Statement by

Heidemarie Wieczorek-Zeul
Federal Minister for Economic Cooperation and Development
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Over the past ten years, the international community has arrived at a common understanding on development issues – thanks, not least, to the vision and leadership of World Bank President James D. Wolfensohn. The DC documents that have been submitted to us reflect this broad common understanding and highlight the central challenges of the coming years:

Achieve a sustained increase in economic growth in developing countries
and ensure the participation of the poor

Without a boost to the economies of the developing countries and a resultant major increase in economic growth, it will be impossible to ensure debt sustainability in the long term or to achieve the Millennium Development Goals. While the growth rates of developing countries' gross domestic products have risen in the past few years – in 2004, overall growth was as high as six and a half percent –, this has barely benefitted the poorest countries of sub-Saharan Africa. The economic growth of three and a half percent in sub-Saharan Africa is paralleled by high population growth, which means that per capita growth is much lower. In order to reach the Millennium Goals, per capita incomes in the poorest countries must be significantly increased.

In recent years, the view on economic policy approaches has changed radically. The structural adjustment programs of the 1980s and 1990s did not reach their goals; they often led to higher poverty. Economic growth in particular fell far short of expectations. The World Bank has since abandoned its old structural adjustment strategy and replaced it by the new approach known as development policy lending. The new thinking is based on the following precepts:

- The liberalization and privatization of economic processes must not be rushed. Rather, successful liberalization depends on the right institutions and legal instruments being established in good time.

- Economic reforms can only be successful if the government of the country concerned stands behind them and has developed them itself (ownership). This means that governments must be given sufficient freedom to define their own reform strategies.

- The conditionalities attached to donor support (World Bank, IMF, etc.) must be reduced and must reflect the partner countries' own strategies.

In principle, a climate of macroeconomic stability is favorable to higher rates of economic growth. However, two qualifications need to be stressed. First, there is no universal definition of successful stabilization. The traditional concept relies heavily on performance on the inflation and fiscal fronts. However, there are strong arguments for including relatively high economic growth rates and sufficient international reserves as additional targets. There is a need for assessing successful stabilization in greater depth. This must then serve as a basis for discussing economic policy implications.
Secondly, there is a need to identify growth-enhancing public investment opportunities. Additional public investment, if it is financed in a sustainable manner and favors growth-sensitive sectors, can be expected to increase factor productivity and crowd in private investment. In particular, there is a strong case for treating investment and other expenditure differently for the purposes of fiscal policy goals. Besides, it is important to exclude, where appropriate, commercially run public enterprises when setting fiscal targets. This issue is of particular relevance to Latin America. There is a need for a more flexible approach. We await with interest the results of the ongoing work of the IMF and the World Bank on this issue.

Poverty reduction will be greater the more successful we are in harnessing the productive potential of the poor by means of broad-impact, pro-poor growth strategies. Experience in many countries has shown that the poverty gap may become wider in the course of increasing growth. There is a need for better understanding the links between growth and poverty reduction and for identifying growth strategies that have a broad impact. Pro-poor growth must be primarily geared towards fostering sectors and regions of relevance for the poor, and fostering those factors of production which they own (especially capacity for unskilled labor and land).

*Fight corruption, enhance transparency and accountability, further increase participation and promote political reform*

No state model has proved as successful over the long term as democracy. But democratic reform processes are complex and require all forces within society to be involved:

- The formal introduction of democratic elements must be accompanied by a political process that takes place within society with the support of the people. Achieving true democracy is a long-term process that requires all forces within society to be involved. Above all, it cannot be decreed from above.

- We also know that democracy takes very different forms across the world. All countries must respect human rights and other fundamental rights. However, this does not mean that there is one universally valid model of democracy. Each country must adapt its path to its own specific situation.

- Democratization and economic development are linked with each other. The two aspects can reinforce each other. Economic and fiscal space can facilitate reform. Political reform, in turn, gives people scope for action and choice, thus forming the basis for the involvement of the people – in the form of economic and social investment as well as non-profit initiatives.

