Statement by

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We very much agree with the choice of Governance (including Anticorruption) and the Middle-Income Countries Strategy as the items for deliberation at the 74th meeting of the Development Committee. Both topics are central to reduce poverty and accelerate progress in the fight against underdevelopment. We will center our comments on these two topics, and we will also include clean energy and development, the Education Fast Track Initiative (FTI) and trade.

I. Strengthening the Bank Group’s Work on Governance and Anticorruption

When it comes to the proposed strategy, the government should be in the driver’s seat.

Other actors besides the client governments should be scrutinized to be part of governance partnerships. We think it is healthy to involve other actors in the efforts to improve governance as long as they share the country’s vision and policy directions to address governance problems. If instead they are interested in perpetuating the predatory institutions that impede change or have particular agendas that have little to do with promoting good governance but more to do with advancing ideological positions, they should be left out. Some non-governmental organizations that capture naïve local groups to advance their own agendas and destroy nascent institutional building efforts, especially in extractive industries, are a case in point. What assurances can management give us that participation will not deviate from the noble goal of improving the quality of governance and degenerate in an incontrollable political problem? Moreover, all the assessments to curtail corruption and improve governance—such as expenditure, procurement and fiduciary assessments— are to be carried out by the Bank in coordination with the government institutions, and coordination will be difficult if the government is not leading the strategy.

Governance should be the focus of the proposed strategy.

We would like management to calibrate the different dimensions of governance reform, including corruption, and implement the proposed strategy at the country level accordingly. Corruption is just one dimension of governance, which is a much deeper and multidimensional problem. We are aware that governance and corruption are interdependent, but improving the quality of governance, which also contributes to reducing corruption, requires much more than addressing corruption. In particular, the wasteful loss of resources derived from faulty governance (faulty government management and predatory institutions) in the delivery of social and infrastructure services is normally much larger than the amount of resources that can be lost to acts of corruption. Attacking corruption is a moral imperative, but improving the other dimensions of governance—by, for example, reforming the delivery of basic services, the civil service, the public investment systems and in general improving the quality of public expenditure—can have a much wider effect on reducing poverty and increasing sustained growth.

Development and underdevelopment are determined by differences in the quality of governance. In particular, development is characterized by the predominance of good government
management and developmental institutions over faulty management and predatory institutions. Improving the quality of governance (management of public affairs and institutions that make up the economic, social, and political fabric of a country) requires a long-term and time-consistent effort that goes beyond electoral cycles and the terms of the Country Assistance Strategies (CASs) that periodically define the rules of engagement between the countries and the Bank.

We will now propose a framework to assess the quality of governance and act accordingly.

The Doing Business Indicators (DBI) are a good tool to test quality of governance when it comes to the relation between the government and the private sector. This tool, which employs concrete actionable indicators, assesses the quality of governance in all key markets of the economy. We urge the Bank to develop a similar set of indicators, which could be called Government Business Indicators (GBI), to measure the quality of governance when it comes to the relation between the government and the citizenry. Specifically, we are thinking of developing actionable indicators of the labor markets of public servants for the delivery of education, health and social protection –areas where governments use the bulk of public resources–, and actionable indicators to measure the quality of public investment, in addition to the traditional focus on government purchases and fiduciary aspects, which are relatively well studied. These public labor markets have special regimes that usually overprotect the incumbents and lack accountability mechanisms, and public investment is rarely prioritized to maximize social returns. Also, further work on the indicators included in the Country Policy and Institutional Assessments is needed to turn them into concrete actionable indicators that, together with the indicators of public labor markets and public investment quality, can be part of the GBI. By pooling the DBI and the GBI into a single database, we can arrive to a reasonable assessment of the quality of governance and define specific strategies of reform at country level.

Going beyond the Bank’s projects to fight corruption

Corruption at the country level is a more important development problem than corruption in Bank projects As we all know, actions at the project level, even though important and necessary for the Bank’s reputation, have the scope of the project itself and last only while the project is active, whereas actions at the country level are more wide-ranging, more sustainable and can address the necessary changes to institutions to progress in building good governance and fighting corruption.

