Statement by

Mr. Ahmed Bin Mohammed Al-Khalifa
Minister of Finance
Kingdom of Bahrain

On behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait,
Lebanon, Libya, Maldives, Oman, Qatar, Syria,
United Arab Emirates and Yemen
Statement by

H.E. Ahmed Bin Mohammed Al-Khalifa
Minister of Finance
Kingdom of Bahrain

on behalf of Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syria, United Arab Emirates, Yemen

Mr. Chairman, Governors, Ladies and Gentlemen,

During the Spring Meetings, it was difficult not to be pessimistic about the financial climate. We were in the midst of a tornado and we were unclear as to how to chart its course.

Today, we see a faint glimmer of sluggish hope, albeit with an appropriate dose of downside risks.

Due to the implementation of various reforms over the past few years, and in some cases, debt relief, emerging and developing economies were in a better fiscal position to weather the storm. This, in combination with critical counter-cyclical policy responses and support to the financial sector, has led to the hint of a recovery of the global economy, led by emerging and developing countries. Confidence has thereby been boosted, trade volumes have stabilized and financial conditions seem to have improved. And our colleagues at the International Monetary Fund (IMF) are working hard to guide us through the maze of supportive macroeconomic policies and towards a carefully planned phased unwinding of expansionary policies.

Yet, this hopeful picture is mainly on our balance sheets. And, despite this cautious optimism, we should remind ourselves that the angle that this Institution is mandated to look at, is different.

Our picture involves people with faces, and in particular, those of the poor and vulnerable. The poor in the developing countries have seen their income and living standards reduced, at best, and the vulnerable have seen their source of livelihood, lost. And we expect many more to lose their jobs, even as the economy recovers and stabilizes. Back in April, we expected that 55 million more people would fall in the ‘extreme poor’ category, than before the financial crisis. Today, we are looking at a figure of 90 million by 2010. These are not just statistics – they tell the tale of real people trying to eke out a dignified means of existence. There are, and will continue to be, humanitarian, social and political ramifications to this.

At this critical juncture, developing countries, and particularly the Low Income Countries (LICs), need the predictable and substantial support of the international community for a range of policy imperatives, without which they will be unable to sustain their efforts to reduce poverty and accelerate their development. Without this support, their progress towards the achievement of the Millennium Development Goals (MDGs) by 2015 will be further compromised. To not provide the additional resources for this crucial agenda will risk further reversal of all the hard-earned progress; will mean the poor losing the little that they continue to struggle to earn; will mean that donors will render ineffective the foreign development investment they made over a span of several decades. It is therefore imperative that donor countries resist internal pressures to reduce aid even further. The risks are too high.

Within this challenging context, developing countries need this Institution, and its global reach, more than ever before. We must rise to the occasion. We need to resume the momentum of sustainable fiscal and regulatory reforms to ensure that developing countries remain robust enough to weather the next shock.
We need to support those long-term private sector development and infrastructure projects that were crowded out by crisis funding, to boost growth. We need to urgently pursue the successful completion of an ambitious Doha Round to spur global economic growth — by preserving trade, we preserve the ability of developing countries to earn their own way into prosperity. We need to support developing countries in their strategic efforts to adapt to and mitigate climate change, not merely financially, but also by encouraging appropriate technology and knowledge transfer. The Copenhagen meeting in December will be critical in establishing an agreed broad framework for this.

Particularly for Low Income Countries (LICs), we need to support their efforts in devising robust and well-targeted social safety net systems to protect the vulnerable. We need to assist those that are now facing an even higher risk of debt distress, return to a sustainable position. We need to improve long-term food security through agricultural investment. In this regard, the proposed new Food Security Initiative, and the International Development Agency (IDA) crisis response facility should be further explored.

The agenda is challenging and complex, and the list here is by no means complete. The Bank, IDA and the International Finance Corporation (IFC) have already taken all possible measures to stretch existing resources and deliver upon our mandate. IBRD lending has tripled to $33 billion, IDA Commitments have increased by 25% to $14 billion, and IFC has committed and mobilized some $14 billion. This is clearly not ‘Business As Usual’.

We now need further clarity on the direction that the Bank Group is planning on taking in the post-crisis period, and its resource implications. Notwithstanding this, we have two options, we either address the issue of capitalization in order to deliver upon this agenda completely; or we get by as best we can within the existing resource envelope and accept the inevitable constraints to our countercyclical capacity and long-term development mandate.

