



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-SEVENTH MEETING
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Statement by

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Guatemala**

On behalf of Costa Rica, El Salvador, Guatemala, Honduras, Mexico,
Nicaragua, Spain, and República Bolivariana de Venezuela

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At the 2007 Annual Meeting, we broadly embraced the six strategic themes for an inclusive and sustainable globalization set out by the President that will shape the overall work of the World Bank in coming years. We would like to commend the President of the World Bank for his leadership and hard work. We are pleased by the progress made since then in assessing how to move forward the goals suggested by the strategic themes. Challenges are being analyzed, clear objectives are being defined, and linkages between these and specific actions are being established. We would like to acknowledge the inclusiveness of this on-going iterative process, as staff, shareholders, stakeholders, and outside parties have been able to continuously express their views and opinions.

We would like to reiterate the support of this constituency for the strategic themes which are defining the directions in which the World Bank is moving. We are confident that the World Bank will emerge as a stronger and nimble organization, more flexible and innovative, and more able to respond to the development priorities and changing needs of developing countries.

We welcome the establishment of working groups under the leadership of the Managing Directors and Chief Financial Officer, which are undertaking further diagnostic work and developing ideas to pursue the strategic themes. It would be very useful if these working groups advance the main findings of their work as it progresses to the forthcoming meetings of the Development Committee. That would enrich our future discussions. In this regard, we welcome that today's agenda addresses two of the six strategic themes.

Even though climate change is not a topic for discussion in today's formal agenda, we would like to commend staff for providing us with a background concept note outlining a strategic framework for the World Bank on climate change and development. We believe that climate change is a relevant issue for development, and we welcome and support its inclusion as a prominent issue of one of the six strategic themes. We would like to take this opportunity to make some comments, at the end of this statement, on the strategic framework's outline on climate change and development.

Recent markets developments

The world economy has experienced a long period of remarkable growth that seems to be close to an end. The developing economies' rate of growth averaged over 7% in the past five years, while average growth in the developed economies was above 2.5%. The world economy, and especially the developing countries, has rarely grown faster over a long period of time, as it was observed during the last few years.

However, growth prospects for developed economies have been revised downwards sharply reflecting the effects of the financial markets turmoil, which erupted last year. The developing economies have shown resilience to the recent financial turbulence, and that has been possible, in part, by the efforts made in past years to improve the macroeconomic fundamentals and by a more balanced growth pattern.

The turmoil in the financial markets, the lower economic growth prospects for the developed economies and the record high energy and commodities prices present a challenging environment for developing countries. Even though many developing countries have been relatively resilient, a more severe downturn

in the world economy might have profound adverse effects on the performance of most, if not all, developing countries' economies.

The slowdown and the high degree of uncertainty in the world economy at this critical juncture calls for the World Bank to redouble its efforts to partner with developing countries to increase the resilience of their economies, which should lead to higher sustainable growth rates, and to place them on track to reach the Millennium Development Goals.

Higher commodities prices

An area of particular concern is the increase of world prices for key commodities. Energy and food prices have increased substantially in past years. Oil prices have soared to historical heights and prices of major crops and other commodities have also increased substantially, driven by a strong demand. This is having rather different impacts on developing countries depending on how well endowed they are with natural resources, but generally, the rising trend of commodity prices has been pushing many people below the line of poverty in many countries around the world. It is worth noting, as the Global Monitoring Report points out, that poor people in developing countries spend as much as half of their income on food.

Commodity price rising trend picked up pace in 2007 and has shown little signs of abating so far in 2008, regardless the lower growth projections for the developed economies. High energy and food prices appear to be here to stay, at least in the near future, and the World Bank policies should be adjusted accordingly.

The World Bank should be actively engaged in supporting developing countries to cope with high energy and food prices, especially in the Low Income Countries that have been adversely affected. The World Bank has expressed its readiness to provide policy advice and financial support as needed in the form of extra budget support, support for social protection schemes and support for new agricultural investments. We believe the World Bank should also explore providing client countries with a broader spectrum of products that would allow them to manage the risks associated with rising commodities prices and increased volatility. With hedging products offered by the World Bank, client countries could eliminate the uncertainty in their budgets created by rising food and energy related commodities' prices that have to be imported, or even pass on the benefits of these instruments to vulnerable segments of the population that lack the possibility of managing risks.