The proposed strategy excessively worries about the Bank’s reputation. It is too much centered on ring fencing the Bank’s projects from corruption and expends a disproportionate amount of time, effort, and resources to attack this problem. We think that the right approach is to expand the realm of the fight of corruption, taking probably more risks but getting by far larger rewards. We are referring to improving country systems to expand the fight of corruption in projects at the country level, that is, not only to have Bank projects that function well and are corruption-free, but also to ensure that the institutional gains they create are not lost once the projects are completed and to really begin changing institutions bottom-up to reduce/eliminate the problem of corruption in a sustained way in the medium term.
A cost-benefit approach to corruption – Cross-sanctioning, simple and non-discretionary policies, and rewards offered to denouncers help to reduce corruption. Criminals perform a cost-benefit analysis before committing crimes. The lower the sanctions, the more it pays to be involved in corruption. Since cross-sanctioning increases sanctions—when applied either at the country level or across the International Financial Institutions (IFIs)—, it will result in less corruption. Likewise, the lower the benefits of corruption, the less it pays to be corrupt: simple automatic policies that leave little room for discretion would surely lower the benefits of corruption. Here again the DBI and the proposed GBI can help enormously to reduce the benefits of corruption. But in addition to increasing sanctions and reducing the benefits of corruption, incentives to capture the corrupt have to be in place. In this sense, the Voluntary Disclosure and Whistle Blower Programs, together with a system of rewards for those who denounce corruption, will help to further increase effectiveness in this field.

Restitution of assets to regain credibility. Restitution of assets is a very powerful tool to restore credibility in government institutions, especially after significant cases of corruption such as the capture of the government by a corrupt elite. In this case, after a regime change, it is imperative to have the stolen assets returned as soon as possible to rebuild the moral fabric of society. We suggest that the Anti-Money Laundering Initiative put special emphasis on this issue and that the governments of the big financial centers where those assets are placed be requested to provide substantial cooperation in this effort.

Selectivity, strategizing and budgeting

Governance and Anticorruption is being streamlined into the CASs, together with environment, social assessments, participation, gender and other cross-sector themes. Strategizing is about making choices of what is and what is not relevant at the country level, given a limited amount of resources. It is important to avoid overloading the CASs with every new topic that is given priority at the Bank’s level. If governance is a priority, another topic has to be dropped to really focus on what is important and relevant to make a difference at the country level.

This brings us to how to finance this new effort of the Bank. New governance work should be financed out of reallocations, improvements in productivity and mainly by being more selective in mainstreaming activities to be dealt with in the CASs. We urge management not to ask for more budget but instead to strategize and be more selective.

Setting boundaries to the Bank’s involvement

Addressing weak governance frameworks and fighting corruption are very broad tasks. Since extremely broad mandates have induced the Bank to spread too thinly across several initiatives, it is important for the proposed strategy to clearly state the areas in which the Bank has comparative advantage and those in which the Bank may be better off by leaving the task to other agencies.

Risks

Risks in dealing with Governance issues at the country level should include not only risks for the Bank but also for the country. The treatment of this issue in the paper is too much
centered on the Bank’s reputational risks and project corruption risks. We think that a discussion of the risks for the country is also warranted, including the operational risks (when the Bank proposes imperfect policies and actions) and corruption risks (when corruption is induced by external agents, either private firms or IFIs).

II. Strengthening the World Bank’s Engagement with IBRD Partner Countries

We very much welcome the intention of giving the MICs a greater say in World Bank Group (WBG) matters, not only as clients but as shareholders of this memorable cooperative that the International Bank for Reconstruction and Development (IBRD) is. This means that the relation between the Bank and the MICs should be one of trust, partnership and flexibility to finance and accommodate unpredictable issues. Also, as shareholders, the MICs should have a greater say in determining the Bank’s agenda. The change from Country Assistance Strategies to Country Partnership Strategies symbolically expresses this intention.

On financial and development grounds, it is well established that the WBG should remain engaged with the MICs. The majority of the developing world poor (living on less than two dollars a day) live in the MICs, and their income per capita of just US$ 3.80 per day is amazingly low if we take into consideration the disproportionate big share of the income that goes to the rich in these unequal societies. Global volatility and contagion affect particularly the MICs most integrated to global markets, and IBRD should continue playing a key role in minimizing these negative effects. Moreover, IBRD’s accumulated earnings, mainly coming from lending and other financial services to the MICs, finance all IBRD activities, while lending to the MICs represents only 25 percent of administrative expenditures, the rest being used to provide knowledge (60 percent) and global (15 percent) services.

