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)

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Statement by

H. E. Paulo Guedes
Minister of Finance

Brazil

On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname, and Trinidad and Tobago

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The World Bank Group (WBG) is instrumental to achieve the twin goals of ending extreme poverty and promoting shared prosperity. Today, we are facing the challenges of prospective slower growth and mounting debt. These only make the role of the World Bank more important, joining forces with national governments. In dealing with these challenges, we all must embrace the disruptive and transformative technologies which allow for rapid increases in productivity, and properly handle the negative consequences of the disruptions.

The so-called "paradox of productivity" is as glaring as ever. On the one hand, we observe the disruptive effects of technology in all sectors of society; on the other hand, we observe weaker productivity growth, even in EMDEs. In Latin America, convergence with high-income countries has been an elusive quest for the past 30 years. Investment seems to be responding to those trends through a slowdown in the rate of growth.

Emerging markets counted on a seemingly endless supply of young people joining the labor force. But many countries are experiencing demographic transitions on a much faster pace than what happened in advanced economies. Structural reforms, including in pensions, become an urgent priority for these countries to achieve sustainable fiscal paths.

Given the existence of conflicting interests, governments should prioritize reforms which fight inequality. Oftentimes, public policies are not the result of coherently designed policies, but of iterated rounds of disputes by interest groups over time. Eventually, they are less progressive than one would desire, and some of them may even be regressive – which means the disruption of the equity-efficiency trade-off, with policies that are both inequitable and inefficient.

Fortunately, governments and assemblies around the world, and in Latin America in particular, are cognizant of the importance of dealing with these issues. There is widespread commitment to the conditions which will allow for a return to the path of convergence: not only fiscal sustainability as mentioned, but also a conducive business environment, dynamic private sector, low participation by state-owned entities in the market, and openness to multilateral rule-based trade. This will allow for the government to better implement the functions where its participation is essential but where we often find it lacking: security, justice, health, and education.

Considering the above, we commend the recent progress we have seen in the implementation of the capital increase package and the Forward Look agenda. The commitments we agreed upon will continue to guide the policies of the WBG in the following years – serving all clients, leading on global issues, creating markets and improving the business model.

For the Bank to really be better as the members countries have agreed upon, and achieve the twin goals, we should put emphasis on being more focused. This institution should be a leader on the use of evidence-based policies and objectivity. Benefit-cost analysis has made major advances and allows for meaningful comparisons between different projects with wide applicability. While the net present value of a project should not be the final word on its approval, an estimation is an important step. Likewise, whenever possible, risks should be translated into probabilities and expected costs. Good choices and best value for money require that we make considerations fairly comparable.

The priorities set in the disruptive technology papers are well chosen. Countries have different environments and we should not expect unique solutions; agile regulations are key for the flourishing of the private sector, the main driver of innovation; universal connectivity is fundamental both for equity reasons but also for fostering innovations – billions of minds think better than one. Governments indeed must make use of all the possibilities created by digital government (and this means dealing with technical constraints but also the political economy). Lastly, ambitious human capital investments will be essential to develop the necessary symbiosis of education and digital innovation.

In implementing the "digital" corporate priorities, it is paramount that the WBG elaborates its strategies with consideration to the tradeoffs in the fiscal space, governments' capabilities, and political economy. The WBG should assist countries to identify, prioritize and sequence the necessary policy reforms to harvest the digital gains, while smoothing the transitory collateral effects. More often than not, what stands in the way of a widespread adoption of technologies with potentially transformative benefits is not purely technical, but a matter of conveying them to the people.

Finally, to reap the benefits of investing in human capital and digital economy, we must bear in mind that they depend on having a competitive infrastructure: roads, power plants, ports and airports, and digital connectivity. Over decades, the Bank has built a comparative advantage in catalyzing the development of infrastructure and of capital markets. While pursuing its goals, the Bank should enable policies and regulatory reforms to crowd in private-sector business and to boost sources of long-term financing.