Achieving the Millennium Development Goals

Halfway to 2015 is a symbolic time to gain momentum. We must grasp this opportunity to take stock of the progress made so far and to better calibrate the challenges that lie ahead to meet the Millennium Development Goals. In our view, there is an urgent need to increase our efforts, and together we should take concrete actions to spur progress.

We strongly welcome the progress achieved so far in reaching the Millennium Development Goals, in particular in reducing poverty levels –a sizable reduction in the absolute number of poor people around the world-- and on other human development-related goals. However, we would like to express our concern that progress was uneven across countries and across regions within each country; particularly we are concerned that many Low Income Countries are off-track to meet most goals.

The challenge to reach the Millennium Development Goals will increasingly be concentrated in Low Income Countries, and especially fragile states, where progress has been slower. However, we should not underestimate the adverse effects that a deeper slowdown of the world economy could have on Middle Income Countries' economies, where 70% of the poor population still lives. The hard won progress these

countries have made on poverty reduction after years of strong growth could be diminished. At least, we must be fully aware that the progress achieved in last years took place under a favorable global environment, and that might not be replicated in the coming years.

The World Bank should be ready to respond to Middle Income Countries' development needs by providing them with a flexible and innovative package of financial and advisory assistance able to address the increasingly complex demands that the evolving global conditions are placing on them. The Middle Income Countries will increasingly be demanding from the World Bank innovative financial solutions, flexible and better priced financial services, and just-in-time knowledge advisory services; tailored to their specific and changing development needs. Additionally, in the current economic juncture the World Bank Group should stand ready to act in a counter cyclical manner.

We welcome the recent measures taken by the World Bank. We believe that the World Bank's agenda for Middle Income Countries is moving forward in the right direction, and we would like to express our recognition to management and staff for that. We are pleased with the recently approved pricing reform and the measures taken to extend the maturity limits of loans and guarantees, to enhance the Deferred Drawdown Option, and to introduce a Deferred Drawdown Option for Catastrophic Risk. We are convinced that these improvements on the pricing, quality and flexibility of the World Bank's financial products will deepen and expand the World Bank's engagement with the Middle Income Countries and, at the same time, will enable them to better reach their development goals.

Overcoming poverty in the poorest countries

Progress towards the Millennium Development Goals has been uneven across Low Income Countries, particularly in Africa, where many countries are off the path that would take them to reach most goals in 2015. Not surprising, the progress in reducing poverty levels has been greater in countries with higher growth rates in the last decade. Economic circumstances vary across countries but, in general, the countries that grew faster during the last decade were those that applied sound macroeconomic policies, and had good governance practices and strong institutional frameworks. In this regard, we would like to highlight the importance that strong fundamentals have for growth, and thus, in reducing poverty levels.

We would like to express our satisfaction for the successful replenishment of IDA which took place since our last Development Committee meeting; that clearly shows the commitment of the international community to assist the world's poorest countries in achieving their development goals. Looking ahead, and in the context of the increasingly complex aid architecture, we need to focus ourselves in ensuring the highest possible quality on the use and results of these funds. In this regard, we would like to encourage the Bank to make all possible efforts towards a successful meeting in Accra.

We believe that the World Bank interventions in the poorest countries should not only be directed to alleviate the most acute situations of poverty, which is a very important task, but it should also provide technical and financial assistance to support wide economic reforms that would sustain over time stronger and broad-based growth. We believe that the experience and knowledge the World Bank has gained over years of engagement with Middle Income Countries should be very useful in this regard.

The recent increase in global food prices raises concern about widespread hunger and malnutrition in many Low Income Countries. IDA financing could help them mitigate the impact on the poorest people that suffer the most. We would like to stress the importance that agriculture has as a potential source of growth and development in most Low Income Countries.

Unlocking agricultural growth seems to be a priority issue if we would like to have a great impact in reducing poverty. Needless to say, that three of every four poor people in developing countries live in

rural areas and most of them depend directly or indirectly on agriculture. However, fostering growth in the agricultural sector is a complex process, as it comprehends a wide range of social and economic policies as well as institutional arrangements and governance issues. The World Bank should actively be involved in thinking innovative ways to develop and implement projects and programs in the agriculture sector, and we welcome the commitment President Zoellick has shown in this respect.

