Statement by

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United Mexican States

On behalf of Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Kingdom of Spain, and República Bolivariana de Venezuela
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Comments on
the LXXXIII Development Committee Agenda

I. Corporate and Development Issues

We want to thank fellow members of the Board of Governors for the three historic resolutions we recently approved on March 16, which form part of the World Bank Voice Reform, Phase 2: Resolution 612: 2010 Selective Increase in Authorized Capital Stock to Enhance Voice and Participation of Developing and Transition Countries; Resolution 613: 2010 General Capital Increase; and Resolution 614: 2010 Additional Increase in Authorized Capital Stock for Subscription of New Members.

Together, they constitute a vote of confidence for the institution, which played a crucial role in providing liquidity to the developing world during the hardest stages of the financial crisis and economic slowdown that followed. This background provides a convenient framework to continue with the comprehensive agenda of institutional reforms that were agreed in the past Spring Meetings such as the modernization of the institution and the strengthening of its governance, accountability and shareholder’s stewardship and oversight structures.

The approval of the International Finance Corporation (IFC) resolution is still pending, as the 85% quorum has not been reached as of this date. We encourage fellow governors to cast their vote so that the voice reform package of the World Bank Group is completed, becomes effective and sets the stage to work towards the next phase in 2015 with the spirit that making the institution bigger and stronger is not enough: we must ensure that it continues to move in the right direction to become better, more representative, effective, transparent and accountable.

II. Responding to Global Food Price Volatility and its Impact on Food Security (DC2011-0002)

The selection of this topic to lead the agenda of the LXXXIII Development Committee could not be wiser. Indeed, we are again in the midst of a global food crisis, the second in a row in just three years. According to the March update of the Bank’s Development Prospects Group (DECPG), the agriculture price index is up almost 17% since its June 2008 peak, while the food index just matched its peak. World food prices are trending upwards driven by huge increases in the prices of corn, wheat, sugar and oil. But more disturbing than this is the volatility observed: grain price variability doubled between 2005 and 2010 compared to 1990 and 2005, while sugar tripled and rice quadrupled.

It is ironical to discover that while 75% of the world’s poor are rural —and the majority engaged in farming— most of them are, in fact, net buyers of food. This is why, according to World Bank staff, food price rises during the last year have added another 44 million people to the total of those in extreme poverty and 68 million net food consumers below the poverty line. Another effect is that the number of people suffering from chronic hunger is approaching one billion: the UN Food and Agriculture

1 On behalf of the Constituency comprising also the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, the Kingdom of Spain and the Bolivarian Republic of Venezuela.
Organization (FAO) calculated last September that 925 million people faced such a condition by the end of 2010. While it is evident that the adverse poverty impact is huge, more worrying is that the consequences can go far beyond economics or development: put simply, when access to food becomes restricted, people may reduce consumption, migrate, or revolt. Thus if not addressed, food insecurity has the potential of taking the world into the uncharted territory of political instability as well.

This situation has pushed our region for immediate actions and policy responses. In Central America, for example, El Salvador is increasing anti-poverty programs by 30 percent to face this, while Guatemala is considering slashing import tariffs on wheat and is handing out food and cash vouchers to landless peasants. Further north, the Mexican government bought in December future corn contracts to hedge against price increases until the third quarter of 2011.

Going to stylized facts, food prices are set to remain on a rising trend because global food production is barely keeping pace with increasing demand, even in years of good harvests. While agriculture has always been at the base of economic development, over the last year food prices have not only been rising, but they are also becoming more volatile, and it is forecasted that they will continue to behave so into the future. Price volatility is problematic when variations become large and unpredictable, but in the case of food this poses security risks for consumers and governments. If high prices can be good for farmers, while low prices are good for consumers, volatile prices are good to nobody except —may be— to some actors in the markets. Predicting the future of the markets is always difficult, but the uncertainty associated with food price volatility is promoting risk-aversion at all levels of the supply chain, and its costs increase poverty, under-nutrition and instability.

Moreover, while the current global food price situation has many similarities with 2008, the differences exacerbate the situation. We agree with staff that, in the current case, while speculation may play a big role, there are many other fundamental factors amplifying the spikes this time such as weather shocks and climate change, the evolution of oil prices and the role of bio-fuels, the depreciation of the US Dollar, the decrease in stocks and, especially, a demand that tends to grow faster than population due to urbanization and changes in consumers’ income and habits, particularly in emerging countries.

This picture suggests that the current food price situation may not be a short-term shock, but more a long-term issue. Given its association with food security, which innovative and risk management approaches can the international community explore to help address these challenges? How can sustainable results be achieved? We are of the opinion that high prices and volatility are two separate phenomena happening unfortunately at the same time. That makes it necessary to look at short-term actions and longer-term responses separately.

