Statement by

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The dramatic effects of the global financial and economic crisis have not yet been overcome. It has developed into a humanitarian crisis affecting poor people in particular. It is jeopardising our development policy achievements and the realisation of the MDGs. In concrete terms it is threatening to push 100 million people back into extreme poverty. The promising successes achieved in Africa in recent years are particularly at risk due to the crisis.

The long-term implications are grave: poor countries in particular, which have played no part in causing this crisis, are unable to free themselves from it by their own efforts. They lack the means needed to fund stimulus packages. There is no more money to pay children’s school fees – and without an education this next generation too faces the threat of poverty. If spending on health is now cut, that will have an impact on future generations in particular. In addition, women are especially hard hit by the negative effects of the crisis.

Only the international community can provide an international response to overcome this crisis and make sure that particularly those countries which are not to blame for the crisis are able to pursue measures to mitigate the impacts and take steps for dealing with future crises. The financial crisis is a stark reminder of the growing inequality in the world. It is something to which we can no longer turn a blind eye.

The G20 summit in London in April was an important step. It provided the foundations for making concrete progress at the summit in Pittsburgh. It is now up to us to really implement the decisions made in the G20 context. We can make a concrete start at this annual meeting.

Some positive developments have already been put in motion. The lending volume of the multilateral development banks, particularly the World Bank, has risen significantly. Germany is a major contributor to the World Bank Group’s crisis response facilities through the Vulnerability Framework. The IMF has restructured its concessional facilities for low-income countries and doubled the access limit in order to be able to offer these countries extra reduced-interest funds.

A clear message must go out from this annual meeting that, despite the crisis, we will not allow achievement of the Millennium Development Goals to be jeopardised. On the contrary, we must breathe new life into the international partnership, with modern development policy playing a key role.

The international financial institutions will need to redefine their role in this context. The World Bank must take the lead internationally and provide guidance in finding solutions for tasks of global urgency. That applies not only to our response to the financial and economic crisis but also to climate change. The Bank must include important structural changes in its reform agenda. The need to give the Bank a long-term strategic orientation and tighten the definition of its mandate is inevitable.

It is also important that the World Bank and we as shareholders look beyond our own horizons. The UN Conference on the Global Financial and Economic Crisis in June made one thing clear: the developing countries and their concerns must be taken seriously and they must be included in decision-making processes. And therefore the issue of restructuring the voting rights at the World Bank is also an important sign in terms of the Bank’s legitimacy as a global player. We must develop a viable approach for solving these problems.
The danger now is that, in the face of the financial and humanitarian crisis, the climate crisis may be underestimated. Development and the climate are inseparably linked. We must therefore include all linkages between development and global challenges such as security, migration, resource protection, etc. more clearly in our policy. Only then will we be able to make the move towards a global structural policy with an enhanced mandate, with modified players and with new financial instruments.

**The crisis goes on**

It is too soon to declare that the crisis is over, because for most developing countries the crisis is still going on. We are still far from being able to foresee all the possible consequences; unemployment, food shortages and even famine, and major changes in education, health and social protection are all waiting in the wings. It is therefore also too soon to be talking about exit strategies before our efforts to revive the global economy have been crowned with solid, lasting success, and before we have managed above all to prevent any discrimination against the poorest developing countries. That is why we are called upon to maintain a strong will for reform. The crisis can only be used as an opportunity if we succeed in recognising the challenges that it brings for structural policy, taking them seriously and learning from the crisis.

Existing advisory bodies did not foresee the current crises and did not give us adequate warning. In order to avoid such crises in the future, we need a better understanding of their causes and the global linkages that lie behind them; then we will be able to respond in good time and take preventive action. The creation of a high-ranking, independent panel of experts could furnish internationally acknowledged expertise on global risks and trends relating to economic, social and ecological questions. It could offer competent advice to international organisations, improving their ability to prevent future crises. It is important that the view through the eyes of developing countries and emerging economies is included in the work of the panel. By creating a forum for a continuous dialogue between academics, politicians, economists and civil society regarding its findings and recommendations, the panel could contribute to consensus building and promote political coherence at the international and national levels. Because, if sustainable economic and development policies are to be placed higher on the political agenda and shaped jointly, then we need a shared understanding of the future challenges and appropriate solutions.

