



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)



**SIXTY-SEVENTH MEETING**  
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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 Session on 13 April 2003**

Given the growing global insecurity over the past few years, it is hard to speak credibly about suitable measures for the Millennium Development Goals (MDGs) – when we know for a fact that peace and stability are a necessity for achieving them. I warned when we met at the Annual Meeting of the risks to achieving the millennium goals that may arise as a result of violent conflicts, terror and war, and I regret that my fears have become reality. The developing countries are the weakest links in the world economy, in particular they are suffering from the direct economic impacts of conflicts and global insecurity. We should demonstrate once again by concrete decisions made here at this meeting that the commitments resulting from the Monterrey and Johannesburg conferences for the MDG agenda are still valid for us and still have political priority. This session of the Development Committee must send out a signal indicating that there is no viable alternative to a global system which gives top priority to preserving peace and creating sustainable development opportunities, which focuses international funding on these tasks and which is based on multilateral consensus and international law.

We welcome that the war in Iraq is coming to an end and that the suffering of the Iraqi people is ending. In addition to the financial responsibility borne by the countries that waged the war, we believe the international community, including the Bretton Woods Institutions, must also be substantially involved in tackling the challenges of reconstruction that lie before us in order to ensure sustainable social, political and economic development in Iraq. President Wolfensohn has rightly pointed out that the World Bank can only make loans with the consent of or in response to an application from the member country concerned. Failing that, the World Bank can, with the approval of the Board of Directors, provide aid at the request of UN bodies.

Because of their political and economic weight, the industrialised countries bear special responsibility for global stability and prosperity. The German government is aware of this responsibility. Therefore, the Development Committee must send a clear and convincing signal for the constructive, consistent continuation of multilateral co-operation.

The German government champions good global governance, the fundamental principles of which are: strong multilateral institutions, co-operative security and disarmament, problem-solving through international co-operation, the enforcement of international law and commitment to global sustainable development. The criteria upon which we base our assessments of the development orientation of our partner countries must also be the yardstick for our own international involvement; they are the rule of law, broad participation in decision-making processes and a social market economy. We emphatically regard the discussions in the DC as an important element of this policy.

**Enhancing the voice and participation of developing and transition countries**

**Good global governance requires that there is broad participation by the various players; participation creates legitimacy and ownership.** The aim must be to involve the

developing and transition countries more closely in the decision-making structures of international bodies and thus also strengthen their responsibility for global security, stability and development and the contribution they make to this. That is why we welcome the World Bank and IMF initiatives to enhance the voice of developing countries in both institutions.

**The DC report submitted to us contains a number of important proposals for strengthening the group of developing and transition countries. We must, however, be wary of the danger of merely agreeing on a few measures that can be easily and quickly implemented, but which do not do justice to the complexity of the challenge. Strengthening the offices of those Executive Directors that are particularly affected is a sensible and constructive move; we should observe the impact of these measures in order to learn from that experience. These measures cannot, however, replace the work on a coherent overall concept, which is still needed.** An overall concept also means:

- the further decentralisation of the activities of the Bank and Fund with the aim of strengthening ownership and offering our partner countries more possibilities in connection with the drafting and implementing of their economic programmes;
- reforming voting rights. Besides substantially increasing basic votes, we also need to think about other, innovative proposals.<sup>1</sup>

**We support the proposal to establish a working group of high-ranking experts to elaborate proposals for more far-reaching measures to strengthen the participation of the developing countries in the IFIs and submit it for the next Development Committee.**

### **Towards achieving the MDGs**

The MDGs aim at progress in terms of human and social global development; they define outcomes that, taken all together, describe a vision of a better world for all. The MDGs also define a common multilateral political agenda. Anyone who is serious about them must subscribe to a multilateral approach. That is the only way to enable an effective division of labour and to relate our respective bilateral activities to this multilateral framework which forms the basis for what we do.

