STATEMENTS SUBMITTED TO THE SEVENTY-EIGHTH MEETING
OF THE DEVELOPMENT COMMITTEE

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NOTE ON THE SEVENTY-EIGHTH MEETING
OF THE DEVELOPMENT COMMITTEE

The Joint Ministerial Committee of the Boards of Governors of the World Bank and the International Monetary Fund on the Transfer of Real Resources to Developing Countries – the Development Committee – held its seventy-seventh meeting on October 12, 2008, in the Preston Auditorium of the World Bank in Washington, D.C. The meeting consisted of a single session, followed by the Chairman’s Lunch for Members on the same day. Members circulated their written statements in advance and these are part of this document. Also included are notes by the Bank President and the Fund Managing Director distributed ahead of the meeting. The meeting started at 9:45 a.m. and ended at 1:26 p.m. It was chaired by Mr. Agustín Carstens, Minister of Finance and Public Credit of México.

The Agenda (Annex A) was adopted at the beginning of the meeting, followed by discussion of three topics. The first, Recent economic developments, and their effect on long term growth and overcoming poverty: the role of the World Bank and the IMF in protecting the vulnerable, was supported by two documents prepared by staff of the World Bank: (i) Fiscal Vulnerabilities in Developing Countries and the Twin Oil-Food Shock; and (ii) Rising Food and Fuel Prices: Addressing the Risks to Future Generations. The second topic related to Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform and Development and was supported by a paper prepared by staff of the World Bank entitled Enhancing Voice and Participation of Development and Transition Countries in the World Bank Group: Options for Reform and Development. The third topic was Climate Change: A Strategic Framework for the World Bank Group, also supported by a paper prepared by staff of the World Bank entitled Development and Climate Change: A Strategic Framework for the World Bank Group. Ministers commented on these documents in their written statements to the Development Committee.

The Communiqué (Annex B) was adopted at the end of the meeting and records the salient points and outcome of the Ministerial discussion.
Note of the President of the World Bank, Mr. Robert Zoellick, to the Development Committee

Introduction

Since the Committee’s last meeting in April, the global economic environment has become more complex and challenging, with slowing growth, deepening financial turmoil, and deteriorating macro conditions. This outlook is very different from the relatively stable environment of just a year or two ago. The large surge in food and energy prices—and an associated rise in inflation—present major policy challenges for most countries, further compounded by the uncertain global conditions as the financial crisis continues to unfold. The macroeconomic and distributional impact on developing countries, initially limited, has become more severe, presenting a medium-term threat to growth, poverty reduction and progress on meeting the Millennium Development Goals (MDGs).

At the same time, the inability to reach agreement on the Doha trade round points to an important opportunity for positive international policy action that has not been seized. And while there has been significant progress in advancing the Financing for Development agenda outlined in Monterrey, with a record IDA 15 replenishment of $41.6 billion, continued progress on debt relief, and the recent adoption of the Accra Agenda for Action, additional resources must be mobilized and effectively deployed in light of an increasingly pressing MDG agenda and timetable.

Strong leadership and multilateral cooperation are needed to address the short-term challenges coherently, to avoid self-defeating unilateral actions or beggar-thy-neighbor policies, and to maintain a focus on the longer-term internationally agreed development objectives. The global community must also follow through on the Bali commitment to agree on a viable set of actions, policies and support to avert the risk and mitigate the consequences of climate change, integrating these policies and actions with those needed to secure successful growth and development.

This note provides a summary update on World Bank Group (WBG) actions to address these issues as well as on activities on other key issues which the Committee has discussed in the past.

Current Economic Environment and Implications for Meeting the MDGs

During the course of 2008, international commodity prices hit record highs, sparking a surge of inflation in both developing and developed countries. High food, fuel and metals prices have strained social safety nets in developing countries and led to concerns about long-term supply prospects. While the slowing of economic growth and financial market turmoil has contributed to some recent easing in commodity prices from historic highs, they are expected to remain elevated for some time. A difficult and protracted period lies ahead—tightening credit conditions, slower growth and lower but still uncomfortably high inflation. The downside risks have also increased significantly, including the possibility of a sharper global slowdown. While developing country fundamentals as a group are stronger than they were a decade ago, individual countries remain exposed and vulnerable to shocks.

World Bank Group estimates suggest that up to one hundred million people are at risk of falling into poverty because of recent food price increases, marking a setback equivalent to seven years of progress toward meeting the poverty MDG. Higher food prices are also increasing inequalities within countries, with the urban poor most affected. High food prices put the most vulnerable segments of the population at risk, increasing levels of malnutrition even in high-growth countries, and limiting progress on human development goals. While the direct effect on poverty levels of higher oil prices is smaller, they indirectly raise the prices of a wide range of products, which adds to pressure on food prices. Higher food and energy prices are also causing severe balance of payments problems, particularly for energy-importing
countries, most immediately for those—mainly in Africa—with the lowest capacity to import. Adjustment will be particularly difficult for those countries for which the terms-of-trade effect is large. Small island economies and landlocked countries with higher than average transportation costs are especially vulnerable, and most IDA countries are adversely affected. Many of the poorer countries that are more exposed to international food and fuel price shocks are also constrained in their fiscal capacity to respond to these shocks, and have limited means to cope with inflationary pressures.

Policymakers in developing economies face daunting challenges. Governments are now faced with slowing growth and, at the same time, a narrowing of policy options. Dealing with the redistributive effects of the commodity price shocks, controlling inflation, financing the shock (or for commodity exporters, investing its proceeds), and maintaining the soundness of the financial system and the sustainability of growth need strong policy coherence to succeed. All these policy challenges need to be addressed at the country level, but the task will be made easier if the international community acts in a coordinated and supportive fashion. The Bank, working with the Fund, has been supporting a number of relevant actions and initiatives to provide support at both the country and global levels, and efforts to enhance collaboration and policy coherence with the Fund and OECD are underway.

In this context, given its role as a development institution and its mandate, the WBG stands ready to support developing countries’ policies by providing the full range of its financial, analytical and technical assistance resources and policy advice, in close coordination with the Fund. The Bank is already active in several areas and plans to intensify its analytic and diagnostic work in the financial sector. Beyond near-term needs, a significant increase in the demand for elements of the medium-term reform agenda can be expected, including in regulatory-related advisory work, consolidated and risk-based supervision, financial infrastructure, assistance in the design of workout schemes, emergency liquidity assistance, resolution of financial institution failures, depositor and investor protection, and agency coordination and the restructuring of supervisory architecture.

On the current food crisis, the Bank’s call for a New Deal for Global Food Policy, endorsed by the Committee in April, has been widely supported by development partners, and the Bank is collaborating closely with the UN agencies on a common strategy to confront the food crisis. The lessons learned from the World Development Report (WDR) 2008 on Agriculture for Development underline the need for a renewed commitment across the WBG and with partners and clients to raising agricultural productivity, especially in Sub-Saharan Africa, and to ensuring that the poor have timely access to adequate food for a healthy and productive life. The Bank’s response is articulated around four main pillars.

- **Policy advice and dialogue with member countries.** Bank staff are currently involved in discussions in 40 countries on how best to address the crisis, as well as assessing the food security and trade implications at the regional level. In collaboration with other agencies and institutions, the Bank is also working to address critical knowledge gaps in a number of areas: global food markets; improving food reserves management for humanitarian purposes; poverty, distributional and nutritional impacts; fiscal and macroeconomic implications and responses; trade impact and responses at country and global level; facilitating an agricultural supply response; and expanding use of safety nets to alleviate the social impact of the crisis.

- **Expedited financial support to address short and medium term needs.** In May, the World Bank Board of Directors approved the Global Food Crisis Response Program (GFRP), which is providing technical advice and $1.2 billion of financial support to countries affected by the food crisis. The program offers an umbrella facility that complements the short-term emergency responses of WFP and other donors, with access under fast-track procedures to trust fund grants (including $200 million of grant financing from the World Bank’s own income), IDA credits, and IBRD loans that respond to the short and medium term needs of
clients stemming from the food crisis. Total GFRP-funded projects to date (Board approved and pipeline) amount to $851 million in Bank funds, of which $200 million are from the Food Price Crisis Response (FPCR) Trust Fund set up out of the IBRD Surplus Account, $451 million from IDA and $200 million from IBRD. The FPCR Trust Fund now has funded or advanced pipeline projects in 27 countries, 17 of which are in Africa. The $1.2 billion ceiling authorized under GFRP likely will be reached before its first anniversary in May 2009.

- **Increased financial support to release structural bottlenecks in supply chains** The WBG is also working to help countries take advantage of the development opportunities that high food prices create: IBRD, IDA and IFC together are committed to increase new annual lending to food and agriculture to $6 billion over the next year, for production items such as support to smallholder farmers on irrigation, fertilizers, and crop diversification, for the development of agribusiness activities and supply chains, and for safety nets and other forms of social protection for the poor. In FY08, IFC invested more than $1.3 billion along the agribusiness supply chain to boost agricultural production, increase liquidity in supply chains, improve logistics and distribution, and increase access to credit for small farmers.

- **Financial market insurance products and risk management strategies.** Since June 2008, IBRD and IDA have offered index-based weather derivatives to help clients transfer the financial risk of severe weather events. The Bank is also providing support for integrating national level agricultural risk management strategies into new country operations in a number of countries, and IFC is planning to support crop and livestock insurance for smallholders in developing countries.

Following on ideas formulated at the June 2008 Jeddah Energy Conference, the Bank has also begun work on an Energy for the Poor Initiative (EFPI), to provide support to the poor households most severely impacted by high fuel prices and address the causes of vulnerability to high and volatile fuel prices. The first component is expected to provide rapid support to social safety nets in the most affected countries to alleviate the impact of higher fuel prices on the budgets of poor households to prevent an irreversible erosion of household and human capital. The second component would provide co- or parallel financing, in partnership with other donors, for energy-sector projects intended to reduce countries' longer-term vulnerability to high and volatile fuel prices.

*Stronger, Sustainable and More Inclusive Economic Growth*

*Economic Growth and Social Progress.* Stronger, sustainable and more inclusive economic growth is central both to mitigating the impact of these crises and to achieving the MDGs. For many developing countries, the challenge is to maintain the good track record on macroeconomic and structural policies that have brought growth and stability in recent years. For others it means following the example set by those achieving success. And for the development community, it means providing appropriate international assistance in the form of aid, debt relief, support for capacity building and security enhancement, investment and trade opportunities. In this context, the Financing for Development conference in Doha later this year provides an opportunity to review progress and renew commitment to the mutual accountability framework in a rapidly changing and more demanding global environment.

*Trade.* Completing the Doha Round would enhance inclusive and sustainable growth. A Doha Round success would also send a powerful signal of confidence amidst a world economic slowdown, decelerating international trade, and widening financial turmoil in major markets. Building on years of solid technical work, a good Doha deal is within reach, and it would be damaging for developing countries—and the world economy—to let it slip away. But it is also important to help developing countries reap the benefits of existing global trade opportunities. The WBG is expanding its Trade
Facilitation programs, which include supporting country programs on trade and competitiveness, improving infrastructure, such as the ports and roads that connect producers to markets, promoting access to trade finance, supporting trade facilitation reforms to reduce transportation and logistics costs, providing training and capacity building, including to help exporters meet international standards, and developing knowledge and research to inform trade policy debates. Maintaining momentum on the global Aid for Trade agenda is critical if firms and farmers in developing countries are to benefit from trade opportunities.

Debt. A recent joint Bank/Fund report “Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation 2008”, indicated that more than three-quarters of eligible countries (33 out of 41) have passed the decision point and qualified for HIPC Initiative assistance. Of those, 23 countries have reached the completion point and qualified for irrevocable debt relief under the HIPC Initiative and MDRI. The overall assistance committed to the 33 post-decision-point HIPC countries amounts to US$117 billion (in nominal terms), including US$49 billion under the MDRI. Once additional beyond-HIPC-and-MDRI relief is included, the debt burden for these post-decision point countries is expected to be reduced by about 90 percent.

Despite these achievements, a number of challenges remain to be addressed for countries to fully benefit from debt relief and for the initiatives to be fully financed over the years ahead. Recent changes made to IDA’s Debt Reduction Facility are expected to catalyze further participation of other creditors in the HIPC Initiative. Although the HIPC Initiative and MDRI debt relief have reduced substantially the debt burden of many HIPCs, maintaining debt sustainability beyond the completion point remains a concern. Post-completion-point countries’ debt sustainability remains vulnerable to shocks and changes in new financing terms, and only about 40 percent face a low risk of renewed debt distress. This highlights the need for these countries to implement sound borrowing policies and strengthen their capacity in public debt management to maintain debt sustainability in the long term, areas where the Bank and the Fund have stepped up their efforts to assist their low-income members.

Private Sector Development. A thriving and competitive private sector is critical to inclusive growth. Private firms provide jobs for the poor and also play a critical role in providing basic infrastructure and social services to low-income households in many countries. A successful private sector needs macroeconomic stability, appropriate regulation and low costs of doing business, access to a broad range of financial services, and adequate infrastructure. The latest Doing Business Survey shows that 113 economies have implemented reforms to reduce the cost of doing business, with the most numerous reforms in the Starting a Business category. The WBG is helping governments improve the business environment, increasingly exploiting synergies between the different parts of the Group—for example, joint efforts between IFC and IDA to expand private sector investment, especially in Sub-Saharan Africa—and also with external partners. In FY08, more than 40% of IFC projects were in IDA countries. The increasing focus on infrastructure, regional approaches, and public private partnership calls for a more integrated strategic approach across the WBG institutions. This will mean experimenting with new approaches to joint IFC/IDA assistance strategies, overcoming differences in procedures and policies across the institutions to minimize transactions costs, and exploiting the opportunities that exist for increased leverage in a number of instruments, ranging from output-based aid to guarantee instruments.

Development Assistance. Increased and more effective aid also remains critical if many poor countries are to continue to progress toward meeting the MDGs. The magnitude of the MDG challenge remains daunting and the environment in which poverty reduction efforts are undertaken has become more difficult as countries now cope with new challenges. Following the successful replenishment, IDA is now in a position to make its largest ever contribution to these efforts. But this is only part of the story, and increased assistance from bilateral donors is also needed. While contributions from new and emerging donors are welcome, it is important for all aid partners to meet the commitments they have made to
double aid flows, and double flows to Africa, by 2010. Action to raise aid effectiveness is as important as an increase in aid levels. The 2005 Paris Declaration set out the key principles for improving aid effectiveness, but implementation has been mixed. The Accra Agenda for Action endorsed by 130 countries and 40 institutions in September 2008 should help accelerate and deepen progress toward meeting the Paris commitments by 2010. The Agenda contains measures to address aid fragmentation and predictability, improve the division of labor among development agencies, strengthen ownership, align technical cooperation, and expand the use of strengthened country systems. Moreover, Accra has paved the way for working more effectively with non-traditional providers of development assistance, and global program funds at the country level. The World Bank is strongly committed to the Paris Declaration and the Accra Agenda for Action. Attention in the coming year will be focused on translating these commitments into actions in our country programs.

Improving Governance and Management of Natural Resources. The forthcoming Governance and Anti Corruption (GAC) Progress Report (mid October 2008) will note acceleration of GAC mainstreaming at the country, project and global levels. For example, country-level Governance and Anti-Corruption strategies are now in place for some 27 countries. At the project level, the WGB is enhancing upstream diagnostics and 'smart project design' and improving 'core' country systems in public management, procurement and accountability institutions. At the global level, the Stolen Asset Recovery (StAR) initiative, jointly launched with the UN Office on Drugs and Crime (UNODC), is already showing results. In Bangladesh and Indonesia, for example, StAR has helped establish national asset recovery teams which are following up on cases. Sixteen countries have participated in regional and country-level training courses to build capacity of national authorities and – equally important - to build the mutual trust needed for successful international asset recovery. And the Extractive Industries Transparency Initiative Plus Plus (EITI++) is rapidly expanding to develop national capability to manage the boom in commodity prices and channel the growing revenue streams into fighting poverty and hunger.

Within the WBG, the recommendations of the Volcker Report are being implemented and will help set a higher standard for integrity and performance. These initiatives will enhance transparency and prevention, clarify responsibilities, and strengthen follow-up actions where fraud and corruption are discovered. A year after the completion of the Volcker Report, there is progress in implementation on all recommendations. Among the key actions taken are: the recent appointment of four distinguished members to an Independent Advisory Board (IAB), which aims to protect the independence and strengthen the accountability of INT and advise the President, the World Bank Group Audit Committee and INT VP; the appointment of the first Vice President of INT; and the establishment of a Preventive Services Unit within INT to help mainstream lessons learned from INT investigations into Bank operations and provide upstream risk-mitigation support to task teams.

Gender Action Plan. Since its launch in late FY07, the WBG's Gender Action Plan – Gender Equality as Smart Economics – has mobilized significant resources from both Bank funds and contributions from 12 donors. By September 2008, pledges had reached $54 million. One hundred and ten specific projects that seek to increase women's access to land, agriculture, labor and finance markets, and to infrastructure services, have been supported in 56 countries, mostly through competitive calls for proposals. In April 2008, the Bank President announced six new gender-related commitments on behalf of the Bank, including pledges to channel at least $100 million in new credit lines for women entrepreneurs before 2012, to measurably increase the Bank's activities in agriculture and rural development that benefit women by 2010, and to launch a public-private initiative to expand economic opportunities for adolescent girls and young women in low-income and post-conflict countries. The first project in this Adolescent Girls Initiative was launched in 2008 in Liberia in collaboration with the Government and the Nike Foundation, and will be followed by interventions in at least five other countries, mostly in sub-Saharan Africa. The Adolescent Girls Initiative was developed to smooth the transition from schooling to salaried
jobs by providing needs-based skills training, and by creating incentives for trainers to place trainees. A launch event is scheduled for October 10, 2008.

**Strengthening the World Bank Group Contribution: Strategic Directions**

**Results for 2007/08.** World Bank Group commitments grew in fiscal 2008 by 11 percent to $38.2 billion in 694 projects, an increase of $3.9 billion from fiscal 2007. IBRD commitments totaled $13.5 billion for 99 operations, up from $12.8 billion the previous year, while IDA commitments were $11.2 billion for 199 projects. IFC financing for private sector development increased by 34 percent to $16.2 billion, which included $4.8 billion mobilized through syndications and structured finance. Finally, MIGA had an exceptional year as it celebrated its 20th anniversary, issuing $2.1 billion in guarantees, a 50 percent increase over last year. In March, the Board approved a strategic framework for managing capital, which has since been reviewed and endorsed by an informal advisory panel of external experts. There have also been several brainstorming sessions across the Bank and consultation with the Board in September to get early guidance regarding potential additional uses of capital while maintaining IBRD's income-generating capacity.

**Strategic Directions for the World Bank Group.** At its last two meetings the committee discussed a vision of the WBG contributing to inclusive and sustainable globalization with strategic directions encompassing six themes:

- Helping overcome poverty and spur sustainable growth in the poorest countries, especially in Africa.
- Addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state.
- Developing a competitive menu of development solutions and customized services for middle income countries.
- Playing a more active role in regional and global public goods.
- Supporting development and opportunity in the Arab world.
- Expanding role in global knowledge management and learning.

This strategic vision is having a visible impact on the WBG through greater innovation, responsiveness, and synergies across its institutions. Future development challenges as well as recent experience in responding to a rapidly changing economic environment confirm the need for a more nimble organization that better exploits synergies across the WBG, innovates, networks, and becomes more client-oriented. This means going beyond the provision of finance to help build markets and institutions at the country, regional, and global levels, and to become more flexible and global in its reach while retaining strong local roots.

**Spurring growth and poverty reduction in the poorest countries, especially in Africa.** Earlier sections have described the Bank’s response to rises in food and energy prices, and the actions that countries and the international community can take to sustain growth over the medium and longer term. To date some 28 countries in Africa and elsewhere have emergency support approved or under preparation. To accelerate these trends, and in view of significant underinvestment in public goods and services for agricultural growth in Africa, as described in the 2008 World Development Report Agriculture for
Development, the World Bank has committed to scaling up the financing available for agriculture investment in Sub-Saharan Africa from an annual average of $450m in 2005-07, to $800m in FY09, and $1b from FY10 onwards. This increase goes hand in hand with NEPAD’s Comprehensive Africa Agriculture Development Programme (CAADP).

The record IDA replenishment provides an exceptionally strong foundation on which to expand the Bank’s support for poor countries, and the Accra Agenda for Action will serve as a roadmap for stronger country ownership and accountability for results. The WBG has increased its support to African countries eager to build on the achievements of recent years, for example, by helping countries improve management of their natural resources sector and scaling up support for agriculture. In addition to assistance at the country level, support for regional projects is on the rise to promote better trade, infrastructure, and power links. Power transmission interconnection between Malawi and Mozambique, trade and transit facilitation in central Africa, and power transmission connecting Central and South Asia are just some of the examples. The focus on regional integration also requires public private partnerships and closer synergies between IDA and the IFC. In FY08, total commitments to countries in Sub-Saharan Africa – the WBG’s top priority – stood at $7.3 billion. These commitments included $5.7 billion from IDA, or slightly more than 50 percent of total IDA commitments; $1.4 billion from IFC, $218 million in MIGA guarantees for projects in the region, and $30 million from IBRD. The Africa Region accounted for just over half of total IDA commitments, and the IFC has expanded the number of African countries where it does business from 17 to 25.

Fragile and conflict affected situations. Deepening WBG engagement in fragile states is pushing the frontier in addressing early recovery gaps, handling emergency responses, coordination with partners, and improved understanding of the nexus between security, governance, and development. The strengthened support to fragile states under the IDA 15 framework has been an important contribution. Overall, the commitments to countries in fragile and post-conflict situations in FY08 stood at more $3 billion, including assistance to Afghanistan, Cambodia, Kosovo, Timor, Togo, PNG, West Bank and Gaza and the Solomon Islands. Moreover, Afghanistan, CAR, Guinea Bissau, Liberia, Haiti, Sierra Leone, Sudan, and Tajikistan all benefited quickly from the Global Food Price Crisis Response Trust Fund. Effective and non-bureaucratic collaboration with partners is most needed in fragile states, particularly in post-conflict situations. Recent agreement with 12 UN agencies on a UN-WB Fiduciary Principles Accord is an important step. The WBG has also moved ahead with efforts to improve skills, staff incentives and decentralization.

Cooperation with middle-income countries. For middle-income countries, the WBG continues to adapt its business model to be more responsive, flexible, and innovative, implementing the strategy discussed by the Committee a year ago. Progress is accelerating, partly building on the earlier policy changes in loan pricing, structure of the Deferred Drawdown Option (DDO), and extension of IBRD loan maturity. A new model of engagement is being tested with large middle-income countries, such as Brazil and Mexico, which provides substantial flexibility for “just in time” adjustments to rapidly changing needs. The Africa Region has developed the first-ever strategy for its nine middle-income countries that taps into the full range of services from the different WBG institutions. Such efforts are starting to show results. In addition to finance and knowledge support, the WBG is working with these countries as responsible stakeholders that must increasingly play a global role on issues such as climate change, energy security, trade, or food production.

Over the last year the WBG has introduced a number of programs that demonstrate its evolving role, from primarily a lender to a provider of customized financial solutions for development, and clients have responded with strong demand for customized financial services. The Reserves Advisory and Management Program (RAMP) provides capacity building and portfolio management to thirty-five central banks, sovereign wealth funds and national pension funds across all regions on a full cost recovery
basis. Catastrophic risk products (deferred draw-down options and weather derivatives) have been approved by the Board. Significant cross-WBG collaboration has also led to an expanding pipeline of sub-national business, including in Russia, Colombia, Morocco, the Philippines, Peru, Brazil, Argentina, Turkey, and India. Finally, innovations originating from work with middle-income countries, such as derivative products, GEMLOC, or a new South-South Knowledge Exchange Facility, are beginning to yield benefits for low-income countries as well.

Regional and global public goods (GPGs). The engagement on GPGs is emerging as a long-term driver of the WBG’s business. The WBG’s combination of global reach and country presence allows for constructive action and credible advocacy in integrating country and global perspectives on GPGs. The WBG has continued to provide support and leadership on global negotiations related to trade, health, and finance and has played a significant role as part of the international system to bring climate change to the development agenda. From advocacy and research in support of the multilateral trading system, national strategies and regional trade agreements, to rolling out the “People’s IDA” database with remittance prices and speed data for 124 corridors, establishing the Climate Investment Funds, and finalizing the Advanced Market Commitment pilots in health, the level of engagement in the analysis, design and provision of global and regional public goods is rising. At the same time, these areas also point to the future organizational challenges in combining country-based priorities with global interests.

Strategic Framework on Development and Climate Change for the WBG. At its meeting, the Committee will discuss the new document, Development and Climate Change: A Strategic Framework for The World Bank Group, which will guide the WBG’s work in this area over the next three years. The WBG has significantly expanded its work in development-climate change linkages, with increasing attention to the needs of developing countries to adapt to climate risks. The launch of two new facilities, the Forest Carbon Partnership Facility and the Carbon Partnership Facility, was endorsed by the Board of Executive Directors. The establishment of a portfolio of climate investment funds (CIF) to finance national projects and programs with mitigation and adaptation benefits has further strengthened the ability to support client needs and actions in the context of their sustainable development strategies. On September 26, 2008, ten member countries pledged $6.1 billion to two CIFs. Designed as an interim instrument with specific sunset clauses, these funds, approved by the Board in July, allow the WBG and other multilateral development banks, together with developing country and donor country partners, to support developing countries in their efforts to address climate change today. The IFC has signed its first Carbon Delivery Guarantee agreements, in Sub-Saharan Africa and South Asia, for 1.7 million carbon credits in total. The Bank has initiated the preparation of the World Development Report 2010 on climate change.

Expanding opportunity in the Arab world. Over the past five years, growth across the Arab world has averaged over 5 percent per annum - the highest since the 1970s. While in part due to oil revenues, even more important have been domestic-driven reforms that are creating greater opportunities for participation in and benefit from global economic activity. For example, Egypt has been ranked among the top ten reformers in three of the last four Doing Business Reports, and many other Arab countries are introducing wide-ranging economic reforms (Saudi Arabia, Morocco, Tunisia, Jordan) that have direct implications on growth and development. By enhancing coordination across the WBG as well as with Arab institutions and other development partners, the Arab World Initiative (AWI) aims to strengthen development and opportunity in the Arab world by advancing the integration of the region with the global economy, expanding opportunities for South-South cooperation, and achieving faster growth, better jobs, lower disparities, greater social inclusion, and better management of natural resources in the Arab world. Building on ongoing work, total WBG commitments to the Arab world have increased from about $1 billion in FY02 to over $3 billion in FY08 (IDA/IBRD lending tripled from $600m to $1.8 billion). As part of the GFRP, the WBG has already provided support to Yemen and Djibouti and is currently working on support for West Bank/Gaza, Mauritania, Sudan, Somalia, and the Comoros.
Knowledge and learning. The WBG remains the premier source of development knowledge in a range of areas. The challenge is to enhance its capacity to share knowledge globally, and help build partnerships and expertise in client countries by becoming a more open, networked organization. Work is underway to develop “Global Excellence” practices that can distill and disseminate best practice and policy learning from inside and outside the WBG. To strengthen South-South and South-North cooperation, more than 70 existing partnerships are being reviewed and a new South-South Experience Exchange Facility has been established. For the first time, ‘traditional’ and ‘new’ donors will be working together under this facility through a joint Multi-donor Trust Fund. The Bank is also moving towards an open data platform that will make it the first development institution to open its key data resources for public use. Renewing the WBG’s leadership position as a global development knowledge organization will be a multi-year effort. The recent appointment of a Director for Knowledge and Learning Strategy will accelerate progress. The Bank’s role in knowledge and learning is tied to the skills available in the organization, and their effective and timely deployment.

