DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

SEVENTY-NINTH MEETING
WASHINGTON, DC – APRIL 26, 2009

DC/S/2009-0005

April 26, 2009

Statement by

Ms. Heidemarie Wieczorek-Zeul
Federal Minister for Economic Cooperation and Development
Germany

Statement by

Ms. Heidemarie Wieczorek-Zeul
Federal Minister for Economic Cooperation and Development
Germany

The dramatic impact of the financial crisis across the world confronts us with global challenges. Any tolerance that existed of the global inequalities brought into stark focus by the financial crisis has been exhausted. Extreme imbalances are threatening social peace right across the world. Developing countries face especially serious consequences as the financial and economic crisis turns into a human and development crisis. On a global scale, poverty will decline at a much slower pace than previously anticipated. In 2009 alone, some 100 million more people will remain caught in the poverty trap than was forecast before the crisis. And it is society's most vulnerable that are being hardest hit. The crisis is advancing like a silent tsunami, with those who contributed least to the crisis suffering most from its impact.

The **G-20 London Summit was an important step**. It adopted the correct approach and set out sound measures for a rapid and internationally coordinated response to the crisis. Yet even that Summit can only serve as a staging post. The crucial thing is that it be followed up with development-focused action. The World Bank must provide evidence that it is taking the lead in implementing the decisions made in London. On the one hand, it must implement the measures and, on the other, it must incorporate vital structural changes into its reform agenda. The Bank must engage as an active member of a strengthened **global partnership for development**, into which new life must be breathed in this time of crisis.

A clear message must go out from this Spring Meeting that, despite the crisis, we will not allow achievement of the Millennium Development Goals to be jeopardised. Instead we need to reaffirm, expand and deepen the **international alliance for sustainable development**. Only then can the crisis be harnessed as an opportunity.

We must not pass up the **opportunity** currently being presented to us **to reshape the world economy in a constructive way**. So far, there has been too little emphasis of the fact that any new global order can only be successful if a modern development policy forms a key part of it. The international financial institutions must assert a clear role for themselves in this context. The World Bank must take the lead internationally, lending guidance in the development of new solutions to pressing global tasks. That applies not only to our response to the financial and economic crisis but also to climate change.

On the other hand, the Bank also needs to more clearly define its own profile and improve its ability to adapt its business model to the changing conditions and needs of its various clients and partners. Its rapid response to the financial crisis has proved that it is willing and able to do so. Yet there must be no repeat of past mistakes. Experience teaches us that countries must be helped to take a countercyclical approach when responding to a crisis. That is why we must ensure that developing countries retain the fiscal scope they need for spending in the social sector, such as on education and health, as well as on safeguarding jobs. Where no fiscal scope exists, international financial institutions for low-income countries must use their facilities to provide rapid and flexible support.

The crisis will put women and children at increased risk of poverty. And yet it is the economic potential of women in particular that we must tap into if we are to help reduce poverty across the world and achieve the Millennium Development Goals. It is crucial, then, that any measures aimed at easing the impact of the crisis reflect the special situation and needs of women.

It is also important that the World Bank look beyond its own confines. The **UN Conference on the World Financial and Economic Crisis** in June will be looking at the impact of the crisis on development. It is important that the implications of the financial crisis be discussed in a broad UN forum to which industrialised and developing countries contribute equally. The Conference should send a signal, resonating beyond the UN, that the developing countries and their specific concerns in this area are being taken seriously.

The danger now is that, in the face of the financial and humanitarian crisis, the **climate crisis** is underestimated. The possible consequences of that particular market failure have also not yet been averted. Development and the climate are inseparably linked. Only if this becomes accepted fact can we successfully effect the necessary transformation of modern development policy, making it into a policy on shaping our global future with a greatly broadened scope, a transformed circle of donors and new financing instruments.

Safeguarding development progress and revitalising the world economy

With the G-20's decisions, we have put together a broad-ranging package of measures that will provide additional resources and the necessary instruments for deploying them. This will enable developing countries, like others, to take countercyclical measures. They, too, must be enabled to launch economic stimulus programmes. The IMF and the World Bank have both been elevated to new levels of responsibility but, at the same, also have a duty to fulfil.

