Statement by
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Minister of Economy and Finance
Uruguay
On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
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The global economy is experiencing multiple shocks, which have triggered a major setback in the fight against global poverty. Progress is fragile and cannot be taken for granted. The COVID-19 pandemic, the impact of the war on Ukraine, weak economic growth, tightening financial conditions, and unsustainable debt burdens are affecting vulnerable populations the most. Moreover, these challenges are unfolding against a backdrop of food and energy insecurity, limited access to clean water, inadequate social basic services, and escalating climate crisis. As a result, the achievement of the Sustainable Development Goals (SDGs) is already off-track.

Globally, the economic impacts of the pandemic were severe in middle-income countries (MICs), where income losses revealed and worsened some preexisting economic fragilities. Currently, more than 62 percent of the world’s poor population reside in these countries. MICs have an unfinished development agenda and face significant challenges in achieving the SDGs by 2030, including ending poverty (SDG 1), reducing inequality (SDG 10), and promoting gender equality and women empowerment (SDG 5). Furthermore, MICs are also key actors in addressing global development challenges. Successfully addressing these challenges requires effective engagement and a deep understanding of MICs’ vulnerabilities to external shocks and their potential to contribute with positive externalities to tackle these challenges.

In particular, the Latin America and the Caribbean (LAC) --a middle-income region-- has been severely impacted by these overlapping crises. The region has experienced low growth rates and increasing levels of unemployment. In addition, setbacks on healthcare, education, and nutrition, have led to a decline in living standards for many people. LAC already was the most unequal region in the world in terms of income prior to the pandemic and poverty rates remain above pre-pandemic levels in 2022. During the pandemic, between 2019 and 2021, the number of poor people measured at 6.85 dollars per person per day (2017 Purchasing Power Parity) grew by 14 million, double the increase observed during the 1998-99 financial crisis. These developments are a reminder that people are vulnerable to fall back into poverty, and that even non-poor households in middle-income countries can be just one negative shock away from falling into poverty as well. Decades of development progress have been wiped out by these crises.

Some countries in our constituency are facing the worst drought in half a century, while other neighboring countries are grappling with the most severe floods in four decades. These situations due to climate shocks have severe social, fiscal, and balance of payment consequences, as well as aggravate food insecurity globally. Access to export markets is also a crucial factor that impacts progress in achieving sustainable growth in MICs. Broad and unrestricted access to global export markets can help sustain development and create job opportunities.

Therefore, a continued and systematic engagement with MICs – “the forgotten middle”- is critical for global development efforts and to address global development challenges.
The countercyclical role of the World Bank

The World Bank Group (WBG) has responded in a very agile and sizeable manner to the most recent crises. We congratulate the WBG’s leadership and staff for providing a record financing of US$330 billion since the outbreak of the COVID-19 pandemic, as well as for strengthening its knowledge products and technical support. The WBG unwavering focus on financing global development challenges is noteworthy, with over 50% of its financing allocated to support fragility, climate change and pandemics over the last two years. The WBG’s prompt and effective response has played a critical countercyclical role in these multiple crises. However, given the magnitude of the development challenges and their compounding effects, more needs to be done.

The “WBG Evolution Roadmap” agenda provides a crucial opportunity to address and respond to the significant scale of development challenges more effectively. As client countries and shareholders, we firmly believe that enhancing the WBG’s Mission, as well as strengthening its operating and financial models, must prioritize leaving no country behind. Real evolution cannot be achieved by simply reallocating resources from current priorities towards new goals or transferring resources from one country group to another. Instead, the Roadmap process must be guided by a higher ambition that avoids trade-offs and shapes a development bank fit to deliver in a much more challenging and complex world. As we make progress in the road towards Marrakesh, we thank Management for preparing a detailed update to Governors on the “Evolution process”, as well as for taking into consideration the views and concerns raised by client countries. We look forward to continuing this process over the next months.

