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



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Statement by

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**Statement by the  
German Federal Minister for Economic Co-operation and Development,  
Heidemarie Wieczorek-Zeul,  
at the Development Committee Meeting on 22 September 2003**

The German government regrets the failure of the Cancun Ministerial Conference to reach an agreement. We believe that a successful conclusion of the Doha Development Agenda is vital to growth, poverty reduction and progress in achieving the Millennium Development Goals (MDGs). We are more than ever committed to fulfilling the development promise of Doha and therefore urge for there to be a speedy resumption of trade negotiations.

After Cancun, all those involved need to realise that from now on, the developing countries will be playing an active part in WTO negotiations. We expressly welcome that. Maybe all players will first need to learn now how to respond to this new situation in a constructive manner and to develop appropriate efficient procedures. If we succeed in this endeavour, the WTO will be strengthened as a result.

*World Bank Governance and Ownership*

**Given the global challenges facing us and the increasing degree of global interdependence, our need for strong and efficient multilateral institutions is greater than ever before.** Strengthening multilateral institutions is also one of the fundamental goals pursued by the German government. Strong multilateral institutions, co-operative security and disarmament, solving problems by means of international co-operation, asserting international law and campaigning for global sustainable development are the cornerstones of good global governance.

**Transparency, accountability and participation are all vital to the efficient functioning of institutions. In turn, participation engenders ownership and legitimation.** The aim must be to involve the developing and transition countries more closely in the decision-making structures of international bodies and thus enhance their responsibility for global security, stability and development. Opportunities, rights and responsibilities must be more evenly shared.

**The World Bank's progress report "Enhancing Voice and Participation of Developing and Transition Countries" sets out a number of key reform steps.** Germany very much supports the measures that have already been decided on. We should monitor the impact of these measures and review the extent to which they have achieved the desired aim in one year at the latest.

**At the same time, I firmly believe we should not limit our efforts to the measures that have already been decided on and are currently under discussion regarding strengthening the capacities of selected Executive Directors' offices.** We need to take a more comprehensive approach to the issue of increased representation for developing and transition countries. We cannot afford to limit reforms to a few "easy" measures. Reforms which do not include a change in the present voting and capital structure would not do justice to the complexity of the problem and would be a breach of a key Monterrey promise.

The Bank must therefore further strengthen ownership and reform its voting and decision-making structure so as to fulfil the Monterrey promise and more effectively fulfil its mandate,

which differs dramatically from that envisaged when the Bank was created. Germany proposes the following three major reforms.

**Firstly, we should work towards strengthening and rigorously applying the principle of ownership.** The PRSP approach has laid the necessary foundations for greater participation by the recipient countries in the relevant programmes and measures. Yet our experience of PRS processes so far, including an evaluation carried out as part of German development co-operation, has shown that efforts to strengthen ownership to date have not gone far enough.

**In our efforts to develop and realise ownership, we should ensure that recipient countries are more closely involved in initiating, preparing and formulating World Bank programmes.** Greater ownership means, in particular, making better use of local knowledge. This is not an end in itself. Designing successful programmes requires detailed knowledge of the specific national economy and the institutional, political and social context in which each programme is to be implemented. The fact that, in the past, the assumptions on which poverty reduction measures have been based have often proved overoptimistic also reflects the poor understanding of how policies will impact within the specific context of an individual country. This problem can only be solved by adopting innovative approaches that are adapted to local conditions. These approaches demand that the international donor community should also be willing to learn and that it should be prepared to seek solutions that diverge from the mainstream. To strengthen implementation of the PRSP approach, Germany has agreed with the World Bank to set up a trust fund, which is to be used to conduct country-specific impact analyses in key policy areas.

**We must also ask whether the practice of submitting the countries' PRSPs to the Boards is actually undermining such local processes.** The impression gained in many recipient countries is that "final approval" of the PRSPs is granted in Washington. True ownership demands that shareholders exercise self-restraint in Board discussions on PRSPs and that responsibility for relevant decisions be assigned to suitable country-specific fora.

We expect the management of the World Bank to look at these matters in greater detail. I would welcome a progress report on all aspects of the voice issue at our next Annual Meeting.

**Secondly, Germany advocates a substantial increase in basic votes.** This would increase the relative weight of the recipient countries, thus improving the relative standing of the small developing and transition countries in particular. Raising basic votes to their original level of around 11% would increase the entire proportion of votes held by the developing countries to 43%. In addition to increasing basic votes, there is also a need to maintain the ratio of basic votes to total votes. In this way, future changes in paid-in capital would automatically lead to a change in basic votes, as is already the practice, for example, at the Asian Development Bank.

**Thirdly, we propose that the practice of double majority voting, as has been adopted in the Global Environment Facility (GEF), be introduced for operational decisions.** A double majority would be defined as a majority of shareholders, on the one hand, and a majority of recipient country votes, on the other. This would ensure that adequate account is taken of the developing countries' interests in such decisions. The double voting structure would add an important note of equal accountability while not detracting from the basic membership rights of all participants.