What matters is that countries are able to back up their response to the crisis with counter-cyclical measures. That is why we must ensure that developing countries retain the fiscal space they need for spending in the social sector, for example on education and health, as well as on safeguarding jobs. Where no fiscal space exists, international financial institutions for low-income countries must use and expand their facilities so as to provide rapid and flexible support. It is therefore all the more important that there are no funding gaps, particularly for low-income countries.

The IMF and the World Bank must help make sure that the long-term impacts of the crisis can be cushioned and a viable global safety net created to deal with the upheavals. It is therefore important that the World Bank Group has sufficient resources following the crisis, so that it can continue to provide developing countries with the necessary funds and suitable tools in the future. We must make sure that the IBRD and IFC are on a solid financial footing during the crisis and beyond. Only then will they be able to play an active role now and in future crises.

At the same time, capital increases must not endanger adequate replenishment of concessional windows. That is why it is important to use all our options in order to reach an informed decision by the time of the spring meeting in 2010. It is also important to make sure that the IDA has sufficient resources at its disposal. Mindful of the lessons learned from the crisis, we cannot allow the poorest countries in particular to be left to their own devices. We continue to have a particular responsibility for those
countries and that is the yardstick against which we must measure our actions. A successful IDA replenishment will be our measuring stick. In order to achieve the greatest possible impact in terms of poverty reduction, we must make sure, by increasing the volume of gender-based spending, that sufficient attention is given to the role of women when shaping IDA 16.

The worsening debt situation in the poorest countries remains a cause for concern; due to the costs of the crisis these countries are now at risk of losing the fiscal space that they had achieved. Ten years on from the launch of the debt relief initiative at the 1999 Cologne Summit, we must not now pave the way for a new debt crisis. These countries must be able to safeguard their key investments and fiscal options. This means that they need the support of the international financial institutions. We must prove ourselves capable of developing new ways of mobilising the additional financing made necessary by the crisis to safeguard political and social stability in the poor countries without plunging them into a renewed spiral of debt. More flexible financing modalities and more suitable funding instruments can help here. What is more, we must also strengthen the capacities for efficient debt management in these countries. For poor countries whose debt situation is deteriorating rapidly, grants make better sense from the political and the economic point of view than incurring new debt. The danger of a new crisis of over-indebtedness is real and that is why we must also lobby internationally for the creation of a sovereign debt restructuring mechanism as a necessary component in the reorganisation of the international financial system.

Traditional development cooperation funding alone will not be enough to meet the huge demand for financing for the achievement of the Millennium Development Goals in the long term. Innovative financing instruments must be developed further and put to use in order to achieve the development goals that we have set ourselves, including our ODA commitments. Two particularly promising ideas, for example, are to use the revenue from carbon trading and to impose a tax on financial transactions. Each idea will help in its own way to enhance global justice: those responsible for causing global climate change will be called upon to pay the costs and the revenue thus generated will finance climate protection for those worst hit and also measures to help adapt to the consequences of climate change. It is a similar story in the case of the tax on financial transactions: those responsible for the financial and economic crisis will be called upon to stump up and the funds thus raised can be used to mitigate the impact of the crisis in the countries worst affected by the consequences. However, it is difficult to tax highly speculative financial transactions at a purely national level, since players in the financial markets can avoid such taxes. That is why we should push ahead at the global level with the implementation of the latest proposals for introducing taxes on cross-border financial transactions, particularly currency deals. Innovative sources of financing should not remain merely an “option to be considered”, because their feasibility has been adequately proven. That too is a part of “responsible globalisation” in response to the crises.

Financial resources are constantly being lost to developing countries because of tax evasion and avoidance, resources that they need to develop infrastructure, education, health, etc. We can see that there is a link here between tax evasion and diverting business to unregulated offshore centres, and that both are based on the same logic. We must therefore step up our efforts to develop and expand efficient, transparent tax systems. We need an international compact to fight tax evasion, aimed at grouping together existing initiatives against tax flight and evasion and supplementing them with measures at the national, regional and international levels.

