Statement by

Minister Gerd Müller
Federal Minister for Economic Cooperation and Development

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89th Meeting of the Development Committee
April 12, 2014
Washington, D.C.

Our global economic system is increasingly reaching its limits – both in social and in environmental terms. For centuries, our planet provided cheap raw materials for the global economy and absorbed the waste of industrial production. Now it has been stretched beyond its limits in both regards. This is not only reflected in rising prices for raw materials; the frequency and severity of weather-related disasters is also increasing. The destruction of our natural environment is becoming a threat to our vital resources. If global temperatures rise by 1.5 degrees by 2030, there will be a 40 per cent decrease in the area available for growing maize – the main staple food in large parts of Africa. Typhoon Haiyan did not only claim thousands of lives, it also cost the economy about 15 billion dollars. There are hopes that political leaders are seeing the writing on the wall. For instance, China’s Prime Minister has warned against "blind" development and called for efforts to address air pollution.

But our economic system is also reaching its social limits. The divide between rich and poor has been growing rapidly in many countries. The share of wages in national income is declining almost everywhere. At the same time, corporate profits have reached new record highs. Inequality is growing rapidly, and this is posing an increasing threat to economic growth. This view is shared by the IMF.

In my view, globalization is not an end in itself. It needs to be given direction so that it will benefit the people and respect the limits of our natural environment. We need a socially and environmentally sound global economy. Otherwise we will not manage to reduce poverty on a lasting basis. I am sure that President Kim is aware of this challenge, as the future of the World Bank Group, too, is closely intertwined with this issue.

Germany is expecting the World Bank Group to implement its new strategy systematically, make headway on its internal reforms and use its resources in a targeted way, and thus live up to its responsibility for equitable, sustained development progress.

If we want to eradicate poverty for good, give all people opportunities to benefit from growing prosperity, prevent crises and disasters and balance sustainable growth with the integrity of creation, we cannot continue with business as usual. We need a paradigm shift, and we will need to focus our joint efforts on a number of central aspects:

1. Swift stabilization of crisis regions

Crises – be they political, economic or disaster-related – are the biggest enemy of sustainable development, of hopes for a better future and of the eradication of hunger and poverty. They destroy livelihoods and trigger refugee flows. If a society does not have enough resilience, crises also give rise to new crises. The tragedies in Syria, the Central African Republic and South Sudan and the political
struggle in Ukraine show just how important it is for the international community to work for stability, a peaceful balance of interests, and economic progress, especially in fragile states and regions.

So we need to jointly focus our efforts on stabilizing regions that are particularly at risk and on quickly lending impetus to development there – inclusive development that benefits the population at large and gives people new opportunities. This also includes disaster preparedness and crisis prevention. We call on the Bank to implement its IDA commitments in fragile states quickly. This means that we need higher resource allocations, combined with higher efficiency and effectiveness on the ground. And we need to strengthen local resilience, with a focus on human and institutional capacity.

2. Reforming financial markets

The last few months have shown us once more that economic recovery and stability can easily lose momentum again and that development achievements can be jeopardized very quickly and severely. So it is important to draw the right conclusions from economic and financial crises. We need to strengthen financial systems at the national and international levels with a view to crisis preparedness, and we need to enhance our crisis response instruments.

The World Bank, too, should further increase its related efforts, working with the IMF: in terms of analytical work, in global policy coordination, and in providing advice to emerging economies and developing countries. A comprehensive approach in developing countries and emerging economies does not only mean deepening and stabilizing financial systems but also improved management of cross-border capital flows – and, if need be, targeted regulation of capital flows.

At the international level, I consider two aspects important. For one thing, we should review the "international shock architecture" and further enhance it if necessary. Based on cooperation between the World Bank and other institutions, the right instruments need to be provided to deal with medium-term financial and economic crises without too heavy a toll on the long-term financial capacity of the World Bank and other institutions. So far, no concrete steps have been taken to follow up on the recommendations of the Independent Evaluation Group.

Secondly, we must give high priority to reducing volatility in international financial markets. Introducing a financial transaction tax – as has been decided by Germany and ten other European countries – can help stabilize financial markets and increase the contribution of the financial sector to meeting the cost of important tasks for our future, such as sustainable development and climate action. I support the demand that a significant proportion of the revenue from such a financial transaction tax be used for development cooperation.

3. Eradicating hunger, achieving food security

I firmly believe that nobody in this world must be left behind. And I also firmly believe that the eradication of poverty and hunger is possible. In the world's poorest regions in particular, we must jointly do everything we can to advance rural development through socially and environmentally compatible structural change. We need to foster climate-smart food production, rural infrastructure development and responsible land use. Farmers need innovation and access to extension, inputs and loans. And we need to ensure that all people, everywhere, have access to affordable, healthy, sufficient food. This particularly goes for women and children. The opportunities to make this happen are there. It is our job to seize them.