The strategy should place more emphasis on the MICs that need more help from the WBG rather than on the successful and modern MICs, which are the ones that need less development services. As the proposed strategy describes, it is good to have a menu of financial services beyond policy and investment lending and to lend in local currency and to sub-national governments in order to serve the most modern MICs. But it is also important to work on streamlining the traditional Bank’s products, specifically the bundled delivery of knowledge and financing and direct knowledge transference through capacity building and technical assistance based on the Bank’s worldwide expertise and cross-country experience, which are at the core of the IBRD comparative advantage vis-à-vis other financiers.

Strategizing more than fine tuning

Fine tuning the current strategy, as the document before us has done, is not enough. We think that a successful strategy for such a diverse group of countries like the MICs should have two sufficiently broad strategic pillars as guiding principles to address the specific problems of development and poverty in these countries and to anchor them as a distinctive group within the Bank. We propose the following pillars: a) using country systems to streamline the institutions for good governance in the MICs and b) regaining IBRD competitiveness in the financial markets.
With regard to the first pillar (using country systems to streamline the institutions for good governance in the MICs), we have to stop imposing first world institutions to third world countries. It is easier to replicate first world institutions than to do the hard work of designing institutions that are simpler and have the possibility of working efficiently in developing countries. We think that country systems are a good starting point to move toward simpler institutions in the areas where external rigid standards have been imposed upon these countries. We are referring to the rigid social and environmental safeguard policies, the sophisticated results-based framework, and the donor-driven monitoring and evaluation systems. In addition, in the areas of market economy institutions and institutions for the efficient delivery of social services, the MICs also show an overregulated and complex landscape that needs simplification, transparency and accountability. We think that tools such as the doing business methodology and the Bank’s work on efficient delivery of social and infrastructure services can guide the implementation process. Country systems and the Bank’s cross-country on-the-ground experience should be the springboard to develop institutions that are compatible with the degree of development of developing countries. This degree of development is comparable to the one at the time of the industrial revolution and, therefore, developing countries cannot be forced to adopt sophisticated institutions, which almost never are implemented on the ground.

The second pillar –regaining IBRD competitiveness in the financial markets– includes addressing the excessive cost of doing business with IBRD, which explains the stagnation of gross lending to these countries. This excessive cost of doing business involves financial and non-financial costs. Addressing financial costs encompasses not only more transparency in pricing but a review of the overall pricing structure (including lowering the price of lending based on the triple A rating of IBRD and eliminating the front-end fee that was placed only on an exceptional basis, among others). Addressing the non-financial costs requires expanding the use of country systems, further streamlining procedures, and looking for synergies and economies of scale and scope with the Regional Multilateral Development Banks (RMDBs).

Guided by these two strategic pillars, we have to come up with specific country strategies that go from focusing on an unbundled approach –where the country chooses the preferred mix of financial and knowledge instruments and pay for each service separately– to the more traditional bundled approach –which has proven to be a very useful and distinctive feature of the Bank in comparison with commercial banks.

Synergies and complementarities

It seems obvious to us that the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank and the African Development Bank have more activities in common than IBRD and the International Financial Corporation (IFC). IBRD can, for example, make joint investment projects with the RMDBs and save the clients significant transaction costs and generate scale and scope economies. Likewise, IBRD and RMDBs can offer joint or sequential policy loans to make the policy advice to the client countries more consistent and, more importantly, to bring time consistency to policy implementation across the political cycles. On the other hand, there is a clear division of labor between the IBRD and IFC: IBRD deals with policy and regulatory changes that help the private sector to flourish, and IFC adds value –by lending and investing, mainly in frontier firms, and
providing technical assistance— and helps developing new markets to strengthen the private sector and its environment.

III. An investment Framework for Clean Energy Development

The issues of access to energy, climate adaptation and transition to cleaner energy are interrelated. They all compete for the scarce financing funds and advancements in one direction may imply backtracking in another, even though there are also win-win options like the development of hydropower plants, in which the Bank’s participation has diminished significantly. We need to be aware of the trade-offs and promote the win-win options when designing policies and investment frameworks.