One lesson from the crisis is that transparency and clear rules are necessary for markets to function. However, the latest Doing Business Report implies in its recommendations on deregulation that every regulatory intervention by the state is damaging per se for the business climate. But that is not the way it is: we need to strive to find the right degree and right quality of regulation and also leave the developing countries enough space to make their own decisions. It is therefore time for the Doing Business Report to finally differentiate more between good regulation and a lack of regulation.
Overall we expect the World Bank to seize upon the lessons from the crisis and use them to shape a new, clearer strategy for the future. The crisis is also an opportunity for the World Bank to reposition itself.

**Advancing the voice agenda**

The credibility of reforms of the international financial institutions ultimately hinges on how those institutions modernise their governance structures. A successful reform process is therefore also to be understood as a sign of the Bank’s ability to act and its legitimacy. The shareholders have a special responsibility here. The reform must produce a new weighting in the Bank that gives the developing countries more of a say. Moderate progress has already been made in the first stage. Now, as decided by the G20, the second stage must be rapidly implemented and completed before the Spring Meeting in 2010. In addition to the outcome of the first phase, developing countries should gain further percentage points in the second phase. The 3 per cent stated in the final document of the G20 summit can serve as a guideline here. The aim should continue to be putting in place a more transparent formula that is based on objective criteria for allocating voting rights for each individual member country and that is viable in the long term.

The World Bank and the IMF are institutions with different mandates and tasks – it is therefore acceptable for them to have different voting rights structures wherever that is justified by their differing mandates. The World Bank therefore needs a more independent voting system. This has also become clear in the recent debates at the DC Deputies level. A voting rights formula just for the World Bank should include various objective criteria: current global economic realities, the contribution to the World Bank’s development mandate as measured by IDA contributions, and “client engagement” (i.e. the clients’ relations with the Bank). The last aspect is important, since developing countries that borrow from the Bank also contribute to the Bank’s advancement. A sensible way of measuring this relationship is the borrowing volume. Germany has tabled a proposal in this regard, which uses these criteria to craft a viable formula for allocating voting rights. We now expect decisive progress to be made based on this trio of objective criteria. It is also important that the redistribution of voting rights is accompanied by the subscription of capital, in order not to endanger the Bank’s financial capacity.

**Climate financing**

Fighting global poverty and halting climate change remain the two central challenges of the 21st century. These two challenges are inextricably linked and call for determined action. Just a few months before Copenhagen it is high time to chart a course for the future.

We can no longer totally prevent climate change; we can, however, keep it in check. If we are going to limit the global increase in temperature to 2 degrees Celsius, then the developing countries will need to spend billions on adaptation. The progress that has been made in terms of achieving the MDGs is in danger of being reversed. The only way of achieving success in both areas is by integrating development policy and climate policy even more closely. Just like emission reductions, adaptation to climate change must be integrated into all development plans.

In the current world economic crisis, the guiding principle of environmentally sound and economically and socially sustainable development has more relevance than ever. Green growth and a low carbon emission path are appropriate instruments for boosting the economy and protecting the climate that can be used by industrialised and developing countries alike.

The developing countries need the support of the industrialised countries for this effort. And they need even more support in adapting to climate change; Germany will not refuse them that support. The poorest and most vulnerable countries and population groups in particular are unable to deal with the
consequences of climate change on their own. It is also a question of global justice and solidarity that those who contributed least to climate change should be helped to cope with its impact.

The negotiations for a new UN climate agreement depend very much on clarifying the financial issues. Given the urgency of the climate crisis, however, we must take action today and not wait until after 2012. With active support from Germany, the World Bank last year established the Climate Investment Funds (CIFs), which became operational this year. The future financial architecture in the climate sector must also build upon the Funds’ experience. Effective development policy is only possible if the fragmentation among the donors is overcome. Those same principles apply to efforts to fight climate change. The wealth of experience that development policy institutions have to offer must be used and further developed and climate must be understood and treated as an integral part of a sustainable development agenda.

It is today that the groundwork must be laid to prevent new crises. The opportunity for a concrete strategic reorientation of the World Bank should therefore not be squandered.