World Bank Group Governance and Key Partnerships

Voice and Participation of Developing and Transition Countries. The Spring 2008 Development Committee Communiqué encouraged “the Bank to advance work on all aspects of voice and participation, keeping in mind the distinct nature of the Bank’s development mandate, and the importance of enhancing voice and participation for all developing and transition countries in the WBG…and to receiving concrete options from the Bank’s Board by our next meeting with a view to reaching consensus on a comprehensive package by the 2009 Spring”. Since then Bank shareholders have engaged in intensive discussions about options for voice reform, actively facilitated by Management.

Strengthening Bank/Fund Cooperation. Cooperation between the WBG and the IMF remains essential to the effectiveness of both institutions. The current economic and financial environment underscores the need for the WBG and the IMF to work closely together, cooperating and coordinating while each plays its different but important roles in the global economic architecture. The Joint Management Action Plan (JMAP) on Bank-Fund collaboration - launched one year ago - provides a useful framework for moving ahead with deeper collaboration in a complex and interconnected policy environment. JMAP implementation is underway, including through regular meetings between Bank and Fund country teams to discuss work programs and priorities as well as through the establishment of joint intranet workspaces to facilitate information sharing. A compressive assessment of implementation of JMAP recommendations will be prepared for the Boards of both institutions for next year's Annual Meeting.
Statement by the Managing Director of the International Monetary Fund, Mr. Rodrigo de Rato, to the Development Committee

Introduction

The recent World Economic Outlook (WEO) notes that the global economy continues to face strains from a deepening and broadening financial crisis, with many advanced economies bordering on recession. Growth in emerging and developing economies is still close to trend, but the more severe and protracted the financial crisis becomes, the more they are likely to be affected. Many countries are also still grappling with the macroeconomic fall-out and poverty effects of the food and fuel price shock.

In this context, the challenges for policymakers differ across countries. The priority in advanced economies is to support activity and contain risks to financial stability in a period of rapidly slowing growth. In emerging and developing economies, policymakers must balance growth and inflation risks while fostering adjustment to higher food and fuel prices. At the multilateral level, policymakers should intensify their collaboration to underpin stability and confidence by broad-based actions to address the financial market crisis. For developing countries in need of increased financial assistance to address the food and fuel price shock, donors must follow up on commitments made at Gleneagles and, more recently, Accra to increase aid and improve aid effectiveness.

The Fund stands ready to cooperate closely with its members and development partners to help countries deal with these pressing challenges. In this statement, I will give a brief overview of our assessment of the world economic outlook, including the financial market turmoil and the impact of the commodity price shocks, followed by a discussion of macroeconomic policy priorities for developing countries. I will also provide a brief progress report on our efforts to refocus the Fund.

Recent Developments and the Global Outlook

Economic growth is rapidly slowing, especially in advanced economies

Global economic growth is expected to moderate from 5.0 percent in 2007 to 3.9 percent in 2008, and 3 percent in 2009. The advanced economies will be close to recession in the second half of 2008, as the negative feedback loop between strained financial systems and the macro economy has intensified. In the U.S., tightened credit conditions as a result of housing and financial market corrections continue to retard growth, despite aggressive monetary and fiscal policy easing. Similar conditions, together with the U.S. slowdown and euro appreciation, have dampened growth in Western Europe, while Japan has been recently affected by slowing exports and weakening domestic demand.

Economic activity in emerging and developing economies is also expected to lose steam, although by less than in advanced economies, with growth rates projected to ease from 8 percent in 2007 to 6.9 percent in 2008 and 6.1 percent in 2009. Emerging economies have to date not experienced the drastic reductions in access to external financing experienced in previous episodes of financial turmoil. But vulnerabilities are increasing and some countries with large current account deficits have had more difficulty financing them. Looking forward, export growth in emerging and developing economies is expected to decelerate, while the strong productivity gains of recent years are projected to sustain domestic demand. Commodity exporting countries will continue to expand, while economies dependent on food and fuel imports will tend to decelerate more sharply.
The financial market crisis has reached unprecedented levels

The historic events of the past few weeks could hardly have been imagined as the subprime crisis began to unfold a little over a year ago. Core financial institutions—major U.S. investment banks, the government-sponsored enterprises (GSEs), commercial banks in both U.S. and Europe, and the largest U.S. insurance company—faced losses from the subprime crisis that eroded their capital positions. This in turn led to funding shortages and ratings downgrades that compounded the collapse of confidence in these institutions and impeded the functioning of credit markets. So far, this has resulted in the collapse of one large investment bank, the restructuring of all the remaining U.S. investment banks, and failures of some major commercial banks in both Europe and the U.S.

The scale of policy intervention has been similarly historic. Central banks around the world have injected large amounts of liquidity into the interbank markets on a coordinated basis. Policy interest rates were lowered in the U.S., the U.K., and some other advanced economies. There were government-funded and sponsored bailouts of the GSEs and commercial banks in the U.S. and Europe. Funding and liquidity strains nevertheless remain high, as evidenced by persistently wide interbank spreads, swap bases and liquidity premia.

Reflecting tightening lending standards, credit to households in the US (and to some extent also in Europe) has slowed, and growth in corporate borrowing is expected to abate once existing loan commitments to enterprises have matured or been drawn down. These constrained credit conditions are likely to persist at least through much of 2009, putting a damper on economic growth prospects in advanced economies.

Although emerging markets and developing countries have so far remained resilient to the financial market crisis, the deleveraging process in advanced economies and decreased investor risk appetite have reduced the availability of external financing, especially for corporates, and raised interest rate spreads on emerging market debt. Leveraged investors in advanced economies—such as hedge funds—that depend on funding from other financial institutions, have been forced to scale back emerging market investments; other market participants such as mutual and pension funds have reduced their emerging market exposure as well.
With little or no direct exposure to the mortgage-related structured products underlying the turbulence in advanced economies, the fallout for most banking systems in emerging and developing economies has been limited so far. But signs of stress are growing. Banking systems that rely heavily on external borrowing are clearly the most vulnerable. In some emerging markets, portfolio outflows are contributing to stock market declines and domestic funding stresses. Vulnerabilities are particularly elevated in Eastern Europe, where domestic banks have built up large negative net foreign positions vis-à-vis foreign parent banks, which are vulnerable to market sentiment as they obtain a large part of their funding in wholesale markets. Also, banks have become increasingly exposed to the real estate sector in recent years. They have not experienced a significant increase in loan losses so far, but have increased provisions for bad loans and may be forced to reduce credit growth if asset quality deteriorates sharply. The risk of such a scenario has risen, for instance, in the Baltics, where house prices and real credit growth have fallen.

Looking forward, a combination of global credit tightening, rising domestic interest rates, and the global growth slowdown could spread credit squeezes and rising defaults to a larger number of emerging markets and some developing countries, although the still favorable growth prospects in many of these countries will serve as a buffer to the effects of external financial shocks.

In collaboration with other international bodies, the Fund has begun distilling lessons from the financial crisis and encouraging early action by member countries. We are advocating a broad range of recommendations to strengthen financial supervision and regulation, improve frameworks for liquidity provision, and reinforce crisis management arrangements. We have also strengthened our own contingency planning and crisis preparedness, and stepped up our monitoring of highly vulnerable countries.
Food and fuel prices have eased in recent months, but remain high.

In our preoccupation with the global financial crisis, we must not overlook the “other crisis” facing developing countries—the surge in fuel and food prices. While these prices have eased from recent peaks, they remain well above their levels at the onset of the recent run-ups. As of end-September, oil prices have declined around 45 percent with respect to their mid-July peaks, but are still almost double the levels recorded at end-2006. A sharper-than-anticipated weakening of oil demand and higher OPEC production has contributed to this decline. Nevertheless, underlying market balances remain tight, with demand from emerging and developing economies remaining robust.

Commodity Price Indices
January 2004 to end-Fourth Quarter of 2009

Similarly, food prices have decreased by 8 percent from their June peak but are still well above end-2006 levels. A bumper wheat crop this year, together with reductions of rice and wheat export restrictions, has led to substantial increases in world market supply in these two grains since May 2008. Nonetheless, other factors will keep exerting upward pressure on food prices over the medium term. Demand, particularly from emerging and developing economies, is likely to remain robust, while continued strong demand for corn for ethanol use and high fuel and fertilizer costs will also bolster price pressures.

The sharp increases in food and oil prices have weakened the external positions of many emerging and developing economies. Excluding large surplus countries (such as China and Russia), the current account deficits of 44 emerging markets are projected to rise to US$337 billion (3.2 percent of GDP) in 2008, from US$160 billion (1.7 percent of GDP) in 2007. Many low-income countries are facing similar effects, especially those countries that are highly dependent on fuel imports: 58 net fuel-importing low-income countries face a rise in their fuel bill of US$60 billion (3.2 percent of GDP) in 2008. The balance of payments effects of higher food prices will be less pervasive in low-income countries, most of which have
substantial domestic production. For 43 net food importers with available data, however, the rise in their food bill in 2008 is estimated at about US$7 billion (0.8 percent of GDP).

The commodity price increases have also contributed to increased global inflationary pressures. Inflation expectations in advanced economies remain well anchored and headline inflation in emerging and developing countries is projected to fall in 2009 as commodity prices level off. But some countries—notably in sub-Saharan Africa—are facing second-round inflation effects and strong wage pressures. Overall, headline inflation in emerging and developing countries is projected to rise from 6.4 percent in 2007 to 9.4 percent in 2008, before falling to 7.8 percent in 2009.

The global recovery will be slow and risks are tilted to the downside

A gradual recovery of global economic activity should take hold in 2009. The pace of growth will be slower than in previous periods, as tight credit conditions continue to affect the corporate sector and households in advanced economies. Nonetheless, several factors should lay the ground for a recovery, including more stable conditions in the U.S. housing sector in 2009; relatively strong nonfinancial corporate balance sheets in the U.S. and Western Europe; and continued demand growth in emerging economies.

The situation is exceptionally uncertain, however, with risks tilted to the downside. Financial risks remain elevated, as rising losses in the context of a global slowdown could add to strains on financial institutions and further reduce credit availability. In addition, the U.S. housing market could deteriorate for longer than expected, and European housing markets could weaken more broadly. On the positive side, commodity prices are expected to stabilize, while demand, especially in emerging economies, could prove more resilient than projected to recent commodity price and financial market shocks, as was the case in the first half of 2008.

![Inflation Chart]

Source: WEO.
Inflation rates for low-income countries (LICs) and Sub-saharan Africa are on annual bases.
Policy challenges differ across countries

Under these circumstances, policymakers are faced with diverse challenges. In advanced economies, signs of moderating inflationary pressures may provide scope for monetary easing to support activity and stabilize financial conditions. In some emerging and developing countries where second-round inflation effects have been limited, the balance of risks is also shifting towards slowing activity. In these countries, an easing of the macroeconomic policy stance could be justified. Elsewhere, however, firmer action may still be needed to prevent a wage-price spiral, and thereby avoid a hard landing at a later stage. In this regard, more flexible exchange rate regimes could help to make monetary policies more effective.

Governments in emerging and developing economies are also faced with difficult choices when addressing the social effects of higher food and oil prices. Countries have responded in different ways: reductions in fuel and food taxes and tariffs, increases in universal subsidies, expansions in transfer programs, and public-sector wage increases. Several countries have resorted to export restrictions and export taxes focused on key food commodities. Many have allowed the pass-through of the first-round effects of food and fuel price increases, but others are still delaying this process.

Many of the measures adopted, however, are not cost effective and may even be counterproductive over the medium term. About one-third of developing countries have increased or are planning to increase fuel price subsidies in 2008. These subsidies are undermining the necessary adjustment of their economies to higher world market prices, may create unsustainable fiscal positions, and are inconsistent with longer-term objectives to mitigate climate change. Likewise, the untargeted food subsidies that exist in many developing countries are ineffective and costly. Well-targeted measures, such as direct income support and food-for-work programs, that help the poorest while keeping a cap on government spending are highly preferable to measures that extend to those who do not need government support.
Measures that distort international trade and deter investment in agriculture, such as export restrictions and domestic price controls, should be progressively removed. At end-August 2008, 35 countries had some form of export restriction on food items in place. Such restrictions have aggravated the upward pressure on world market food prices. Export restrictions and price controls also damage incentives for investment in agriculture, which is essential to meet the rapidly rising world demand for food products in the coming years. The food crisis reinforces the case for rapid and substantial progress in opening agricultural markets at the multilateral level. All parties involved should therefore make strong efforts to reinvigorate the Doha Round.

The IMF stands ready to assist its members in dealing with these policy challenges with macroeconomic policy advice, technical assistance, and financing. In response to the food and fuel price shocks, we have already provided fifteen countries with additional assistance under lending programs supported by the Poverty Reduction and Growth Facility (PRGF), equivalent to about US$260 million. We have also recently reformed our Exogenous Shocks Facility (ESF), opening the way for more rapid and higher access for the affected members. The Fund continues to collaborate closely with other international institutions in the UN High-Level Task Force on the Global Food Security Crisis.

The Fund’s Policy Response to New Challenges

The challenges facing the global economy impart greater urgency to the refocusing efforts underway at the Fund. I would like to highlight recent initiatives in three key areas: our surveillance activities, our lending facilities, and our role in low-income countries.

Strengthening Surveillance

Surveillance is at the core of the Fund’s mandate. The recently completed triennial surveillance review found that Fund surveillance is highly valued by its audiences. Nonetheless, our surveillance activities need to be continually strengthened and adapted to the rapidly changing global financial environment and evolving needs of our members. A recent analysis of how future financial crises may affect emerging market countries found that higher capital flows have yielded important benefits, but also increased volatility and risk of asset price bubbles. In light of this, we are placing priority on four key areas: (i) strengthening our work on assessing risks (including to provide early warning to members), (ii) further deepening our analysis of macro-financial linkages, (iii) better incorporating multilateral perspectives with respect to cross-border spillovers and lessons from countries’ experiences, and (iv) strengthening exchange rate analysis and stability risks, including further progress in refining assessment methodologies.

We are also promoting better data collection and transparency, tailoring technical assistance to bolstering resilience to shocks, strengthening policy advice on crisis prevention and management, and improving communication and coordination with members and international bodies. In a successful example of the latter, the Fund helped facilitate a series of meetings of Sovereign Wealth Funds (SWFs), where there was an agreement on a preliminary set of 24 voluntary generally accepted practices and principles (Santiago Principles) for SWFs. These principles will help underpin the SWFs potential positive role in promoting financial stability and maintain an open global investment climate.

Review of the Fund’s Financing Instruments

The global financial system and members’ financing needs have changed enormously since the Fund was created. The current crisis has brought into sharp relief the need to reassess our array of lending instruments and adapt them as necessary to suit the diverse and evolving needs of the membership. We have therefore launched a comprehensive review of our lending framework. This work will re-examine
the analytical foundations for Fund lending and the role of conditionality; consider ideas for streamlining existing facilities and creating new ones, such as a liquidity instrument; review borrowing limits and financing terms; and reassess our lending role and facilities for low-income countries. The aim is to complete this review and decide on reforms before the 2009 Annual Meetings.

The Fund’s Evolving Role in Low-Income Countries

We are committed to maintaining our close engagement with low-income countries, while focusing on our core areas of expertise. Our role in these countries is to help them secure macroeconomic and financial stability as the basis for sustained growth and poverty reduction. The precise nature and scope of our work must be tailored to country circumstances. In some, achieving macroeconomic stability remains a priority. Others have overcome this initial challenge, and the emphasis in these countries will be on how to engrain stability in stronger macroeconomic and financial institutions, so as to boost confidence and encourage private investment; how to support financial sector development while ensuring its soundness; and how to scale up spending for investment and social priorities without jeopardizing debt sustainability. In this regard, the Bank-Fund Debt Sustainability Framework has become an effective instrument for designing medium-term fiscal policy frameworks and defining sustainable lending principles for donors and creditors. In program design, we will continue to build on progress already made in focusing conditionality on measures critical for macroeconomic stability and incorporating greater flexibility in fiscal targets.

We are also reviewing key instruments used in support of low-income countries to enhance our effectiveness and efficiency. In addition to the recent reform of the ESF, we will review the Policy Support Instrument (PSI) to ensure it meets the needs of LICs that seek intensive policy engagement rather than long-term financing. In collaboration with the Bank, we are streamlining the procedures for Joint Staff Advisory Notes (JSANs). Further, a new framework will be developed that refines earlier proposals to strengthen the Fund’s engagement in fragile and post-conflict states, taking into account views expressed in outreach with potential recipients and donors.

The Fund continues providing debt relief to low-income members. A total of 23 countries have reached their HIPC Initiative completion point, 25 countries have received debt relief under the MDRI, and 8 countries are potentially eligible for HIPC initiative assistance. The delivery of debt relief by private creditors has increased, but coordinated action remains necessary to encourage participation from these and non-Paris Club official bilateral creditors and guard against litigation. Additional financial resources will be needed for the Fund to provide debt relief to all HIPCs. Long-term debt sustainability remains a concern for many post-completion-point HIPCs, stressing the need for sound borrowing policies and strengthening debt management capacities.

We are also taking steps to improve the effectiveness of capacity building assistance in low-income countries. Technical assistance will be better integrated with surveillance and lending operations and better aligned with the strategic objectives of the recipient countries and the Fund. Four new regional technical assistance centers will be opened soon. The new centers—one in Central America, one in Central Asia, and two more in Africa—are a response to country demand and to positive experiences to date with regionally-based assistance.

The achievement of the MDGs will depend in part on increasing aid and aid effectiveness by the development partners. Excluding debt relief, trends in commitments of aid are falling short of what is

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necessary to meet the Gleneagles targets, especially in Africa. Therefore, donors must step up efforts to increase both the volume and the quality of aid. The Fund recently participated in the High Level Forum on Aid Effectiveness in Accra, where the international community reached a consensus on steps to enhance predictability of aid flows and increase the use of country systems by donors. The Fund will continue to be an active partner in the common endeavor to implement these principles. We will also take an active part in the Conference on Financing for Development to Review the Implementation of the Monterrey Consensus in Doha later in the year.

Other Issues

The Fund’s Work on Climate Change

Consistent with its current mandate, the Fund will continue to explore the macroeconomic and fiscal consequences of climate change. It will provide policy advice on macroeconomic and fiscal aspects of adaptation and mitigation to climate change in bilateral discussions with countries that are likely to be affected earlier and more severely than others, and stand ready to assist its members with technical advice on fiscal policy aspects of mitigation. Also, the Fund stands ready to provide financial support to its members facing exceptional balance of payments needs that might arise in cases of extreme climate events.

Bank-Fund Collaboration

Fund and Bank staff have continued to work together to implement the Joint Management Action Plan (JMAP) to enhance collaboration. Teams have initiated the country-level work program discussions that are a central component of the JMAP. In addition, we have also piloted web-based mechanisms—“country portals”—to improve information flows between country-teams.

Quota and Voice Reform

On April 28, the Board of Governors approved far-reaching reforms of the Fund’s governance structure that will provide a significant increase in the quotas of emerging markets and give low-income countries a greater voice in the institution. To complete the reforms, an amendment of the Fund’s Articles of Agreement will need to be accepted by at least three-fifths of IMF members representing 85 percent of the total voting power. The proposed quota increases also require consent and payment by the 54 eligible members. The deadline for consent is October 31, 2008. Recognizing that additional time might be needed, the Resolution approving the reforms stipulated that the Executive Board may extend this period as it may determine, taking into account, in particular, the need of members to obtain domestic legislative approval. The Board will have the opportunity to consider the need for such an extension prior to the October 31 deadline. In addition, a committee of eminent persons has been appointed to assess the adequacy of the Fund's current framework for decision-making and advice on any modifications that might enable the institution to fulfill its global mandate more effectively.

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Prepared Statements Submitted by Members

Statement by H.E. Ibrahim Al-Assaf, Minister of Finance, Saudi Arabia

We are meeting at a time of difficult challenges to global development prospects. The crisis in the financial system has intensified dramatically. Its resolution is, rightly, largely a matter for policymakers in the countries where it originated. It is also worth noting that the continued robust growth in developing country economies has helped alleviate the global impact of deceleration in the advanced economies. Sustaining such dynamics will indeed require continued policy vigilance. In the current situation, however, we have to consider whether longer-term development prospects are under threat from such external factors. This would be in spite of the encouraging and commendable record of sustained economic reforms within the countries recording strong growth rates.

Against such a background, and given the poverty-reduction mandate of the World Bank Group, it is appropriate for this Committee to focus on practical measures the institution can take to support those who are most affected. This, of course, includes continuing to help client countries strengthen the resilience of their economies. The background notes on fiscal vulnerabilities and rising food and fuel prices indicate the challenges involved as well as actions where the Bank can make a difference both in analytical work and in additional support operations, in partnership with others.

I commend the Bank for its work in making a good start in implementing the measures we discussed at our last meeting to combat hunger and malnutrition through a combination of immediate assistance, notably through the Global Food Response Program, with longer-term efforts to boost agricultural productivity. The diversion of agricultural activities to produce biofuels remains a matter of concern, given the impact on food prices and the role of expenditures on food in the consumption patterns of the poor countries. We should not forget that advanced countries also have responsibilities, as agricultural subsidies and restrictions on the imports of developing country products have contributed to underdevelopment of this sector in those countries and increased their own dependence on food imports. The failure to come to an acceptable conclusion to the Doha round further exacerbates the situation. To move matters forward, I repeat my call to the Bank to come up with innovative financing mechanisms in support of the agricultural sector to boost food production in developing countries. The IFC can intensify its role here in seeking out private and public sector partners, as well as South-South initiatives.

Regarding energy prices, Saudi Arabia has had long-standing concerns that the volatility and levels of oil prices do not reflect supply and demand fundamentals alone, but also reflect such factors as the flow of speculative funds into commodity markets, refining limitations, and geopolitical tensions. We remain committed to ensuring that the oil market is well supplied. For those countries that have already been adversely impacted by higher energy prices, I welcome the prompt follow-up and consultations by the Bank to move forward proposals advanced by King Abdullah at the Jeddah Energy Conference for the Energy for the Poor Initiative. This can assist in addressing immediate needs, and in the longer-term to increase the resilience of countries and households. Included would be the provision of sustainable energy access for the poor, and efficiency gains in energy consumption and supply. For its part, Saudi Arabia confirms its willingness to support this effort and urges other to join in partnership.

Turning to Development and Climate Change: A Strategic Framework for the World Bank Group, I appreciate the wide process of internal and external consultation that has taken place since the Spring. We now have a document that reflects many and varied interests. I have three sets of comments.

First, as far as the operational impact on the Bank is concerned, I welcome the recognition that the Framework reinforces a country-based and country-led approach that is driven by client demand and will
inform and support— but not override— operational strategies and business plans. Further, there will be no imposition of climate-related conditionalities. Indeed, I would underline, as does the paper that the core mission of the Bank is and will remain to support growth and overcome poverty. Current events remind us that this core work is fundamental and long-term in nature.

A second point is the primacy of the negotiating process currently underway under the auspices of the United Nations Framework Convention on Climate Change, and specifically under the Bali Action Plan. Success in negotiating an equitable global policy and financial architecture will be essential if the financing gap is to be bridged and additional resources are to be made available to support the climate actions needed in developing countries. Successful implementation of the Framework will ultimately be dependent on such factors. Of course, much will depend on Annex 1 parties fulfilling their obligations regarding financial support, transfer of technology, and capacity building for developing countries. It is clear that the mitigation response as well as mitigation of response measures taken by Annex 1 countries themselves will have an economic impact on countries that are highly dependent on the production and export of fossil fuels, especially oil. This is an important area where the Bank can and should play a comprehensive role, including knowledge, advocacy and policy dialogue, and to assist in clarifying the economic impacts.

My third point concerns a set of other key inter-related issues. Of paramount importance is greater access to modern, least-cost energy sources. This is essential if development in the poorer countries is to be successful. Also important is transfer of technology. Here, the Bank should be neutral as to any particular technology, and be supportive of technologies that meet the test of economic viability in the longer-term. It must be emphasized that technological mitigation options is the way forward, in particular the Carbon Capture and Storage (CCS). CCS must be considered as a viable option under the Kyoto Protocol or any future regime and be applicable as CDM activity. This will help greatly the mitigation efforts to combat climate change. Equally important is a focus on energy efficiency, a significant topic in its own right, distinct from renewable energy. It makes economic sense for every one everywhere. This is also an area where all of the WBG institutions have a role and comparative advantage. I would urge, therefore, that Bank Group should pursue comprehensive and distinctively focused energy efficiency programs in client countries.

I strongly believe that energy efficiency is a “low-hanging fruit”. Many efficiency gains are possible on the supply side through the use of cutting-edge technology. There is also a great potential that could be harnessed on the demand side. Given the expected continued preponderance of fossil fuels in the energy mix, such efficiency gains can meaningfully contribute to improving energy access while reducing emissions. This is a win-win situation that must be realized to the fullest extent.

It should also be made explicit that the pilot on emissions accounting and shadow costing will not influence the choice of projects accepted for financing by the World Bank Group. The start of the project cycle for all operations should include explicit consideration of the differences between climate-friendly and least-cost project designs.

More broadly, I emphasize the importance of adaptation, and of a proactive role by the Bank. Adaptation is a very important part of the climate agenda and is critical to securing development gains in client countries. Going forward, the Bank Group would need to elaborate and scale up its role in this vital area.

These I believe are the foremost priorities for the Bank Group’s work in the climate change area. Pursuing these priorities would greatly enhance the prospects of an equitable and development-oriented implementation process responsive to the Bank’s core mission.
I would consider our third Agenda item concerning *Voice and Participation* in the light of two principles embedded in this Committee’s Communiqué of last April, namely: (i) a consultation process that is inclusive; and (ii) the importance of enhancing voice and representation for all developing and transition countries (DTCs). I appreciate the extensive consultations with shareholders that have taken place, as well as the technical work informing those consultations. The second implies two things: a move towards parity between developed countries and DTCs, and that enhancement of DTC voting power as a group should not be at the expense of the voting power of any individual DTCs. Respecting these principles going forward will be important in determining if a supportable proposal has emerged for realignment of IBRD shareholding.

That said, I also attach great importance to measures to enhance legitimacy, credibility, and accountability in Bank Group operations. Continued actions are needed to broaden the representation of DTC nationals in management and staff generally, especially for severely under-represented nationalities. Deepening the ownership of the Bank Group’s strategic agenda and the need to further strengthen the dialogues with shareholders are also important. Good progress has been made on these issues, as well as on strengthening the country-based model and field-based delivery through enhanced decentralization. I look forward to further progress in the future.

As for the specifics of the Voice Reform package, I support the increase in IBRD Basic votes to 5.55 percent (doubling the current number). I also support the principle that DTC members whose voting power would otherwise decrease due to the doubling of Basic Votes would benefit from an exceptional allocation of available IBRD shares in mitigation of that decline. The technical details are, however, yet to be agreed upon.

I welcome and support the proposal for an additional 25th Chair for Sub-Saharan Africa in the Bank, which can significantly improve the representation of the poorer countries. I also can accept the proposals for increasing IDA Part II voting power, and note positively the considerable agreement on an improved selection process for the President of the World Bank. I also encourage continued work on strengthening Board effectiveness and governance.

Regarding the proposed major second stage review of IBRD shareholding, I have some reservations. I see this process as challenging, noting the experience at the Fund in undertaking comparable exercises. There are many technical factors to take into account. In this regard, I would just mention the need to consider factors that are important to the World Bank Group work and its mandate, such as overall contributions to ODA (as well as contributions to IDA), including success in attaining or exceeding the 0.7 percent UN target; systemic importance in the world economy; openness of the economy, trade volume, and the issue of volatility; exchange rate aspects; and the principle already mentioned of non-dilution. This process will require intense consultation and involvement of the Bank’s Board. I therefore reserve my view on the proposed work program until these aspects are further clarified.