Access to energy is of paramount importance for LICs but also for MICs, given that most of the poor without energy live in the MICs and that there is a strong correlation between investment in electricity and development. Current policies and financing show a significant financing gap to address this issue. With the current arrangements, the countries’ fiscal resources, private sector participation and IFIs resources are insufficient to close this gap. The only way to close this gap is by a joint effort of the government, the Bank and the private sector as the main financier. The stage for private sector participation should be set by the government through fiscal discipline that creates fiscal space, good governance and regulatory frameworks, and the design of efficient subsidy schemes where private investments are not profitable. The Bank plays the role of facilitator and financier. As a facilitator, it supports governments to strengthen the investment climate and develop appropriate regulations, including flexible safeguard policies. As a financier, it helps to leverage private participation and develop risk management instruments for feasible risk sharing among the government, the private sector and the Bank to increase investment in energy at the country level.

The issues of adaptation to climate change and transition to a low-carbon economy should be dealt with considering the principle of fair burden sharing: those countries that have polluted and pollute the most should carry the largest burden. This translates, at the global level, into the observance of the principle of common but differentiated responsibilities, embodied in the United Nations Framework Convention on Climate Change (UNFCCC). Energy explains more than 75 percent of global emissions and its demand will grow at a high pace in the years to come. Developed countries, the main past and current polluters, should contribute the largest share of additional financing to cover the past and incremental costs of a transition to a low-carbon economy and an adaptation to climate change. Most developing countries, which have polluted and are polluting in minimal amounts, should make a minimal contribution to financing pollution control.

Much can be done to advance in addressing the issues of adaptation to climate change and transition to a low-carbon economy with regulatory changes that require minimal additional non-market finance. Achieving free trade in bio-fuels as the existing free trade in oil products can elicit substantial profitable private investments in clean energy at current and probably future oil prices. Regulatory changes, specifically more flexible environmental and social standards, could unleash significant investment in large hydroelectric projects to rapidly substitute clean energy for dirty energy.
IV. Education for All – Fast Track Initiative (FTI)

The education-related Millennium Development Goals (MDGs) need to be adjusted so that not only coverage is ensured but also quality is attained. Coverage is not enough; learning outcomes and specifically the building of human capital since childhood are key to live a productive life and escape permanent poverty in this increasingly competitive world.

We think the Bank has done a good job in engaging 20 countries to increase coverage at the primary level. However, the lack of focus on quality (that is, learning outcomes) could render this effort mostly unproductive and a wasteful use of the scarce resources allocated to this end.

In agreement with the current focus of education-related MDGs on coverage, the Bank has organized its work around two instruments: the Indicative Framework for benchmarking expenditures on educational inputs and education plans presented by the governments to enter the FTI. Increasing funding for inputs has increased coverage in the 20 countries that subscribed to the FTI but has done little or nothing to increase the quality of education. Asking for education plans instead of asking for education reforms that make service providers accountable and empower families to monitor and control the quality of education, facilitated the rapid progress achieved in terms of coverage but strayed from the difficult issue of reforming the market for education delivery. Achieving full coverage may end up in children completing primary education but remaining functionally illiterate and innumerate.

We urge the Bank and donors to redefine the education-related MDGs to explicitly include quality goals and to act accordingly when additional funding is distributed for this cause.

V. Doha Development Agenda and Aid for Trade (SecM2006-0362)

“The trauma generated by the collapse of global trade talks may not yet register on the streets of New York, Paris or Tokyo. But for cotton growers in West Africa, rice farmers in Thailand and beef producers in Latin America, the reverberations are already being felt.” (Pascal Lamy in the Herald Tribune, July 27, 2006)

The feeling of frustration spread across the world for the lost opportunity due to the suspension of the Doha Development Agenda negotiations at the end of July is enormous. There is a consensual view that the failure to reach an agreement not only will prevent the world from enjoying the welfare gains of greater trade liberalization, but it will also encourage a wave of trade litigations. We hope that the good judgment will prevail and that existing trade rules and World Trade Organization disciplines will continue to be observed.

We are also confident that, at a time when there seems to be no hope, the World Bank will resume its recognized advocacy role to help create the momentum for the rebirth of the negotiations.

The potential gains from a more decisive South-South trade liberalization are significant at the global level. We urge the Bank to focus its future work on deepening second generation trade reform in its client countries.
We also urge the Bank and donors to focus on supporting regional cooperation, including both trade and trade-related regulatory policies, and cooperation in infrastructure projects that will benefit more than one country.