Stronger rural areas and agriculture-based growth create new jobs – one more aspect to show that they are a crucial ingredient to poverty reduction and sustainable development. This is an area where the World Bank Group, too, can do even more. It should seize the opportunity to take on a lead role in
implementing a climate-smart agricultural strategy and to align its programs with that strategy. It should also reinforce its efforts for responsible land use and for strengthening people's land rights.

4. Sustainable growth

We need to make sustainability the guiding principle of all our actions. In the long term, we will only be able to safeguard the integrity of creation and sustain development achievements if we make climate change mitigation and adaptation the cornerstones of our efforts, if we use natural resources more efficiently and if we produce more while using fewer resources. This goes for us in the industrialized countries but also for developing countries and emerging economies. The conclusion of the IDA 17 negotiations sent an important signal in this regard, as we decided that all programs will now be assessed for their climate and disaster risks and/or the improvement of climate and disaster resilience.

All countries should share the responsibility for climate action. This means that we need to make even more determined efforts to seize the opportunities of climate-friendly, resource-saving development models. The World Bank Group in particular can demonstrate its transformative power in this field, especially by giving even stronger support to renewable energy and by pursuing an ambitious climate strategy. This also means putting the measurement of prosperity on a broader basis and using new indicators. The World Bank should make further headway on its work in this field and provide input to the debate about the post-2015 development goals. In order to translate this strategic focus into practice, the World Bank Group's Corporate Scorecards must not only reflect the goals of the strategy but also its sustainability dimension. Sustainability must be built into all levels of the Scorecards in an appropriate manner, relying on indicators that cover, in particular, carbon emissions and climate action and resilience, but also land, water and air.

5. Making globalization more equitable, strengthening social and environmental standards

Globalization offers many new opportunities and options, but it needs to be given direction. Globalization is not an end in itself and must not serve solely the interests of the markets. Above all, it must serve the people. So we need to impose limits on markets in those instances where they seek to generate profits at the expense of the people. Our goal is an environmentally and socially sound market economy which gives priority to matters that are crucial to the survival of humankind, and which ensures that environmental and social standards are embraced by the business and financial sectors. This requires sustainable investment in economic growth, because new jobs can only be created in an economy that remains strong in the long term. The World Bank Group needs to put an even stronger focus on this, for instance by supporting investment in infrastructure and harnessing the potential of the private sector. The World Bank Group's special asset in this regard is its capacity to reinforce social and environmental aspects. The reforms of the social and environmental safeguards and of the World Bank procurement system are very important with a view to establishing these aspects even more firmly in the Bank's operations. It must be ensured that World Bank projects meet top standards in terms of human rights and social and environmental concerns. The World Bank should broaden the scope of those issues that are already being addressed and include new issues so as to close gaps that still exist in its regulations. In our view, this includes, in particular, the protection of land rights, climate change mitigation and adaptation, and human rights aspects.

6. Exercising social responsibility

In the past few years, a great deal of progress has been made in terms of reducing hunger and poverty, but there have also been some undesirable developments. In many instances, economic growth and increasing prosperity have benefited only few people. In most countries, income inequality has continued to become worse. The rich have become richer while the vast majority of the poor have been unable to reap the
benefits of economic development. Even though we have been able to reduce the number of people in extreme poverty to less than 1.2 billion in the period since 1990, there are still as many as 2.7 billion people whose income ranges from 1.25 to 4 US dollars a day. We need to make this a new focus of our work. Development must reach all people, based on gender equality, and it must be socially equitable. I therefore welcome the fact that the World Bank Group has set itself the target of enhancing the share of the bottom 40 per cent in growth and prosperity. In future, we must ensure that growth is inclusive. Nobody must be left behind. This especially goes for women, minorities, and marginalized social groups. Poverty reduction alone is not enough. Growth must reach all social strata. I therefore call upon the World Bank to design its new country model in such a way that it not only addresses inequality issues in the context of analytical work but also gives attention to positive distribution impacts for the benefit of the bottom 40 per cent when programs are selected and projects are designed. To that end, the results of the Corporate Scorecards, which constitute central management tools, should be incorporated systematically into the World Bank's strategic and operational work.

When it comes to implementing this agenda, Germany counts on close cooperation with the World Bank Group and its President Jim Yong Kim. The definition of the new World Bank Group goals and the adoption of the new strategy in 2013 were important steps to make the Group fit for the future. The course of modernization on which President Jim Kim has embarked needs to be continued systematically. We regard the World Bank Group's new structures and its focus on poverty reduction and inclusive growth, with due consideration for all aspects of climate action and sustainability, as a fundamental prerequisite for our joint success. Gender equality and labor rights are also important concerns that should be addressed.

Human rights, adherence to international agreements and international law, transparency and an active civil society are crucial prerequisites for development. If they are not in place, there is a great risk that our assistance will fail. We should remind ourselves of this time and again. In this spirit, Germany will continue to lend President Jim Kim its full support in meeting the great challenges that lie ahead.