**These insights also form the main fundamental principles of the PRSP approach.** This approach is about every country defining its own path, both in terms of the substance of the development strategies and in terms of the way in which the various players in society participate in the process. The donor community facilitates the process by means of financial resources, debt relief, and advice.
In future, our experience with participatory processes must be institutionalized, and transparency and accountability must be further enhanced. Without legal certainty, accountability and institutionalized participation processes, it will neither be possible to reduce poverty on a lasting basis nor to achieve a significant increase in private investment. An essential aspect in this regard is the creation of greater transparency and accountability in the field of government revenue and expenditure, and decisive action against corruption. Thus, it is vital to further strengthen budgetary procedures, improve their transparency (tracking) and strengthen auditing bodies.

It is primarily the bilateral donors and the UN system that have the task of fostering political reform processes along the lines described above. German development cooperation supports a great many projects in the fields of legal and justice system reform, constitutional advice, promotion of decentralization and municipal development, development of effective public sector institutions, anti-corruption, support for parliaments, and empowering women and building civil society capacity. Especially in the areas of fighting corruption and enhancing the transparency of public finance and institutions as well as realizing human rights, we will work much more closely with the World Bank in future, particularly in order to strengthen the links between these areas and the PRSP processes.

Strengthen international law and cooperation

The growing economic interdependence between countries requires that the international political and legal framework be strengthened. The UN has a vital role to play in this regard. The United Nations is a forum, a vanguard and a decision-making body for the resolution of global issues. Beyond its political, economic, social and cultural agenda, it forms a decisive cornerstone for the further development of international law. It also constitutes a normative, legitimizing framework for the operations of other multilateral institutions such as the Bretton Woods Institutions or the WTO. This year, decisive discussions will be taking place and, hopefully, decisions will be taken in order to better equip the UN for the challenges of our time. The Secretary-General has submitted a report with remarkable proposals. His efforts for UN reform deserve our full support.

The industrialized countries would jeopardize their own credibility and that of the international system if they applied double standards:

• *Example 1: Corruption control.* The promotion of democracy and the fight against corruption require a particularly high degree of credibility of our own policy. Double standards are even more harmful in this field than in others. Even in extreme situations, we must still uphold fundamental human rights and judicial rights. For example, in our efforts to fight terrorism, suspects must be called to account in trials that conform wholly with the principle of the rule of law. The Convention against Corruption adopted by the UN General Assembly in fall 2003 must now be ratified and implemented by as many countries as possible.

• *Example 2: Trade.* The industrialized countries have been demanding that developing countries open their markets and strengthen their exports in order to help achieve higher growth rates and reduce poverty. At the same time, the industrialized countries have been distorting markets with their subsidies and what are in some cases prohibitive tariffs in the
agricultural sector, depriving the developing countries of export opportunities in the very sectors in which they have the greatest potential for development (e.g., cotton). So our goal must be to completely eliminate all forms of subsidies for agricultural exports as soon as possible, significantly reduce other trade-distorting agricultural subsidies, and reduce tariff peaks, which have a detrimental impact on development, and tariff escalation. Progress must be made before the WTO Ministerial Conference in Hong Kong in December if the Doha Development Round is to live up to its name and to be concluded in 2006.

- Example 3: Core labor standards. The core labor standards have been laid down in the UN Social Covenant and are thus considered charted human rights. The core labor standards must be mainstreamed consistently in the policies of the World Bank and in our partner countries. The industrialized countries must set a good example by ratifying all International Labour Organization Conventions on which the core labor standards are based. After all, we agreed back at the World Social Summit follow-up conference “Copenhagen+5” in 2000 that countries would commit themselves to such ratification.

Meet global challenges together

In the course of the increasing globalization of economic processes and growing interdependence between countries and regions, it is becoming ever more important to establish a viable strategy and framework for the provision of global public goods, in other words, for the type of public goods that is associated with harm or benefits that transcend borders. In this context, multilateral institutions such as the World Bank are of special importance. The World Bank is particularly well suited to initiate multilateral processes involving a multitude of players, to structure the debate and to coordinate contributions.