Subject to these qualifications and reservations, I am willing to join a consensus in this Committee to broadly endorse the first phase of the overall reform package and to move ahead in securing the necessary approvals by shareholders.

I turn in conclusion to the important topic of Strategic Directions for the World Bank. I welcome the updating note provided and agree that the external environment the institution currently faces requires attention to downside risks in the global economy and the evolution of a more flexible and responsive organization. The succinct review of progress regarding the six strategic themes is welcome, and I appreciate the progress on the Arab World Initiative. I note the suggestion of continued refinements regarding the six themes going ahead. I emphasize that the discussions and review of strategic uses of IBRD capital need to be placed in an overall strategic framework that sets out a vision of the longer-term
dimensions of the IBRD’s finances keeping in mind its needs as an international cooperative institution. This is especially relevant in today’s uncertain environment. I wish Mr. Zoellick continued success in building up a more flexible institution that is responsive to its clients and focused on its overarching mission of poverty-reduction.

Statement by The Rt Hon Douglas Alexander, MP, Secretary of State for International Development and The Rt Hon Alistair Darling, MP, Chancellor of the Exchequer, United Kingdom

We meet at a time when the progress made towards the Millennium Development Goals (MDGs) since 2000 is at risk from increases in the prices of basic foodstuffs and other commodities, and the biggest global financial shock since the Great Depression. This is in addition to the continuing crisis of dangerous climate change.

The impact of high food prices is already been felt by poor people throughout the world. The Bank estimates that in 2008 the total number of malnourished people could reach 967 million, up from 848 million in 2003. This will set back progress on several of MDGs, and for the youngest children affected by malnutrition, it causes irreparable damage, constraining their development and potential. Despite the recent fall in the wholesale price of oil, high fuel prices also threaten the wellbeing of individuals and families, and the fiscal stability of developing countries.

The effects of the financial crisis risk rippling into emerging market economies and the poorest countries through slower economic growth. And the current financial crisis has the potential to deflect our attention away from the pressing needs of poor countries. As Ministers, we naturally focus on responding to the challenge the current situation presents to our own countries, focussing our best efforts on helping our citizens cope. But the commitments we have made are also critical. In this interdependent world, our assistance and support is not only a moral imperative but in our self-interest. So it was encouraging that last month at the UN Secretary General’s High Level Event on the MDGs, $16bn in new commitments were made. They have the potential to increase access to health services and education to those who would otherwise not have been able to access them, and showed our collective determination to accelerate progress towards the MDGs. We must do this if we are to fulfill the promises made to the world’s poor in 2000.

The World Bank remains central to our efforts to confront the many challenges facing developing countries. The UK remains committed to increasing the effectiveness and legitimacy of the Bank and working with bilateral and multilateral partners to deliver the MDGs. We must use these Annual Meetings - and forthcoming international meetings such as the Financing for Development Conference in Doha - to continue our work, despite the strong winds that risk blowing us off course.

Financial Crisis

Early indications show that there is a risk of the global financial crisis spilling over into emerging markets. It is increasingly difficult for the public and private sectors to access finance, particularly in middle income countries. There is a danger that poverty reduction efforts in many countries will be negatively affected by the crisis as levels of economic growth and demand slow and sources of finance for investment dry up. Although these impacts may take some time to fully materialise we must act now to mitigate the immediate impacts and lay the foundations for our response in the medium term.

The focus must be on the Bank and the Fund fulfilling the role that they were designed for: Responding to counter cyclical demand from developing countries, and particular middle income countries for lending.
The IBRD and the IFC must utilise their strong capital bases, and IDA must deploy its record resources, flexibly to respond to fiscal pressures and the household level impacts of the crisis.

The demand for Bank policy advice and technical resources is also likely to increase. We look to the Bank to ensure that its support is timely and flexible. We support the Bank’s efforts to strengthen the capacity of countries to deal with financial sector distress ahead of a crisis, and help develop strategies to deal with the consequences. The Bank Group and the IMF must work closely together and with developing countries to offer a clear menu of options that help balance long-term impacts and short-term needs.

**Food and Fuel**

We are very concerned that the global financial crisis will aggravate the impact of historically high food and fuel prices. Recent estimates suggest that more than 900 million people don’t get enough to eat and 20 million people in the Horn of Africa are facing a humanitarian emergency as a result of drought, rising food prices, poverty and conflict. Many families are spending around 60% of their income on food. Short term assistance to meet this immediate need is required, as well as long term increases in agricultural productivity.

The World Bank has responded quickly through its Global Food Crisis Response Programme and the commitment to double investment in agriculture. We welcome the World Bank’s leading role in developing the international strategy to address the food price crisis. We want to see progress against this strategy combining short term measures to protect the poor and longer term efforts to increase investment and productivity in the agricultural sector. We will continue to press for timely disbursement of resources under the Global Food Crisis Response Programme, and to encourage continued close working between the Bank and other international partners to address the crisis.

At the Rome FAO Food Summit in June, the UK called on all donors, international organisations, the private sector and civil society to double efforts to tackle global hunger and poverty though a Global Partnership for Agriculture and Food. UK resources committed to tackling the global food crisis now total over £900 million, which includes £400 million for research. We believe that the establishment of a new Global Partnership for Food and Agriculture, building upon national and regional plans, is essential. We call for the World Bank’s active engagement in its design and implementation, alongside other partners.

Although recent weeks have seen a drop in the wholesale price of crude oil, rising fuel prices are also impacting on poor people at the level of individuals and families, and as countries struggle with the fiscal cost of poorly targeted subsidy regimes. The Bank also has a key role in responding to this threat. We welcome the proposals presented by the Bank for an Energy for the Poor initiative and will be looking for it to move to implementation as soon as possible. This should complement the action on food; providing transparent targeted and support to the poor and increasing investment in clean energy access in the medium and long term. They must also complement the emerging climate change finance architecture.

**Financing for Development/Bank Capital**

The Monterrey Consensus remains a key document on financing for development and for achieving the MDGs. In addition, we need to address together four new issues: climate change, food and energy security, and financial instability. As we prepare for the Doha Financing for Development conference in November these new issues are already affecting the development agenda and raise new financing challenges. Their impact will be greatest in poor countries and on poor people. All the MDGs will be affected.
As part of the international effort to mobilise additional resources we support the World Bank’s efforts to make the best use of its strong capital base in innovative ways. These efforts must take into account the need for the Bank to respond to the current financial crises, and increasing demand from developing countries for resources channelled through its core operations. However, as Governors we must ensure that we are making the most efficient use of our capital and we must open to new and innovative approaches.

Voice

In January 2008 the UK Prime Minister called for reform of the key international organisations, including the Bretton Woods Institutions, so that they are better equipped to address new global challenges. To be most effective, the World Bank and IMF must be – and be seen to be – legitimate and representative, reflecting the realities of the 21st century. The current financial crisis further underscores the importance of strong multilateral institutions.

This means change. We strongly support the package of reforms agreed as a first step in that process of change. We have continuously advocated for more ambitious reform, we believe that this package represents a significant step forward. We warmly welcome the proposals to give African countries a third seat on the World Bank Board of Executive Directors and to increase the say of the poorest countries, through doubling basic votes.

The Bank must also continue working on a further realignment of IBRD shares. We will continue to advocate for a comprehensive agreement using the outcome of the IMF negotiations to reflect the relative position of members in the world economy, and taking into account contributions to IDA and Trust Funds and the specific mandate of the Bank.

There is broad support behind the move to modernise the selection of the Bank President and it has been advanced through the package of reforms agreed by Governors. The selection process must be merit-based and transparent. We look forward to candidates from across the world being considered when the next President of the Bank is selected.

Climate Change

The impact of climate change threatens to undermine many of the development gains made in recent years. So the Bank needs to put climate change and environmental sustainability firmly at the heart of its work and to continue to show strong international leadership on the issue. It is an integral part of the Bank’s core mission of tackling poverty.

We welcome the launch of the Climate Investment Funds (CIFs) at the G8 Summit in July 2008 and the $6.1 billion committed to the Funds last month, including £800m from the UK. The G8 Summit also saw the World Bank and the other multilateral development banks set an ambitious target of mobilising public and private investments of over US$100 billion for clean energy up to 2010, and we look to the Bank and others to deliver effectively against this commitment.

We believe that the World Bank has a key role to play in helping developing countries adapt to the impact of climate change and grow their economies in a sustainable and environmentally-friendly way. The Bank’s Strategic Framework for Climate Change and Development (SFCCD) presented to the Development Committee must be taken forward through mainstream climate considerations into its core development activities. The SFCCD’s results framework for 2009-2011 and the longer term process of agreeing objectives, results and milestones must drive change in the organisation.
The Bank’s Strategic Directions

We agree with the Bank’s own assessment that it must become more nimble, flexible and client-focused. Progress is needed in three areas in particular. First, reforming the Bank’s operational policies in line with the international consensus on aid effectiveness. At last month’s High Level Forum on Aid Effectiveness in Accra, the World Bank and other partners signed up to the Accra Agenda for Action (AAA) to accelerate and deepen implementation of the Paris Declaration on Aid Effectiveness. This included reinforced commitments to mutual accountability, to support for country ownership through capacity development and increased use of strengthened country systems, to transparency and predictability of aid and its underlying conditions, and to the reduction of donor proliferation and fragmentation. The Bank must lead by example in implementing the AAA, including by incorporating the commitments made into its Aid Effectiveness Action Plan.

The second area of priority is making better use of Bank capital as outlined above. The third area is decentralisation. The Bank will be presenting a strategic document on how to deliver this after the Annual Meetings. We welcome that. Greater field presence and stronger-decision making authority for Bank country staff is essential for the Bank’s effectiveness.

Conclusion

The world is faced with some of the most challenging financial circumstances in living memory. But this cannot, and must not be used as an excuse to turn our back on the poorest and most vulnerable members of our global community. Helping them remains in all of our interests and is more important than ever. So we must use these meetings, and other international meetings later in the year, to discuss and agree what more we can do using the resources already available to us including via the Bank. Real progress has been made in reducing poverty in the past eight years. We must do all we can to ensure this progress is not reversed but carried forward.

Statement by Mr. Ahmed Bin Mohammed Al-Khalifa, Minister of Finance, Bahrain

Since our preliminary reflections during the Spring Meetings of this year, the global economic context has continued to undergo significant strains fueled by a protracted financial crisis and high commodities prices. All assessments indicate that this turbulence will prevail in the medium term.

From our perspective, we need to address two critical issues – the impact of this financial turbulence on the ability of donors to deliver on the commitments they made at Monterrey on the one hand, and our institution’s core poverty reduction mandate, on the other.

The commitment made to the achievement of the Millennium Development Goals (MDGs) will depend on not only, increasing aid, but also ensuring enhanced aid effectiveness. Ensuring adequate, predictable and timely financial flows to protect the most vulnerable in many low income countries is an urgent challenge. This is particularly vital for those countries that have limited ability to take on additional debt or that cannot use their scarce domestic resources to finance adjustment to the price shocks. Particularly during these financially turbulent times, donors need to reassure the international community that the aid allocations already made would be protected and reaffirm the commitments to scale up aid made at

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3 On behalf of Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen.
Monterrey and Gleneagles. This, in association with progress in implementing the agreements made at the recent High Level Forum on Aid Effectiveness in Accra, to enhance predictability of aid flows, improve aid effectiveness, and increase the use of country systems, would signal the significance that the international community places on the issue of global development.

Furthermore, pressing ahead with the *Doha Round of trade negotiations* is of critical importance now. The global community must work towards progressively removing measures that distort international trade and investment in agriculture, such as export restrictions and domestic price controls, if we are to meet the rapidly rising world demand for food products in the coming years.

The second dimension that we also need to assess is the *impact of the turbulence on our development mandate*, and its impact on the alleviation of poverty. It is of great concern that inflationary pressures and the risk of reduced export growth, stand to threaten the hard-won social and economic gains that many reforming governments, in collaboration with both of the Breton Woods Institutions, have worked so hard to achieve over the past decade. Especially worrisome is the risk of increasing global poverty levels, and deepening poverty amongst the already poor with grave human development ramifications.

Developing countries are facing increasingly difficult and more limited policy choices when attempting to address the social and political effects of the financial turbulence and food and commodity price shocks. We believe that *coordinated global action would be a key factor* in addressing this crisis effectively; and in this effort, both of the Breton Woods Institutions have a unique role to play. We welcome the Bank’s short term budget support operations, and the Fund’s recent reform of its Exogenous Shocks Facility in support of the balance of payments. In addition, we appreciate the Global Food Crisis Response Program with its expedited financing terms. However, we need to maintain our emphasis on supporting longer term investments in agricultural production and infrastructure, including transport, distribution, processing and storage systems. Most significantly, we believe that timely and effective country-specific analytical assistance to governments towards formulating targeted and effective strategies to mitigate the risks and cushion the impact of such shocks would be vital. Finally, and to counter the impact of decreased investor risk appetite on the availability of external financing and credit, the International Finance Corporation (IFC) would need to scale up its investments and activities to boost confidence in the financial and agricultural private sector in developing countries with capital market access.

The chain of events unfolding over the past few months has drawn attention to the global dynamics and the role of developing and emerging economies in it. This is why we consider this discussion on the *governance of the World Bank Group* as opportune. Despite the diverging views, and intricacies involved, enhancing the voice and participation of Developing and Transition Countries (DTCs) in the decision making process of the World Bank Group is critical, to maintain the institution’s legitimacy, credibility, and effectiveness.

The concrete package outlined in the paper in front of us paves the way for a consensus to be achieved by the Spring Meetings. However, in order to ensure that the Bank remains credible and responsive to the evolving realities of a dynamic global economy, we should consider initiating an internal process of *systematic governance review* at regular predetermined intervals, as happens at the International Monetary Fund (IMF) every five years. Including this in the current package of reforms would signal that we do not consider this package as spelling the end of the entire governance reform effort at the Bank Group.

It is encouraging that the potential *structural components of a reform package* have been broadly identified. This necessarily includes a *doubling of the Basic Votes*, in association with the distribution of the *unallocated shares*, to ensure that all developing countries benefit with an enhanced or at least maintain their voting power. Within the context of a World Bank Group approach, some consideration
need also be directed towards addressing the governance of the International Development Agency (IDA), beyond encouraging all developing countries to subscribe to their allocated shares. Along a similar vein, adjusting the proportion of Basic Votes in the total votes of the shareholders of International Finance Corporation (IFC) would also be a welcome element. Ensuring the implementation of a merit based and transparent process for the selection of the President would further underscore the significance that we attach to this exercise. The challenge of assessing the degree of compromise that each shareholder would be prepared to make looms ahead.

There is more consensus on the equally significant, yet secondary non-structural aspects of the voice agenda. Reducing the constraints on the two Executive Directors representing 47 African countries, through the establishment of an additional African Chair, is necessary for the more effective functioning of this Institution. The elaboration and implementation of the recommendations for internal governance reform, made in the Governance report by the Committee for Governance and Administration (COGAM), in response to our request in April 2007, would further improve Board processes and oversight, and we fully support them. Systematization of the efforts to increase staff diversity, local presence in client countries, country ownership and project communication would contribute towards the development effectiveness of the Bank’s operations and portfolio performance. We encourage a continued strong collaboration between the Board and management on all of these critical issues.

Despite the complexities involved, and the sometimes diverging demands of the various stakeholders, this difficult process of negotiation and consensus building is necessary and vital. As is the case when dealing with complex issues, success will depend on the degree of ownership of the proposals by the stakeholders. Hence, the importance of continued and strong engagement of the Board of Executive Directors, with the support of management, in this process of governance reform. We believe that the final outcome would be an Institution that would be more legitimate and in stronger position to answer the call of the poor in this world. We look forward to being updated of the results of this exercise so we can finalize a comprehensive and significant package of reforms during the upcoming Spring Meetings in 2009.

In contrast to what we hope, would be a short-lived phase of financial instability, experts expect the current climate change to intensify into the future. The Strategic Framework for Climate Change rightly adopts a demand driven approach to this development challenge and underscores the importance of its prioritization and customization to national development programs and the local economic context.

Given the scale of the climate challenge, securing incremental resources - additional to current aid commitments and supplemented by innovative private sources, is paramount. In this regard, the establishment of the Climate Investment Funds, working in close coordination and collaboration with existing bilateral and multilateral efforts, including the GEF and the Adaptation Fund are steps in the right direction.

We consider that the World Bank Group has an important advocacy role with respect to the adaptation burden that is being faced by developing countries, including those smaller states that are acutely vulnerable to climate risk. Hence the importance of proactively mobilizing, intermediating and managing the resources required to support such adaptation efforts including supporting stand-alone adaptation projects.

Furthermore, and while maintaining technology neutrality and respecting countries’ technology choices, the Bank needs to strengthen its role in the area of technology development, transfer, and financing to better enable developing countries to play their part in the global climate change agenda. The dissemination of modern technologies and technological innovations are necessary to promote low carbon and more climate resilient economic growth and poverty alleviation. Despite this, a cautious approach
towards supporting pre-commercial new technologies is necessary, to mitigate the risks of moral hazard and unintended adverse selection.

One of the most effective solutions to climate change is **energy efficiency** (EE) technologies. Not only are they cost-effective and financially self-sustainable, but they encourage **greater and reliable access to energy supplies for the poor**, which is a key priority for the Bank clients as well as having relevance for the Bank’s mandate of economic growth and poverty alleviation.

Finally, the success of the strategy will be built on the extent to which the **Bank’s human and financial resources, across the various arms of the Group, are aligned** to deliver upon this Strategy, as well as the establishment of a robust and timely monitoring and evaluation framework to track progress and enable modifications when necessary.

We look forward to a **constructive dialogue with developing countries** during the implementation of the strategy to secure their ownership, without which the effectiveness of any environmentally sustainable program would be seriously impacted. Once again is the need for the enhancement of local capacities at the country and project levels, through timely and innovative sharing of knowledge and best practice learning to enrich country specific development initiatives and plans.

**Statement by Mr. Bert Koenders, Minister for Development Cooperation, The Netherlands**

We meet in Washington today against the backdrop of global economic turmoil and concern about the robustness of a coordinated international response. The slowing down of the world economy reflects the increasing interaction between the financial crisis and the real economic cycle. And although the crisis until now has had a larger bearing on industrialised countries than on developing countries, we are fully justified in focusing on the effect of recent economic developments on long-term growth and efforts to overcome poverty in developing countries, and on the role of the World Bank and the IMF. Recent developments will also have an impact on the World Bank Group's Strategy. Other critical issues to be discussed at the Development Committee meeting are climate change and development, and how to give developing and transition countries a stronger voice in the Bank’s decision-making. In my written statement I shall mainly focus on these topics.

**Food, energy and the effect of recent economic developments on long-term growth and efforts to overcome poverty**

At the Spring Meeting, we discussed the consequences of the rising food and energy prices. Now, it is not only the food and energy crisis that demands our attention, but also the international financial crisis, and its effect on the world economy and the attainment of the Millennium Development Goals. Fortunately, the crisis has not yet directly hit the financial sector in developing countries. But this could change without warning. And the crisis could also have an indirect effect if Western banks reduce foreign loans and investments.

In June, the IMF predicted a fall of 15%, but the true figure could well be higher. Furthermore, because of the indirect effect of the crisis on economic growth in the major world economies, poorer developing countries will also suffer from a decrease in demand for their products. It is also very likely that the robust

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4 On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania and Ukraine.
economic growth enjoyed by developing countries over the past few years will diminish over time. This downturn will be more severe the longer the credit crisis in the world continues. Therefore, appropriate macro- and regulatory policies for dealing with the current global crisis have to be put in place. These policies should also clarify and further define the responsibilities of the industrialised countries and the roles of the Bank and the Fund.

Development banks like the World Bank can help prevent a reversal of the MDG gains of the last few years and should be ready for a swift and flexible emergency response, much like that already given by the World Bank through the Global Food Crisis Response Programme. But we also have to speed up and bring innovations to our ongoing efforts to lift the existing structural barriers to development. So, today, we should not just address the Bank’s emergency response but also provide guidance on how to structurally improve the effectiveness and accountability of the WBG’s entire operational framework, and look at the opportunities for change this crisis can offer the World Bank and aid architecture in general.

We can do so by looking for opportunities to increase agricultural production, an endeavour which is also essential with regard to lowering food prices. Although prices have stabilised in the last few months and some prices have even fallen, price levels for the most important crops like corn, rice and soy are still three times higher than they were at the beginning of the century and are expected to remain high. Our constituency views the high food prices as a problem for developing countries which are net importers of food. There is clearly a role for the IMF in helping affected countries to overcome balance-of-payments problems. In the long term these countries will have to adapt to the altered circumstances and put their balance of payments in order.

We further believe that the World Bank has an important role to play in giving advice on how countries can effectively mitigate the impact of high food prices. We share the World Bank’s view that income support is the best way to avoid hunger in the short term and much better than subsidising food for everyone. However, in the long term we have to strive for a sustained improvement and diversification of the agricultural sector in developing countries and invest in their capacity to absorb price fluctuations.

Our constituency supports the World Bank and the IMF in their call to reject price controls and export restrictions, because these measures could weaken incentives to raise agricultural production. We further believe that the World Bank should support countries by financing agricultural projects. Investing in agriculture could help reduce food prices and increase economic growth. We therefore strongly support the decision taken earlier by the World Bank to double the amount of money to be spent on agricultural projects in Africa to USD 800 million per year. We also welcome the USD 1.2 billion to tackle the problems directly caused by the high food prices. On the issue of energy prices, our constituency would like to emphasise that there is no need to subsidise energy on a massive scale in the oil-producing developing countries.

In the remainder of my contribution to the Development Committee’s debate I would like to highlight two highly interrelated issues on which our constituency expects strong progress in the coming years: effectiveness and accountability.

**Effectiveness: Strategic Directions for the World Bank Group and Internal Governance**

I was very pleased to read the progress report on the strategic directions for the World Bank Group and in particular to learn of the acknowledgement that the World Bank’s current business model has reached its limits in effectively responding to today’s development challenges. The message of management seems to be that we cannot exploit new opportunities if we don’t change the way we do business. Our constituency therefore wholeheartedly agrees with the need to transform the WBG into a ‘nimble, flexible and client-focused’ organisation.
The question is how to do that in such a way that we actually strengthen the existing strong fundamentals that have served the Bank so well over the past 60 years. The Bank’s financial base must remain strong and viable, and we need to continuously look for opportunities to deploy our capital where it delivers the highest development impact; in other words we need to seek the ‘biggest development bang for our buck’. Once the financial markets have calmed down, I would welcome a sophisticated and informed discussion on the Bank’s capital adequacy, based on the strategic priorities and on the principle of preserving and strengthening the IBRD’s income-generating capacity.

A second fundamental basis of the Bank is the knowledge and skills of its staff. These skills are needed to design country programmes and to serve country demands. That can best be done locally. Knowledge is meant to be effectively transmitted to local researchers and policymakers and translated into practical policy. It is not supposed to stay in Washington or be stored in thick, glossy reports. While acknowledging the progress made, in particular at IFC, our constituency looks forward to receiving viable proposals for further decentralisation. This is especially important in fragile states, where qualified World Bank staff should be working on the ground. To be really effective in fragile states, the World Bank also has to react faster by unravelling its sometimes complicated procedures. As far as we are concerned, these proposals for further decentralisation may be radical and actually break away from our Washington-centric model of operations.

Working out the organisational consequences of management’s strategic directions requires a Board that is able to give strategic advice and to oversee the reform of the Bank’s operations, not a Board whose time is dedicated to details and the vetting and approval of the Bank’s many products. My constituency is pleased to learn that the Board’s working group on internal governance has produced a report that sets in motion a reorientation of the relations between management and the Board that will benefit the entire governance and effectiveness of the Bank. We call upon the next Board to work closely with management to implement the current proposals. We look forward to receiving more detailed reports and to continuing our discussion at future sessions of the Development Committee on all aspects relating to the Bank’s effectiveness in implementing its strategic directions.

To support the further elaboration of the strategy, the Netherlands organised a conference on the future of the World Bank on 12 and 13 July. Many high-level participants from multilateral developments banks, developing and OECD countries, NGOs and think-tanks took part in this conference. And although it is difficult to draw conclusions, as reflected in the summary attached, it was clear that nearly all participants were of the opinion that: the legitimacy of the World Bank should be improved by strengthening the voice of Developing and Transition Countries (DTCs); the Governance structure of the Bank could and should be made more effective and efficient; the fight against climate change should be considered to be an integral part of the development agenda of the World Bank; cooperation and coordination between the institutions involved on the issue of fragile states should be strengthened; and the World Bank should play an important role in combating further fragmentation of the international aid architecture. In our view, invitation-only conferences like this could contribute to elaboration of the strategy and should also take place in other countries.

**Accountability: Enhancing the Voice and Participation of DTCs in the WBG**

We agree with the proposals put forward by management on strengthening the voice and participation of DTCs. We consider the mini-package to be a useful staging post on our way to a significant reform of the shareholdership of this institution. The package is historic in two important ways: adding an additional African chair to the Board means that a majority of chairs represent DTCs; and the paragraph on the selection of the president is confirmation for my constituency that, as in the case of the IMF, geographic
preferences will no longer play a role in a transparent and merit-based selection of the president of the World Bank Group.

But we must now keep up the momentum and continue our efforts to move forward towards a significant realignment of shares. For our constituency, it is important that such a realignment reflects the global mandate of the WBG and that we do not artificially divide the shareholders in static blocks. This is a global cooperative institution in which shareholders constitute a very diverse clientele. Their number of shares and corresponding voting weights should therefore not only be determined by the relative weight of a country’s economy, but also by a shareholder’s use of the institution, be it through IDA donations and trust fund support or through the procurement of the WBG’s financial and advisory services.

Accountability and effectiveness are closely intertwined. I am therefore pleased to see that the document on voice and participation pays sufficient attention to the importance of decentralisation and improving internal governance. We should not forget that these measures are not so much about the voice of shareholders, but about the voice of stakeholders and about the operations of the Bank closer to the global poor and underrepresented. In this respect, we would ask for special attention for fragile states, where it is even more important to work at local level, as close to the ‘Bottom Billion’ as possible.

In this respect, the Bank could further improve on harmonisation and alignment, and follow up the recent conference in Accra. The possible diminishing of money flows to developing countries, as a consequence of the current financial crisis, demands greater effectiveness and greater coordination, not only by bilateral development agencies, but also by multilateral institutions. The upcoming conference in Doha should help bring this about.

Development and Climate Change

Our constituency welcomes the Strategic Framework on Development and Climate Change, since addressing climate change is central to development and poverty reduction. We agree that the Framework should be an integrated part of the Bank’s overall strategy and form an integral part of its global public goods strategy in areas where the Bank could act as a catalyst.

We believe that financial resources for the climate change agenda should be additional to the present levels of ODA finance so as not to compete with other MDGs. Adaptation measures should be integrated and mainstreamed into development aid.

Our constituency welcomes the new Climate Investment Funds and is pleased by the substantial pledge of USD 6 billion to the new funds. However, we would ask for more attention to be paid to the issue of renewable energy for the poor. This subject does not get the attention it deserves.

The carbon-poor development of fast-growing developing countries is another key issue. So clean technology should be applied as soon as possible.

