Statement by

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Minister of Finance
Chile

On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay
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89th Meeting of the Development Committee

April 12, 2014
Washington, D.C.

We are meeting at a time when developing countries are facing new challenges to secure World Bank Group (WBG) twin goals: to end extreme poverty and promote shared prosperity. The developed world has shown signs of recovery reflected, for example, by improvements in economic growth and business confidence, and reduction in unemployment rates.

Since the announcement of the tapering, the developing world is confronting more adverse external financial conditions, with capital outflows, increases in the cost of borrowing, and currency depreciations. The slower growth path in major developing countries like China is also affecting other developing countries that have oriented their trade towards those markets. Against this backdrop, better growth prospect for large developed economies will provide tailwind for economic growth in developing countries. Whether this tailwind will be enough to counteract the headwinds coming from the slowdown in major developing countries and tighter financial environment is something we still do not know.

The post-crisis adjustment that developing countries need to face, underscores the relevance of building a resilient economy, with solid macroeconomic fundamentals, and with proper and well-financed safety nets to protect the poor and vulnerable segments of the population. Some developing countries have succeeded in the construction of macroeconomic buffers, such as wealth funds, and sound and credible fiscal and monetary policies that allow them to effectively come up with countercyclical macro responses. However, there are still many developing countries exposed to high cyclical risks.

Today, the challenges for the developing countries are to sustain growth and to take decisive steps towards the end of poverty and fostering shared prosperity. There are important policy complementarities that can help to reach both objectives. New research has shown that inequality may be harmful to growth and that well-designed policies to reduce it may not only not harm growth, but rather boost it. Fiscal policy plays a crucial role in this dimension. Improving access of low-income families to good quality education, for example, not only is crucial to increase human capital and growth. It also contributes to making growth inclusive. To implement this type of policies in a sustainable way, public finances need to be balanced. As the document “Growth in the Post-Crisis Global Economy: Policy Challenges for Developing Countries” clearly states, expanding coverage of the personal income tax—with the appropriate progressivity—and reducing regressive tax exemptions would contribute both to finance growth enhancing policies, such as an education reform, and improve income distribution. Building a more inclusive society is not only ethically desirable but also reinforces social, political and economic stability—which in turn improves business and investment climate, and ultimately growth.
The WBG twin goals are extremely important in the promotion of greater levels of social cohesion, which is a prerequisite for long-term and sustainable economic growth. Among these objectives, the implementation of the new Country Partnership Framework will allow for more focused interventions in each country. This, in turn, will allow for a more effective and efficient use of the WBG resources. With the creation of the new Global Practices (GP) and the Cross-Cutting Solution Areas (CCSA), client countries will benefit from a more integrated WBG approach. This will also enhance south-south knowledge sharing, allowing countries to take advantage of the best practices in different areas.

In coping with the challenges of securing strong, inclusive, and sustainable growth in the post-crisis, the WBG should work closely with the authorities of client countries, identifying the most pressing needs. Given its global footprint, its capacity to mobilize resources, and its comparative advantage to bring to the table the best global practices in relevant areas, the WBG should be the preferred development partner for its client countries. At the same time, it should help client countries to leverage their financial resources and support them in moving forward along their development paths.

We underscore the importance that the WBG keep a balanced level of engagement with all regions, while remaining cautious about the financial risks of the institution and at the same time ensuring a sustainable stream of revenues from its operations. The LAC region has made important progress in terms of poverty reduction and shared prosperity. However, it is still a region where almost 1/3 of the population lives in poverty, more than 1/3 is considered vulnerable and significant levels of inequality persist. Thus, the WBG engagement in the region needs to be more focused and enhanced, and we expect that the WBG’s new structure will be much better suited towards this end.

The WBG twin goals are extremely important to generate sustainable and inclusive growth, which will determine the well-being of this and future generations. We welcome the lead that WBG has taken on this issue.

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