Economic stimulus packages in developed countries must **not** be implemented **at the expense of the developing countries**. Developing countries must not be forced to pursue procyclical economic policies while developed countries turn to countercyclical measures. What we need instead is a truly global economic stimulus package. It is more important than ever that we deliver on our ODA commitments. World Bank President Zoellick's proposal that 0.7% of national economic stimulus packages be dedicated to helping developing countries who cannot afford their own economic stimulus packages rightly flags up the international dimension of national efforts, something that is in the industrialised countries' very own interests.

A reliable **regulatory framework for the global financial markets** is vital in order to prevent our long-standing development efforts from being swept away in the riptide of the crisis. The measures that the G-20 has decided on for reforming regulation and supervision of the financial markets are of fundamental importance to that. In addition to these measures, developing countries are also in urgent need of advice on how to improve regulation of their financial sector and adapt it to requirements, on the implementation of international standards, and on negotiations on financial services and international trade agreements.

One worrying development is the **worsening debt situation in the poorest countries**, which – due to the costs of the crises – are now at risk of losing the fiscal flexibility 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. We must ensure that countries that do not have the reserves needed to stimulate their own economies jeopardise their newly achieved debt sustainability. These countries must be able to secure key investments and fiscal scope. That means that they need the targeted 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. The true test of the international community will be how it succeeds in solving that dilemma. For poor countries, grants are the politically and economically more sensible solution, rather than incurring new debt.

Another aspect is the **further development of the international debt regime**. An international insolvency procedure has been the subject of international discussion on a number of occasions. A **debt workout mechanism** of this kind could, therefore, be tied in with the discussion about setting up a Sovereign Debt Restructuring Mechanism (SDRM).

There is also an urgent need for action on taxation. Developing countries are constantly being drained of financial resources because of **tax evasion and avoidance**, resources that they need to develop infrastructure, education, health, etc. We must therefore step up our efforts to develop efficient, transparent tax systems. At the same time, a dialogue must begin with industrialised countries about possible international agreements and initiatives to fight tax evasion. We need an international compact to fight tax evasion, aimed at grouping together existing initiatives against tax evasion and supplementing them with measures at the national, regional and international levels.

One thing has become clear over the last few weeks: **transparency and clear rules are necessary for markets to function.** Even the Doing Business Report, in its recommendations on deregulation, implies that every regulatory intervention by the state is damaging per se for the business climate. The general understanding now is that we need to strive instead for the right degree and right quality of regulation and also leave the developing countries enough space to make their own decisions. The financial crisis shows that an economic order without regulation does not work. Consequently, future Doing Business Reports need to differentiate more between good regulation and a lack of regulation.

Climate and the development - inextricably linked

Fighting global poverty and **halting climate change** are the two central challenges of the 21st century. The two are closely interrelated, of equal urgency, and require both swift action and perseverance.

We can no longer totally prevent climate change; we can, however, **keep it in check**. In March, European heads of states and governments committed to agree on a comprehensive climate treaty at the UN Climate Conference in December 2009 that would limit the rise in global temperature to 2°C. Even such a 2°C rise in temperature would cost developing countries billions in adaptation measures and would threaten to reverse the progress that has already been made on the MDGs. 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 path – as discussed at the G-20 Summit in London in early April – are appropriate instruments for boosting the economy and protecting the climate that can be used by industrialised and developing countries alike.

The developing countries will need the **support of the industrialised countries** in that effort. And they need even more support in adapting to climate change; Germany and the EU will not shirk from that task. At its Summit in March, the EU already declared that it was willing to take on its fair share of financing such actions in developing countries. In particular the poorest and most vulnerable countries and sections of the population in Africa and the LDCs and the Small Island Developing States do not have the resources to cope with the impact 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.