The Framework recognises that, for the Bank to be effective and accountable in this area, it is important to work closely with other development partners, including the UN (UNFCCC, UNEP, UNDP), the GEF, Regional Development Banks, bilateral donors, the private sector, research institutions and civil society. In the area of climate change, the WB should focus on its comparative advantages and should agree with its partners on a proper division of labour. The maximising of synergies between IFC, MIGA, IBRD and IDA also deserves attention.
New products should focus on raising private sector finance, which will form the lion’s share of funding for climate change. We welcome the relatively large role allocated in the document to IFC and welcome the development of a climate change strategy.

With respect to the development of a portfolio of strategic Climate Investment Funds (CIFs, and the umbrella vehicle), we are pleased that over recent months we have seen much stronger involvement on the part of developing countries. But we remain concerned about the risk of proliferation as well as duplication of funds and difficulties concerning their governance. Given the establishment of the Adaptation Fund (AF) in Bali, any replication of existing efforts will raise questions of coherence and effectiveness.

The Framework also mentions the study on the economics of adaptation. This study could shed light on the extra costs relating to climate change necessary to achieve the development goals. We believe that the World Bank could do more to integrate the work on adaptation into its other fields of work.
The Conference was hosted and organised by the Netherlands Ministry of Foreign Affairs, in conjunction with the World Bank and with the support of ODI. The conference brought together international experts, opinion leaders and political figures to discuss future challenges faced by the World Bank.

The focus of discussion was on the period beginning in 2014, when the next IDA replenishment but one would be required. The recent (2007) replenishment of the IDA (the soft loan financing branch of the World Bank Group) provides financing of $46.1bn to 2011. The one after that will cover the period 2011-2014.

For the immediate future, the World Bank President, Robert Zoellick, has identified six strategic themes, which provided a platform for discussion. These are: (i) doing better in the poorest countries, (ii) working effectively in post conflict and fragile states, (iii) developing more competitive development solutions for middle income countries, (iv) delivering effectively on global public goods, (v) engaging with the Arab World and, (vi) knowledge and learning.

In considering the period after 2014, there were three main overarching questions:

1. What assumptions should be made about the global context?
2. What would be the role of development cooperation?
3. Where and how would the World Bank sit in the global development cooperation architecture?

The Conference did not seek definitive answers to these questions. However, discussing them helped to clarify the big choices facing the World Bank Group. In 2007, the World Bank had been identified as “….the leading global development institution. It plays a central and effective role in efforts to reduce poverty. Its expertise on global debates on development issues and the high quality of its staff are well known and valued.” (DFID, UK) If that were to remain true in 2014, then the World Bank would have to decide how to:

1. **Reform its internal governance structure**: including modernizing the Bank’s board, finding innovative approaches for financing (such as the use of IFC funds for replenishing IDA) and further decentralization.

2. **Develop new approaches to operating in risky environments and situations of crisis**: including better analysis, less focus on projects more focus on system design, different skill sets, stronger partnerships and improved ways of working with the ‘politics’ of fragile situations.

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5 The conference ran under Chatham House rules. The synopsis captures major discussion threads but does not attribute contributions.
3. **Adopt a more regional approach** for tackling cross-border challenges such as conflict and fragility, environmental change and harnessing private sector investment for growth and development.

4. **Emphasise its role as a facilitator and catalyst of private sector development/engagement:** including working more effectively with the private sector in environmental initiatives and developing structures to support entrepreneurship and job creation in fragile states.

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**Day One**: Opened and moderated by Minister Bert Koenders (MFA) and Simon Maxwell (ODI)

**Keynote Session: Global Development Challenges and the Evolving Role of the World Bank**

[Key note speeches by Simon Maxwell and Trevor Manuel, interview with Robert Zoellick]

Globalisation involves tremendous opportunity and great risks. We are living in a world in which equity and openness exist in a new mix, in which responses to global challenges are institutionally and politically complicated and in which success and failure are close companions. Inclusive and effective global institutions are crucial in our ability to respond to and function in this changing world.

The World Bank Group (WBG) is the leading global development institution. As such it is heavily relied upon to provide leadership, knowledge and financing across the breadth of the international development agenda. But it also faces challenges that are both structural and substantive in nature.

The purpose of the conference was to share experience and ideas that could contribute to ongoing efforts to enhance the World Bank’s role and effectiveness.

**Key themes and messages**

The World Bank reinvents itself for every generation – by 2014 it will need to do so again and will face key choices about its place within the overall architecture. Key issues include:

- The size of IDA. With promises of increased ODA by 2013 ($130bn plus), a higher percentage of the world’s poor residing in countries graduating to middle income status (India by 2010, Pakistan by 2013), and an estimated 70-80% of the very poorest people living in conflict affected, post-conflict or highly fragile situations how large does IDA need to be to remain effective?

- Development cooperation is changing. Development, diplomacy and defence are increasingly intertwined. In the future key developmental issues will be determined where foreign policy, aid and trade connect. What will be the role of the WBG in this shifting landscape?

- Aid is on the increase but it is a declining share of total flows now going to developing countries. At the same time, there is also an increase in South-South cooperation and in aid flows within the South and emanating from the South. Development finance is changing with a potentially more fractured future than the situation today. What is the case for the Bank operating as a *one stop shop* but one which would need to demonstrate competitive advantage in a world in which contestability and accountability are key principles of aid delivery?
With new funding sources coming on stream, the share of multilateral assistance is declining. Is this the beginning, albeit unplanned, of a long march against multilateralism? Or is it time to stand the aid architecture on its head?

But how fit for purpose is the Bank as a global governance institution? The Bank’s internal structure is complex: three tiers of decision-making include governors, executive directors and management. The process is often opaque and the outcome not always consistent. Paradoxically those with most voting power on the Bank’s board are the members with the least need of the Bank’s services. Recipient countries are relatively under-represented. Addressing this concern is a key challenge of the Bank: how to accommodate the need for greater representation while ensuring that the donor countries do not “loose their voice” or creating an even more complex process of decision-making as a result. Improving the internal governance of the institution is clearly desirable (and current efforts attest to that) but also critical for the continued relevance of the organisation.

A key role for the Bank is learning lessons for the next generation of development challenges. The recent Growth and Development Commission [www.growthcommission.org](http://www.growthcommission.org) signals a shift away from orthodox development policy, identifying the next generation of challenges linked to inclusive growth and globalisation. Africa, for example, has never been in a better position (macro-balances are strong, growth rates are positive) but there is still too little investment in the productive economy and the quality of life is still not improving for the majority. These economies need to know about the levels of incentives and public investments that are necessary for private investment to take off and ensure the long-term diversification and integration into the global economy. This is a key role for the WBG going forward.

Other major challenges in the lead up to 2014 include:

- Anticipating change – the role for the WBG in advocating on behalf of other agencies and fundraising for the international development effort as a whole. The Bank as ‘advocate general’.
- Moving ahead in a messy, complex aid architecture which is unlikely to be less messy in the short to medium term. The limits of a ‘central planning’ approach to architecture reform and the importance of a more networked approach based around transparency, benchmarking and evaluation.
- Balancing engagement in MICs, where many of the world’s poor will be living post- 2014, and engagement in LICs, many of which will be conflict affected, emerging out of conflict or weakly performing.
- Combining knowledge, coordination and implementation effectively, constantly assessing what is working and what is not, adopting a problem-solving approach.

Panel Session 1: The Challenge of Delivering Global Public Goods: the World Bank’s role in Tackling Climate Change

[Keynote by Katherine Sierra, Panellists Michael Zammit Cutajar, Roland Kupers, Surya Sethi, Manish Bapna, Jacqueline Cramer, Moderator: Herman Wijffels]

The session was framed around the WB’s role in mitigation/adaptation and how the Bank fits into the broader global architecture for tackling climate change. Main themes for discussion were:
- The need to address concerns that CC action will involve a diversion of resources from other critical development challenges
- The importance of developing new financial products across public and private sectors to respond to CC
- How to work effectively in an era of uncertainty regarding the future climate regime (post-Kyoto), and
- Working effectively with partners
The Bank is currently working on a number of fronts that include:

- Mainstreaming climate action into core development agendas
- Leveraging finance – the IDA 15 replenishment includes additional funding for the Bank’s climate work; plus new instruments such as the CIFs.
- Developing customised financial products, particularly for MICs
- Supporting the enabling environment for private sector engagement – technology and private financing
- Stepping up policy analysis (WDR 2010 will be on CC) in advance of Copenhagen and the post-Kyoto talks.

The panel and floor discussion emphasised the following:

The Bank has been at the beginning of every institutional innovation in the CC area. It has made considerable progress in articulating a strategy on CC. Its role remains critical but going forward it is essential that Bank initiatives are fully aligned with the UNFCCC architecture. The UNFCCC is established around a system of commitments NOT just aid transfers. The former is critical in shaping future global public action on CC.

There is still a need for more ambition – a more transformative agenda on CC. The Bank has a unique role not just in scaling up investment in low carbon technologies but in scaling up efforts to create an enabling environment for the market in low carbon technologies. WB funds are critical and they need to play to their strengths in terms of high value, focused and high impact investments.

An effective post 2012 agreement on CC needs transformative levels of finance and a strong financial architecture. Current concerns about the funding regime include proliferation (14 new international initiatives by different organisations in the last 18 months), a lack of additionality in newly announced funds, ownership of the Adaptation Fund and continued operation by these special funds outside of the UNFCCC.

There are a set of critical functions that will be need support going forward (c.f. Stern at [http://www.lse.ac.uk](http://www.lse.ac.uk)), waiting for the optimal climate architecture to emerge is not an option. Action is needed now to bring about more effective cooperative action in the short to medium term.

Some of the issues around mitigation and adaptation that emerged from panel one include: the need for a more transformative approach by the Bank in dealing with current global crises such as climate change. This transformation calls for among other things, the need to improve internal governance to reflect the way in which the Bank responds to crises; and also the need for the Bank to use/ come up with new instruments to engage with emerging crises associated with climate change.

Challenges going forward include:

- Harmonising country and regional strategies with what needs to be done globally
- Setting priorities and estimating the true cost of mitigation and adaptation actions
- Being clear about who bears the cost
- Incentivising cooperative action, and
- Retaining the focus on empowerment and poverty reduction.
Panel Session 2: The World Bank’s Role in Fragile Situations.

[Keynote by Ashraf Ghani, Panellists Ad Melkert, Dennis de Tray, Alistair McKechnie. Moderator: Ngaire Woods]

The backdrop to the session was framed in terms of the coming together of political, economic and security goals, the risks of fragility posed by the current crises in food and fuel prices and the possible diversion of aid resources away from fragile states as the financial crisis and oil price shock hit aid budgets in donor countries. The scale of the challenge was made apparent by the 2.5 billion people who currently live without secure property rights, the number of countries that are currently moving out of and then back into conflict and the extent of regional contamination from ongoing conflicts such as Darfur and Somalia.

The Bank’s current involvement in fragile situations has five main elements:
- Research, learning and the dissemination of knowledge
- Being a strategic partner to government
- Assisting in identifying a bankable programme and supporting it with technical advice and knowledge
- Mobilising resources in a coordinated way (MDTFs etc)
- Coordinating efforts in areas related to Bank competencies (leaving wider coordination to others) and playing a supporting role in areas where it does not have comparative advantage.

The panel and floor discussion emphasised the following:

The Bank is a long term development organisation. The Bank’s ability to respond quickly and flexibly in line with humanitarian agendas is reduced in part because of its internal governance structure, in part because of its history as a project financing institution, in part because of its staffing and incentive system.

Too little is really known about different methodologies for rebuilding fragile states. The analytics are currently weak. There is a huge role for the Bank in research, learning and dissemination and in providing a forum for evaluating methodologies for engaging in fragile situations.

At the implementation end, the Bank should focus on its areas of core competence including rebuilding economic governance, infrastructure, jobs and employment. Managing expectations is key, pointing to the importance of balancing ‘quick wins’ with longer term state building and development. Some questioned how effectively the Bank can engage in the highly political project of state-building, while others focused on the part that the Bank can most effectively play in the state-building process alongside other actors.

Speed is of the essence in fragile situations, but neither the UN nor the Bank is ‘made for speed’. Discussions revealed a certain consensus that change is possible if based on a more flexible governance structure; a move away from project funding to the wholesaling of funds in support of national programmes; simplified procedures (particularly for procurement); and a stronger emphasis on knowledge and partnerships.

The importance of entry and exit strategies is fundamental in fragile situations. Knowing when to intervene and when to depart is potentially critical in determining the success of Bank engagement and

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6 In this regard, there is a need for the Bank to create an enabling environment that will support job creation and which may entail financing infrastructural development, private sector development etc.
partnership. This points to the need for stronger impact assessments of the Bank’s interventions and of the decisions to disengage at critical moments in the conflict cycle.


[Keynote by ‘Mo’ Ibrahim, Panellists Michael Klein, Kandeh Yumkella, Donald Kaberuka, Alexandra Trezciak-Duval. Moderator: Stephen King]

In a world in which ODA is being dwarfed by private sector flows to developing countries a key question for the Bank Group is how to (a) better understand these new flows, and (b) clarify its niche in relation to them. This session looked at the proliferation of new actors and new donors and the challenge of sustainable and inclusive private sector led growth.

The role of the private sector, as provider of jobs and a more prominent actor in the aid architecture, was also emphasized in other sessions. For example, panel 1 discussed the role of the private sector in environmental initiatives such as Carbon Capture and Storage. Equally, in fragile states, the private sector was noted to be important for the creation of much needed jobs. Structures to support entrepreneurship are a high priority in this context.

The private sector is already investing. The challenge for the WBG is how to create the right environment for an increase in such investment through support for human capital, effective economic governance and small and medium scale enterprise development.

Job creation is vital; productive jobs need functioning markets. The WBG and IFC in particular are already heavily engaged in client countries creating new markets (e.g. for insurance), providing new financial instruments (e.g. local currency instruments) interacting between public institutions and the private sector and supporting an enabling environment for business.

The need to empower women (e.g. in terms of titles to property, access to finance, ownership of businesses etc.) was also emphasized. Poor women play a major entrepreneurial role with a strong track record in investing well.

The agenda for future action remains large however, including:

- More work on meso-financial instruments,
- Support for agri-business and local supply chains,
- Investments in infrastructure and energy to support rural and small to medium scale enterprise and continued work on corporate social responsibility.
- A major task remains of leveraging financing for the less attractive locations and sectors (where private flows are currently limited), managing risk and working more closely with regional institutions to support an enabling environment for investment and growth.

The discussion further emphasised the Bank’s role as a convenor of knowledge and good practice (not always as an implementer), its work on system/regulatory reform, capacity development and leadership on anti-corruption. Harmonisation and coordination remain vital tools.
Roundtable – the Challenge of Effectiveness

[Moderator Bert Koenders, Discussants Ashraf Ghani, Ronald Gerritse, Trevor Manuel, Mo Ibrahim, Donald Kaberuka, Justin Yifu Lin, Simon Maxwell]

The question for the roundtable discussion was ‘what kind of Bank do we want to see in the middle of the second decade (2014)’? The background to the discussion carried over from the panels and the keynotes in the morning: global trends require changes in the way international institutions operate. Institutions have not kept pace with the realities of globalisation. Events are increasingly global and regional and require inter-organisational responses, new bundles of finance and knowledge and new forms of cooperative decision-making. The Bank has to see its future lying within this shifting landscape.

On what the Bank should be emphasising in 2014, discussion centred around:

▪ The Bank as a catalyst to public and private investment for poverty reduction, lowering the cost of development action and moving beyond the project-centred approach.

▪ The Bank’s role in delivering additionality – taking the risks others cannot take and delivering competitive financial solutions at country level

▪ The need for new methodologies for engaging in fragile states (the current lack of such methods is indicative of how challenging the problems are in the current aid architecture)

▪ Reforming governance is central - a non-resident Board with a bigger role for Bank Governors would provide stronger focus on the mission of the organisation “legitimacy is a matter of survival for the institution”

▪ Some order is needed in the financial system, a stronger WB has to be matched by a stronger UN and a stronger EU. The strength of the multilateral system going forward lies in a group of results-oriented set of institutions working to a clear set of accountabilities.

▪ The possibilities of a more networked approach in which the Bank adopts both a coordinating but also an ‘advocate general’ role on global and regional public good issues.

▪ More benchmarking, more evaluation and more transparency.

Day Two: Opened and moderated by Minister Koenders and Alison Evans (ODI)

Day two opened the conference discussions up to a wider public audience, broadening the debate on the forward agenda and the critical mission of the World Bank.

Panel Discussion: Recap on Day One.

[Trevor Manuel, Edith Ssempala, Simon Maxwell, Herman Wijffels, Mo Ibrahim, Katherine Sierra, Ashraf Ghani]

Reactions: Arthur Arnold, Farah Karimi
There was a recap on the main discussion threads from day one followed by floor discussions on a wide ranging agenda with particular emphasis on:

**The need for a more representative institution** and achieving equitable change whilst representing shareholder interests. Suggestions from the floor included electing independent members onto the Bank’s executive board, limiting European representation to one EU seat and changing voting arrangements in favour of developing countries. Others pointed to the fact that EU-donors contribute more than 60% to IDA, a fact that also should be taken into account, looking at voting arrangements. Settling timelines to address internal governance is crucial.

**A strategic push for more grant financing through IDA**, drawing on IBRD and IFC income. Balancing this with the need to retain the developmental, as opposed to charitable purpose of IDA ODA becomes too much charity. Grants also can delay the development of a good national tax system, which is needed to generate a country’s own income.

**Engaging with reform of the wider multilateral system**, a new paradigm for multilateralism that includes reform of the UN system as well as the IFIs providing more choice and more flexibility in the response to global challenges.

**Moving beyond a project centred approach** to a customised and tailored approach which places the client at the centre. The importance of moving from a supply driven to a demand driven knowledge institution.

**A solutions focused Bank**, converting its considerable brain power into action, taking the risks that the market won’t take.

**Not a single issue Bank**, no real appetite for the Bank as the ‘Environment Bank’, instead some are concerned that the climate change agenda will overwhelm its core mission to reduce poverty.
Statement by Mr. Paul Antoine Bohoun Bouabré, Minister of State for Planning and Development, Côte d’Ivoire

My statement focuses mainly on two items listed for discussion on the agenda for our meeting today, namely, items I and II.

Development and Climate Change: A Strategic Framework for the World Bank Group

On behalf of the 24 countries of Group II of the Africa region, I would like to congratulate the management of the World Bank for having made available to us a guideline document for integrating the challenges of climate change into the operations of the World Bank Group (WBG). I would like not simply to recognize the quality of the work accomplished, but in particular to laud the internal and external consultation process that guided the finalization of this important document.

The countries of our group are in agreement with the guiding principles and action areas set forth for interventions by the World Bank Group. However, the document should ensure that the implementation of this framework will not affect the main mandate and fundamental objective of the WBG, namely to promote economic growth and combat poverty. In this regard, the document requires a more thorough examination and specific information regarding the need for different approaches in the areas of energy efficiency (EE) and renewable energy (RE). This is an opportunity for us to reiterate that access to energy remains a priority for our development. Indeed, Africa has vast potential in the areas of hydroelectric and solar power, which are quintessential forms of clean energy. For this reason, we ask that the development of this potential be included as a pillar of the strategic framework.

Moreover, you will agree with us that mitigation and adaptation are complementary in combating the effects of climate change. Consequently, with a view to sustainable medium- and long-term solutions, we call on the Bank to place emphasis on adaptation in this document, which focuses largely on mitigation.

The document must clearly address the role of the Bank in the area of research and technology. It should be borne in mind that technology development, transfer, and its financing are crucial components of the global agenda under the Bali Action Plan. We are concerned that at this stage, the Bank, which has an important role in shaping this agenda, is still seeking to determine its role. We recognize that the Bank cannot by itself help developing countries to make their contribution to the global climate change agenda. For this reason, new and vital technical, technological, and financial assistance from developed countries is being requested. The strategic framework must clearly indicate the direction and the actions that the Bank Group intends to take within the carefully crafted framework of the provisions of the UNFCCC.

While the document acknowledges the need for additional resources, it commits the Bank to climate change actions without any guarantee of the provision of additional resources. Taking into account the effects of climate change in our development strategies requires additional resources that are completely separate from those that are available and have already been programmed. It is for this reason that it is important to develop new financing mechanisms.

Lastly, I am pleased to note that the WBG will advise against any attempt to transform climate change concerns into aid conditionalities for countries.

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7 On behalf of Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d’Ivoire, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and Príncipe, Senegal, Somalia (unofficially), and Togo.
Enhancing Voice and Participation of Developing and Transition Countries: Options for Reform

The countries of our group are confident that enhancing the voice and participation of developing and transition countries in the spirit of the Monterrey Consensus is important to bolster the legitimacy, credibility, and effectiveness of the World Bank Group.

Following the adoption by the IMF Board in April of the package of measures on quotas and representation, it is the World Bank’s turn to take the lead. I therefore welcome the significant progress made in achieving a voice reform package. This is a fitting occasion to thank the President of the Bank and his team for their tireless efforts to reach an agreement that is acceptable to the various members of the Board.

First, I would like to say that I support the two-phased approach proposed by the President of the World Bank. As such, with the exception of the realignment of voting power within the IBRD and reform of the IFC, the first phase, which includes the other elements of the package, can be adopted immediately. However, realignment and reform of the IFC require more work and time to reach a consensus. For this reason, I support the proposed work schedule to allow us to assess the progress at the upcoming 2009 Spring and Annual Meetings. In order to forge ahead, we should set ourselves a deadline to complete this exercise. In this regard, we maintain that the deadline be set for the 2010 Annual Meetings at the latest.

We welcome the proposal to enhance the voice of low-income countries through the establishment of a third Executive Director to represent Sub-Saharan African countries, in addition to the 24 current seats on the Board.

We are advocating that basic votes at least be tripled and that a mechanism be developed to ensure that these basic votes are properly maintained. However, for consensus reasons we accept a less ambitious reform, while hoping that in the second phase the proposed level of 5.5 percent could be revised upward.

We welcome the proposal for an exceptional distribution of the current IBRD shares available to mitigate the erosion of the voting power of certain developing countries owing to the doubling of basic votes. Moreover, we will continue to encourage our countries to accept all IDA shares granted to us.

With respect to realignment, we believe that the voting power of member countries within the IBRD must continue to reflect their relative position in the global economy. As a result, this realignment should have IMF quotas as a point of departure, to which other elements could be added to take into account the specific World Bank mandate. We also support a periodic review of the realignment (every five years) to make this process effective and take into account the highly volatile developments in the global economy.

We welcome the recommendation that the selection process for the World Bank President be transparent and merit-based. Lastly, we support the measures adopted by the Bank to increase the diversity of its staff, decentralization, and country ownership of programs. I am confident that all these measures will allow for the viewpoints of developing countries and in particular low-income countries to be better taken into account by this esteemed institution.

Fiscal Vulnerabilities in Developing Countries and the Twin Oil-Food Shocks

Let me first commend the World Bank and the IMF for having prepared an excellent note highlighting the levels of fiscal vulnerability arising from high oil and food prices.

I endorse the methodological approach adopted for the preparation of this note, which combines the available information on the terms of trade. This approach used Country Policy and Institutional
Assessment (CPIA) scores for fiscal policy and debt policy from mid- to end-2007 from the World Bank, and the findings of an IMF survey of 147 countries on the fiscal costs of measures taken by governments. Using these two information sources bolsters the credibility of the findings.

I agree that the responses to the high oil and food prices have led to fiscal pressures in several developing countries. Indeed, countries have, as a matter of urgency, used fiscal measures to mitigate the effects of the rise in prices. These measures have in particular been directed toward decreasing tax rates on foods, increasing food and oil subsidies, lowering income or corporate taxes, reducing the price of oil or gas-generated power, and increasing social transfer programs.

I am also cognizant of the fact that the effects of the rise in prices are experienced differently in each country and that some are more vulnerable than others. I am of the opinion as well that countries dependent on foreign aid and which have no available debt space are by far the most vulnerable and, as a result, their ability to weather the crisis will depend on the volume of aid granted to them. Consequently, donors must make a concerted effort to increase the availability of resources for countries hardest hit by the food and oil price shocks.

I will also add that beyond the need to increase aid flows to countries affected by this crisis, our countries as a whole continue to reel from the effects of the volatility and lack of predictability of aid to support development programs. We note with regret that there has been too little progress, in spite of donor commitments at the 2005 Paris Forum to improve aid predictability, including the agreement to halve the proportion of non-disbursed commitments by 2010. We reiterate our call for greater predictability in development aid.

I note with satisfaction that countries facing increased fiscal vulnerability subsequent to the price shocks will be eligible for additional budgetary assistance operations within the framework of specific instruments set up for this purpose. These operations will support specific reforms to mitigate oil and food price shocks, and to strengthen social safety nets. We await the operationalization of the response window for the energy price crisis, which is in the process of being established, and express the hope that it will be done rapidly in view of the urgency of the crisis.

In terms of analysis, the Bank, in collaboration with the IMF and other partners, should examine the potential risks to which these economies are exposed with a view to assessing the appropriateness of their macroeconomic policies.

Rising Food and Oil Prices: Addressing the Risks to Future Generations

I would like to thank the Bank for this information note on the impact of the surge in oil and food prices on future generations. I recognize that while oil and food prices have declined in recent months, they are still very high when compared to previous years and could remain that way for a long time.

I recognize that our countries are most affected by the food crisis, malnutrition, and social vulnerability fueled by rising oil prices. We also support the Bank’s renewed interest in agriculture, nutrition, and social protection as demonstrated by the establishment of instruments to provide appropriate responses to the twin shocks of surging food and oil prices (Global Food Crisis Response Program, along with food crisis response funds and the provisional Energy Crisis Response Fund).

Our Governments acted expeditiously and have adopted measures to counter the crisis. We will continue to bolster existing programs or to develop programs as needed to reduce social vulnerability and malnutrition. We call on the international community, including the World Bank, to ensure that these programs supplement those in the area of agricultural production in which the Bank and the countries
have already made commitments to invest more. In this regard, it is important for additional resources to be mobilized to finance strengthening of the nutrition and social protection programs.

In light of the irreversible effects of malnutrition and social vulnerability, rapid and effective action is essential to the success of this effort. We also urge the World Bank to support us with streamlined and effective delivery mechanisms, given the urgent nature of these interventions. In this context, country systems represent the most effective intervention and coordination frameworks for aid from all development partners. We urge the World Bank and all other partners to use these systems where applicable, and to provide greater support to regional programs and institutions to promote more effective actions.

*Strategic Directions of the World Bank Group - Progress Report*

We are delighted that after a mere 100 days at the helm of the World Bank, President Zoellick clearly articulated his vision of the strategic directions of the World Bank.

We recognize the pressing need to address certain new challenges such as climate change, particularly with regard to those aspects affecting countries in our group (drought, flooding, or other natural disasters). We believe that it is important for the World Bank to keep focusing on its main mission despite the importance of global public goods, particularly in the absence of other means of intervention.

The pillars of the current strategy have served the Bank and its clients well, and they remain relevant despite their limitations. We recognize, however, that the current strategy calls for modification to incorporate the evolution of aid architecture and the lessons learned from development experiences. We believe that the strategic discussion must focus on institutional effectiveness and the internal reforms required for the World Bank Group to help countries achieve the best results on the ground. This is why we think that in addition to the Bank’s response to the needs of middle-income countries, support for fragile states, and commitment to global public goods, it must address such issues as internal governance, the effectiveness of management costs, human resources, and Bank decentralization.

We take note of the six priorities identified by the President and are of the view that the two pillars of the current strategy must be developed in such a way as to take into account two perspectives linked to development policies: strengthening institutions and improving governance; and commitment to global public goods. While the World Bank Group is already involved in these sectors, it is important that its role be clearly defined. The World Bank Group should also explore a number of options, with a view to bolstering its internal synergy.