**That is why I also expressly welcome the proposal that we should in future hold regular discussions in the DC on the status of policies for implementing the MDGs. We need these reports in order to be able to adjust, co-ordinate and improve our policies with an eye to the MDGs, i.e. so that we can remain able to take effective political action.** The reports to the DC should not replace the reports to the UN concerning the progress made in achieving the MDGs, but should complement them with their focus on policies and implementation issues. The co-operation between the UN organisations, especially UNDP, and the Bretton Woods Institutions, which has functioned so well up to now, should be further extended to the country level and should be used as an opportunity for closer co-operation. Progress with regard to the MDGs must be examined using a uniform frame of reference and be measured using uniform indicators. At a time when we are striving to harmonise procedures and instruments, we cannot allow ourselves any parallel approaches in this area either.

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<sup>1</sup> Cf. e.g. the BMZ discussion paper "Strengthening the Participation of Developing Countries in the World Bank"

**In order to achieve the MDGs, we need targeted, additional efforts by all players. As far as ODA is concerned, we are looking at a substantial increase.** First of all the measures announced at Monterrey must be put in place. Germany stands by its commitment undertaken in the context of the EU in Barcelona and Monterrey to increase its ODA/GNI ratio to at least 0.33% by 2006, a contribution which – in these difficult economic times (for us too) – expresses our continued, earnest backing for the MDGs. If we are talking about figures, however, we should bear in mind two important issues. Firstly, it is not possible to calculate mechanically how much the individual MDGs will cost. An exact calculation of the additional funds needed – whether 50 or 70 billion dollars – is just not possible. Such figures are purely indicative. Secondly, it is clear that a substantial increase is only possible if we succeed in developing new, innovative sources of finance. We therefore need to continue our deliberations and discussions regarding this issue.

**However, the MDGs are not just a quantitative challenge for ODA, they are also a qualitative one.** Development co-operation is at its most effective when the political, strategic and budgetary framework for the effective use of funds is present in the partner countries. For this, on the other hand, we also need procedures on the donor side that take account of our partners' limited administrative capacities. I therefore welcome the progress made at the harmonisation summit in Rome. Germany intends to elaborate and implement an action plan for harmonising procedures. We will continue to provide active support for the work co-ordinated in the DAC. German development co-operation is currently undergoing a thorough reform. The aim of this reform is to make the comparative strengths of bilateral co-operation bear fruit in the pursuit of our common task. This requires organisational changes and new procedures and instruments, especially stronger participation in programme aid. We will follow through with this reform process right to the end.

### **Role of economic growth**

Economic growth in the developing countries continues to be potentially the most important source of development financing and is necessary for the goal of cutting extreme poverty by half by 2015. If income increases, then more funds can be mobilised for investment that is relevant to the MDGs and for public spending. Economic growth directly reduces income poverty and it does this all the more when the distribution of income and assets is more balanced. Poverty oriented growth policies should therefore actively address questions of distribution.

**The implementation report for the DC makes it clear that in Africa in particular economic growth is lagging substantially behind the required rates of increase for achieving the goal of halving extreme poverty by 2015. Targeted efforts must therefore be made to reinforce the forces for growth. Three fields of activity are particularly important in this context:**

- **Focus on institutions.** It is decisively important to identify growth potential and mobilise it in a targeted manner. It is to be assumed that for this, long-term, pro-active government policies will be needed in many cases. Institution building and strengthening the regulatory framework must be the core of national development strategies. These issues must set the pace for all other areas of reform. Experience shows that privatisation and liberalisation of the economic process can only take hold if the proper institutional structures are in place. We must learn from these mistakes – for example, now in our

efforts for the liberalisation of services in the WTO/GATS. Serious risks are entailed if the liberalisation of financial services is rushed through too quickly.

- **Focus on market access.** The industrialised countries have made a commitment to substantially improve market access for products from the developing countries. So far they have not kept their promise that the Doha round would be a development round. The coming months are decisive for achieving a breakthrough at the next WTO Ministerial Conference. Germany remains committed to the goal of a development round.
- **Focus on stability and security.** The situation in many developing countries is characterised by a high degree of economic, social and political insecurity. This is one of the major obstacles to investment. Insecurity can be reduced and market deficiencies countered by strong institutions and efficient regulatory bodies. On average, the poorest countries are hit every 5-8 years by an external shock: financial crises, worsening terms of trade and commodities price shocks, or droughts and other natural disasters. **The international community must intensify its efforts at all levels, in order to reduce these insecurities and thus lower the barriers to investment, e.g. by:**
  - **providing better protection against fluctuations in the price of commodities** (actively promoting economic diversification and further processing; rolling back tariff escalation by the industrialised countries; examining existing facilities to compensate for price shocks)
  - **providing better insurance against over-indebtedness and financial crises** (improved debt management, strategy to increase the number of grants, protection against exchange rate risks, further development of the strategies for debt sustainability, etc.)