In our view, short-term measures should focus on preserving access to food for the poor and vulnerable without undermining longer-term farm incentives to invest and produce more. Precautionary stocks of food reserves are among such measures to consider. These reserves can serve as a means to support stable revenues for agricultural producers, ensure affordable food for the poor and, in critical cases, provide humanitarian supplies in disaster-prone or infrastructure-feeble areas. Furthermore, if managed transparently and in a participatory way, and if countries combine efforts regionally, food reserves can be an effective way to strengthen supply and smooth trader speculation in adverse or uncertain times, thereby contributing to limiting volatility and its impact. Further work on stock management and addressing bottlenecks in the distribution chain could also strengthen these measures.

Dealing with financial speculation is related to this. While not the only —or main— cause of price volatility, speculation on derivatives of essential food commodities can significantly amplify it. Derivatives are not a bad thing per se: they were created to hedge against adversities or unforeseen circumstances, and as such are needed. But in the wrong hands or for the misunderstood purposes, they
can also open the door to speculation. Such speculation has been enabled by the deregulation of commodities-derivative markets since 2000. The international community should therefore work towards ensuring that such derivatives are restricted as far as possible to qualified and knowledgeable investors who trade on the basis of expectations regarding market fundamentals, rather than only—or mainly—for short-term speculative gains. There is intensive work on this as part of the G20 discussions, and we are of the opinion that the international community should support and contribute constructively to this dialogue. In this respect, the World Bank could participate by deepening its assistance to countries that are prepared to use financial hedging instruments to mitigate the adverse impact of food price volatility. Its Treasury, for example, could consider expanding the number of hedging products that manage commodity-price volatility through a hedge linked to the Bank’s loans, currently available only to Middle Income and Blend Countries (MICs, BCs), to lower income ones (LCIs), as well as engage in a financial education dialogue with them for the adequate use of such hedging tools or others like index-based weather derivatives.

Longer-term actions should focus on increasing productivity not only in the farming sector, but all along the value chain: linking farmers to markets, investing in food processing, infrastructure, trade and trade-finance. Putting it simpler, we agree with staff on the importance of good business and trade policies in facilitating production and investments, and in the importance of ensuring the flow of food from surplus to deficit areas.

For example, to improve food security in the longer term, the international community should support countries’ ability to feed themselves. For this, the resilience of the small-holder agricultural system—a characteristic of developing countries—must be reinforced. Small-scale farming and farmer’s organizations (such as cooperatives) would need support, especially from a business point of view so that they can move up in the value chain and participate in the processing, packaging, distribution and marketing of their produce. We believe that IFC could have a significant development impact here if it partners in these kinds of investments. Similarly, at a more systemic level, the Bank can engage with client countries to help them to enhance their frameworks of land tenure and land access to small farmers.

But in a global, interdependent world, the above may be necessary but not sufficient to ensure food security. Indeed, Nobel Prize winner Amartya Sen argued that food security and self-sufficiency are not the same: food security is not determined by where the food is produced, but rather by whether individuals have access to it. Following this argument, food security is also strongly influenced by trade policy—both domestic and global. And trade policies are but one type of measure—perhaps the most significant one—that affects the access that poor people have to food.

Global food markets thus need to be kept open, with restrictive policies such as export taxes and bans removed to maintain incentives for producers and consumers. Tariff reductions can help reduce inefficient trade distortions and mitigate price increases. Open trade also helps to smooth aggregate food prices. From this perspective, completing the Doha Round would send a powerful signal of confidence amidst a world of uncertainty. It would be damaging, particularly for the developing world, if the opportunity were to slip away one more time. Moreover, in this area IFC can play a significant role by expanding its Trade Facilitation programs, which help developing countries reap the benefits of global trade, while the World Bank could contribute to maintain the momentum on the global Aid for Trade agenda. These measures can be critical for farmers and firms in poor countries to benefit from trade opportunities.

The current food crisis is also more complex because of the role that bio-fuels are playing. Today, the expansion of bio-fuels from feedstock is driven almost entirely by government mandate and represents a significant challenge to food security. The international community should therefore work towards ensuring that bio-fuels are produced in a sustainable manner that does not compete with food production.}

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means of agricultural support that is being justified on environmental and energy supply security grounds. But such non-market-based policies and subsidies of industrial and developing countries for promoting them contribute to instability when food markets are tight, as they reduce the incentive to switch output of maize, sugar and oil seeds from bio-fuel manufacturing to production of food. While bio-fuels may offer a source of renewable energy and possible new markets for agricultural producers, few current bio-fuel programs are economically sound today. Moreover, most of them show significant social and environmental upward cost pressures because of the crowding-out of feedstock and the intensive land usage—and even deforestation—they entail. National bio-fuel strategies should therefore be based on a clear appraisal of these social and environmental opportunity costs, and we think the World Bank could contribute with advice and technical assistance on this.