*Statement by Mr. P. Chidambaram, Minister of Finance, India*8

*Recent Economic Developments*

*Financial Market Turmoil*

We meet today in the midst of great financial turmoil across the world. Financial markets are beset with doubts and a lack of trust. While the financial world is morphing beyond recognition, the sharp decline in

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8 On behalf of Bangladesh, Bhutan, India and Sri Lanka.
credit availability has started impacting the real economy. Some early signs of recession in the three major economic regions of the world – the USA, Japan and the European Union – are discernible.

This crisis will necessarily impact upon the global availability of financial resources for development. Emerging markets have so far shown resilience. However, they may be vulnerable to both first order and second order effects. Accessing financial resources may become more difficult and expensive. Flows of foreign capital may shrink. On the other hand, a global recession will sharply contract the demand for exports of many developing countries, adversely affecting their growth prospects. The developing countries will suffer for no fault of theirs. They did not cause the contagion. Many are not equipped to face the consequences. We need a global effort, particularly in countries with developed capital markets, to review financial oversight and regulatory mechanisms.

Impact of the food and fuel price crisis

The food and fuel price crisis has rightly been placed at the top of the agenda. At the Spring Meetings earlier this year, all members were seized of the issues like vulnerabilities arising out of the surge in food and energy prices since 2007. The vulnerabilities were on many fronts. Rising food prices made the poor vulnerable to malnourishment and hunger; governments vulnerable to rising and unsustainable fiscal deficits; and societies and polities vulnerable to instability. The problem has continued over a major part of 2008 with both headline inflation and core inflation registering substantial rises in both emerging and developed economies. After a decade of moderate price rises, developing countries are facing higher levels of inflation once again. This continues to be a concern. On the fiscal front, over 70 countries have reported fiscal costs stemming out of measures that they were forced to take, ranging from tax cuts to increase in subsidies.

Developing countries have adopted alternative approaches to address the problem of food price inflation. While many have adopted a range of social safety nets to shield the most vulnerable sections, some have had to take recourse to more harsh measures like export taxes and bans. We do realize that such policies may not be welfare-enhancing. However, given the limited options and instruments many of us have, we have been compelled to take recourse to such measures to manage our domestic stocks better.

In the long run, demand for food is bound to go up, leading to a rise in food prices. Although there has been a moderation in the prices of food grains, the drivers of food grain demand continue to be active. Growing populations, increasing incomes and purchasing power, changes in consumption patterns and the rising demand for bio-fuels will continue to exert an upward pull on food prices. The long term solution to this problem is to increase the supply of food grains; immediately, however, we should avoid wastage and diversion of food to fuel. That requires a renewed thrust to public investment in agriculture with policies designed to boost private investment as well. We need technological breakthroughs to ensure that growth in crop-yields does not taper off but gives rise to a new green revolution. We need to focus attention on the less well-endowed cropping areas of the world – those which are dry, unirrigated and have poor weather conditions. We also need urgent action in the US and Europe for rationalizing the biofuels policy. Biofuels derived from non-food crops or biofuels produced from crops that do not compete with food production may be an appropriate and climate-friendly response to the rapid increase in global oil prices. But biofuels produced from food grains such as corn and oil seeds cannot be justified under any circumstances. In the US, use of corn for ethanol has consumed more than 75% of the increase in global corn production over the past three years and this trend must be reversed.

I would like to take this opportunity to congratulate President Zoellick for his promptness in setting up the US$ 1.2 billion Global Food Crisis Response Facility for short and long term assistance to the countries adversely impacted by the crisis. The menu of options given is especially welcome as it allows countries to choose the type of intervention that they most need. I also congratulate him on the World Bank
Group’s advocacy of a new ‘agriculture for development’ agenda. This is a welcome initiative in view of the fact that Bank lending to agriculture and rural development had declined in the 80s and 90s. If I may say so, the Bank must also refocus on articulating a positive role for the State in agriculture. The importance of effective State institutions in raising investment in agriculture and in supporting social safety nets cannot be over-emphasized at the present juncture. I hope that the Bank will be at the forefront in this activity as a part of its response to the food price crisis.

The single most important component of the rise in headline inflation has been the unprecedented rise in oil prices. Despite the recent fall in oil prices, they continue to be high as compared to the position a few years ago. We are possibly seeing the end of the era of benign energy prices. This will require massive readjustments in developing countries. We will need to refashion our growth strategies, reduce our economies’ energy intensity and explore alternate sources of energy - particularly renewables. We are certainly less fortunate in this regard than developed countries that did not face such a scenario.

Aid

I must state unequivocally here that the planned increase in ODA for 2008 as reported by OECD is not sufficient to cover the fiscal cost to countries arising from the price shocks and the consequent fiscal vulnerability. Advanced nations should now focus on not only renewing their aid commitments but actually fulfilling them. Debt relief for HIPC countries needs to move quickly now since a number of them have been adversely affected by the present food and fuel price rises.

MDGs - at midpoint

The effect of the food and fuel price crisis on the achievement of MDGs has been touched upon in the background material for the meeting but has not been given the elaborate treatment that it deserves, probably due to the fact that MDGs were discussed during the Spring Meetings. Whatever be the reason, they merit continued consideration. It is notable that the countries that are most vulnerable, fiscally, to food and fuel price increase are also amongst those that are most likely to miss the MDG targets. This was the scenario even before the food and fuel price crisis started exacerbating. We are not yet clear about what the picture will be like if we fail to increase ODA to keep pace with the fiscal cost of the present shocks. Important gains in poverty reduction and reduction in malnutrition will be wiped out completely in the next few years if action is not further scaled up. More than a 100 million persons are likely to be pushed into poverty anew. The fiscal distress and the resource diversion to purely food and fuel issues are also likely to have adverse effects on the achievement of the other MDGs not directly related to food.

The present response of multilateral institutions, while being the right response, would also need to keep the needs of the other sectors in mind. We need to ensure that the momentum on education and other major issues like infrastructure is not lost. Or else, this could lead to a vicious cycle jeopardizing our movement towards the achievement of the MDGs. The World Bank and other institutions, through their analytical work, must look at the impact of the price rise on all MDG related outcomes. An important aspect that would need to be noted is that most of the countries that have been identified to be fiscally vulnerable and those whose progress towards the MDGs would be worsened also feature in the list of countries with the lowest capacity to absorb aid effectively. It would be necessary to work with these countries in order to increase their capacity to utilize aid effectively and to prevent their further slide backwards from the MDGs.
Development and Climate Change

The Strategic Framework document – Positive Features

In the meeting of the Development Committee last year, we had called on the Bank management to develop a strategic framework for the engagement of World Bank Group in addressing issues related to climate change. Let me express my appreciation for the very good Paper that has been prepared and for the extensive consultative process that the management undertook to seek the views of the different constituencies in drafting the document on the framework. We recognise that the final Document that emerged is more inclusive and collaborative than all the previous drafts.

Two Critical Issues – Transfer of Financial Resources and Technology

We are all aware that issues relating to finance and technology are fundamental to the success of any global strategy to address climate change. The initiatives for providing the required financial flows to the developing countries for addressing climate change have to ensure not only that the resources are new and additional and do not detract from the ODA, but that these resources are provided in a manner that is consistent with the international obligation of the developed countries in the UNFCCC.

It is equally important to facilitate international cooperation to transfer clean, environment friendly technology from the developed to the developing countries at affordable prices. The challenge of climate change is huge and so is the requirement of funds. In any strategy, we have to address the issue of magnitude of funds required, manner of raising them and the governance of these funds through a mechanism which is consistent with the UNFCCC principles.

Developing countries are the most vulnerable to adverse effects of climate change and our efforts have to support the adaptation strategies in these countries. The developing countries look up to the World Bank Group to support their development efforts as market forces will play only a limited role. In this context, a higher support for adaptation efforts in the Climate Investment Funds, than the US$500 million envisaged, is called for. Similarly, in relying on the private sector for mobilizing additional finance in the proposed strategy, we have to be mindful of the additional costs that this imposes on the industry in terms of cost of technology and, in conformity with the UNFCCC principles, this additional cost both for mitigation and adaptation, needs to be compensated.

We fully subscribe to the shared vision of the international community on future actions for addressing climate change. It is essential for everyone to recognize that the basis of international cooperation in this regard lies in the UNFCCC principle of “common but differentiated responsibility and respective capability”. No attempt at addressing climate change in a collaborative and cooperative manner will succeed unless it is based on fairness and equity embodied in this principle.

There is no escape from the reality that for fast emerging developing countries consumption of commercial energy will increase, and even with continuing decline in energy intensity of GDP growth. On its part, India is committed to evolve and pursue a strategy of environmentally sustainable development, both for reasons of our own vital national interests as well as our role as a responsible member of the international community. We have formulated our National Action Plan on Climate Change and have committed to ensure that our per capita carbon emissions will never exceed the average of the per capita emissions of developed countries.

All the countries have to do their bit to ensure the success of global efforts for mitigation and adaptation in accordance with the Action Plan adopted at Bali last year. They also have to engage in a constructive manner in the international negotiations on climate change. As regards the World Bank Group’s strategy,
it has to remain consistent with the principles of the UNFCCC and aim at supporting evolution of the institutions and policies that facilitate the climate change-related actions of the developing countries.

Voice and Participation

Purpose of Voice Reform

Multilateral institutions exist in a dynamic, evolving world and have to periodically realign their structures, functions and procedures to meet current requirements. In the absence of such readjustments, there is a danger of these institutions losing relevance, legitimacy and interest of their clientele. The ongoing Voice and Participation reform process at the Bank is a step towards reorienting the Bank to meet the requirements of the coming decades. It is an opportunity to make the Bank a more responsive, credible and relevant organization so that it continues to play a vital role in global economic affairs and to realign the Bank’s role in pursuit of the vision of a “more inclusive and sustainable globalization”. This is an opportunity that must not be lost and, therefore, no attempt should be made to rush through elements which would not meet the long term purposes of this reform process.

The changing dynamism of the global economy, the evolving weights of developing and emerging market economies in the global scenario and their stake in the development process needs to be reflected in the governance structure of the World Bank. These countries need to see in the Bank an institution which is relevant to the developing world’s economic development agenda. They also need to see a greater role for themselves in the strategic agenda setting processes of this important global institution.

Further, we know that there are many new challenges emerging across the globe, many in areas which are termed as global public goods. Climate change, global warming, rising energy costs and rising food prices are some to name a few. In all these areas, there is a critical role for the Bank as a thought leader, opinion maker and lead financier. If developing countries have to see a role for the Bank in addressing these challenges, they need to see a role for themselves in the long term agenda setting for the Bank and in its operations and staffing.

Our View on the Package

The element in the package which gives us most satisfaction is the proposal for an additional Board seat for Sub Saharan Africa. We strongly support the consensus on this element. This step was long overdue and must be given effect to at the earliest to redress the skewed representation and constraints on work effectiveness which the region has been facing. We also fully support the proposals envisaged for other aspects of the two dimensions of voice relating to effective representation at the Board and responsiveness to DTC views on development, particularly on the selection process of the President, enhancing diversity in management and decentralized decision making.

However, we are disappointed by the proposals on the most important dimension of Voice, namely ‘Voice as voting power and shareholding’. The current proposal falls much short of expectations by moving away from being a comprehensive one, a commitment made at the Spring DC meeting. What we have is a miniscule increase of 1.4% in the voting share of developing countries, that too through a mechanical exercise of doubling Basic Votes.

The World is expecting a much more ambitious outcome to ensure a more equitable, enhanced and substantial representation of DTCs. It does not take us anywhere near the ‘parity’ which has been discussed as a goal of the reform process. Let us not be lulled into believing that significant progress can be achieved by the proposal that leaves the progress on realignment to be fulfilled at a future date.
We support the increase in Basic Votes; we are suggesting only a modification in the sequencing of this increase. We believe that the two aspects of realignment at the IBRD, increasing Basic Votes and realignment of shareholding, have to be addressed in tandem to achieve the objective of equitable and enhanced participation of all DTCs in the Bank’s governance. The proposal for adjusting votes in two phases would severely limit options and flexibility for the final realignment. Therefore, they should be addressed together and not separately.

Way Forward towards a Comprehensive Package

We need to work towards a comprehensive package on realignment addressing all aspects. Share realignment should be based on a formula or criteria that are specific to the mandate of the Bank. Any link with IMF results and mechanical parallelism with the IMF should be given up once and for all, given the completely different mandates of the two institutions. While identifying new criteria for a reallocation framework for the World Bank, relative weights in the world economy should be given the primary role. This is best captured by GDP calculated in PPP terms. The Bank uses GDP PPP data rather than GDP data at market exchange rates for determining poverty levels. The IMF too has introduced this as a relevant variable. How and why has GDP PPP suddenly become irrelevant or less relevant?

We are acutely aware of the intensity of efforts required to bring a consensus on the issue of realignment, but we must not, for the sake of pace, sacrifice the broader objectives and wider contours of reforms that are needed in this institution. With our collective will, we have achieved a comprehensive revision of the quota formula relevant to the IMF and we are confident that we can similarly achieve a result that is relevant to the Bank.

The World Bank is a multilateral institution with immense capacities in terms of its knowledge base, in its expertise in managing the economic development process and in its ability to help countries meet development objectives. Its credibility as a financially robust institution is exceedingly high. It is a global institution which can have great relevance in future, as it has had in the past. By having an ambitious Voice reform outcome, we will not only meet the expectation of the DTCs but also strengthen the Bank and make it a dynamic international organization, which can help in transforming this world into a more prosperous and equitable one.

Statement by Mr. Mr. Carlos Fernández, Minister of Economy and Production, Argentina

Recent Developments - The Role of the World Bank and the IMF in Protecting the Poor

The challenge of sustaining developing countries’ growth is exacerbated by the current crisis. The global economy is now facing its most difficult situation in years, whose consequences are yet to be determined.

Developing countries are better prepared to face this crisis than in the past. Improved macroeconomic fundamentals and a more balanced growth pattern, as well as a sound institutional and policy environment, explain this phenomenon. However, though emerging markets remain on the sidelines of the turmoil, some of them are already coming up against tightening credit conditions. Moreover, a more severe slowdown of the world economy may probably have adverse effects on many developing countries. Indeed, growth prospects for some low and middle-income countries have deteriorated amid the turmoil in global financial markets.

On behalf of Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay.
In responding to the current financial and commodity markets turmoil, governments and international organizations must share a clear understanding of the causes and nature of the current crisis as well as an accurate assessment of its impact on developing economies.

As a development institution whose mission is poverty alleviation, the World Bank must intensify its support to the efforts of low and middle-income countries to improve the resilience of their economies in order to prevent major setbacks that may erode the progress achieved in recent years in terms of poverty reduction. In this vein, the Bank should play a key role in helping countries weather the consequences of this crisis and address the social and structural sources of vulnerabilities.

It is key to ensure persistent robust growth in developing countries. Therefore, the Bank should reinforce its focus on growth and be alert to the factors that may adversely impact on growth sustainability, especially in light of the risks of higher international rates, slowdown in global growth, large volatility in commodity prices and financial contagion.

As to international food prices, their sharp increase in the past years poses significant challenges and presents opportunities for both importing and exporting countries. Structural forces may keep food prices high in comparison to the past decade for years to come, mainly because of high income growth in the developing world, high energy prices, biofuel policies, relatively slow investment for productivity growth, climate change and financial speculation. At the same time, prices are expected to remain volatile.

Given the effects of high prices on malnutrition and schooling, additional donor resources are urgently needed for food supply programs to meet emergency calls. In addition, through more financing and advisory services, the World Bank has an important task to perform: that is, backing emergency measures and helping countries increase agriculture production and the competitiveness of this sector. Specific productivity-related policies are mostly needed to deal in the medium term with the causes of high food prices.

In my view, the Global Food Crisis Response Program is a belated but well-designed and adequate instrument to deal with this problem. I note with satisfaction that projects approved and in the pipeline account for 850 million dollars. I encourage Management to keep responding expeditiously to the immediate needs associated with high food prices and supporting the expansion and diversification of agricultural production.

More broadly, in order to perform these critical tasks, the Bank needs to be more flexible, effective and responsive to its clients’ needs by offering them the best possible lending terms and high quality advisory services, partnering with them, supporting their development policies, and recognizing that there is no single template for development. Admittedly, many steps in this direction have been taken recently, like the streamlining of lending procedures, last year’s belated decision to reduce prices, new local currency instruments or the Deferred Drawdown instrument. But they are just a starting point.

In times of crisis, quality is as important as promptness and quantity. The Bank has a healthy capital base position that allows it to significantly increase lending to middle-income countries if needed, providing considerable room for maneuver. In this sense, it should be able to respond to the different circumstances faced by its borrowers, especially in a potential scenario of increased demand due to rising policy challenges and tightening global financing conditions.
In sum, the Bank should bolster its capabilities to deliver a rapid response by providing immediate countercyclical financial support to affected countries and be prepared to help developing countries address the social development agenda emerging from the crisis.

**Voice and Participation of Developing and Transition Countries**

On the issue of Voice and Participation for developing and transition countries in the World Bank Group, I fully agree with Management that “The Bank’s credibility and legitimacy could suffer without tangible and timely progress on the Voice and Participation agenda”. This expression implies a tacit recognition that the current governance structure of the World Bank Group, characterized by a clear under-representation of developing countries, is not the best arrangement to accomplish the Bank’s mission of development and poverty reduction.

Therefore, I am convinced that an essential part of the final outcome of the reform should be to rectify the existing imbalance by increasing in a meaningful way the voting power of developing countries, individually and collectively. It goes without saying that only a reform targeted towards the aforementioned outcome (even if it were to be achieved in the medium term) would allow us to speak of a tangible progress and would thus add to the credibility and legitimacy of this institution.

The proposals on voice submitted to us betoken some progress in certain dimensions of the voice reform like effective representation at the Board and responsiveness to developing and transition countries’ views on development. Yet, in one of the most important aspects of this reform –that is, shareholding and voting power–, the document attests to only a modest step toward rectifying the existing imbalance, leaving to a second stage the issue of further realignment of shares. This shortcoming could be avoided by setting a substantial increase in the collective and individual voting power of developing and transition countries as the desired goal, to be achieved in accordance with a clear timetable and aimed at attaining an equitable representation between developed and developing countries, without dilution of voting power of any individual developing and transition country as a core objective of the second phase. Moreover, one of the main guiding principles of the reform should be that the increase in voting power for some underrepresented developing countries should not come at the expense of other developing countries. A reform based on a reallocation among developing countries has no sense at all.

Regarding the criteria for further allocation of shares, I believe the reform at the Bank should not be linked to the reform at the Fund and that the IMF’s quota formula should not be the main element to determine Bank shareholding, especially since there is no legal obligation to follow the Fund.

There is a need to explore other criteria more relevant to the WBG mandate and role that consider, for example, the weight of nations in the world economy (like a formula using PPP) or the importance of some developing and transition countries as Bank’s borrowers.

The contributions of IBRD’s borrowers to the Bank’s mission are well known and deserve to be considered when analyzing the relevant criteria for shareholding realignment. IBRD’s borrowers are home to the great majority of the world’s poor, make important contributions to the Bank’s financial health, and help build the Bank’s global knowledge capital by generating rich and practical lessons on what does and what does work in development.

As to the concrete options of the proposed package, I broadly agree with most of its elements. I support the approach taken to raise IDA part II voting power by encouraging all part II countries to take up their already allocated IDA subscriptions in order to eliminate the discrepancy between the volume of IDA allocated votes and the actual distribution of voting rights. We believe there must be more chairs representing developing countries at the Board. Thus, I strongly support the proposal to add an additional
Executive Director to represent Sub-Saharan Africa at the Board. I also concur with the importance assigned to the critical issue of Board effectiveness and internal governance. There is a need to further strengthen the Board’s effectiveness and its capacity to exercise all the power delegated by the Governors, particularly when it comes to deciding on policy and strategic issues and controlling the Bank’s operation and organization. I also see merit on the proposed process for selection of the Bank’ President and the advanced measures towards deepening responsiveness to developing and transition countries’ views on development. As to IFC, the fact that the voting power of developing and transition countries currently stands at only 31.8 percent speaks volumes about the need for a voice reform in that entity. As with IBRD, a substantial reform including an increase in basic votes is certainly needed. Finally, regarding the proposed doubling of basic votes, I view this measure only as part of a comprehensive package of realignment of voting power and shareholding aimed at achieving equitable participation of all developing and transition countries.

On the way forward, I fully support the notion that this should not be a one-time reform but rather an ongoing process. Despite my concerns that progress with regard to IBRD shareholding is modest and not far away from the status quo, I can accept a phased approach, provided that the remarks I made before are duly incorporated, especially with regard to substantive increase in the voting power of developing and transition countries, equitable participation, no dilution and the principle that any increase in the voting power of developing and transition countries should not come at the expense of other developing and transition countries. The only way to advance in phases is by having clarity with regard to the end product.

I welcome the adoption of the long-awaited Strategic Framework on Development and Climate Change for The World Bank Group. This framework embodies the World Bank Group’s response to development challenges under climate constraints. In my view, its integrated approach has the potential to add coherence and effectiveness to the WBG’s work in support of developing countries.

The WBG’s contribution to sustainable development will highly depend on an effective implementation of this framework, which should be: (i) focused on the Bank’s core mandate of development and poverty alleviation; (ii) demand driven and based on a constructive and permanent dialogue with clients, (iii) tailor-made to meet the particular needs and priorities of different countries and (iv) in support of national development programs.

Climate change has the potential to revert the hard-won development gains of last decade and poses risks to the achievement of the Millennium Development Goals. The framework rightly points out that “one of the main features of climate change is a major asymmetry in the distribution of the causes and impacts across countries. Industrialized countries have contributed most to the existing stock of emissions in absolute terms and on a per capita basis, while many of the developing countries are likely to bear the brunt of the impacts”. The challenge of climate change requires global responses and cooperation among all countries that acknowledge their common and differentiated responsibilities. In my view, due to the unfair distribution of causes and impacts, special attention should be given to the issue of adaptation by providing technical and financial support and, in particular, by financing stand-alone adaptation projects. It is also critical that any mitigation response be designed and implemented in a way that does not hamper or hold up development. Accelerating or sustaining high economic growth remains critical for developing countries. Development and poverty alleviation efforts are constrained by the added costs and risks of climate change. It is up to developed countries to demonstrate leadership by providing adequate assistance to the developing world in order to offset such additional costs.
In this vein, it is worth noting that in recent years, financial assistance for development and climate actions has fallen well short of the huge existing needs. We are now meeting at a time of great uncertainty with regard to the world’s financial and economic prospects, which may pose an additional risk to resource mobilization to address climate change issues. In this context, it is critical to receive reassurances that financial resources—which must not come at the expense of neglecting other development needs—will be additional, predictable and readily available to carry out climate actions.

In sum, I am confident that with a sound implementation, this framework will help developing countries access additional financial resources, technology, technical assistance and knowledge to employ them in the context of their national policies and programs. Undoubtedly, thanks to its global reach and knowledge base, the WBG is well positioned to contribute to the climate agenda. Notwithstanding, it is worth reiterating that the United Nations Framework Convention on Climate Change continues to be the central multilateral framework for cooperative action to address climate change.

**Statement by Mr. James Flaherty, Minister of Finance, Canada**

As the global economic environment becomes more uncertain, with decelerating global growth prospects, financial market turbulence and heightened inflationary pressures, the need for strong international cooperation becomes more critical. In this respect, a credible, effective and legitimate global institution like the World Bank that can help support and sustain this cooperation is a tremendous asset.

The World Bank has two strengths that are especially relevant in this context.

The first is the high level of advice and financing that it can provide to developing countries to help them in these uncertain times. Keeping in mind that the relatively high growth rates achieved by developing countries over the last few years were realized in a period of low inflation, international access to capital and strong demand, maintaining growth and making progress towards development goals in the current environment will be more challenging.

The effects of the current economic turbulence may be starting to be felt in emerging markets, and over the coming months may begin to reach the lower-income countries, many of which have already been hit by the food and fuel price crisis over the last few months. In this period of uncertainty, the World Bank can play a role in helping developing countries through some of the effects, including protection for the most vulnerable segments of the population, as well as with ongoing efforts to put in place strong institutional and regulatory frameworks so that countries can be more resilient in the future.

The World Bank’s second important strength is its ability to bring the international community together to tackle global issues. A clear example is the World Bank’s response to the higher food and fuel prices over the last few months—it was a central force in raising international awareness of the issue and catalyzing collective action. We would like to congratulate President Zoellick and his staff for the quality of their work and their strong leadership on this complex, but urgent, issue.

Climate change is another global issue on which the Bank is playing an important role in terms of helping to broaden our understanding of the effects on development, encouraging international dialogue on

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10 On behalf of Antigua and Barbuda, Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.
appropriate actions, and developing a strategic framework to guide its operational responses and how it works with international, regional, national and local actors.

These strengths have made the World Bank an important asset for the international community as both a development partner and a global convener. However, its ability to play these roles into the future depends to a great extent on how much credibility and legitimacy it maintains. The Bank needs to maintain full credibility as a development partner that respects its client countries’ development priorities, and full legitimacy as a global institution in which developing countries, countries with economies in transition and developed countries are all properly represented, in order to maintain its capacity to lead. For these reasons, the Bank’s voice and participation reform exercise is very important for the institution’s continued success.

Food and Fuel Prices

High global food and fuel prices continue to be a critical development concern, and we commend the Bank and the International Monetary Fund (IMF) for drawing early attention to the crisis and helping to place it high on the international agenda.

This crisis requires a rapid and effective response. In this regard, we welcome the prompt action taken by the Bank to facilitate a coordinated and multi-faceted response. With offices in more than 100 countries, the Bank is well positioned to integrate a response to the food crisis directly into existing country programs, aligning with the country’s priorities in harmonization with other donors.

Likewise, we are pleased with the prompt action by the Fund to provide advice, technical support and in some cases funding through Poverty Reduction and Growth Facility programs. We also welcome recent reforms to the Exogenous Shocks Facility to make it a more effective crisis response tool.

We note that with regard to our small island states members, many of which are designated as middle-income countries and are heavily indebted, increasing food and fuel prices will undoubtedly aggravate their debt positions and further exacerbate social issues. We urge the Bank to examine options available to these vulnerable states, specifically in regard to: analysis of their debt situations and potential remedies; supporting their response to rising food and energy prices; and help in accessing donor resources.

Action is not only needed to relieve the immediate effects of the current food crisis. As the recent High Level Event on the Millennium Development Goals (MDGs) noted, the first MDG, to reduce hunger by half, is unlikely to be met by 2015. Thus, food security is an ongoing and serious problem that must not be forgotten once the current crisis is no longer at the top of the international agenda. As an illustration of the size of the challenge, it is expected that food production in Sub-Saharan Africa will need to double or even triple over the next few years to meet local demand.

In this context, we encourage the World Bank to focus on investments to promote sustainable forms of agricultural production, especially those that would benefit smallholder farmers who are most in need of support. It is especially crucial to ensure that programs are designed to be equitable and to meet the needs of the most vulnerable, often women and girls. Another key part of the solution will be to foster innovations for increased agricultural productivity, including through public-private partnerships.

Accra and Doha

This is an important year for major development initiatives on Aid Effectiveness and Financing for Development. These represent two further examples of international dialogues in which the World Bank has a considerable role as a development partner and global institution.
The third High Level Forum on Aid Effectiveness was held in September in Accra, Ghana, as a follow-up to the 2005 Paris Declaration on Aid Effectiveness. The World Bank has been an important participant in this effort, helping to set the agenda, identify good practices, monitor implementation and lead by example. We commend the Bank for its progress to date, especially on decentralization of staff and decision making, and for developing a new action plan for the areas in which it needs to step up efforts. In particular, we look forward to an agreement between the World Bank and the United Nations on easier and quicker collaboration in the context of fragile and post-conflict situations. We also look forward to the World Bank’s support in implementing the new Agenda for Action agreed in Accra.