The issue of voting and decision structures must be part of the reform package to increase the voice of the developing and transition countries in the Bank. We have published a paper in which we openly set out our position. We would, of course, be willing to discuss other options. What is important is that the Development Committee decide on a timetable for further discussion of these important questions.

### *ODA*

The report on "Supporting Sound Policies with Adequate and Appropriate Financing" highlights once again that focused and additional efforts are required on all sides. This means substantially increasing ODA. The first step must be to fulfil the promises made in Monterrey. Germany stands by the commitment it made within the EU at Barcelona and again at Monterrey to increase its ODA/GNI ratio to at least 0.33% by 2006, an effort which reflects our continued and serious commitment to the MDGs at a time when we in Germany, like the rest of the world, are experiencing economic problems. As ever, we continue to regard the 0.33% target as a staging post on the way to the 0.7% target.

At the same time, we must focus more on the question of how we can help mobilise developing countries' own domestic resources, through the transfer of financing and know-how. In the current debate on the role of ODA, we should, however, avoid giving the impression that the sole purpose of ODA is to close a financial gap of some kind when in fact it is also a question of arriving at a clearer understanding of the **qualitative change that can be achieved by ODA**. In many countries, investment and economic growth are too low to allow debt sustainability to be achieved and the MDGs to be realised. The goal of development co-operation is to help encourage private investment of sufficient levels in our partner countries.

### *A Key Problem: Commodity Dependency and Vulnerability*

In this context, there are two sets of issues that need to be looked at with priority and urgency: vulnerability, in particular with regard to external shocks, and the dependence on low-value-added commodity production.

**Most commodities of export interest to developing countries, in particular in Africa, suffer from high price volatility, for example coffee, cocoa, gold, tea and cotton. Volatility of commodity prices aggravates difficulties in macroeconomic management and frustrates investment efforts because of uncertain overall economic conditions.** Sub-Saharan exports experienced roughly twice the volatility in terms of trade that East Asia's exports did and nearly four times the volatility that the industrial countries experienced. On average, the poorest countries are hit by an "external shock" every five to eight years. One of the main causes is their heavy dependence on commodities.

**In addition to price volatility, the real prices of many commodities, like cotton and coffee, depict declining trends.** Between 1997 and 2001, the UNCTAD combined price index in US dollars fell by 53 per cent. That is, commodities lost more than half of their purchasing power in terms of manufactured goods. One major explanation for the poor economic performance of the region in the past two and a half decades is the significant loss of resources due to adverse terms of trade. UNCTAD calculates that the investment ratio would have been 1.4 per cent higher and the current level of per capita income as much as 50 per cent higher had it not been for the decline in the terms of trade and the associated losses

for non-oil-exporting countries,. Furthermore, the terms-of-trade losses have also contributed to the debt overhang of African countries and HIPC.

### *Growth Policies and Poverty Reduction*

So what are the implications for domestic policies and how does this affect the role of development co-operation?

In order to be successful, policies and institutions must be adapted to local conditions. This can only be achieved by strengthening the ownership of development programmes. The PRSP approach has paved the way. But the World Bank and the IMF must take an open-minded attitude to the various strategies and policies formulated in the partner countries.

Not only must the Fund and the Bank be fundamentally willing to accept policy concepts that fall outside the mainstream but they must also actively advise the partner countries on how to implement these policies in the most efficient way. For example, it is not enough that it is now tolerated for countries to protect their capital account by controlling the movement of capital. Rather, they need to be actively advised on how to make effective use of capital import taxes or regulations, for example.

In this context, it is important for the international financing institutions to look more closely at how policies and institutions operate in a given country context and how this knowledge can be reflected in operational policy. This presents the World Bank with a great challenge. The latest evaluation reports and the CAS review have shown that there is still room for improvement, particularly in terms of tailoring World Bank programmes to the partner countries' own political economy, making effective use of analytical and lending instruments and evaluating impact and progress.

The key challenge is to identify where the potential for growth lies and to focus on mobilising it. In many cases, this will require governments to adopt a long-term pro-active political strategy. Institution-building and the strengthening of the regulatory framework must be at the heart of national development strategies. Progress here must set the pace for all other areas of reform.

**Special attention must be given to the commodity dependence of many low- income countries and also to issues surrounding vulnerability.** Government policies have a critical role to play in reducing dependence by creating conditions that promote horizontal and vertical diversification towards higher-value-added products. It is essential that institutional capacities be enhanced in this critical area. It is also crucial to promote the further processing of basic commodities so as to allow countries to establish a more diversified economy, to make them less vulnerable to external shocks, to boost income in the long term and to ensure debt sustainability.