Food security would not be complete without agricultural reform in the developing world, and to be comprehensive such a reform must pursue a transition to sustainable agriculture. This is because, on the one hand, weather-related events are becoming a major cause of price volatility on agricultural markets and, in the future, climate change can be expected to cause more supply shocks. But on the other, agriculture itself can also be blamed for being a major culprit in climate change, responsible for 33% of all greenhouse-gas emissions if deforestation for cultivation and pastures is included in the tally. To be compatible with the climate change agenda, the developing world needs to build agricultural systems which are not only resilient to it (adaptation), but also that can contribute to address it (mitigation).

From all of the above it can be inferred that, for free markets to successfully feed the world, the role of governments and international institutions is critical, and the World Bank Group (WBG) can partner to play a fundamental role because of its cross-country experience and knowledge stock in agriculture, trade, finance and climate change, and we encourage Management to do so. This is why we could not help but notice the decrease in agriculture lending in FY10 (US$2.6 billion) according to its last Annual Report, but are encouraged by the lending projections of the WBG Agriculture Action Plan for FY10-12, which will grow from US$4.1 billion annually in FY06-08 to a range between US$6.2 billion and US$8.3 billion annually over FY10-12, and will include IFC financing.

In the same vein, we especially welcome that the Bank, at the request of the G20, is hosting the Global Agriculture and Food Security Program (GAFSP) to provide additional financing to countries committed to scaling up their support to agriculture. Since this initiative has proven to be very successful, we want to thank the commitment shown by Spain and other donors to it. Likewise, we support Management’s plans to extend the closing date of the Global Food Crisis Response Program (GFRP) from June 30, 2011 to June 30, 2010 and to make resources available for vulnerable countries. Likewise, we strongly agree with any recommendation that supports greater investment in agriculture research and support initiatives such as the strengthening of the Consultative Group on International Agriculture Research (CGIAR), whose reforms are starting to pay off.

Finally, we would like to emphasize the importance of gender in agriculture and in programs supported by the Bank in the context of the food crisis. Women are estimated to make up most of the world’s agricultural workforce, but this is often overlooked in policy design, which can result in misguided policies, foregone agricultural output and income, and potentially exacerbated levels of poverty, malnutrition and hunger. Moreover, according to Staff, women tend to focus on crops for household consumption and to sell any excess while men cultivate crops primarily for sale, leading to a disproportionate portion of agricultural income going to men. This may result in a suboptimal situation for the household: Bank studies show that when women control the income, households spend a significant degree more of their income on food consumption—and on children’s health and schooling—which benefits the household greatly in the long run. From this perspective, perhaps the most urgent step is to strengthen property rights, asset ownership and access to credit services, technology and marketing channels for women working in agriculture. Incentivizing qualified female candidates to compete for
senior positions in public and private agriculture organizations could also be a way to ensure that women agricultural workers receive the policy and project support they need to raise households’ food security, incomes and welfare.

Other Background Reports

(i) Global Monitoring Report 2011 (GMR): Improving the Odds of Achieving the MDGs – Heterogeneity, Gaps and Challenges (DC2011-0004)

After almost a decade since their inception, the Millennium Development Goals (MDGs) continue to provide the most appropriate framework to measure how the development community makes progress towards the eradication of world poverty, and the GMR is still the best tool available to calculate how far or close we are to it. This is why we always support the inclusion and continuous improvement of the GMR in the DC agenda.

The current GMR appears in an environment of growing anxiety with respect to how certain—or uncertain—the achievement of the MDGs is, given that there are less than 5 years to meet the deadline—especially in this time of crisis aftermath and slow yet uncertain recovery. It co-exists within a myriad of reports from the UN and from others, such as the Oxford Multidimensional Poverty Index, or the reports and working papers of well known development researchers and opinion leaders such as Birdsall, Collier, Bourguignon or Clemens, to name a few. This is why we believe that, after 10 years of continuous evolving of the GMR, the report remains relevant.

We note the important progress made, although the report indicates that the results achieved are diverse and heterogeneous. We appreciate the new approach of providing information on the prospects of minority groups reaching the MDGs—highly relevant for MICs, whose pockets of poverty on average outnumber the entire population of many LICs—and the effort of linking progress to its drivers and to policy. We are of the opinion that this is the way forward for future updates of the GMR. We also appreciate that more “granularity” has been provided in this report, but would suggest going even further by considering the release of data for each individual country: tailoring an easy availability of it would be more enlightening and pertinent to assist the authorities in framing a more focused policy approach to reach the MDGs by 2015. In this line, an annex to the report with information on where each country currently stands with respect to the MDGs would be useful, or perhaps to make a Pocket GMR would be even better.