An international conference on Financing for Development will be held in Doha in November to review the implementation of the 2002 Monterrey Consensus. In this context, one key challenge for developing countries is to align their different sources of finance, including domestic resources, aid and debt relief, towards a common set of development goals and, to this end, strong country-owned development strategies are essential. We urge the World Bank and IMF to continue working with their client countries, and other partners and stakeholders, to promote and strengthen country-owned strategies and their use as the platform for coordinating efforts. The World Bank will also have an important supporting role in ensuring that the outcome of the Doha Conference reflects a balance between the respective responsibilities and commitments of both donors and developing countries.

World Bank Reform

Another significant element of the Monterrey Consensus was the IMF and World Bank’s commitment to enhance the participation of developing and transition countries in their decision-making processes. This is an important objective, and we are pleased with the agreement achieved on quota and voice at the IMF last spring. Similarly, we are pleased with the discussion and work to date on the World Bank’s voice and participation reform exercise, and we will continue to support and participate in these efforts.

Adjustments to increase the voting power and shareholding of developing and transition countries and an additional seat for Africa at the Executive Board are important components of voice reform, and we look forward to agreements on these options. We believe that further measures to improve focus and communication within the Executive Board are equally important, and in this regard we look forward to the World Bank’s management and the Executive Board elaborating a set of specific reforms. We are also pleased with the steps the Bank has taken to improve the voice of developing and transition countries in their operational work, such as the appointment of more developing country nationals to senior management positions and the decentralization of their operations. We encourage the Bank to continue to explore what more can be done in this regard.

Stronger engagement of developing and transition countries in the World Bank’s decision making will yield many benefits. Strong participation of all members at the Board of Governors and the Executive Board will be a key backdrop for the Bank becoming an even better platform to support dialogue and collective action on global issues. It can help improve the design of new sector strategies and instruments as developing and transition countries bring lessons learned from their own country programs to the table. Finally, more voice for the Bank’s client countries at the operational level will help with the success of lending programs by ensuring that projects are properly tailored to country contexts and that governments have a true sense of ownership and accountability over them.

A strong multilateral system is a tremendous asset for the international community, especially in times of economic uncertainty when international dialogue and cooperation become even more important. As a global convenor and major development partner, the World Bank plays a big role in this regard and we continue to support its work.
Statement by Mr. Juan Fuentes, Minister of Finance, Guatemala

The effect of recent economic developments on long term growth and overcoming poverty: the role of the World Bank and International Monetary Fund in protecting the vulnerable

It was only six months ago during our Spring Meetings that we focused our attention on the hard-hitting increase of the food and energy prices, its impact on poverty, and the responses and support expected from the World Bank Group (WBG) and the International Monetary Fund (IMF). We were aware that after having observed a long period of economic growth in most regions, future prospects were tainted by the incipient problems derived from the subprime markets, higher inflation and slower growth of high income countries. Even when the developing world had shown greater resilience, the downturn in the world’s economy was bound to affect it.

Both the WB and IMF have pointed to the impact the “twin oil-food shock” is having on the macroeconomic stability of many countries, deteriorating their terms of trade, and imposing complications due to mounting inflation and its second-round effects in wages and other prices. The policy responses to the twin shock – including tax reductions and relief, subsidies, social transfer programs – bare significant fiscal implications, exacerbated at times by the expected monetary responses to control inflation. To this effect we believe that actions taken so far by the World Bank (i.e. expanding the access to additional budget-support operations and implementing a rapid financing facility for the most vulnerable countries), should be complemented with a more bold analytical response on behalf of the IFIs, explicitly stating the pros and cons of these measures under country specific scenarios. As long term development allies, the IFIs are in a privileged position to analyze and fully appreciate the consequences of not acting with the appropriate set of policy responses, or with the celerity warranted.

In the case of highly fiscal vulnerable states, aid dependent countries and those facing debt sustainability issues, we consider that further support to short term responses aimed at increasing fiscal space (i.e. additional financing and aid), should be prioritized by IFIs and the donor community as a whole. Not attending these needs would mean jeopardizing advances in poverty reduction, and those derived from debt relief.

Now, as the financial turmoil has acquired unforeseen dimensions, our concerns are that the ripple effects will hit the developing world even harder, endangering the progress towards the attainment of the Millennium Development Goals (MDGs). If under a more benign context the World Bank’s role has been considered key in partnering with countries to reduce poverty and promote growth, in a situation as we face today its role is even more relevant. Unfortunately under a stress scenario, hard earned accomplishments can be overturned from one moment to the next. Rather than waiting to rebuild, countries must react as soon as possible to avert major backtracking, and the Bank should stand ready to offer the necessary support in these efforts.

We are starting to observe that the present crisis will mean an economic slowdown of a serious nature, affecting the developing world’s growth, reflected in lower levels of exports, investment and overall productive capacity. As the spill over effects of the financial turbulence continue to unravel, countries could be faced with serious liquidity constraints as access to market-based sources could abate. To this effect we call for the Bank to provide the required financial resources and technical assistance to its

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11 On behalf of Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, República Bolivariana de Venezuela.
clients, including middle income countries. We believe the World Bank’s leadership along with its solid financial and technical capacity allows it to be prepared for the actions to be demanded.

Good coordination and synergy at any one point in time between the institutions that compose the WBG is important to heighten development results; during this difficult period we believe it to be imperative. We would therefore emphasize that when alluding to Bank’s responses, we are compelling to the Group’s collective action, with each of its institutions playing their different but supportive role in the mission towards poverty reduction, and leveraging on each other to maximize the expected outcomes.

Whenever financial sector disruptions are present the risk of having overenthusiastic regulatory and policy responses arises. Such responses could have negative effects on issues which have brought significant benefits to developing countries, such as financial innovation or the progress observed on trade. Considering the WBG expertise and accumulated knowledge, it should be in a position to provide relevant analytical support, and when appropriate, advocate for reasonable policy corrections that take into account the needs of the developing world.

Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform

We are confident that today’s discussion on Voice and Participation will be an opportunity to show the world that the international community is ready to stand together in the time of crisis, and is committed to move forward in strengthening the Bank’s legitimacy, credibility and accountability through a reform of its governance structure. We acknowledge the complexities derived in accomplishing the objectives of increasing the organization’s responsiveness and capacity to respond to its shareholders and clients, while keeping in mind the distinct nature of the Bank’s development mandate. Nonetheless, supporting these reforms will fend the Bank’s legitimacy so it can successfully assist and guide some of the collective actions needed to be taken in the future.

After an extensive and consultative process among shareholders, Executive Directors and DC Deputies, we believe that the document presented today assertively proposes a basic reform package on which to move forward. Based on the goals and guiding principles of the Voice reform, as well as an objective yet pragmatic analysis of the available options, the proposal presents an acceptable set of complementary measures regarding voting power and shareholding; strengthening of Board representation and effectiveness; and enhancing Voice and Representation in the work of the WBG.

As with all negotiations among international partners reaching a consensus means leaving behind many legitimate individual viewpoints. Notwithstanding, we believe that the shareholder’s commitment to the Bank’s mission will prevail in the decisions to be taken, and that an endorsement of the proposed package will mean a positive outcome for the Bank and most important, for the countries it seeks to serve.

We welcome the fact that the proposed package recognizes the need to continue making progress in the overall adjustment of voting rights and shareholdings; that the relative weight in the global economy remains the bedrock of IBRD shareholding; and that other important factors such as a member’s commitment to the WBG mandate will also be reflected in the review. Ignoring such aspects would be undermining the fairness that had been sought in earlier experiences in adjusting voting power of several member countries.

Although we would have preferred to see each and every element in the package show simultaneous progress in its implementation, we are satisfied that the proposed package sets a clear path and timeline to assure that all of its components will be fully analyzed and actions will be taken, not only to further realign IBRD shareholding for all members, but to continue discussing the options to strengthen Board
effectiveness and internal governance. We look forward to hearing of the progress achieved by the next Spring Meetings.

On basic voting rights, we consider doubling their amount and securing their weight regardless of future changes to be a satisfactory compromise to increase DCT voice. We agree with the proposed exceptional allocation of IBRD shares for subscription to mitigate the decline of DTC member whose voting power would otherwise decrease. Any remaining unallocated shares could be made available for subscription by members representing special cases.

In order to fully reap the benefits of the reform actions, we concur with the call for Part II countries to make every effort to take up their unsubscribed IDA subscriptions, and with this show for the developing countries’ pledge to multilateralism, its benefits and obligations. We also note that an additional chair on the Board for Sub-Saharan Africa, accompanied by continued efforts to increase staff diversity and field presence, will be important elements to achieve the desired objectives.

Finally we welcome the inclusion of addressing the process for selection of the Bank’s President. Reforming the selection of the heads of the Bretton Woods Institutions will be a clear and unmistakable signal of the shareholder’s commitment to enhancing the institutions’ governance structures.

Development and Climate Change: A Strategic Framework for the World Bank Group

Addressing climate change is without a doubt one of the major challenges faced today as it poses a threat to the world’s long term prosperity. Given the magnitude and scope of the task before us we would like to start by welcoming the Bank’s engagement in the fight against climate change. Amid ongoing international negotiations a decision could have been taken to postpone or delay any involvement until further political advances and consensus were reached for long term cooperative action. Notwithstanding, the World Bank Group has taken the bold decision to address the issue, clearly delineating it within the realm of its core mission for supporting growth and poverty reduction. We congratulate the institution for taking advantage not only of its comparative advantage as a financial agent, but of its convening power and technical expertise to support countries as they play their part in confronting this overwhelming task.

Guided by the principle of common but differentiated responsibilities and respective capabilities as set forth by the United Nations Framework Convention on Climate Change (UNFCCC), we believe the Strategic Framework for the World Bank Group to be a solid foundation for the Bank’s engagement as it seeks to expand its knowledge and understanding of the links between climate change and development. The Framework sets out the scope, seriousness and complexity of the matter at hand, but also identifies areas where opportunities could and should be sought through immediate, medium and long term actions. To this we would add our satisfaction with the outreach and participation process that underpins the design of this work and which is a key aspect to building further support for the Bank’s future work.

The document before us brings forward several issues which we consider worth highlighting. First, the recognition that climate change demands unprecedented global cooperation and that equity and fairness in achieving such arrangements is crucial. Second, that climate change imposes an added cost to development efforts and that mobilizing additional resources to fund them is a fundamental premise for moving forward. Third, that in scaling up the World Bank’s operational response to climate change, sight should not be lost of its core mission for growth and overcoming poverty, and it’s commitment to partnering with developing countries, continuously reinforcing the need for country based and country led approaches.

On the strategy itself, we believe it to be broad enough to adjust itself to future international negotiation outcomes without constraining Bank’s participation in the short run. Considering the magnitude and
urgency of reacting, we welcome the WBG’s ongoing efforts supporting climate change adaptation and mitigation, as well as access to energy for the poor. We fully support the Group’s multisectoral and programmatic approach to this matter and believe the strategy will provide a solid foundation for future sector strategies.

We concur with the views that close coordination and collaboration with the different participants (governments and relevant international organizations) involved in the fight against climate change is crucial, and that each will play a part based on their comparative advantage and a clear division of labor. Notwithstanding, we would like to stress our belief that the WBG has an important advocacy role to play on behalf of the poorest and most vulnerable countries, considering they will be the ones to suffer most the adverse consequences of climate change, and consequently carry the higher burden of its adaptation.

In supporting countries adapt to the negative consequences of climate change, the WBG’s efforts should gear towards the poorest; nevertheless the most vulnerable - regardless of their size or income level-, should also occupy top priority in the Bank’s agenda. This is particularly relevant as many of our client countries are at risk of reversal in the progress achieved in terms of economic growth and development due to the shocks resulting from natural disasters.

This is particularly the case of vulnerable middle income countries like those in Central America. It is worth noting that two of the five countries in the region rank among the top five natural disaster hot-spot countries with more than 30% GDP in areas at risk due to two or more hazards, three upon the top ten and four amongst the first twenty. Extending this argument to include the Caribbean states only reinforces the argument. We therefore welcome the institution’s commitment to continue working in close collaboration with small, highly vulnerable, middle income countries in the Latin America region, and in providing financial and technical support, but at the same time encourage the Bank to identify, promote, assist, and overall be more vigilant to sub regional efforts that are currently underway or that could be undertaken. The Bank’s successful involvement and accumulated knowledge of individual countries allows it to approach the challenges posed by climate change from this sub regional perspective. We believe the Bank should not shy away from these efforts because of the added complexity they could bring to operations.

We concur that the six areas for action contained in the framework open valuable opportunities to further develop tools for addressing both adaptation and mitigation. Within these areas there are specific elements which we believe should be underlined. One of them, the importance of recognizing the critical role that the responsible management of forests plays in improving living conditions of rural populations and in mitigating climate change effects. We welcome the Framework’s support to forestry in all of its dimensions (afforestation, reforestation, restoration of degraded forest and sustainable use of bioenergy), but particularly on recognizing the benefits provided by ecosystems and biodiversity; and the need to be more explicit on actions to be taken in increasing resilience in agriculture. We would also like to emphasize the key role that Carbon Markets, and particularly the Clean Development Mechanism, should play as an efficient tool to promote mitigation through long term investments in developing countries. We welcome the World Bank’s leadership in this challenging field and the initiatives under development such as the Carbon Partnership Facility.

The approval of the Climate Investment Funds and its recent successful pledging of resources are notable experiences whose future interventions will likely provide valuable lessons and results. The institution’s efforts are also recognized in its support to identifying and introducing emerging technologies, including new renewable technologies, and Carbon Capture and Storage for oil and coal applications in interested client countries.
As already mentioned, mitigating and adapting to climate change will undoubtedly increase the costs of development, bearing its effects on both public and private sector interventions. We believe the Bank is in a privileged position not only to support its public and private clients, but encourage and boost their close collaboration. We exhort IFC and MIGA to take a more proactive stance towards promoting private sector funding and resource mobilization to face up to the challenge imposed by climate change. We welcome the actions taken thus far, but do caution against imposing an undue burden on the design of forthcoming operations.

Finally, we encourage the WBG to step up its policy research, knowledge and capacity building agenda, and most important to further analyze the implications that the required actions bear on fiscal and expenditure policies, trade and competitiveness, social safety nets, and governance.

Statement by Mr. Aleksei Kudrin, Deputy Chairman of the Government and Minister of Finance, Russian Federation

Recent Economic Developments and Their Impact on the Prospects for Economic Growth and Poverty Reduction: The Role of the World Bank and IMF in Protecting the Vulnerable

Maintaining the global financial stability was central to the Bretton Woods institutions after the crisis of the 90s. Now, however, the problems are too serious to be tackled by the existing international financial architecture. To address these problems we have to combine wisdom, resources and strength of all major economic actors, including the recently evolving ones. In Evian the President Medvedev underscored that the traditional mechanisms, including the G8 and other fora, should be augmented by a new process with a wider participation. We should make sure that the financial crisis is dealt with in a way which leads to unification of the world economic space and makes benefits of globalization truly inclusive. We are glad to learn that these ideas are shared by many others, including President Zoellick.

The crisis worsened economic development prospects even for those countries that have made tangible progress in acceleration of economic growth and their fight against poverty. At present, it is difficult to assess the full extent of the resulting damage to the world economy, as the magnitude of the losses of financial institutions, the directions in which the crisis will evolve and the impact of the proposed stabilization measures are not yet known. Nevertheless, it appears that those countries that enforce budget discipline, have accumulated sufficient external reserves and created effective regulatory systems in the financial sector find themselves in a better position to resist external shocks.

We need to develop systemic measures to minimize the price that the developing countries have to pay for the financial crises and unanticipated price movements for which they are not responsible. This, in our opinion, would be the biggest contribution that the Bretton Woods institutions can make to sustainable development under globalization.

In this context we would like to express our support to the World Bank's efforts in the area of food security. Led by President Zoellick, the Bank was able to concentrate and deploy considerable resources in order to assist the countries affected by the tightening in grain markets. It might be also appropriate to revisit the global food architecture and design some longer-term policies aimed at stability of global food supply and shielding the poor from the price movements of the magnitude we witnessed in 2007-2008. Since the historically low level of global grain stocks is often referred to as one of the main causes of the food crisis, some new ideas, like multilateral management of emergency and buffer stocks, should not be excluded from consideration.
Climate change is becoming a serious threat to sustainability of international development. It has the biggest impact on the developing countries where it is turning into an obstacle to economic growth and poverty reduction. Preventing and mitigating the impact of climate change require collective action by the entire international community while recognizing the differentiated responsibility and a particular role of each country in addressing these issues. We support the strategy proposed by the World Bank and consider it a timely and important step.

However, as we stated before, for the developing countries, their socio-economic development will remain the main priority for a long time to come. Once they have made significant progress in this, only then will they be able to focus fully on addressing the challenges of climate change. This is particularly the case for the countries of Sub-Saharan Africa, where overcoming energy poverty is of critical importance. We believe it would not be fair to impose artificial restrictions on the poor countries’ use of traditional, cost-effective technologies. At the same time, energy conservation and energy efficiency should be encouraged, and World Bank resources, among others, can be used for this purpose. Improving energy efficiency in the extraction, transportation and processing of energy resources could reduce pollution and energy consumption in the developing countries while limiting burden on their national budgets.

We are satisfied that the Bank’s strategy pays significant attention to measures aimed at expanding the developing countries’ access to clean energy technologies. A breakthrough in this area is not possible without making such technologies more competitive. Creation of a mechanism for financing a mass transition to alternative energy sources and technology transfer to developing countries is of critical importance. We note that some practical steps in this direction have been already made with assistance from the Bank.

We also believe that nuclear energy, condition to implementation of the modern technologies and introduction of highest safety standards, can play a major role in meeting the growing energy demand without raising GHG emissions and, hence, can help to address the challenges of climate change.

Forest preservation and management is another direction where opportunities for progress exist. Unfortunately, failure to create incentives has prevented advancement in this direction. We believe that promotion of sustainable forestry should become a priority objective for the World Bank Group.

**Voice and Participation of the Developing and Transitional Countries in the World Bank Group**

The voice debate is taking place at a historic moment and offers an opportunity to better prepare the Bank for the 21st century and raise its role in responding to the global challenges. A stronger focus on the results and clarity of the reform objectives, principles and decision-making criteria could enhance the chances for success. Unfortunately, such clarity is not there yet. Nevertheless, we are prepared to support the measures proposed at this stage as a first step in addressing the challenges of institutional reform that may take some time.

A comprehensive reform of the Bank's governance should include the following:

- Modernizing the Bank’s governance structure in order to raise its effectiveness in fighting poverty, supporting economic growth and promoting global public goods, and, as a result, securing the Banks’ relevance in the global economic architecture. It is important to complete the work of the Board of Executive Directors on the review of WBG’s internal governance that is being carried at our request.
Advancing the strategic planning reform initiated by the Bank’s President a year ago in order to raise the Bank’s significance, legitimacy as well as its accountability to the DTCs. We commend the President for the substantial enrichment of this strategic agenda in his thought-provoking pre-meetings speech earlier this week.

Ensure adequate DTCs involvement in the Bank’s decision-making and their representation in the World Bank management based on the principles of merit and transparency. Such measures would better reflect the DTCs role in the global economy and their contribution to economic growth.

Specifically, the objectives of voice and participation reform should be achieved through a transparent process based on clear guiding principles. We believe that those, *inter alia*, should include the following:

- DTCs should play a bigger role in the affairs of the World Bank including by means of an increase in their voting power. This is important in order to preserve the Bank’s legitimacy and significance, particularly in countries with fast growing economies.

- The economic transformation of Africa is one of the key priorities for the Bank in its fight against poverty. Hence, strengthening the voice of Africa in the Board of Directors by creating an additional chair representing Sub-Saharan Africa is a measure of utmost importance. And this could be the first practical result of the reform.

- Any realignment of voting power ought to be based on Bank-specific criteria. We should avoid copying mechanically what is done in the IMF, as the objectives of the two institutions are different.

- Reduction of voting power of individual DTCs should be avoided in such realignment. Otherwise, this would be in conflict with the reform objectives.

The role of the Bank as a truly global institution should be carried into the future. The reform that we are discussing is a part of the efforts to turn the World Bank into a more dynamic and representative international organization capable of providing effective assistance to member countries and helping to find answers to global challenges.

**Statement by Ms. Christine Lagarde, Minister of the Economy, Finance and Employment, France**

These Annual Meetings of the World Bank and IMF are taking place against a difficult backdrop for the global economy. In keeping with its tradition, France is strongly advocating a multilateral approach to manage this crisis, and the Bretton Woods institutions would naturally be the cornerstone of the response recommended by us. This is even more the case when it comes to intervening in developing countries, where the IMF and World Bank remain the only multilateral instruments with the adequate financial expertise, resources, and global presence to help those countries face the difficulties ahead.

In order to be relevant to the developing countries, however, our Institutions need primarily to work out a response that is truly in line with realities on the ground: (i) They must also enhance their legitimacy by carrying out an ambitious governance reform program; (ii) develop a strategic vision, based on a sustainable business plan, and (iii) finally, the challenge today is to anticipate the crises that will be affecting the poorest countries tomorrow.
The Bretton Woods Institutions will be the cornerstone for any adequate response to the impact of the crisis in the developing countries

Industrialized countries have to support the efforts of the Bretton Woods institutions to fight the consequences of the different crises in food, oil and finance, which are hurting developing countries most. The financial crisis is indeed becoming a challenge for developing countries. Two transmission channels have to be particularly monitored. The first is the direct impact of the global slowdown on their exports. The second is related to the credit crunch and the drying-up of financial markets, which sharply curtail their already limited access to international capital markets. In both cases, the best response is to restore the stability of the global financial system. This is what we will all together work on today, as highlighted in the action plan endorsed by the G7 and the IMFC.

In this context, it is essential for such a response to be coordinated across the international financial community. In my view, the IMF should play a central role in this coordination effort to address the crisis and help restore the macro-economic and financial stability; an intervention of the IMF indeed guarantees a consistent, effective response from all actors. Such an approach will leave ample room for development banks to intervene in crises. Whether by providing project aid or budget support, they can help finance the reforms required to restore sound economic conditions in countries with only limited access to other sources of funding such as capital markets.

In this respect, the engagement of the World Bank is important to support poverty reduction strategies and I would like to commend President Zoellick for his proactive stance demonstrated by reallocating USD 1.2 billion to those countries most vulnerable to rising food prices. I especially appreciate the creation of the global food crisis facility, including contributions from the Bank’s own income, as I called for last April. Commodity prices have recently started to ease off, but in a large number of countries, the food crisis is still a dramatic issue. To this end, creating a global food security partnership, covering the political, scientific and financial aspects of the problem, as called for by President Sarkozy, must continue to be a leading priority for the international community.

To remain relevant, the Bretton Woods Institutions must strengthen their legitimacy by carrying out an ambitious governance reform

The successful reform of IMF quota shares last April should be a source of satisfaction to all of us. It is now time for the World Bank to maintain the momentum to successfully complete governance reform. Today, the Governors will discuss a comprehensive package that, if agreed, would enable the Bank to make substantial and immediate progress in that direction. Although I have continuously advocated for a more ambitious reform, I believe that this package represents a significant step forward to further increase the legitimacy, credibility, and effectiveness of the World Bank. The additional chair for Sub-Saharan Africa will enhance the voice of the poorest countries at the board. The reform significantly strengthens the voting power of the poorest countries in both the IBRD and the IDA. In addition, we fully support the more transparent selection process of the President, which will be open to all candidates irrespective of nationalities. Our regret is that the OECD countries will be shouldering the burden of this reform alone, whereas certain emerging or transition countries that are over-represented will not contribute.

All in all, France finds that this proposal is acceptable, as it provides for a second stage that would make it possible to address the issue of realigning voting power based on equitable representation. However sensitive the issue may be, such a discussion is a necessity. To simplify the process ahead, we should use the actual outcome of the IMF negotiations to reflect the evolving relative position of members in the world economy and the contributions to IDA to take into account the specific mandate of the Bank.
A formal strategic vision, based on a business plan approved by all, should underpin the World Bank’s efforts in developing countries

A year ago, President Zoellick set forth his strategic vision for the World Bank to the Development Committee, with inclusive and sustainable globalization as the overarching concept. This strategy is still valid today, but it needs to be formalized, refined and weighed against the vision of the Bank’s main partners, first and foremost its shareholders. It is important for this discussion to lead to clear, well-argued, written strategic orientations. The Bank cannot handle everything or be everywhere; it needs to focus its efforts to achieve maximum impact where it has a proven value-added. That impact should also be more precisely measured and better highlighted. This strategic document may therefore be seen as an opportunity to set for the Bank precise targets in terms of development impact, along with a clear framework for measuring and analyzing outcomes.

Last of all, this strategy should be supported by a sustainable business plan for the institution. It should be recalled that the Bank’s financial situation is ambivalent. While its prudential ratios, backed by substantial reserves, are still quite comfortable, the Bank’s activity runs with a structural deficit, since lending spreads fall below operating costs. Based on work done by Staff, the shareholders will have to devote careful study to the necessary trade-offs between lending rates, operating expenses and revenues generated by the Bank’s capital. The institution needs to achieve a sustainable situation to be able to fulfill its mandate of reducing global poverty. My view is that this discussion, which should reach beyond the sole issue of capital adequacy, should be addressed at the next Development Committee meeting.

Finally, the challenge today is to anticipate the crises that could affect poor countries

Beyond short-term mobilization, the Bretton Woods institutions must work on adapting their instruments to better tackle vulnerability to shocks. Both the creation of a World Bank rapid-response facility to address the food crisis and the discussion on lending instruments in the IMF highlight the need for innovative lending instruments to help shield debtor countries from exogenous shocks, while preserving debt sustainability. For this reason, France and Europe have strongly supported the reform of the Exogenous Shocks Facility, which has just been decided at the IMF. For the same reason we see a particular interest in using the Poverty Reduction and Growth Facility, considering its flexibility. In the same spirit, France recommends the introduction, by the next Spring meetings, of lending and hedging instruments at the IMF and at the World Bank, similar to the highly concessional counter-cyclical loan developed by the French Development Agency.

Lastly, there is a major challenge for the century, which could generate a deep crisis for developing countries: climate change. The World Bank has been involved with the issue for several years and is still stepping up its involvement. I welcome the World Bank group’s strategic framework for combating climate change that is adopted today.

This initiative deserves to be supported and encouraged. In this area, the World Bank will have a major role to play, working in coordination with the Global Environment Facility and other relevant institutions. The strategy put forward is the result of long, patient consultation, and it is completely in line with four priorities identified by France in the fight against climate change. (i) Our efforts must be seen as part of an overall program to promote growth and reduce poverty. (ii) The countries involved should take charge of the process themselves (ownership). (iii) Special emphasis should be placed on Adaptation, which can hardly be dissociated from Development, in close connection with the Adaptation Fund of the Kyoto Protocol. Last but not least, (iv) clean technology must be deployed.

Without funding, however, none of this would have been possible. For that reason, France welcomes the creation of two interim funds that allow for immediate action without having to wait for the international
climate change framework expected to start in 2012. The money raised—roughly 6.1 billion dollars—will make it possible to support the Bank’s efforts and assist the developing countries in pursuing their own clean development and emission-reduction strategies. It is in this spirit that France has contributed US$ 500 million to this initiative.

Lastly, I would like to stress that together, we have a large responsibility to ensure the emergence of a consistent, comprehensive global framework to combat climate change. We already have instruments to provide the foundations for this future architecture. In particular, the Global Environment Facility has a vital role to play, and should in fact be reformed so that it can even more effectively take on future challenges. All of this points to the need to spell out the key principles underlying such an international framework: effectiveness in reducing global emissions, efficiency in meeting those targets at the lowest possible cost, and equity in dividing the necessary effort.