Export diversification is undoubtedly the right approach to reducing vulnerability. But the industrialised countries must not use this recommendation as a means of distracting attention from their own policy shortcomings. Cotton policy is one particularly good example. Various estimates suggest that, in 2002, cotton subsidies in industrialized countries caused a loss of up to US\$ 300 million in revenue to Africa as a whole, which is more than the total debt relief (US\$ 230 million) approved by the Bank and the Fund under the enhanced HIPC Initiative for nine highly indebted cotton-exporting countries in West and Central Africa in the same year.

We must put an end to this lack of political coherence, otherwise our efforts to reduce poverty will fall on stony ground.

**It is also important that macroeconomic issues should not be ignored.** Experience gained to date with PRSPs, for instance, has shown that the issue of alternative macroeconomic policies has barely been touched. Exchange rate and monetary policies, for example, are rarely dealt with in depth. While it is generally agreed that macroeconomic policies should aim at a stable currency and low inflation rates, opinions vary on how to achieve that goal. These options and the related trade-offs need to be discussed within the context of each individual country. Germany therefore supports including a working group on macroeconomic issues as part of the set of technical committees that countries establish for the development of their PRSP.

**There must also be increased analysis and discussion of how macroeconomic policies can help to boost economic growth and investment.** Increased attention has to be focused on the macroeconomic forces of growth, as distinct from adjustment issues on a micro level. So far, the Bank has tended to concentrate most of its attention on the microeconomic level, for example in its current research on “Investment Climate”. The focus tends to be mainly on allocation, yet improvements in the allocation of resources are no guarantee of economic growth. Indeed, allocation improvements can even exist in parallel with low growth or recession. And, vice versa, as several countries have demonstrated, there can be high growth due to favourable macroeconomic conditions despite sub-optimal allocation.

**The Bank should devote more attention to the question of how to promote the financial sector in developing and transition countries.** If growth is to be mobilised and sustained, it is vital to promote domestic investment. If the will to invest is there, then credit creation can provide the means. Yet that implies the existence of a functioning financial system. The financial system, therefore, has an important role to play. Currently, however, it is capable of playing that role in only a few developing countries. This raises a number of important policy questions, such as:

- What role can macroeconomic policy play in promoting the development of the financial sector?
- How can developing and transition countries avoid excessive current account deficits or excessive foreign exchange debt and thus protect themselves against the volatility of financial flows?
- How can the increasing dollarisation in many developing countries – with its devastating impact on national financial sectors – be tackled effectively?<sup>1</sup>

#### *International Trade Policy*

Domestic policy packages are unlikely to be effective without a complementary package from the international community. In this context, the multilateral trade regime is paramount. It is particularly important that international trade policy provides a sound framework for national development strategies.

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<sup>1</sup> The German government has commissioned a study on these questions, the results of which were presented at this year’s Annual Bank Conference for Development Economics in Paris as part of a parallel workshop.

I therefore find it regrettable that the 5th WTO Ministerial Conference in Cancun ended without any agreement being reached on substantive issues. As the World Bank showed quite compellingly in its recent Global Economic Prospects, an agreement on agricultural issues in particular and on the improvement of market access for processed products through the lowering of tariffs - especially the reduction of tariff peaks and tariff escalation - could bring a great boost to prosperity in the developing countries and thus make a major contribution towards the achievement of the Millennium Development Goals.

We should not waste time blaming each other for the failure of the conference. The constructive reaction is for each of us to re-examine our own position so that we can re-start the multilateral WTO negotiation process as soon as possible – in the interests of the developing countries but also in order to lend a much-needed boost to the global economy. Developing countries are best able to assert their interests in multilateral processes like this. We must stand firmly by the aims of the Doha Development Agenda. I would like to take this opportunity to affirm the German government's commitment to those aims. Proof that progress can be made on difficult and highly contentious WTO issues can be found in the agreement on TRIPS and public health that was reached at the General Council in Geneva shortly before the Ministerial Conference. I am pleased that this agreement is holding up and that it remains unaffected by the failure of the WTO conference in Cancun.

It is too early to say what lessons are to be learned from the Cancun conference. **One of the remarkable things about Cancun, however, is that it was the first time in the history of GATT or the WTO that the poor developing countries joined forces to defend their interests.** We welcome the active participation of these countries and hope it will continue in future WTO negotiations. It is a fact that, quite apart from the question of market access for their agricultural produce, many of these countries have reason to be sceptical. They are expected to further liberalise their import regimes and apply new trade-related standards. Yet these new standards (relating to such matters as competition law and investment protection) are not always appropriate to the level of development in these countries. Moreover, they are extremely difficult to implement in practice and also costly. Whilst import liberalisation can do a great deal to promote development, it can only do so as part of a comprehensive development strategy. Successful liberalisation is dependent on functioning institutions and complementary policies. These conditions cannot be put in place overnight; in many cases it is a process of several years or even decades. We should therefore be careful not to exert pressure on the developing countries in this regard. We must accept that the developing countries – without losing sight of the ultimate aim – will steer their own course and, for example, take a selective approach to import liberalisation in order to protect certain branches of industry for a period of time.