World poverty is a function of global growth, and from this perspective the eradication of the first is a shared responsibility. On the positive side and from an economic point of view, growth in the industrial world was a contributing factor in the quest for the MDGs until its interruption by the financial crisis and economic slowdown that followed. This had had a deleterious effect on the prospects for reaching the MDGs. It is therefore fundamental that the industrial countries undertake the structural reforms necessary to resume sustainable economic growth. This would accelerate the growth of the developing world with the concomitant positive impact on the prospects of reaching the MDGs.

International trade also had a positive effect on growth in the developing world. Therefore, from this perspective and following what we stated in the previous section as well, it is urgent to complete the Doha round and to proceed to dismantle the protectionist barriers that some countries—industrial, MICs and LICs alike—erected as a consequence of the financial crisis. In particular, providing tariff-free access to the exports from very poor LICs could be considered.

High fuel, and particularly high food prices, will negatively impact efforts underway to reach the MDGs. It would be helpful if, going forward, Management links this report with the first topic of the agenda and
indicates what measures can be taken to mitigate the impact of these high prices from an MDG perspective.

Finally, we note with concern that the GMR reports on p. 5 that “poor countries and regions tend to lag in attaining the MDGs”. In fact, according to the IFC Road Map to FY12-14, “not a single MDG has been achieved by a low income fragile or conflict affected country” (p. 8, § 2.12). In view of this situation and given the short time before the 2015 deadline, it would seem that it might be unlikely that these countries will reach the MDGs, and this is a red flag for the international community and the World Bank to increase their efforts.

(ii) World Bank Group Modernization: An Update (DC2011-0005)

The update on the modernization process of the WBG is not only welcome, but highly relevant as it provides us with elements to inform our taxpayers and legislative bodies on the status of implementation of the package of agreements that were linked to the capital increases and voice reforms of the institutions that form the WBG to make the institutions not only stronger and bigger, but also more relevant, legitimate, effective, transparent and accountable.

We understand that in a period as short as one year, it is difficult to present concrete results in terms of outcomes of the multiplicity of initiatives currently underway. However, we think that this year’s meeting provides an excellent opportunity to assess the overall progress with the view of discussing any changes or adjustments if deemed necessary.

We are pleased to see that important progress has been achieved on the four pillars of the modernization agenda endorsed at the 2010 Spring Meetings and the five strategic priorities of the Post-Crisis Directions (PCD) paper.

We appreciate the breath of the report in detailing the actions that have taken place on individual reforms and we think that it could benefit from a synthesis of what is the overall progress so far in approaching the expected results —intermediate outputs/outcomes— of the strategic decisions agreed last year.

Going forward, Management could target first those reforms or new initiatives that are considered instrumental to attain the changes foreseen for the WBG, identify the interactions and synergies expected by them, and be pragmatic in the selection of where to deepen the efforts to achieve the results expected before the next big revision of the capital and voting structure of the WBG in 2015. For instance, we would appreciate to see how the internal reform agenda —the Risk Management Framework, the Program for Results, human resources processes, information management technology systems, etc.— will impinge upon the strategic corporate priorities, sector and country strategies, and country lending programs, and also how the ongoing discussion on the link between pricing the lending-related costs progresses. In the same vein, we would appreciate if the results across the WBG could be stated within the context of a corporate score card, which we understand is a work in progress.

(iii) Strengthening Governance and Accountability: Shareholder Stewardship and Oversight (DC2011-0006)

Governance reforms have proven to be a difficult and sensitive area, but we believe that the Bank has made significant advancements and the proposed document lays out clearly what those progresses have been and what the next steps are.

We have already endorsed many of the reforms included in the report, particularly the recommendations in the areas of selection of the President and the Dual Performance Feedback (DPF). We believe the
proposals respond well to the requests made by fellow Governors during the last WB-IMF Annual Meetings and serve as a good basis for further work, as the report clarifies the multiple dimensions and layers of institutional governance, all of which are important for improving the effectiveness and accountability of the Bank.

Finally, we welcome the new format of this document; more concise, focused and informative of what has been achieved and what the next steps are. We suggest continuing to keep it as a background material for future Spring Meetings, as we believe it is a source of information for Governors to update our taxpayers and legislative bodies on these issues, without withdrawing attention from what should be the fundamental subject of the Development Committee: overview the development process, and advice and report to the Board of Governors on the state of the transfer of real resources to developing countries.