### **MDG fast tracking**

**Economic growth by itself is not, however, enough to achieve the MDGs.** Despite higher rates of growth in many regions, it is not going to be possible to reduce child mortality for example to an adequate degree. In order to achieve this and other MDGs, special efforts will be necessary. To this end, MDG fast tracking initiatives were adopted at the last session of the Development Committee.

**These initiatives face major challenges due to the multi-dimensional character of MDGs. Success of fast tracking specific MDGs will therefore depend on effective cross-cutting policies and multi-sectoral approaches.** Above all it will be necessary to ensure that these initiatives do not undermine the central role of the PRS process; namely to formulate coherent strategies and establish priorities accordingly. That is why the fast tracking initiatives must be integrated into the PRS process. This assumes that funding estimates are not to be understood as concrete targets, but must instead be fitted into the budgetary framework of PRS. Moreover, the DC report clearly shows that policies which are fleshed out and corresponding administrative and budgetary capacities are needed so as to achieve the MDGs. Fast tracking cannot compensate for bottlenecks or deficits in the institutional arena; to overcome these problems we need time.

**Scaling-up initiatives for specific MDGs can be a lever for national ownership, good sector policies and strategies and effective donor co-ordination. But they must be integrated into the national processes and should not be burdened by financial**

stipulations. The donors should ensure that, in all countries in which the political and administrative framework is in place, the implementation of the aforementioned initiatives and strategies does not fail because of inadequate external financing.

### **The role of the International Financial Institutions (IFIs)**

**In the course of implementing the enhanced HIPC Initiative and by using the PRS as their guide, the World Bank and the IMF have made changes and improvements to the quality and conceptual content of the support they provide for the poor countries.** Key words in this context are: support for and recognition of national ownership and broad participation by civil society as an essential prerequisite for development success, more effective co-ordination, intensified research on issues with relevance to poverty and the introduction of result orientation. We expressly welcome this scaling-up by the institutions and expect that it will be continued.

**On the one hand we must continue to close the conceptual gaps. Given what I have just said, I am talking here about two areas in particular:**

- **Instruments and policy approaches must be improved in order to make the economies of the developing countries less vulnerable to market volatility and shocks.** Based on the approaches and instruments already available, the World Bank and the IMF should elaborate on a comprehensive concept for prevention and for better handling of cases of macro-economic instability and external shocks in time for the Annual Meeting.
- **Our understanding of how policies affect the poor and what role institutional development plays in all this must become more acute.** Institution building must be moved more into the centre of what the World Bank and the IMF are doing, since efficient institutions are a prerequisite for sustainable successful stabilisation and economic development.

**On the other hand – and this is the central challenge – the concepts and approaches now need to be translated into coherent operating strategies. The relevance of the strategic direction of the Bank must be proven in operating strategies that help bring about visible and positive changes and results at a country-wide level.** The most recent evaluation reports and the CAS retrospective as well show that there are still deficits, especially with regard to the embedding of World Bank programmes in the political economies of its partner countries, the effective management of lending and non-lending instruments and the monitoring of impacts and progress.

Evaluations look back to the past and serve as tools for learning from that past. The deficits just mentioned are typical and are present to a similar degree in the case of other donors as well. The reason for this is that, in the past, the success of donor-supported programmes has not been explicitly measured in terms of their development impact on the country as a whole. A country-wide impact can only be achieved as the result of joint efforts by the partner and the supporting donor community. **That, in a nutshell, is the challenge that the developing countries and the donor community must continue to face up to over the next few years: how to organise effective, results-oriented co-operation with our partner countries on the basis of common goals (PRS/MDGs) and a common understanding of the major problems .**