This constituency believes that the role of the World Bank in Low Income Countries is today as important as ever, and through its financing, advice and technical assistance should contribute to overcome poverty in these countries, not only in Africa but also in other IDA countries with pressing development needs, wherever they are.

Fragile situations and post conflict states

Fragile states present a critical challenge for development. Progress in reaching the Millennium Development Goals has been slow in these countries, and they lag behind other developing countries on all counts. No doubt, their needs are huge and that points out the urgency to strengthen the World Bank's engagement in these countries.

The poor development outcomes of fragile states reflect a complex mix of many issues that are negatively reinforcing each other: extreme poverty, lack of infrastructure, weak institutions, poor governance, unstable political environments, to mention some of them, and in some cases also the long lasting effects of past conflicts. All of these issues not only undermine the capacity of governments to deliver social and infrastructure services, but they also restrict the extent on which fragile states could take advantage from development assistance. Furthermore, these issues make the delivery of development assistance a challenging task by itself.

Despite the enormous challenges the fragile states are facing, we are convinced that development assistance could accelerate progress towards the Millennium Development Goals. We believe that country led strategies should be a central feature of any development assistance. There are around forty five countries affected by fragility and conflict, and they constitute a heterogeneous group of countries, each of them facing rather different situations and development priorities that require flexible and innovative approaches.

Aid will continue to be the main source of development financing for fragile states. However, to increase the development impact of aid and other interventions, the international community --the World Bank, other development banks, the European Commission, regional institutions, the UN system and bilateral donors-- should improve the coordination of its efforts. Partnerships should be improved to yield more integrated approaches to the delivery of assistance. In this context, the World Bank should direct its interventions to those areas that lie within the core of its mission and to those activities where it has a comparative advantage in fostering growth and development.

We welcome the initiative of considering the special needs of countries coming out of conflict or seeking to avoid the breakdown of the state as one of the strategic themes to be addressed by the World Bank agenda going forward. We believe the World Bank has a constructive and important role to play in assisting these countries.

World Bank's Strategic Framework on climate change and development

We are convinced that the World Bank should partner with developing countries to help them integrate the climate change challenge into their development strategies.

We welcome the background concept note about a Strategic Framework on Climate Change and Development, which outlines the World Bank vision on how to integrate climate change and development challenges through its country operations, without compromising growth and poverty reduction efforts. In this regard, we consider this concept note as an important step forward in assessing the World Bank comparative advantages in this topic, and thus, in shaping the content of the six strategic themes set out by the President last year; in particular, the theme related to the World Bank's role in fostering regional and global public goods that transcend national boundaries.

We concur with the concept note's main thrust that addressing climate change issues is central to the development and poverty reduction efforts. Climate change presents an urgent economic and development challenge, particularly for the poorest countries that lack the resources and capabilities to cope with its consequences.

The concept note puts forward the guiding principles and the pillars on which the specific actions will be framed, and defines the main concepts and issues of a comprehensive strategy for the World Bank's engagement on climate change. In our view, the concept note sets forth a new approach in the way in which the World Bank will deal with climate change issues. It departs from an exclusive focus in energy, and follows a programmatic approach, incorporates a longer term vision, envisages a significant scaling-up of investments, and strengthens the focus on technical assistance and technological transfer; that represent a dramatic shift in the right direction.

Among the positive aspects we believe the strategic framework has, which are many, we would like to highlight two of them. First, the flexibility embedded in the design of the strategy. Both adaptation and mitigation are key elements of the strategy. Also, country ownership and client demand are key aspects. But more important, the strategy recognizes that the different needs and demands of each country must be taken into account as their circumstances diverge. And second, the provision of technical assistance and knowledge sharing in climate change issues, which is at the heart of the strategy. A great deal of the World Bank's value added rests in the provision of global expertise in this highly specialized field. The World Bank has already accumulated substantial experience in addressing climate change issues in the context of development and poverty; an experience that will be very useful for most developing countries in designing their own development strategies.