As the only development agency with a global reach, the choice for us seems evident, however inconvenient the timing may be, given our individual domestic and internal pressures.

Our decisions on the next steps must be clear and transparent. And we need to carefully consider the potential impact of these decisions on the future and shape of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC).

The development cooperative nature of the World Bank Group underscores the need for a framework of fair burden sharing among shareholders and clear principles for Net Income Allocation. And at this stage, further increasing loan pricing is not a viable option. And we must be cautious about rushing to decisions that would lower IBRD’s Equity-to-Loans ratio below the agreed strategic range, or that would negatively impact IFC’s capital adequacy standards.

For IBRD, the option of a General Capital Increase (GCI) with a built-in contingency feature needs to be explored further. There needs to be clarity on the levels of Equity-to-Loans ratio drops at which pay-in might be triggered, and of increases at which capital would be redeemed. A better defined, narrower range of required paid-in capital is important. For IFC, a two-step process through raising, first, hybrid and then, paid-in capital seems promising. Given the pressing demands and the challenging agendas, it would be critical that we bring these issues to closure by our next Meeting.

Mr. Chairman, Ladies and Gentlemen,

This Committee had recognized that the voice reform agenda would be complex and challenging. Yet, despite this difficult context, impressive progress has been made.
Phase 1 is being vigorously implemented. The Amendment of the Articles to enable the increase in the shares of the lower income and smaller DTCs, through a Basic Votes increase, is being expeditiously processed, despite the significant pressures on the agendas of parliaments. Our African colleagues have continued their intense negotiations to finalize the issue of the third African Chair. Important work is ongoing on the implementation of various broader governance reforms that would enhance the oversight role of the Board.

There has also been progress on the issue of share realignment, which is the key focus of Phase 2. There is now consensus that the issue of share realignment at the IFC will be agreed at the Spring Meetings of 2010. The generosity of key donors has enabled some Low Income Countries (LICs) to take up their allocated subscriptions in the International Development Agency (IDA), thereby increasing the cumulative developing countries’ share in IDA to 46%. In addition, efforts will be made to identify an enhanced role for borrowers in the important IDA Deputies forum.

There are also some key areas of consensus on IBRD share realignment itself. All shareholders recognize the need for a significant shift in shareholding to occur. They also agree that the Bank Group must have a periodic share review process. All acknowledge that enhanced influence must be linked with increased financial responsibilities and obligations.

Yet operationalizing this broad framework is a complex and delicate task. We need creativity in charting a path that would meet the expectations of all shareholders, and that will marginalize none: today’s ‘dormant’ shareholders may be tomorrow’s borrowers or contributors. We are, after all, a fully inclusive ‘World Bank’, regardless of the size and role of each member. Furthermore, we need to work out a simple approach that is transparent, inherently coherent and consistent, and which can be easily communicated. Notwithstanding the need for a new Bank specific formula for the next shareholding review, we caution against rushing to its development during Phase 2: we do not have the luxury of time to consider its longer term ramifications, particularly at a time when the global picture remains in flux.

The size of the shift should realistically fall within the range of three to six per cent. Furthermore, this shift should build upon the gains ready realized during Phase 1 – these gains achieved by individual shareholders should not be reversed or compromised in any way. We have always maintained that there should not be any involuntary dilution of DTCs, and Phase 2 should not become a process of reallocation of shares amongst them.

We need to be comprehensive in our examination of all options that would meet these ‘binding constraints’, including a second round of Basic Votes increase. We cannot afford to leave any stone unturned - the reputational and credibility risks, and stakes for this exercise are extremely high.

Mr. Chairman, Governors, Ladies and Gentlemen,

It may seem opportune to make progress on the issue of this Institution’s financial strength and sustainability, conditional upon advancing the voice agenda. I beg to differ.

Ensuring the sustainability of the World Bank Group is a collective shareholder responsibility that none of us can afford to shy away from. On the other hand, ensuring an equitable participation of DTCs in the decision-making process of the World Bank Group is a political responsibility to maintain our legitimacy. With the maintenance of a clear distinction between, and a strong belief in fundamental necessity of each objective, achieving both goals should be neither insurmountable nor divisive.