Shaping the Future of the WBG: Vision and Mission

We recognize that the evolution discussions have reaffirmed the importance of the WBG’s vision of a world free of poverty as well as the core Twin Goals of ending extreme poverty and promoting shared prosperity, as reflected in the agreed provisional mission statement. More so, these goals must be achieved in an inclusive manner to reach all citizens and in a resilient way to protect them against developmental shocks and safeguard the hard-won gains made to date. Additionally, we agree the Twin goals should be delivered in a sustainable manner, considering the wellbeing of current and future generations. Furthermore, as clearly stated in the WBG Evolution DC paper, sustainability should not be limited to environmental challenges but must also include its social and economic dimensions.

While there is no doubt that climate change, pandemic, and fragility are key global challenges, the ongoing in-depth discussion on the selection criteria will be crucial to reach consensus on the definition of global development challenges. Consistent with the WBG's mandate and its comparative advantage, we agree it is crucial for development to also focus on other global challenges like achieving food security, ensuring access to affordable water and energy, promoting digital development, and maintaining debt sustainability levels, as reflected in Box 1 of the DC paper. We support the idea of developing a process of periodic review to be able to adjust the definition as new priorities arise in the future.

The WBG also has ahead a big job of proposing associated indicators to facilitate the monitoring of progress towards its Mission. Based on the quality of the indicators, the WBG will be able to formulate a clear theory of change connecting the WBG Mission with Country Partnership Strategies (CPFs) and operations. This is especially important in the priorities related to shared prosperity, and sustainability. It is also essential to include core indicators that measure gender inequality, on top of income inequality; adaptation to climate change, on top of mitigation; and poverty levels prevailing in different groups of client countries, on top of the concept of extreme poverty.

Enhancing the WBG Operating Model

The WBG now has a unique opportunity to act as a bridge between the countries’ national development priorities and the global developmental challenges. In fact, a key strength of the WBG is its country engagement model (CEM), which has proven to be effective in designing work programs. Broadening the
approach to include global and regional dimensions, should not undermine the principle of country ownership or dilute emphasis on national development priorities. In this spirit, it is essential, as explicitly stated in the DC paper, that the operationalization of the proposed regional and global platforms will also be country-led. Furthermore, it is important to engage more thoroughly in strategic partnerships with other Development Partners, in particular the other Multilateral Development Banks (MDBs) and the United Nations system, to address jointly regional and global development challenges.

Moreover, WBG engagements with countries at the global and/or regional levels must ensure the preservation of the lending envelope available to address national development priorities. Addressing global development challenges should not create a trade-off with the financing of national priorities. Without finding new sources of finance, increased involvement in global development challenges would mean fewer and/or costlier funds available to address core development challenges on IBRD and IDA countries.

We agree that concessionality will be essential to effectively expanding country programs to actions that address global development challenges when national resources are insufficient for taking action. It is necessary to innovate in the way the WBG lends to countries. Positive financial incentives are needed to encourage governments to invest more in some specific global challenges. In this sense, we support the new lending instrument with results-based financial terms. We believe that, for the success of this approach, the incentives to invest in global development challenges must not erode country ownership. On the contrary, they need to build on the WBG’s strength of the Country Engagement Model (CEM). Concessionality for MICs must not come at the expense of eroding current lending volumes and financial conditions of neither IDA nor IBRD countries. As a way of expanding concessionality, we support the idea of opening the existing IBRD GPG Fund to donor contributions, which is fully integrated into the IBRD operating model and already in place.

One of the challenges to increasing lending volume and concessionality to IBRD-only countries above GDI is the current 70/30 target of lending across below-GDI and above-GDI countries. This IBRD resource allocation framework that limits lending to MICs and Upper Middle-Income countries (UMICs) should be revised to reflect the needs to address global development challenges and the updated WBG mission. Furthermore, the income per capita indicator should be outweighed prioritizing income equality goals among countries while, at the same time, not being the only basis for development financing. Instead, a multidimensional poverty indicator, including social and environmental considerations should also be factored in. The current narrow focus ignores the fact that poor and vulnerable people also live in many MICs, as well as UMICs. Latin American and the Caribbean countries are vivid examples of that but are not the only ones. Hence, preparing a specific strategy with an attractive value proposition for MICs should be part of the evolution conversations.