Crisis periods generate even higher expectations than usual in relation to the Bretton Woods institutions. However, those institutions are equal to the task: they have the means to enhance their legitimacy and demonstrate their efficiency, provided that they continue to change as the world changes around them. The shareholders need to put their full weight behind that process—a process in which France firmly intends to take its part.

Statement by Ms. Doris Leuthard, Federal Councillor, Minister of Economic Affairs, Federal Department of Economic Affairs, Switzerland

With the recent spread of the financial turmoil and global economic slowdown, we welcome the opportunity of this 78th meeting of the Development Committee to deepen our exchange of views and analysis on the cumulated impact of the high commodity prices and of the financial turbulences on low- and middle-income countries and to send a clear signal. The current crisis is symptomatic of the challenges of our modern, interdependent and globalized world. Its multiple dimensions and consequences illustrate the limits of individual action by nations and the weaknesses of the “decoupling theory” holding that European and emerging countries would no longer depend on the United States economic engine, but be insulated from a severe slowdown.

More than ever, a strong multilateral system encompassing all nations is needed to mobilize political will, financial resources and technical capacity to deal with the threats to the global commons. The Bank’s Development Committee and Board, in their full composition, are the appropriate governance fora to deliberate and decide on the critical issues which we have to tackle. In this respect, today’s agenda is most timely, and progress on all fronts is required. As a leading multilateral institution, we must send a strong message to the world: a reminder of the primacy of multilateralism to address global public goods; and the demonstration of its capacity to leverage coordinated actions and resources against the alarming impact of global public “bads” on the life of millions of human beings.

Addressing the consequences of the commodities and financial crisis

The combination of high international commodity prices and shortfalls in domestic food availability have led to severe difficulties for the poor, the degradation of living standards for urban middle classes, and social unrest in many countries. Fiscal and social stability are at risk in numerous countries which calls

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12 On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan.
for a balanced mix of measures to address both the short- and longer-term determinants and consequences of the crisis. With its strong presence at country level worldwide, the World Bank Group has a crucial role to play on these fronts, as well as in leveraging resources for a coordinated action. The Bank has demonstrated its capacity to provide a timely response. We wish to express our particular appreciation for the rapid assistance provided to developing countries in designing appropriate policy responses, as well as the fast and efficient establishment and implementation of the Global Food Crisis Response Program. We agree with the President that many partner countries are affected also by the impact of fuel prices. We therefore have sympathy for the proposed additional intervention under the Energy for the Poor Initiative.

However, given the extent of the challenges ahead, the Bank must remain vigilant. A close coordination with the United Nations system and specialized agencies, as well as the International Monetary Fund will be paramount. In addition, while we acknowledge the objectives of targeted individual initiatives, e.g. the Vulnerability Financing Mechanism, we are concerned about the proliferation of ad hoc trust funds and financing mechanisms that create substantial risks of aid overlapping and are jeopardizing aid effectiveness. We urge the Bank to remain cautious in prioritizing its intervention and to build on IDA and its instruments as the main tool and to ensure addiotionality and subsidiarity of complementing action. Furthermore, we are in particular concerned by the fiscal sustainability of the proposed short-term social protection measures for the public finances of low income countries.

Beyond the emergency character of the interventions so far, we now encourage the Bank to reinforce its discussion and review of the structural components of the crisis and longer term prospects for coordinated international action. Possible trade-offs between emergency needs and longer-term sustainability must be further addressed. This includes, for example, agricultural diversification, deforestation, and environmental degradation. Increased cooperation with international centers of excellence must be pursued with a view to having a comprehensive assessment, including the real impact of bio-fuels’ production on the rise of global food prices, and suggesting appropriate response to the current uncertainties.

Overall, we believe that the food crisis can act as a catalyst for the Bank to strongly reengage in agriculture and rural development. The prospects for continuous, albeit more stable, high food prices also represent an opportunity for further poverty reduction in rural areas, increased investment in agriculture, and incentives for higher production, including by small farmers. The Bank has an important role to play in tapping these opportunities. We welcome the planned sharp increase in resources allocation to the agriculture sector, as part of the strategic directions of the WBG. We look forward to be briefed on progress in this regard, by our next Spring Meeting.

In the aftermath of the high energy and food prices, the turmoil in international financial markets has escalated in the past weeks to reach crisis level. Recent economic data confirms the depth of the crisis and the spillovers that have already taken place. In many countries, the real economy will not be left unharmed. Contagion especially to developing countries is taking place, through inflationary pressure, decreased foreign direct investments, increased current account deficits, and higher refinancing costs on tightened international financial markets, and in spite of the improved macroeconomic fundamentals in many countries.

The Bank has an important role to continue to play to help the developing and emerging economies to avert the current crisis and to sustain the path towards achieving the Millennium Development Goals. In this context we are very pleased that the Bank’s prudent financial policies do not impair its own financial solidity (capital and liquidity), so that countercyclical intervention may be activated whenever required. We thank Management and the Board for a prudent application of the policies and fully support a diversified and low risk investment strategy of IBRD capital.
In the months to come, the World Bank and the IMF must jointly undertake a deeper assessment of the impact of contagion at the individual country level, both in a short and medium term perspective. They must also, based on their respective comparative advantage, provide policy advice and capacity building, as well as quick and flexible financial assistance, to mitigate the negative impact on the macroeconomic stability, growth and poverty reduction in the developing countries, especially in the most vulnerable and affected low-income countries. They must continue to be advocates and supporters of an open trading system which is fundamentally instrumental for leading the way out of the crisis.

As the crisis has an important systemic dimension, the WB and the IMF have to be included in the collective efforts to review and strengthen the global regulatory framework and standards of the financial system.

Voice and Participation Reform in the World Bank Group

We welcome the Options Paper submitted in response to our request made at the last Spring Meeting. We appreciate the substantial work undertaken by the Board and Management to provide a solid and comprehensive review of the various options. This work is an essential contribution that should facilitate consensus on how to enhance participation of developing and transition countries (DTC) in the decision making at the Bank.

We have been among the early advocates of an enhancement of the voice, participation, and representation of DTC in the World Bank Group, to better reflect today’s global realities and to ensure improved development effectiveness of multilateral aid. The primary aim of this reform should be focused and should remain on one hand, to increase the voice of the poorest countries and, on the other hand, to adjust the voting power of severely under-represented members.

At the onset of the process, we collectively agreed that a fully defined package is essential for a fair and transparent assessment of the benefits and costs of the reform, overall and for every member. We regret that the proposed options fall short of this agenda and expected outcome. In our view, the actual outcome of the IMF quota discussion had paved the way for a more ambitious move and a potential consensus at the Bank with respect to the IBRD shareholding realignment and Basic Votes increase in favor of the poorest and the severely under-represented members.

In view of the complexity of this issue and the high expectations given to the reform, we are prepared to join a consensus on the adoption, during this session, of the proposed first stage of concrete options – provided that we do not reconsider this outcome at a later stage. In addition, we expect further clarity with regard to the sequencing and deadlines for the work program of the second stage to complete the review of IBRD shareholding. Moreover we wish to reiterate that the actual outcome of the IMF quotas negotiation must remain the starting point of such a review. Further we consider that countries benefiting from a share increase through the realignment of IBRD shareholding should also adequately contribute to future IDA replenishments. We look forward to periodic reports on progress and future proposals for realignment of Bank shareholding within the comprehensive reform package.

Development and Climate Change – A Strategic Framework for the World Bank Group

Knowing that the poorest countries will suffer most from global warming, we welcome the integration by the World Bank Group of the climate change dimension in its core mandate of development and poverty reduction. We commend Management for conducting extensive internal and external consultations in shaping up the Strategic Framework for Development and Climate Change.
We are satisfied with the guiding principles of the Strategic Framework, which acknowledge the primacy of the UNFCCC process and ensure consistency with the recommendations of the Bali Action Plan. We appreciate that the Strategic Framework encompasses IFC and MIGA, thus taking advantage of a comprehensive array of instruments and ensuring an effective Bank Group’s response to climate-related risks in poor countries. Focusing on comparative advantages, partnering with other multilateral and bilateral actors and mobilizing the private sector are other key principles. We welcome the multi-sector dimension of the Strategic Framework; we thus expect sectors such as agriculture, land use, rural development as well as water management and use to become more prominent in the Bank Group’s operations. We encourage in particular the Bank to pay more attention to regional water and energy issues, especially in Central Asia.

In view of the huge financing needs for mitigating and adapting to climate change, we support the Bank Group’s efforts to mobilize and leverage resources from the public and private sector. Creating sound regulatory frameworks and structuring innovative instruments to crowd in private sector investments is critical; we are convinced that the Bank Group has a key role to play in this respect. We consider carbon finance as an important funding instrument for addressing climate change challenges. The Bank Group’s initiatives to deepen carbon markets and broaden their reach to new areas like forestry are most welcome. The new Climate Investment Funds are another significant channel to scale up resources. We commend the Bank for its instrumental role in setting up the CIFs. Switzerland is participating to the Strategic Climate Fund and is looking forward to participating to its ‘Scaling-up Renewable Energy Program’ in low-income countries.

The Bank Group has to significantly step up its support to renewable energies and ensure that investments in renewables are considered as the first option. Yet, to meet energy demand, recourse to fossil fuels remains necessary in developed as much as in developing countries. We acknowledge the role of the Bank in upgrading existing fossil-fueled power plants; the Bank should set thresholds for emissions reductions as a criterion for investing in such projects.

Carbon accounting and carbon shadow pricing are important methodological tools to better understand and address climate-related challenges. We fully support the work of the Bank Group to develop such tools. It is critical not to hamper economic growth while addressing climate change. We particularly encourage the Bank to engage more actively in supporting the development of low-emission technologies and facilitating and accelerating R&D and technology transfer to developing countries, as well as supporting their work towards capacity building. The Bank can play a major role in that field.

The Strategic Framework has now to translate into operations and progress on the ground. We look forward to reviewing its successful implementation.

**Strategic Directions of the World Bank**

We acknowledge the progress report about the six strategic themes of the World Bank Group. During our last Spring Meeting, we had asked for a strengthening of the dialogue between Management and Board to further clarify the Bank’s role, comparative advantages and priorities for actions in a rapidly evolving aid architecture. We regret the limited progress in this respect. At a time of increasing global uncertainties and great challenges, we believe that a renewed discussion on the Bank’s priorities is paramount, with the view to reaching consensus on a concrete, concise, and results-oriented strategic framework. The foreseen discussion on the medium-to-long term IBRD capital use provides a renewed opportunity in this regard. We urge Management and the Board to address the obvious link between these two strategic dimensions, and we look forward to reviewing progress and results during our next meeting.
Statement by Mr. Guido Mantega, Minister of Finance, Brazil

An unprecedented turbulence in financial and housing markets in developed countries is unfolding before our eyes sending shockwaves throughout the world. This financial tsunami adds to the suffering of many of the world’s poorest people as a result of historically high food and fuel prices. Suffering from hunger and disease is going to affect millions of more people.

Increased awareness on the potential devastating impacts of global warming compels us to renew efforts to strengthen international cooperation. Countries, like Haiti and the Dominican Republic, are already suffering from increased climate variability, in the form of more frequent hurricanes and intense flooding.

We are overwhelmed by emergencies, but promoting economic growth and eradicating poverty remains our priority.

Recent economic developments, and their effect on long term growth and overcoming poverty: the role of the World Bank and the IMF in protecting the vulnerable

Developing countries have sustained robust growth rates in recent years. Economic resilience was a hard-won achievement for countries who suffered from the aftermath of the Asian Crisis. Developing countries have provided many successful examples of how to promote high growth rates and how to lift people out of poverty without compromising sound economic management.

We have no illusions. Developing countries will be affected by the global slowdown. The developing world needs a countercyclical shock or else many countries, particularly those with smaller domestic markets and those more dependent on exports to some developed countries, could suffer serious consequences.

This is a time when the World Bank has to act more quickly and flexibly than ever to ensure that resources flow at adequate and predictable levels to countries most in need. In addition, the Bank should engage with vulnerable countries to provide analytical support. Current conditions call for less, not more conditionalities.

We need to fix the business model of the World Bank, making it more responsive to local conditions, country systems and evolving circumstances. Also, we need to shake our own bureaucracies. We cannot wait three years to get a loan or a credit.

We supported the call for a New Deal for Global Food Policy and we welcome the expedited financing provided through the Global Food Crisis Response Program. We should consider additional measures, such as: (i) extending the post-conflict classification, and the additional funding this brings, to some countries, and (ii) reconsidering (at least in some cases) the IDA rule that reduces new IDA allocations for countries, once they qualify for the multilateral debt relief initiative. Contingent financing instruments should be put into place to provide fragile countries with quick access to liquidity in case of future emergencies.

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13 On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname and Trinidad and Tobago.
We cannot neglect the challenges faced by some middle-income countries that are net-food importing countries. For example, the Philippines, the world's top importer of rice, is maintaining a school feeding program.

In most developing countries, the strengthening of social safety nets is a key policy response to food and fuel prices, as well as to the current financial crisis. Brazil is already sharing with other countries its successful experience with a conditional cash transfer program, the Bolsa Familia. Now more than ever, the World Bank should support policies that seek to extend the benefits of economic growth to the poorest and most vulnerable.

At a time when recession looms in developed countries, fast-growing large developing countries can help bring back the world economy to a sustained path for growth. The World Bank should support policies that maximize the ability of these developing countries to become pillars of growth and investment for the benefit other developing countries.

*Development and Climate Change: A Strategic Framework for the World Bank*

The current crisis should not overshadow the importance of keeping the momentum on the negotiations under the United Nations Framework Convention on Climate Change and the Kyoto Protocol. The poorest countries and communities, that have contributed little to global warming, will disproportionately bear the negative effects of climate change.

The commitments by developed countries to mobilize new, additional and predictable financial resources are a central pillar of the climate change regime. Unfortunately, the resources have not materialized in times of bonanza and we fear that the financial crisis will make prospects even worse.

The World Bank Group has tried to do its part by mobilizing resources from donors. We welcome the establishment of the climate investment funds. They are a transitional mechanism that will help us accelerate the learning curve even before we agree on a stronger financial architecture for the climate regime.

Adaptation remains essential for developing countries. The tragic flooding of the city of Gonaïves in Haiti is an example of what can happen to many cities in developing countries. The Bank’s prospects of playing a significant role in adaptation will be judged by its ability to design instruments that can effectively be used in concrete situations like the floods and hurricanes in the Caribbean.

Market-based mechanisms – such as carbon finance - can play an important role in reducing the costs of mitigation, while providing developmental benefits. We support their further expansion and interconnectedness. However, these efforts should not take place to the detriment of the integrity of the climate regime.

Energy access remains of paramount importance for pursuing economic growth and poverty eradication in developing countries. The World Bank should seize win-win opportunities for mitigation by expanding its lending to renewable energy. The Strategic Framework acknowledges the potential role of biofuels and we expect the World Bank Group to support the outcomes from the World Conference on Biofuels, held in São Paulo next month.

Technology development and transfer is a major pillar of the climate equation. The Bank Group has still to define its role in this important area in the next months. Our expectations are high.
While implementing this framework we should also bear in mind the Bank’s main limitation being that while climate change requires actions by all countries to promote a low-carbon growth, the World Bank only operates in developing countries and countries with economies in transition. We cannot monitor the low-carbon growth of only one part of the equation.

We will remain engaged and supportive of the Bank Group’s role in climate change now and beyond the Copenhagen meeting in 2009.

Enhancing Voice and Participation of Developing Countries and Countries with Economies in Transition in the World Bank Group

Reforming global governance is an essential component of any effective solution to address the most pressing global challenges. Without adequate voice of developing countries, no solution can be held together.

We strongly welcome the creation, (which is long overdue), of an additional Chair for Sub-Saharan Africa. This decision not only redresses the sub-representation of a region that is central to the Bank’s development mandate, but also is a matter of improving the efficiency of the Executive Board that cannot function properly when some of its main clients are not allowed to sit at the table.

We welcome the efforts to increase basic votes and help restore the voting power of developing countries and transition countries in IBRD and IDA, while mitigating the dilution in voting power of larger developing and transition countries through the use of unallocated shares.

In order to arrive at a comprehensive package, decisions should encompass a wide range of voice reform measures, including a major shareholding review moving towards parity between DTC and developed countries. We favor the adoption of Bank-specific criteria for quota realignment in the World Bank. These criteria need to be quite different and – from a development perspective more ambitious - than those that apply to the IMF, given their separate and distinct mandates.

The reform should fully embrace the PPP methodology (which the World Bank itself helped design) to assess the relative weight of countries in the global economy. It should also recognize the role of those countries that have been consistently engaging in a development dialogue with the Bank and that have contributed to its business as IBRD borrowers.

The selection of the President of the Bank should be a competitive, transparent and merit-based selection process, irrespective of any geographical preference.

As we engage in this exercise we must recognize that an equitable voting power between developed and developing countries benefits not only developing countries, but the international system as a whole.

The contribution of developing countries to south-south trade, investment and development cooperation (including IDA contributions) should be encouraged and supported by the World Bank. However, countries have different roles and ODA should by no means become a precondition for enhancing the voting power of DTCs.

The World Bank is a late reformer. It is beginning this process at a time when the IMF undertook the first phase of its own reform. The WTO is no longer the same and the G-8 is expanding its outreach.

The current crisis changes the parameters for discussing reforms in global governance. It makes them even more imperative.
We place our expectations in President Zoellick’s leadership in ensuring that we honor our commitment to finalize a comprehensive package and to move even further into revitalizing the multilateral system.

Statement by Mr. Arni M. Mathiesen, Minister of Finance, Iceland

There have been many positive developments in developing countries in recent years. Economic growth has been robust, inflation and debt ratios have been falling and trade has increased.

But today the outlook for the world economy is much more challenging. After a period of robust growth, the tide has turned. Growth is slowing down and demand is contracting. In addition, the current financial sector problems are likely to further hamper growth. Rising energy and commodity prices have boosted inflationary pressures. The combination of higher prices and the deepening of the credit crunch present us with considerable challenges.

In the last year, food prices rose significantly and the social consequences have been drastic. Many low-income countries face difficulties in ensuring adequate food supplies for their poorest citizens and risk losing the gains in macroeconomic stability achieved in recent years. In this economic climate it is essential to support sustainable growth and employment and not the least to increase the predictability, flexibility and amount of food aid.

As this situation continues, we are faced with the possibility that many of the achievements of past years might be lost. The inroads that have been made towards the Millennium Development Goals are in danger of being lost. The global financial crisis has led to tightening of available credit and thus negatively affected financing for development. In this environment, governments and international institutions, such as the Bretton Woods institutions, have a vital role to play. Unlike most of the private players, the World Bank Group is currently well capitalized. In this context, the first priority for the use of IBRD and IFC capital must be safeguarding their ability to respond to the potential increase in lending demand by their country and corporate clients. On the other hand, it is also now more important than ever that donors honour their financial commitments to increase aid to the poorest countries – still being $39 billion short of the 2010 target.

The World Bank Group and the IMF have the appropriate capabilities and the required tools to offer client countries advice and necessary assistance, and should continue to work proactively to protect the vulnerable from the effects of the economic turbulence. The Global Food Crisis Response Program (GFRP), approved by the Bank last May, is an important tool to address the immediate needs arising from the food crisis, but it is not enough. Over the longer term, it remains essential to design reforms that boost agricultural productivity and improve food security in the developing world, especially when considering the potential fallout from climate change.

Issues of climate change continue to require urgent action. It is now of more pressing importance than ever before that we understand the comprehensive challenge of sustainable development, and act accordingly.

Development cooperation faces many important challenges in this respect, including the direct impact on the sustainability of development projects. Long-term projections indicate that global potential food

On behalf of the Nordic and Baltic countries.
production will begin to decline if global average temperatures continue to rise and significant higher number of people will be affected by floods each year due to rising sea levels.

We can not afford to delay responding to climate change. Nor can we allow a lack of financial resources, technologies or expertise to create a major hindrance to the achievement of the Millennium Development Goals and sustainable development. When developing countries set forth climate sensitive development policy we must be ready to assist. Resources must be put forth for adaptation and mitigation measures in those developing countries vulnerable to the impacts of climate change. Mitigation measures for emerging economies experiencing rapid growth must also be in place. In fact, measures to address climate change should be perceived as a contribution to economic growth and development.

Environmental sustainability is at the heart of sustainable development. The Bank has successfully advocated economic and social sustainability in recent years, and it is now encouraging to see environmental sustainability emphasised as the third dimension of sustainability.

The WBG is in a unique position to address the climate change challenge for it operates at both the global, regional and country levels, providing grants and loans, investments and incentives. It also has entry points both to finance ministries and the private sector, through the IFC and MIGA.

But, it is important that the Bank consolidates itself within a consistent framework, instead of launching new climate initiatives at a time when new initiatives are springing up everywhere. It is important that the Bank Group takes the overall climate change financial architecture into account to avoid overlap amongst current and future initiatives and programmes on climate change.

We appreciate the work that the Bank has undertaken in coordinating different donor initiatives into the CIF and the Forest Carbon Partnership Facility. In these endeavours we appreciate the clear role and understanding vis-à-vis the UNFCCC, and the intention of working in close partnership with relevant stakeholders like the UN and GEF. The Bank Group is a significant channel of climate finance for its clients and we hope that its concrete experiences will assist countries in making informed decisions in the UNFCCC negotiations.

We strongly support the focus on country led priorities and processes. Developing countries are faced with many important and pressing challenges in poverty reduction, and their capacity to address emerging issues is limited. It is important that partners together find ways of strengthening those capacities and build incentives for addressing climate change issues effectively.

The WBG has an important role in technology transfer. However, this may be a difficult landscape to manoeuvre in when it comes to choosing technologies, intellectual property rights, patents and more. This is also linked to the question of which technologies to pursue. But we strongly encourage the Bank to show more support to renewable energy than it currently does.

The Nordic and Baltic countries have for a long time promoted increased voice and representation of developing and transition countries in the World Bank in accordance with our commitment to the Monterrey consensus. We support the proposed package of voice reforms and emphasize the following issues to make the reform outcome successful.

The first phase of the reform particularly strengthens the voice and participation of the poorest members of the World Bank Group, which is important for Sub-Saharan Africa. While our constituency has advocated even higher increase in IBRD basic votes, we can accept the proposed doubling as part of a compromise solution. As stated before we also welcome the increase of Board seats to 25 to accommodate one additional chair for Sub-Saharan Africa. In other respects, we think the current Board
structure works well, balancing adequate representation with effectiveness. We do not see merit in proposals aimed at reducing the number of Board seats. In addition, we are happy to note that the selection process for the President is part of the reform package. In our view reforming this process should be started well before the selection of the next President commences and it should be coordinated with the process of selecting the Managing Director for the IMF.

We also broadly support the proposed work program for the second phase of the reform, related to the IBRD shareholding review. In our view increased IBRD voting share and representation should continue to be linked to evolving economic weight in the global economy as measured by the IMF quotas and to increased financial contributions to the Bank Group. While we agree that the IBRD is currently well capitalised, it does not mean that it will stay so forever. Therefore, we believe Selective Capital Increases in line with past precedents (incl. a paid-in portion) would be the preferred way to implement any future realignment of the IBRD capital shares. In terms of timing, we think the process should be linked to the next IDA replenishment round and the upcoming review of IMF shareholding.

In sum, we will continue to work towards an ambitious, fair and equitable reform package that achieves its core objectives of enhancing the participation of developing and transition countries in the WBG’s governance bodies while strengthening legitimacy, credibility and accountability of the Bank Group operations. Finally, it is important that the reform principles ensure a dynamic realignment of the WBG shareholding in line with changing economic realities, while supporting the long-term financial strength of the institution.

Statement by Mr. Salaheddine Mezouar, Minister of Economy and Finance of the Kingdom of Morocco

On behalf of the group I represent, I would like to begin by thanking our Committee for including on the agenda of this seventy-eighth session of the Development Committee a number of topics that represent challenges for all our countries, namely the effects of climate change, recent economic developments and their impact on growth and poverty reduction, as well as the issue of voice and participation, which will facilitate improved governance within the World Bank Group.

Recent Economic Developments and their Effect on Long-Term Growth and Overcoming Poverty: The Role of the World Bank and the IMF in Protecting the Vulnerable

This session of our Development Committee is taking place at a time when storm clouds have gathered over the international environment, marked by the twin fallout from two major crises: a financial crisis that is bankrupting some of the biggest financial institutions, and a food crisis that is having a severe impact on many developing countries.

The combined effect of these two crises is spawning a critical situation in the global economy, which is likely to slow further during the second half of 2008. According to the latest international projections, global growth will slow to around three percent, and will recover gradually only by end-2009.

15 On behalf of Afghanistan, Algeria, Ghana, Iran, Morocco, Pakistan and Tunisia.
The Financial Crisis

The United States, the epicenter of this crisis, which began with the subprime debacle, sparked by deficiencies in the American housing market, triggered the failure of major financial institutions, which required massive government support and placed an additional burden on taxpayers in order to recapitalize them.

This crisis has contributed significantly to the drying up of liquidity and a sharp downturn in activity in the American economy. The financial turbulence has now spread to Europe, and is reflected in the collapse of the world's biggest stock exchanges. As a result, there is reason to fear that the global economy is slipping into a recession.

The evidence suggests that this crisis is being manifested in different ways, depending on the country. Thus, while European economies are already suffering a marked slowdown because of the current turbulence, developing countries have so far been spared. Yet there are reasons to fear that these countries, and in particular the emerging economies, will feel the backlash from the economic downturn: they face the risk that the capital flows they have so far enjoyed will dry up and that the contraction of international demand will curtail their exports.

As we see it, these developments are likely to exert further inflationary pressures in developing countries, and particularly in emerging economies, because of high and volatile prices for commodities and foodstuff, and also because of the cost of credit.

This financial crisis has its roots in lax regulation, in failure to come to terms with excessive risk-taking, and in the kind of speculative practices that were fostered until now by a system focused on short-term financial returns.

Today, it is clear that ad hoc measures such as those taken in recent months to recapitalize private financial institutions with government funds will fall short, and that the international financial system can only be restored to normalcy through a systemic solution that will address the entire raft of deep-rooted causes and overhaul the system completely.

In this context, we are confident that the proposals announced to date for improving prudential rules, accounting principles, and transparency practices could be enhanced if emerging economies are also included in the discussion. Furthermore, we also need to rethink the role of the rating agencies on which the world financial system relies, in order to allow greater government oversight.

We also see a need to make financial markets more transparent, and therefore call upon the national prudential authorities to expand their cooperation in order to anticipate, manage, and resolve financial tensions. In our view, international agencies such as the IMF and the Bank for International Settlements should fully discharge their role in reconciling tensions between national responsibilities and the international repercussions of domestic policies. Finally, our international financial institutions must demonstrate a greater commitment to surveillance and supervision of the international financial system.

The Food Crisis

The current financial upheavals are not the only threats casting a pall over the global economy. Our economies face another threat that is equally severe, namely the steady surge in commodity prices, and in particular the prices of foodstuff, which soared before the recent downward trend in petroleum product prices, among others.
These price spikes can be blamed for the most part on speculation, which has greatly influenced price formation. But we must also point to the effects that climate change has been having on agricultural output in many countries, the use of certain food crops to produce biofuels, and increased production costs as a result of high prices for fertilizers and energy.

We believe that, in addition to the exploding needs of emerging economies, financial markets have also contributed to greater volatility in the prices of commodities and foodstuff, which have been transformed into the financial derivatives used in a profligate manner to enhance the diversification and profitability of the portfolios of financial market operators.

