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**Statement by**

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



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When, in a month's time at the Monterrey follow-up conference in Doha, the international community gathers to take stock of how far we have come on the way towards our goal of reducing global poverty, we will be doing it against a **dramatically transformed international background**. The world is confronted with climate change and with three major crises, often referred to as "FFF" (finance, food and fuel). These developments call for us all to deliver **new ideas, new sources of financing, new rules and regulations and new forms of cooperation**. **That is why we need a strengthened global partnership for development** that we must reaffirm in Doha. A clear message must go out from Doha that, despite the crises, we will not allow the achievement of the MDGs to be put in jeopardy. I welcome as a good example the creation of a task force on innovative international finance for health systems, whose job will be to elaborate concrete proposals for the next G8 summit. We need to reaffirm, enhance and consolidate the Monterrey Consensus. Doha must be a success. The world cannot afford a failure just now.

The international financial institutions will also have to make sure now that their position is clear and they are ready to go. The World Bank must take the lead internationally and also make a constructive contribution, outlining the direction to be followed in developing new solutions to pressing global tasks. That applies to the impacts of the financial crises, the food and energy crises and also to the issue of climate change. On the other hand, the Bank also needs to more clearly define its own profile and improve its ability to adapt its operational model to the rapidly changing conditions and needs of its various "customers" and partners. None of the crises can seriously be resolved using the faded blueprints of the past.

### **Ensuring development gains in times of financial crisis**

**We need a reliable regulatory framework for the global financial markets in order to prevent our development efforts from being swept away in the rip tide of turbulent financial markets.** The upheavals in the international financial markets have revealed the urgent need to quickly learn the lessons of this financial crisis. Government intervention alone will not be enough to prevent distrust from spreading across markets. It will be just as important to lower the likelihood of such crises happening in the first place through better regulation and more transparency. We need internationally binding transparency guidelines. And we must do away with the current model that allows banks and financial jugglers to act unchecked in good times whilst losses must be made good using taxpayers' money when bad times hit.

Emerging market economies and developing countries should **develop supervisory and regulatory systems as they introduce new financial instruments**. One key lesson to be learned from the crisis must be that suitable regulations have to be in place before certain financial instruments are introduced. And financial products whose complexity and consequences are no longer understood by anyone should be prevented. I call on the World Bank and the IMF to provide support and advice for all the countries affected by this situation. In particular I call on them to take these points into greater account in their Financial Sector Assessment Programmes (FSAPs).

**The impacts of the crises on the potential for growth in developing countries are clear for all to see:** the reduction in demand for exports from developing countries is enough by itself to leave a visible mark on the economies of the South. Already now, in 2008, the poorest countries alone will have to pay an

extra 50 billion dollars for oil. That is more than they get in ODA commitments. I am particularly concerned about the way the debt situation has worsened for the poorest countries, which – due to the costs of the crises – are now at risk of losing the fiscal flexibility that they had achieved. We must make sure that the reduction in the debt burden as a result of debt cancellations is not negated as countries are sucked into a new spiral of debt. Debt sustainability and responsible lending must therefore become binding core parameters for new loans to these countries, parameters that new creditors should also comply with.

Since many countries are suffering because of the high prices for food and energy, with the poorest people in those countries feeling the pinch the most, we need creative solutions here too. We therefore welcome the Bank's Global Food Crisis Response Programme as a quick reaction to the food crisis and also the Energy Access for the Poor initiative as an effective vulnerability mechanism for helping particularly vulnerable countries. It is clear that we also need effective arrangements in order to be able to respond quickly to future crises. The World Bank's experience means that it can take a leading role here.

However, the **international community must go beyond purely emergency measures and strengthen its strategies for rural development** and sustainable agricultural growth. Since many countries are suffering because of the high prices for food and energy, those countries that are making high profits in this situation should show their solidarity by investing part of their profits in development. The international community should set up an agro-facility for this purpose, to mobilise capital from major investment and sovereign wealth funds for agricultural projects. Germany has tabled a proposal for such a facility.

**Strengthening financial systems and micro-finance** are also important aspects in these strategies for rural development. Despite many successful programmes we find that, particularly in rural areas, people still do not have enough access to financial services. We must therefore continue and considerably increase our efforts to offer services to these people. Smallholders must also find it easier to get credit for necessary investments. However, this means offering insurance packages too, so that people are in a better position to cope with the threat of natural disasters such as droughts or floods.

**There is also urgent need for action on taxation.** Developing countries are losing about 500 billion US dollars a year as a result of tax flight. That is five times the amount of annual ODA contributions. We must therefore step up our efforts to develop efficient, transparent tax systems. A joint dialogue must begin at the same time with industrialised countries about possible international agreements and initiatives to fight tax flight. We need an international pact to fight tax flight with the aim of grouping together existing initiatives against tax flight and supplementing them with measures at the national, regional and international levels. That also includes not allowing tax havens to enrich themselves at the cost of the countries where value really is added. That is why we need an international tax compact, so as to put this topic firmly on the international agenda.

One thing has become clear over the last few weeks: **transparency and clear rules are necessary for markets to function.** And so we must also take a critical look at the latest Doing Business Report. We must question the implication in the recommendations for deregulation that every regulatory intervention by the state is damaging per se for the business climate. No one can expect us to believe that the lack of regulations in the financial sector has been a good thing for global economic development. And ranking countries highly simply because they have abolished regulations is a short-sighted approach. 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. A standard policy of penalising regulations that are considered "wrong" is also an ownership problem. The current financial crisis shows that an economic order without regulation does not work. We are therefore strongly advocating that greater distinctions should be made in future Doing Business Reports according to the level of regulation and whether or not it does any good. In

its present form the Report should not be used indiscriminately as a guide for resource flows, not by the IFC and IDA, and not in the countries themselves.