Given this background, there is a need for the World Bank to further pursue and strengthen the strategic orientation of its "Global Programs." So far, no multilateral Framework has been laid down to coordinate efforts and set priorities with regard to the individual goods. Just like in the PRS process at the country level, paths must be found to combine and link the efforts of governments, nongovernmental organizations and private donors. What the World Bank could, and should, do is to launch and structure this process, which should lead to the establishment of an urgently needed strategic Framework for the provision of global public goods.

As the strategic Framework for global public goods is developed, the following aspects should serve as guidance:

- As we deal with the provision of global public goods, greater attention must be given to the poverty aspect. The provision of these goods and the reduction of poverty need to take place in parallel in order to ensure development on a lasting basis. After all, poverty not only poses a barrier to many public goods (such as environmental protection), it also prevents people from equitable participation in the relevant political processes.

- Given this background, crowding out must be prevented and the financing of global public goods must be put on a sound and appropriate basis. So far, many of the efforts
for the provision of global public goods have been undertaken to the detriment of other ODA contributions, which is evident from growing shares in what are, in total, stagnating transfers. This means that we also need to examine options for tapping additional sources of funding.

- **Global public goods must not be financed at the cost of other development tasks.** The main task of the World Bank is to make a significant contribution towards reducing global poverty. Its financial and other resources must be devoted to these purposes.

- **Cooperation with other donors plays an important role.** The main imperative for the World Bank in this regard is to combine its own instruments in a more meaningful way with those of other bilateral and multilateral donors, for instance financial transfers and technical advice.

**One example is energy efficiency and renewable energy.** Cost-effective, reliable and sustainable energy is of central importance for our proclaimed goal of poverty reduction, but also for the prevention of environmental degradation. I am convinced that to this end, it is indispensable to give increased support to the dissemination of renewable energy forms and to reduce the subsidizing of traditional forms of energy. Some renewable energy sources are already competitive, especially when it comes to the provision of decentralized energy for the poor. However, some still require additional market development. The related cost must not be imposed on the developing countries. There is therefore a need for all players involved to engage in close cooperation, ensure that their efforts are mutually complementary, and grant mutual access to expertise and studies. The World Bank has an important role to play in this regard. In the longer term, it must become an "encouraging bank" for renewable energy. Now the Bank must systematically implement the agreed increase in the share of renewable energy support in its portfolio.

**The World Bank continues to have a key role to play in middle-income countries.** In these countries, it is not only a matter of promoting economic development. The Bank has three additional central tasks in these countries. Firstly, it has to orient its activities in these countries (as in others) more closely to the goal of poverty reduction through sustained, socially balanced economic growth. Secondly, economic development must be accompanied by protection from external shocks, to which these countries continue to be vulnerable in spite of their more advanced level of development and which have grave consequences for the global economy as a whole. Finally, this group of countries is of key importance when it comes to the provision of regional and global public goods, such as preventing financial and environmental crises, containing epidemics, promoting peace and security and regional stability. The renewed focus of the World Bank on infrastructure will help foster economic growth. However, this must not result in the watering down of the safeguards. And it must be ensured that the envisaged infrastructure projects are closely linked to pro-poor growth strategies.

*Achieve a substantial increase in ODA and further improve its quality*

**In order to achieve the international development goals, it is vital to boost both the effectiveness and the volume of our development cooperation.** Together, we have pledged to give these tasks top priority. Many developing countries could already make effective use of substantially increased donor contributions. And it may be assumed that these contributions not
only have a direct impact but also act as an important catalyst for the implementation of necessary reforms and the mobilization of additional investment capital.