Finally, mobilizing finance for development through private capital facilitation (PCF) and domestic resource mobilization (DRM) is critical to achieve the Twin Goals and the SDGs. We strongly encourage the WBG to increase its efforts on PCF and we look forward to seeing ambitious proposals and new tools in this area. Regarding DRM, it is important to note that utilizing domestic resources to address global challenges may divert scarce resources away from national development priorities. We must exercise caution in not overestimating the potential of DRM and PCF.

Meeting Financing Needs for an Enhanced WBG Mission

As the UN Secretary General Guterres recently noted in the SDG Stimulus Agenda, “high borrowing costs not only inhibit investment in the SDGs but also increase the risk of debt crises”.

Given the scale of the challenge at hand, adapting the WBG financial model and increasing its financial capacity are essential to scaling up development impact. As recognized in the DC paper, it will be essential for the success of the Evolution discussion to maintain current lending prices and reaffirm that price increases are neither a feasible nor a sustainable way to enhance IBRD’s financing capacity.
First, MDBs can and should play a larger role in scaling up financing to address global development challenges. We agree that the WBG’s lending capacity should be enhanced by optimizing the balance sheet, while preserving financial prudence and triple A rating. We welcome the consensus around the reduction of the equity-to-loan (E/L) ratio from 20 to 19 percent and the removal of the Statutory Lending Limit (SLL) from the Articles of Agreement. We support a larger bilateral guarantee program and are open to consider other options to further enhance lending capacity via financial innovations, including optimizing the use of Trust Funds (TFs) and Financial Intermediary Funds (FIFs). Complementary measures should be explored to reassure that the cost of issuing hybrid capital, both to market investors and shareholders, has a neutral impact on loan prices for client countries. These are valuable tools that will result in an additional US$50 billion of financing for the next decade. The implementation of these early decisions will help the WBG to maintain current lending levels and avoid the cliff facing IBRD financing.

Second, a new and robust “additional” financing stream will be required across the WBG to increase focus on global development challenges, especially in MICs. We support the proposal to mobilize grant resources to provide additional concessionality through IBRD price buy down or longer repayment periods, to ensure the sustainability of the IBRD financial model. Considering careful sequencing in progress in balance sheet optimization, it would also be important to open the conversation about a capital increase that could allow the World Bank to further take action on global developmental challenges, as well as to continue addressing the national development priorities that are so urgent for our societies.

Third, climate change requires leading with credible action. It begins with countries, multilaterals, donors, and investors holding each other accountable for the pledges they make. Developed countries should fulfill their commitment of channeling US$100 billion annually to developing countries, to support them in achieving their climate goals. A fair distribution of the financing burden should be guided by the principle of “common but differentiated responsibilities and respective capabilities (CBDRC)”. This principle is of utmost importance when incorporating global development challenges into the WBG Mission. Countries in our constituency are making a lot of progress towards their environmental goals under the Paris agreement, and developed countries need to make its fair share.

Final Remarks

The WBG is a unique global leader to work with developing countries towards achieving sustainable solutions that reduce poverty and build shared prosperity for the benefit of all. Now, it is the time to become an even better, bigger, and stronger partner in addressing mounting global developmental challenges. A better world will only emerge if strong economic recoveries are promoted in all regions, ensuring gains that reach upper, middle, and lower-income households, and create job opportunities that allow people to improve living standards in a sustainable way.

To date, the bank borrower’s financial capacity to advance with the global development agenda is limited, unlike most advanced countries. Therefore, governments in developing countries have to allocate efficiently the limited fiscal resources to meet urgent domestic needs. In closing, to fulfill an enhanced Mission that emphasizes poverty, shared prosperity, sustainability, and resilience while strengthening the operating model, the WBG’s financing capacity needs to be strengthened substantially to lower the risk of trade-offs in terms of resource availability and cost of financing.