### **Climate change – an urgent challenge for development**

**Climate change has the potential to completely destroy the development successes achieved over the past few years and to endanger the progress made on achieving the Millennium Development Goals long term.** It is therefore particularly important for all international financial institutions to respond emphatically and comprehensively to the challenge of climate change. They must devote more attention to efforts to reduce greenhouse gas emissions and to adapt to the consequences of climate change. It is vital that climate change is not treated as a “stand-alone” topic but is mainstreamed in the international development agenda and in all strategies, programmes and activities in this context. Development policy and climate policy must go hand in hand, since achieving the overarching goal of sustainable development depends on success in both areas. We will have to learn to cope with the fact that adaptation to climate change will cause alterations in international development cooperation in all its dimensions.

**We therefore expressly welcome the fact that a decision has been taken on the establishment of the Climate Investment Funds (CIF) and that the way has thus been paved for rapid, comprehensive action on climate.** We have sent an important political signal with the CIF. We need rapid progress on combating climate change. Because the costs of not taking action far exceed the costs of rapid and determined action. We now expect the World Bank to contribute its vast experience in the field of finance to the discussions about the elaboration of a global architecture for climate financing. That is important in order to make sure that this new structure supports the UN negotiating process for an international post-2012 climate agreement. Because UN negotiations are the key forum for negotiating a Kyoto follow-up agreement. The new funds can be a support but they are no substitute for a follow-up agreement. Germany will contribute approximately 900 million US dollars altogether to the financing for the CIF.

It is important that the Climate Investment Funds also convey a positive message with regard to the coherence of global initiatives. Existing financing instruments and tried-and-tested mechanisms must be part of the solution for the climate problem. These mechanisms should – wherever necessary – be complemented and further developed in order to generate real value added. We need to avoid duplication and use synergies with existing financing mechanisms such as the GEF, the new Adaptation Fund established in Bali and the Forest Carbon Partnership Facility.

**In addition to radical, rapid reductions in the emissions produced by industrialised countries there must also be a commitment by the more advanced developing countries that is verifiable in the long term and further measures by other developing countries (with the exception of LDCs) to reduce their emissions of greenhouse gases.** Only then will we be successful in the fight against climate change – true to the principle of common but differentiated responsibilities and respective capabilities. However, this needs to be coupled with serious international efforts in the field of development, diffusion and technology transfer, in order to enable developing countries to contribute to this global effort too. We welcome the fact that the Strategic Framework on Development and Climate Change (DCCSF) and the Climate Investment Funds are giving prominent attention to this aspect and we hope that the World Development Report 2010 will produce further insights here. We must also be sure to support the particularly vulnerable people in Africa, in the LDCs and in the Small Island Developing States in their efforts to adapt to the consequences of climate change. This is also a matter of global justice: those who have contributed the least to global climate change must not be the ones to suffer.

## **Bringing forward the voice agenda**

**At the Financing for Development Conference in Doha at the end of this year we will also be taking stock of the reform of the international financial institutions.** I therefore call on us all to make every effort to bring the reform discussion forward substantially. The task that we have is to adapt the Bank's voting rights and share structure to the changing weight of individual countries in the global economy. As we seek to do that we must also strengthen the voice of small and poor countries. Now is the time to act, as our credibility and the legitimacy of the World Bank as a whole are at stake.

**We now have a solid basis for agreeing on the concrete details of the reform package.** It is now time for energetic action to bring the process forward taking the reform elements proposed by the World Bank as a basis for our actions. In troubled times such as these, when we are facing an international financial crisis, a successful reform will also send out a signal about the Bank's legitimacy and ability to act. The shareholders have a special responsibility here. We welcome the options listed for increasing basic votes and creating another African seat on the Board, particularly in order to substantially increase the voice of smaller developing countries. The results of the IMF reform can provide a frame of reference for the adjustment of voting rights. However, we do not have to copy the IMF outcome in every way. The World Bank and the IMF are separate institutions with different mandates and tasks – therefore they can have different voting rights structures wherever it is justified by their differing mandates. It should be possible to give greater weight to IDA contributions when identifying countries that are entitled to shares, because those contributions are proof of solidarity with and a sense of responsibility for the poorest countries.

**However, a meaningful voice reform must also reflect improvements in how much of a voice countries have in the design, implementation and evaluation of World Bank programmes and projects under 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 be a starting point for an open and democratic dialogue on different policy options in the partner countries. In order to make sure that decision options with policy relevance are available, the PSIAs must be carried out in good time, i.e. as part of programme planning.

**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 us in this direction. The World Bank too must take a more pro-active approach when it comes to integrating its programmes into country programmes and with regard to cooperation and the division of labour. Discussion must also focus on how to stop the additional funding that has been mobilised being consumed by increasing transaction costs. And we must make sure that country priorities and ownership are not undermined. The key prerequisite for ownership is the existence of good institutions at all levels of government. That is why capacity development should remain a focus of the international community's attention. The World Bank must take a proactive role in this process and be prepared to adapt its way of doing business to a common approach.