In Germany, the share of development cooperation resources (ODA) in GNI will rise to 0.33% in 2006 (from 0.28% in 2004). We will thus meet the commitment we made prior to the Monterrey Conference, as well as our commitments from the EU Barcelona Declaration. However, this can only be the first step. Within the EU, we are currently working on a step-by-step plan for further increases in ODA. Federal Chancellor Schröder expressed a clear commitment to the United Nations 0.7% target at the World Economic Forum in Davos. The timetable to reach the ODA target, which I have presented in my capacity as the German Federal Minister for Economic Co-operation and Development, is in line with the EU roadmap for the ODA target. It aims at reaching an ODA ratio of 0.5 % by 2010 and 0.7 % of GNI by 2014.

Although considerable scope is available for increased financing for development to be used effectively, the situation varies from country to country and from sector to sector. Problems of absorption and a lack of a development are two sides of the same coin. We must continue our efforts to better align development cooperation with national development programs and to simplify and harmonize the practices used by the various donors. Advancing this agenda will be an important precondition for enhanced absorptive capacity. The decisions made in Rome, Marrakesh and Paris mark important milestones. It is now a matter of integrating the decisions into the relevant operative procedures and country programs. Germany is committed to that.

Ensure debt sustainability

High levels of debt and, more generally, developing countries' great vulnerability to changing environments jeopardize these countries' own efforts for development. The IFIs' lending policy therefore needs to take better account of debt sustainability aspects in future. Two principles in particular must be noted in this connection:

Balance of loans and grants. While the World Bank should generally continue to give loans to poor countries, it should also provide grants to the extent required if the provision of loans poses a threat to debt sustainability. So the decision whether to support low-income countries with grants or with loans must primarily be based on their debt sustainability. In this connection, it is important to maintain the World Bank's character as a bank while simultaneously enabling the provision of grants on a limited scale based on the said principle.

Maintaining the World Bank's financial integrity. Another important aspect is the need for clearly identifying the impacts of the increased provision of grants and of additional debt relief on the World Bank's financial integrity. Germany wants development banks that continue to be financially powerful and have high self-financing power. They must have a clear development mandate that is distinct from those of other multilateral institutions, and they must continue to play a central role in international development cooperation.

Germany therefore supports the present Debt Sustainability Framework. It constitutes a crucial prerequisite for recognizing new debt crises early on and preventing them in future. The Framework now must be implemented consistently, which requires close coordination between the Bretton Woods Institutions and other development partners.
Moreover, assistance should be provided to poor countries – where needed – in the form of further multilateral relief. However, the form and volume of such relief are still a matter of debate at this point. The Federal Ministry for Economic Cooperation and Development (BMZ) has presented a proposal based on the following principles:

- **Ensure long-term debt sustainability.** Multilateral debt relief should further improve long-term debt sustainability in low-income countries. The relief effort should help create an additional cushion for the event of negative exogenous shocks.

- **Equal treatment for all low-income countries.** All low-income countries should be dealt with according to a set of criteria that are generally applicable. The general criteria include, for example, the World Bank’s internal rating procedure within the framework of the CPIA (Country Policy and Institutional Assessment) Index and the thresholds – to be agreed upon – for the degree of indebtedness. Decisions are taken on a case-by-case basis.

- **Appropriate incentives.** Further debt relief should benefit primarily those countries whose governance has improved.

- **Compatibility with the IMF/World Bank Debt Sustainability Framework.** The proposal should be linked to the new debt sustainability framework and its core principles, which are framed in such a way that future debt crises will be avoided (forward looking). This aspect will also be taken into account in future loan decisions (e.g. within the framework of IDA 14 with regard to the future credit-grant ratio for LICs). There is a need for further discussion about the definition of suitable thresholds.

- **Ensuring the highest possible transfer of resources to developing countries.** Debt relief should, to the greatest possible degree, contribute to an increase in the net transfer of financial resources while minimizing costs to donors.