We can **only fight climate change by joining forces**. Negotiations on a new UN climate treaty covering the period after 2012 began in Bonn in early April and should be concluded in December in Copenhagen. Already it is clear that the settling of financial questions will be key to the successful conclusion of those talks. 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 already became operational in spring of this year. The CIFs are amongst the most important instruments for bridging the financing gap until 2012. The future financial architecture for climate change must draw on the experience of these and other existing financing mechanisms, such as the GEF and the Kyoto Protocol Adaptation Fund. In the Paris Declaration and the Accra Agenda for Action, we reaffirmed that development policy can only be effective if we succeed in ending donor fragmentation. Those same principles apply to efforts to fight climate change.

Seen from this perspective, climate-related tasks in the developing countries must be **seen** by the developing countries themselves, and their development partners, **as an integral part of a sustainable development agenda** and all partners must act accordingly. To that end, the full set of existing development instruments, procedures and institutions must be used and further developed.
That is one further reason why it is important that, with its establishment of the Climate Funds, the World Bank should **bracket together development and climate** in such a way that it can serve as a guide for more long-term solutions to a new climate architecture. As part of those efforts, we need to define what role the United Nations and the multilateral development banks should play, based on their respective comparative advantages.

Advancing the governance agenda

The credibility of reforms of the international financial institutions ultimately hinges on how those institutions modernise their governance structures. In troubled times such as these, when we are facing an international financial crisis, successful reforms will also send out a signal about the Bank’s legitimacy and ability to act. The shareholders have a special responsibility here. Moderate progress has already been made in the first stage. Now, as decided by the G-20, the second stage must be rapidly implemented and completed before the Spring Meeting in 2010. In this way, questions of voice and representation within the World Bank will become the litmus test of whether the modernisation of the institution is also coupled with an increase in legitimacy.

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 so justified by their differing mandates. The World Bank therefore needs a more independent voting system. A quota formula specific to the Bank can be based on various criteria. First of all, it should reflect current realities in the world economy. Secondly, it could also reflect the strength of member countries' ties with the institution and their contribution to the Bank's development mandate. When determining which countries are entitled to shares, it should be possible to attach greater weight to IDA contributions, because those are proof of solidarity with and a sense of responsibility for the poorest countries. And finally, the level of a country's borrowings from the Bank could also be used as a further criterion.

Yet a shifting of voting weight is not enough. A more thoroughgoing reform of the World Bank is needed. The Commission headed by Ernesto Zedillo has begun its work. It will add fresh, new ideas on the World Bank's mandate, funding and internal structures to the voice debate. We also hope that it will deliver some ideas on how, going beyond the voice debate, the World Bank could define itself as a modern global development organisation that is equipped for the future.

However, a meaningful voice reform must also be reflected in improvements in **how much say countries have in the design, implementation and evaluation of World Bank programmes** and projects within local dialogue and coordination structures. One aspect of this is the continued development of suitable instruments, such as the Poverty and Social Impact Assessments (PSIAs), which can serve as a starting point for an open dialogue on different policy options in the partner countries.

The increased **use of country systems** in procurement and planning processes also helps to build capacities. The outcomes of the Accra Conference and the Accra Agenda for Action (AAA) point in this direction. The World Bank, too, must take a more pro-active approach with regard to integrating its programmes into country programmes and also with regard to coordination and the division of labour. Country priorities and ownership must not be undermined.

In addition to that, and with the aim of greater mainstreaming sustainability in policy-making, there is a need to **create a high-level institutional forum** for discussing issues such as global public goods, steering a new ecological course towards more green investment, ending the harmful practices of speculation and tax evasion, fostering global labour standards and social systems, and many other areas that make development policy into a policy of shaping the future. An Economic and Social Council of this kind could assess developments on economic, social and ecological issues and foster consensus and consistency on these issues within both international economic organisations and national governments. Such a UN institution would comprise high-ranking representatives of all regions and of the international financial institutions and the WTO. What we need, ultimately, is a policymaking process that is inclusive while simultaneously facilitating capacity for action on a global scale.