowers and donors.

We want to comment on four points:

• First, improving the efficiency in the use of aid can make a significant contribution to increase the financing resources to meet the MDGs. In particular, urgent work is needed on speeding up the implementation of the harmonization agenda, not only to reduce the bureaucratic burden of multiple conditions but mainly to harmonize the work on environmental and fiduciary safeguard policies. There is a window of opportunity where the use of country systems can reduce the cost of doing business with the multilateral and bilateral donors and, at the same time, enhance capacity building, increase transparency and promote country ownership of development assistance process. Following the priorities of recipient countries in accordance with their budget cycles is another effective and fast way of improving aid efficiency. Receiving countries, on their part, also need to accelerate reforms in particular to streamline their public expenditure management systems and strengthen their systems of control. Moreover, there is a need to implement the third generation reforms to build the micro institutional foundations of a market economy.

• Second, as regard to aid volume and absorptive capacity, we are convinced that developing countries have a significant potential to use additional aid more productively and effectively, and we encourage World Bank and IMF to take additional and more concrete initiatives in this area. We understand that studies by Bretton Woods Institutions show that there were significant improvements in aid absorption and effectiveness in poor countries during the last years. Nevertheless, we would like to see more direct actions from both institutions to streamline these improvements even further, and to reduce the main constraining factors affecting the adequate use of additional technical and financial assistance. Absorptive capacity should not be an excuse to refuse an aid flow increase.

• Third, we all know that unpredictability of aid flows substantially contributes to diminish aid effectiveness. It is in this context that we very much support the idea of the International Financial Facility (IFF). The IFF, by frontloading future aid commitments based on the premise that the rates of return of aid are higher than
the cost of borrowing for donors countries, would bring the necessary volume of aid in a predictable way to finance social investment to advance towards the MDGs. We would suggest that IFF funds should be channeled mainly through multilateral financial institutions, which – given their global or regional nature— will permit to allot the funds to the most promising projects and programs, assuring in this way a good return for investment and a better pooling of the risks derived from those investments. In this respect, we urge for more work on the steps ahead to implement IFF timely, particularly on fiscal transparency, governance, legal restrictions and disbursement mechanism among others. However, we suggest adopting a cautious approach to avoid decreasing aid flows after 2015. It is important to create a permanent facility with a view to keeping it working well beyond 2015.

• Finally, as regard to the other alternatives such as global taxes, they are a creative way to increase the availability of financial resources for low-income and medium-income countries. The implementation of global taxes requires above all a political will and a joint commitment. As we call for more work on this topic due to its technical complexities, we call for cautiousness on the issue of externalities that any tax creates.

We believe that a good alternative to new financing and tax mechanisms to collect resources for aid is to reduce spending on current subsidies to agriculture in industrial countries (an equivalent to increase taxes from a public finance point of view), starting with the export subsidies. Specifically, the expected reduction in cash payments to agriculture from the Treasuries of OECD countries, which the Doha Round would imply, could easily be channeled to aid developing countries. We are not talking about small amounts. The recent OECD document “OECD Agricultural Policies 2004: At a Glance” (June 2004) shows that the OECD transfers from taxpayers to support agriculture reached USD$191,197 million in 2003 (from an estimated total support of USD$349.8 billion). If at least a 16% of the subsidies from taxpayers were allocated to direct support, we would have an amount higher than any of the alternatives discussed in the document; besides, several of them are of remote and uncertain applicability.

This simple proposal would allow to increase resources substantially to aid developing countries and, on the other hand, competition in international agricultural markets would be favored, allowing poor farmers to obtain a fair price for their harvests, and letting the world economies allocate their resources better and more equally.

This proposal does not need harmonization, and it would be 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 could bring more than USD$500 billion in real income gains and lift about 140 million people out of poverty by 2015. Moreover, remittances of foreign workers to their home countries are currently as large as Official Development Assistance (ODA) flows despite the significant restriction to the movement of labor across national borders. There is great potential to substantially increase financing for development, if progress is achieved in
liberalizing trade in goods and services in the context of the Doha Round. We call for
global efforts to make the Doha Round a success in the spirit of the Monterrey
agreements.

II) Elements of the Growth Agenda: Investment Climate and Infrastructure

We very much welcome the inclusion of this topic in the Development Committee
agenda.

Growth is indispensable for lasting poverty reduction. A good investment climate is vital
for sustained growth and employment creation. Moreover, a bad investment climate
affects the small and medium enterprises more than the large ones, to the detriment of the
poor segment of society.

To construct a vibrant market economy in the developing world, it is necessary to
advance not only in macro stabilization, privatization and in allowing prices to reflect
their scarcity values, but also to advance in developing the micro-foundations of a well-
functioning market economy.

In various regions, despite significant advances in macro stabilization and market-
oriented reforms, most countries maintain excessively complex regulations for business
and have neglected infrastructure investment. The macro and the
liberalization/privatization reforms are a step in the right direction but will not be able to
deliver the expected results, in terms of economic growth and employment creation, if the
micro-foundations to operate a business are not present. Investment climate reforms
should address the wide range of rules and regulations that govern the life of the firms
from establishment to liquidation in the key markets in which the firms participate,
namely capital, labor and product markets.

Addressing the reform of the micro-foundations of the market economy is not an easy
task. Much care should be taken to establish simple, market friendly rules of operation in
all markets in which the firm operates and, more importantly, the institutions that can
enforce the new rules.

We expect much of the recent “Doing Business” project and of the Investment Climate
Surveys to ascertain the status of the investment climate as well as to uncover the
significant barriers to doing business in developing countries. We think they are pioneer
studies that will allow to give concrete meaning to themes such as institutions and
comparative institutional quality, which are at the core of the operation of well-
functioning market economies. This will permit to advance in reform programs to
modernize the institutions of the market economy in the developing world and to unclog
their potential for pro-poor growth and employment creation.

We think that the logical next step in this endeavor is to put the results of the Investment
climate Surveys and the Doing Business project into practice. We cannot agree more
with the need to have the highest standards of monitoring, evaluation and results
measurement of this ambitious reform effort. The time has come to have the highest accountability standards not only for the implementation of these reforms but also to ensure that they are not reversed in the medium term.

Last but not least, there is a crucial element of the world’s investment climate that has not yet been addressed and has much potential to promote growth and poverty reduction, and that is a successful completion of the Doha Development Round. Multilateral trade liberalization is the most important policy action to substantially improve the investment climate of the World and bring lasting prosperity in particular to the developing world.

III) Infrastructure

Infrastructure is a key component of the investment climate. Deficit in infrastructure in developing countries is one key determinant of their growth performance.

With regard to instruments and approaches to expand infrastructure in developing countries, we urge the World Bank Group to work the areas of guarantees, sub-sovereign financing and public-private partnership (PPP) in depth. The Bank Group is too small in relation to the enormous needs for financing in the infrastructure sector; therefore, it has to find ways to maximize its impact through partnerships with the private sector and use its financing instruments, in particular its guarantees schemes, innovatively.

One of the most serious constraints to scale up the Bank businesses infrastructure are the restrictive environmental and safeguard policies, which are by far the most stringent of all the IFIs. We urge the Bank to advance in the use of country systems in the application of environmental and social safeguards, which saves on transaction costs for the client and the Bank and is better for institutional development and project sustainability.