- **Ensuring international financial institutions' financial solidity and lending capacity.**

  Tap new sources of financing for development

If we want to achieve the Millennium Goals, we need additional new and innovative financing instruments. Germany is making active, results-oriented contributions to the relevant debate. In addition to the dialogue within the EU, Germany is also working closely with France, Spain, Chile and Brazil (“Lula Group”) in order to make headway on the relevant proposals. Germany supports the IFF and is in favor of testing this mechanism with a pilot measure for immunization campaigns, referred to as IFFIm. We are currently in the process of clarifying the legal and technical issues around German participation.

It makes sense to combine the frontloading of aid through an IFF with backloading, for example in the form of global taxes. Together with the Lula Group, we support the idea that these taxes should be raised nationally but coordinated internationally. This will help make it easier to implement the endeavor and avoid the establishment of new supranational bodies.
Both the EU and the Lula Group are currently taking a very close look at the possibilities for introducing international taxes on air travel. I am confident that at least one of the present options can be agreed upon among a limited number of countries to start with.

Another instrument that was proposed by Federal Chancellor Schröder in Davos is a tax on speculative currency transactions. The findings of a study commissioned by the BMZ (in 2002) show that such a tax is a feasible idea. However, it would need to be implemented based on international coordination; all the financial centers in one time zone at least would need to participate. All political decision-makers responsible should take a good look at this instrument without ideological blinkers.

Substantially strengthen developing countries' voice and ownership

Processes of economic and social development are intrinsically linked with the concept of ownership. Reforms must be firmly rooted in terms of culture and political economy. It is therefore indispensable to strengthen recipient countries' ownership. In addition to the proposals already mentioned for improving the quality of ODA, the following aspects are of particular relevance in this connection:

As successful development strategies are rooted in the specific context of the countries, local analytical capabilities must be better tapped into or deliberately built up. The international community must therefore lend more active support to the developing and transition countries in charting their own paths. For example, it is crucial that the programs take full account of the underlying determinants of growth and of the factors influencing the response of the real economy to macroeconomic policies. Such an approach requires country-specific assumptions about the underlying economic and structural relationships. This analytical input can only be produced in collaboration with local researchers. In this context, Poverty and Social Impact Analyses (PSIAs) are an important instrument; they should be undertaken on a systematic basis.

It is also important to take macroeconomic issues into account in the PRSP process. For instance, experience gained with PRSPs to date has shown that the issue of alternative macroeconomic policies has been almost completely neglected. The participation of civil society needed for the drafting of PRSPs has so far not extended to macroeconomic issues either. There must be a discussion of the various options and the related trade-offs in light of the specific country situation. The PRSP process should be used to that end.

Moreover, the conditionalities attached to World Bank programs must be further focused on core areas and become more results-oriented. Experience gained with structural adjustment programs has shown that conditionalities usually only reach the desired goals if they support the recipient country's general policy. However, this realization makes traditional conditionality baseless. A further way of enhancing ownership would be to formulate performance criteria, to the greatest possible degree, in the form of output or outcome indicators. Germany has voiced its position, among other things, at an international workshop held in Berlin last week. We now look forward with interest to the results of the ongoing review of the World Bank's conditionality policy.
Finally, developing countries need to gain a stronger voice in the decision-making structures of the World Bank. Strengthening the voice of developing and transition countries in World Bank bodies is vital to retaining the institution's credibility. Giving all shareholders the chance to play an active part in decision-making processes is a prerequisite for the acceptance of the measures concerned. The 2002 Monterrey Conference on Financing for Development and the Monterrey Consensus have confirmed that action is needed in this regard. Germany has therefore vigorously supported the voice process and proposes – in addition to the aforementioned measures to strengthen ownership – that the opportunities of developing and transition countries to participate in the World Bank's decision-making structures be increased. In particular, Germany advocates a substantial increase in developing countries' basic votes. This would particularly benefit the poorest developing countries and the countries of Africa. Moreover, thought should be given to the introduction of the principle of "double majorities" for decisions on operational or staffing matters (similar to the practice used at the Global Environment Facility, GEF). It is possible, and indeed desirable, to move ahead with reforms of this kind on the basis of sequencing.