While rising prices for foodstuff may have only a limited impact on developed countries where food outlays represent a small portion of people's incomes, we are confident that they will have a grave impact on populations in developing countries, who spend a significant portion of their income on food. The vulnerability of these populations, particularly those living in urban areas, has already led to major social upheaval, owing to the lack of suitable government support systems.

This surge in prices, coupled with the current financial crisis, could severely compromise the progress that developing countries have been making recently toward achieving the Millennium Development Goals. Indeed, millions of people are now at risk of sliding back into poverty, a situation that poses a real threat to the security and stability of these countries.

We must recognize that, with food prices soaring, the world's agricultural output now faces constraints in terms of finding new cultivable land, securing the public and private investments needed to expand farm output, and making better use of the factors of production. These are all key factors in expanding agricultural output and productivity, and in reducing the risk of further price increases for foodstuff.

Against this backdrop, we see it as essential to address the vulnerability of these countries by supporting their efforts to enhance their long-term food security through the adoption of a new approach to agriculture.

From this perspective, we call upon the development banks and the United Nations specialized agencies to focus their attention on strengthening food security for these countries by helping them develop their agriculture, and this will necessarily involve additional investments and an overhaul of their operating methods. They must provide support for boosting agricultural production and yields, improving irrigation systems, and reinforcing regional infrastructure so as to foster regional trade in agricultural products.

From this vantage point, we must express regret over the failure of negotiations aimed at concluding the Doha Round in 2008 because of disagreement over mechanisms to protect developing country markets against rising imports of agricultural products.

_Climate Change: A Strategic Framework for the World Bank Group_

Because of its impact on economic and social development, especially in developing countries, climate change is a major challenge that demands urgent and concerted action on the part of the international community. Indeed, if nothing is done in this field, climate change could erase the hard-won development gains of many developing countries.

It is these countries that bear the least responsibility for greenhouse gas emissions, and yet they are particularly vulnerable to climate change because they are so heavily dependent on climate-sensitive natural resources. It is these countries, in Sub-Saharan Africa, in South Asia, and in Latin America, which
are feeling the full impact of climate change in the form of enormous losses in agricultural output, severe public health problems, and worsening water shortages.

In this context, we recognize that the World Bank, with its experience and its efforts to adapt to climate change and to mitigate its effects, could play a key role in promoting a suitable financial architecture.

We therefore subscribe fully to the guiding principles of the Strategic Framework on Climate Change and Development (SFCCD), which is to guide our institution's action in this area and will allow it to address head-on the challenges of climate change and development through collaboration with the United Nations system in particular. We believe it is essential to pursue this cooperation through the sharing of roles and responsibilities, in light of the capabilities, comparative advantages, and the expertise of each development partner.

Consistent with the principle of "common and differentiated responsibility" and the roadmap from the Bali Conference, we think it vitally important for the Bank, in formulating this strategic framework, to be very specific in defining the actions to be taken in offering adequate financial support and appropriate technical assistance suited to the needs of developing countries.

For the sake of equity, we urge developed countries, which are mainly responsible for greenhouse gas emissions, to give substantial financial support to developing countries' efforts both to mitigate and to adapt to climate change. In this regard, we believe the Bank must pursue its efforts to find ways and means of enhancing the availability of concessional resources through existing instruments, the proceeds of carbon credits, and new derivative products as a means of insurance against climate risks.

We call on the Bank to accord as well to efforts to adapt to climate change, which to date have not received the attention they deserve, and to do so by defining concerted actions and introducing appropriate financing. We draw the Bank's attention to the need for predictable and stable financing for implementing the steps recommended in its strategy.

We ask the Bank to support the initiatives of those middle-income countries that have accepted the challenge of introducing new national strategies for the development of renewable energy and for the promotion of energy efficiency in their agriculture.

In this regard, and in order to contain the impact of the financial crisis, the food crisis, and climate change, it is of paramount importance that these countries be better heard and understood by international bodies, so that they can better defend their interests.

*Enhancing the Voice and Representation of Developing and Transition Countries in the World Bank Group*

We commend the Bank teams and the Board of Executive Directors for their work, which has facilitated preparation of a package providing for: (i) doubling basic votes; (ii) adjusting membership shares; (iii) increasing the voting power of Part II IDA member countries; (iv) adding a third Executive Director to represent the countries of Sub-Saharan Africa; (v) enhancing the effectiveness of the Executive Board and its internal governance; (vi) strengthening and promoting the ability of developing and transition countries (DTCs) to respond expeditiously to development issues; (vii) a transparent process for selecting the President of the World Bank; and (viii) a reform of voting in the IFC.

We support the proposal to double basic votes, and we call upon the Bank to ensure that this proposal, together with the revision of share levels, will increase the voting rights of DTCs in the World Bank Group, so that they can make their voice heard more effectively within our institution. To this end, we
urge Bank management and the Executive Board to carry out this revision of shares by selecting appropriate criteria and indicators, in line with the World Bank Group's development mandate.

Together with this review, we call on the Bank to evaluate closely the impact that the proposed package will have on the voting power of each country.

We welcome the proposal to add a third Executive Director to represent Sub-Saharan Africa on the Executive Board, and we believe that this would indeed reinforce the voice and participation of African countries. On this point, we think it appropriate to pursue reforms to increase the effectiveness of the World Bank's Board and to enhance its internal governance.

Moreover, in order to strengthen and enhance the ability of DTCs to react expeditiously to development issues, we urge the Bank to scale up efforts to decentralize its activities at the country level and to adopt DTC national procedures to facilitate the implementation of Bank-financed projects and programs.

This objective will be achieved by recruiting more staff from DTCs, especially for senior management positions. We also support the introduction of a transparent and merit-based mechanism for selecting the president, one that will allow all member countries to put forward candidates.

Recognizing the direct impact that the IFC has on private sector development in developing countries, we also favor increasing the DTC voice within this institution.

We realize that, as with the reforms launched by the IMF, the World Bank's plan is but the first step in an overall reform for achieving parity between the two categories of countries, developed countries and DTCs, and that poverty reduction remains the primary mandate of the World Bank Group.

Statement by Mr. Naoyuki Shinohara, Vice Minister of Finance for International Affairs of Japan

Responding to the current global economic conditions

This year marks the halfway point in our efforts toward achieving the Millennium Development Goals (MDGs) by 2015. While there still remain serious shortfalls in many areas such as infant mortality ratio and malnutrition, robust achievements have been observed in several areas including the reduction in global headcount of the poor. However, soaring food and fuel prices together with the global financial market turmoil triggered by subprime mortgage crises have made it difficult for developing countries to steer their economies both in terms of fiscal and financial policies. They also inflict damage to the lives of the poor who are the most vulnerable to such exogenous shocks, and threaten to destroy the achievements of years of development efforts. We have to sweep away the anxiety hanging over the global economy, and take firm steps towards poverty reduction and the realization of human security. Our resolve to this end is now being tested.

In particular, the financial market turmoil which has proven to be much more deep-rooted than initially envisaged may seriously damage the economies of developing countries. Private financial flows into developing countries, which have grown from around USD 150 billion in 2001 to over USD 1 trillion in 2007, have served as their engines for growth. This trend, however, may reverse, as global tightening of credit leads to contraction in private capital flows to developing countries. There will be shortfalls of resources necessary for infrastructure investments to support economic growth, as well as spending in education and health both of which are indispensable for developing human resources for the future. Such credit tightening will further risk resource mobilization to develop social safety nets that provide support for the lives of the poor. Should the effects of the financial market turmoil spill over to real economy,
causing significant slowdown in global economic growth, developing countries may experience reduction of exports, deceleration of growth, and increase in unemployment, and thus ruin their past efforts toward economic development.

To minimize such adverse effects on developing countries, we expect the Bank to actively and creatively consider various possible options, without being constrained by the existing frameworks, by asking: how can the World Bank and the Regional Development Banks compensate for the decline in private capital flows that have been the primary funding source for developing countries? What kind of catalytic roles can the World Bank Group play in bolstering withered private capital flows? Such options could include more flexible use of guarantees by the MIGA and possible enhancement of IFC’s function to leverage private capital. Measures to support effective utilization of domestic financial resources of developing countries should also be reinforced, such as assistance for development of local currency bond market.

Fortunately, the IBRD has a very strong balance sheet with buffer risk-bearing capital of as much as USD 10 billion. The Bank should make the most use of this buffer capital to wade through the current difficult situation the world faces. Japan welcomes the proposal by President Zoellick to use the Bank’s capital effectively. To meet various possible financing needs, it should seriously consider increasing flexibility of IBRD lending which would open up the possibility of allowing IDA-only countries to access IBRD loans. By allowing countries with strong fiscal management capability and appropriate debt sustainability to access IBRD loans to implement projects with high development impact, the Bank will be responding to our call under the current economic conditions. It goes without saying that its likely impact on debt sustainability should be reviewed thoroughly. In particular, cases involving post-MDRI countries would need to be carefully examined, in close coordination with the IMF.

Launch of New JICA and strengthening of coordination with the World Bank

Just as situations surrounding developing countries are becoming increasingly severe, on October 1st, the “New JICA” was launched by merging JICA and the overseas economic cooperation operation of the JBIC with a view to maximizing use of our resources and providing aids of higher quality. This marks a creation of one of the largest bilateral aid agencies equipped with all three aid modalities: technical cooperation, grants, and ODA loans. The new JICA is now capable of making more focused and timely cooperation tailored to the diverse needs of developing countries, from supports for large-scale infrastructure developments to community-based grass-root cooperation.

Facing the risk of shrinking financial flows to developing countries, all the development institutions including the new JICA should, to attain maximum development results within their resource constraints, coordinate and cooperate even more closely with each other, making use of their respective competitive advantages. The World Bank is expected to: mobilize necessary resources for development; further enhance its function as a provider of aid platform as well as its role as a knowledge bank to put together and disseminate best practices and experiences; and contribute to effective and efficient implementation of international aids to achieve maximum results.

The new JICA has abundant accumulation of best practices and know-how to deliver to the world. Japan expects that the Bank and the new JICA will provide more effective and efficient aids with robust results, by exchanging best practices and know-how, and through close coordination and cooperation.

In fact, at this year’s TICAD IV, we have discussed aid for Africa which holds the key to achieving the MDGs, and good cooperation has already been established in broad areas of aid; from education and health to infrastructure development. We are committed to implement those projects in cooperation with the Bank, using the follow-up mechanism devised at the TICAD IV.
The outcomes of the TICAD IV had been reflected in the heads-of-state discussions at the G8 Toyako Summit in July with the participation of President Zoellick’s and Managing Director of the International Monetary Fund Strauss-Kahn’s. We believe that through such discussions, we have been able to successfully indicate the future direction of the efforts to be made by the international community in addressing the challenges in health, water and sanitation, and education, as well as the soaring food price issue. On climate change issue, it was agreed at the G8 summit to seek to share and adopt the goal of achieving at least 50% reduction of global emissions by 2050.

Building on the achievements of these conferences, Japan would like to strengthen even further the cooperation with the Bank in our efforts to address, in particular, food and climate change issues.

*Improving agricultural productivity*

The first area of such cooperation is assistance for improving agricultural productivity in developing countries.

While having fallen back from their peaks, food prices are still hovering at a high level and are expected to continuously cause serious damages to the poor in developing countries.

As a short-term response, it is important to strengthen the safety nets to support the poor who are the most affected by the higher food prices through measures such as the Bank’s Global Food Crisis Response Program. We strongly support such efforts by the Bank.

On the other hand, considering that the recent hike in food prices has been caused not only by soaring oil prices and increasing use of biofuels, but also by structural factors such as supply capacity lagging behind increased demand due to population growth and changes in dietary habits in rapidly growing emerging countries, its fundamental remedy would inevitably require improving agricultural productivity. It should also be noted that comprehensive agricultural reforms including productivity improvement are absolutely necessary for pro-poor growth, given that three out of four poor people live in agricultural villages mostly engaged in subsistence farming. Any agricultural reform would be bound to fail unless all the key factors are put together: water, better varieties fitted to the land and climate, fertilizers, people who can provide appropriate technical advice in the field, and market access for harvested products. Japan urges the Bank to further strengthen its efforts towards agricultural reforms including productivity improvements.

Japan’s new JICA has accumulated experiences in employing approaches that build on abundant Japanese knowledge and experience in agricultural area, especially related to rice. Against this background, the TICAD IV in May this year had set a target of doubling rice production in Africa in the next ten years in cooperation with various countries and institutions through Coalition for African Rice Development. Japan will provide assistance so that the Bank and the new JICA will build on their respective competitive advantages and further solidify their coordination fostered since TICAD IV, and ensure improvements in agricultural productivity.

Specifically, first, in the midst of advancing global warming, Japan will support, through the CGIAR, development of rice varieties resilient to heat and low rainfall that can thrive in severe natural environment in developing countries including Africa and withstand future climate changes. Japan will also provide assistance through the Bank to enhance the use of fertilizers, which is one of the major challenges for African agriculture. It should be noted, however, that even if these new seeds and fertilizers are made available, no tangible outcome would result unless they were actually disseminated to farmers who grew crops. To achieve the target of doubling rice production, it is critical to solve the shortage of agricultural researchers and capable extension workers, which is seriously impeding...
agricultural development in Africa. Japan will collaborate with the Bank and work with CGIAR to assist human resource development at various levels of agricultural technologies in these countries.

Second, Japan will support the completion of rice production assessments that will lead to the formulation of country-specific rice development plans, promoting the country-led efforts towards enhanced rice production in Africa. Such assessments are expected to cover, supply and demand trends, market access conditions, and bottlenecks in improvement of productivity.

Third, drawing on information obtained through these assessments, we will assist the implementation of pilot projects to combine factors such as seeds, fertilizers, and human resources that Japan is to extend its assistance to. It will be in selected locations where the Bank or JICA is engaged in irrigation or other promising projects. We will make sure to remove bottlenecks and bring about firm results such as improved agricultural productivity, extension of cultivated acreage, and increased per-capita income in farming villages. We will link the assistance for market access by farmers and for organizing farmers, focusing on community-level activities. In addition, through experimental studies of these results, we will also put our efforts in identifying success factors and disseminating them to other regions.

Japan is going to provide USD 100 million over the next five years, through a trust fund at the Bank, for the comprehensive assistance for African agriculture as described above.

Climate change and disaster prevention

Climate change is a pressing challenge for the international community and an important issue in the field of development as well.

Japan has provided support for the efforts by developing countries on climate change through both bilateral and multilateral means, in addition to our efforts under the UNFCCC. In January this year, Japan proposed “Cool Earth Promotion Programme” and announced to establish “Cool Earth Partnerships” with developing countries that are trying to achieve both emission reduction and economic growth, and to provide assistance of as much as USD 10 billion. We have been assisting developing countries in their adaptation and mitigation efforts through such partnerships with some 60 countries so far, including Indonesia to which we have provided a Climate Change Program Loan of USD 300 million following our pledge at the Toyako Summit.

Assisting developing countries achieve economic growth while making transition to low carbon society and adapting to climate change lies at the core of the Bank’s development mandate. We welcome the Strategic Framework on Climate Change and Development that will guide the activities of the World Bank Group, and expect that climate change will be mainstreamed in its operations, strengthening the foundation for cooperation between developed and developing countries.

We welcome the launch of the Climate Investment Fund (CIF) and its successful mobilization of funds totaling as much as USD 6.1 billion, including our contribution of up to USD 1.2 billion. We expect the CIF to play an important role in the international community’s efforts on climate change by responding to various needs of developing countries, and to achieve visible results such as reduction of green house gas through dissemination of low carbon technologies as well as accumulation and sharing of experience, knowledge and lessons on adaptation. We also strongly expect the CIF to play a pump-priming role to mobilize private capital. Given the sizable amount of resources necessary for coping with climate change, it is imperative that we mobilize private capital for investments to realize low carbon economy in addition to funding from governments and other official sources.
Large scale disasters have become more frequent in recent years, and there are growing concerns that the effects of climate change will further exacerbate the risk of natural disasters. From 1970 to 2007, on average, 160 million people became victims to natural disasters, and 95 thousand lives were lost, with economic damages amounting to USD 36.7 billion every year. The numbers of disasters and victims in the last ten years tripled compared to the 1970’s. Large scale disasters, just like armed conflicts and civil wars, instantly take away the achievements of past development efforts, inflict serious damages to the weak poor, and render countries fragile. Disaster prevention is extremely important, not only as a means to adapt to climate change, but also from the viewpoint of assisting potential fragile states and protecting the poorest and the most vulnerable, making it a major challenge for sustainable development and poverty reduction. Having suffered the damages of many such disasters including typhoons, earthquakes and floods, Japan has accumulated ample knowledge and lessons which it can share with the world. Japan has been working closely with the Bank, conducting joint research by the new JICA and the Bank on the impact of climate change on major cities of developing countries. We will widely share the accumulated knowledge so that it can be used to the benefit of the world.

One of the lessons Japan has learnt is that damages of disasters can be reduced by human efforts such as establishing disaster prevention facilities and raising people’s awareness of disaster prevention. It makes good economic sense for countries that are likely to experience many disasters to invest in disaster prevention. Following the Hyogo Framework for Action adopted by 168 countries at the World Conference on Disaster Reduction in Kobe in 2005, Japan will support to underscore the economic rationale of investments for disaster prevention, by evaluating the amount of social and economic damages that the major cities will suffer, if struck by disasters. We will also support mainstreaming disaster prevention and encourage poverty reduction strategies to incorporate disaster prevention perspectives, by creating hazard maps and support preparation of disaster prevention projects.

Japan is going to provide USD 50 million over the next five years, through a trust fund at the Bank, for the above-mentioned activities.

Voice and participation

The World Bank is a development institution, and it is important that the views of the developing countries are properly reflected in its policies and projects. We welcome the proposed comprehensive package of measures, presented to the Development Committee following extensive discussions at the Board. The package aims at enhancing the voice of the developing countries and includes such measures as doubling of basic votes. Japan views this package as being realistic and striking a good balance while giving due considerations to requirements of various stakeholders, and believes that its prompt implementation is critical. Japan will actively participate in the coming second phase of discussions, taking into consideration how the Bank can mobilize funding to IDA and other such endeavors so that the Bank can continue to fulfill its mission as a development financial institution.

Statement by Mr. Henry M. Paulson, Jr. Secretary of the Treasury, United States

We meet at a time when the global economic environment is undergoing the most serious stresses in recent memory. Financial market developments are having an acute impact on advanced economies, and we can expect the crisis to have major ramifications for emerging markets and the poorest countries as well. These events will test the ability of the World Bank and the IMF to respond effectively, and it is imperative that they stand ready to deploy their resources to mitigate the impact of this crisis, especially on the poorest and most vulnerable.
Just a few months ago, we focused on the vital role of the international community in responding swiftly to the challenges posed by the large increase in food and fuel prices. The response was gratifying, with bilateral and multilateral donors committing substantial amounts of new assistance, and I commend President Zoellick for leadership in helping coordinate a timely international response.

Now, these same countries are likely to face a host of new pressures stemming from declines in export demand, private investment and remittances. Emerging markets, too, are likely to face difficulty accessing private capital necessary to finance critical priorities, such as infrastructure.

The World Bank Group is well positioned to help respond to these challenges by maintaining or expanding trade lines, taking measures to maintain well-functioning domestic financial systems, and ensuring efficient, well-targeted social safety-net programs. And the role of the IFC may become especially critical in helping to unlock credit.

Across the globe, policymakers will be faced with difficult choices. As with the food price crisis, isolationism and protectionism will not offer a way out. Although we in the United States are taking many extraordinary measures to ease the crisis, we are not pursuing policies that that would limit the flows of goods, services or capital, as such measures which would only intensify the risks of a prolonged crisis. The World Bank and IMF will have a vital role in working with governments to help craft appropriate responses and discouraging inward-looking policies, and we look to their leadership in this critical area.

Environment

The next year will be a critical one for the Bank on issues of environment and climate change as we move toward a climate agreement in Copenhagen. The United States supports the Bank's increasing focus on climate change as it is clear that the issue must be addressed in the context of development financing. We welcome the inaugural meetings of the Climate Investment Funds, including the Clean Technology Fund and the Strategic Climate Fund. These funds will provide critical support to developing countries to help integrate climate mitigation and adaptation activities into their national development plans. We encourage other World Bank members to support these Funds. We welcome the World Bank's Strategic Framework for Development and Climate Change and call on the Bank and its sister agencies to continue their important partnership with the Global Environment Facility.

Reforming the World Bank Group

We welcome the proposed reform package that will enhance the voice and vote of the poorest member countries, especially in Africa. The comprehensive options presented to Governors, including an additional Board representative for sub-Saharan Africa, send a strong message of our commitment to the Bank as a multilateral institution. We also welcome the commitment to continued governance reforms with the aim of increasing accountability to all shareholders. With progress on this important issue the Bank can focus on its core missions.
**Statement by Mr. Bernard Clerfayt, Secretary of State for Finance, Belgium**

*Introduction*

When we met last Spring, we stated that the pace of change in the business environment was accelerating and pointed out that this would test the resolve of the Bretton Woods Institutions. We have now reached a point where the short- and medium-term financial and economic outlook has worsened considerably and is developing into a once-in-a lifetime financial occurrence.

Recent developments have tightened credit conditions globally and emerging markets are no longer sheltered from the turmoil which has triggered almost seismic changes in liquidity conditions. Over the past decade, every economy in the world has become more dependent on other economies. It is therefore reasonable to assume that a systemic shock like the one that we are experiencing now will have economic repercussions for all countries, rich and poor alike. No country will be totally immune to spillover effects. Moreover, we should not think that all crises are alike. Actually, the effects of the current financial crisis may become more pervasive and last longer than previous ones.

All these developments imply a significant slowdown in domestic demand and economic growth in our member countries. At this moment, we do not really know to what extent the liquidity squeeze will negatively affect the real global economy. Neither do we know how much it will affect the confidence in international reserve currencies, or to what extent capital flows to developing countries will react to interest rates increases. What is clear is that the World Bank Group should analyze all the possible scenarios of what might happen to its developing and transition client countries and in particular focus on the poverty reduction impacts in the poorest and most fragile member countries.

*The World Bank Group’s Response*

The end of an unusual long period of stability will test the Bank’s relevance and its resolve to implement its new strategic agenda. The World Bank Group is fortunately a robust development institution and well equipped to assist its member countries in facing the challenges.

The IBRD is currently adequately capitalized and has a significant risk-bearing capital buffer, which over the short- and medium term could accommodate a significant increase in lending to middle-income countries. Part of the capital buffer could also be used to enhance the Bank’s development effectiveness in addressing the six themes identified by President Zoellick last year. We feel however that, at this stage, it would be premature to address capital adequacy issues at the Governors’ level for the following reasons. Firstly, there is a need to wait until the dust of the financial crisis has settled. Secondly, nobody knows what the impact of the crisis will be on the demand for IBRD resources; the Bank’s competitiveness and financial soundness must therefore remain intact in the meantime. Thirdly, as we stated before, the Bank’s strategic directions remain vague and need to be articulated and translated into a more elaborate strategy. We would therefore like to reiterate our wish to see Management enter into a constructive dialogue with the Board of Directors on the establishment of a comprehensive Bank strategy that will underlie the discussions on the use of the risk-bearing capital buffer.

The fifteenth replenishment of the International Development Association, which became operational on July 1, 2008, was a genuine success in terms of resource mobilization. The generous US$41.6 billion

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16 On behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey.
replenishment, to which eight countries of my constituency contributed, will be a key instrument in addressing the impact of the broad economic slowdown and the twin oil-food shocks in poor countries. We agree with President Zoellick that this replenishment is a bold step forward in the implementation of the scaling-up agenda and we would therefore like to urge all donor countries to deploy all efforts to fully meet their commitments on a timely basis, despite the expected spillover of the financial crisis into the real economy and the ensuing negative impact on fiscal revenues.

For import-dependent poor and middle-income countries, the spillover effects of the financial crisis will unfortunately be superimposed on the shock resulting from surging food and fuel prices. In the short term, the World Bank has a major role to play in aid-dependent countries that do not have enough fiscal space to respond to the crisis. We are therefore pleased with the Bank Group’s New Deal on Global Food Policy, which embraces short, medium, and long-term responses. In particular, we endorse the establishment of the US$1.2 billion Global Food Response Facility for which fast-tracked commitments will soon reach US$900 million.

Bank assistance can also take the form of budget-support operations targeted at eliminating unsustainable energy or food subsidies while strengthening social safety nets, stimulating energy efficiency measures, or directly alleviate the oil and food price shocks. Finally, we noted with interest the work done on the proposed Energy for the Poor Initiative (EFPI) to protect the poor and prevent erosion of household and human capital.

We must be mindful that beyond increasing income-poverty, the rapidly rising food and fuel prices can have less visible but more profound impacts by worsening nutrition, education, and health indicators. It is therefore essential that effective nutritional and social protection measures be put into place to protect the very poor, such as direct and indirect transfers, which will have to be complemented by appropriate targeting mechanisms. We would caution against indirect transfers, as their impact on equity and poverty can be difficult to predict. To complement these short-term measures, countries will have to build sounder and more comprehensive social protection systems over the medium term. While the additional fiscal costs are likely to be lower than the present and future costs of not having such measures, fiscal space will have to be created and, for the poorest countries, timely international assistance will be essential.

We must recognize that the current rise in global food prices also has roots in decades of trade-distorting policies that have undermined efficient agricultural production in developing countries. We, therefore, welcome the World Bank Group’s increased support to trade activities-related activities, including country programs on trade and competitiveness, infrastructure, training courses, and capacity building. The Bank’s expanded efforts on trade to help countries take advantage of the global market would greatly benefit from reaching a conclusion on the Doha Development Agenda negotiations.

Under such difficult current circumstances, it is important that donor governments keep their commitments to increase aid to the most vulnerable people. Most poor countries are making the necessary reforms aimed at achieving economic growth and reducing poverty. To successfully complete this task, they need to be able to rely on adequate volumes of reliable, predictable, and efficiently delivered aid resources. Most important, bilateral and multilateral donors must establish effective donor coordination at the country level with the government firmly in charge, in line with the well known objectives of harmonization and alignment.

*The Bank’s Role in Fragile and Conflict-Affected Member Countries*

Today, close to a billion people, many of them among the poorest people, live in nations that have either collapsed or are close to failure. These fragile states represent the biggest development challenge for the Bank. We noted with interest President Zoellick’s ten suggestions on what to do in fragile situations,
where needs are overwhelming, but adequate resources are almost always lacking. These suggestions provide an adequate framework to improve support to fragile states. We agree with him that these states are not quick-fix countries and that they need continuous and dependable aid over a decade or more, but that helping fragile states is not only a matter of money and that we sometimes face critical gaps in international capabilities. Adequate attention must therefore be paid to donor coordination and the specialized knowledge available in peacekeeping and peace building at the UN system should be taken into consideration.

We also agree with President Zoellick that one of the strategic challenges for the World Bank is to modernize multilateralism. Addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state is a key component of this modernization process. Indeed, current resources allocation mechanisms do not allow for adequate funding at the time it is most needed. But financial support without appropriate overall governance and reliable institutions to ensure effective use of aid resources would deteriorate the situation further. We therefore reiterate the view that we have expressed consistently over the past years, that reestablishing the functionality of the state is the most urgent priority, and that resilient fiduciary systems are the backbone of effective development. If we are serious about these priorities, we need to find funding mechanisms that ensure continuity and stability of adequate resources.

**Development and Climate Change**

We are pleased that the Bank Group’s Strategic Framework on development and climate change, which embodies its understanding and commitment to common goals, has recently been finalized. We reiterate our continued strong support for the World Bank Group’s role in addressing climate change issues. Addressing climate change is an urgent matter. According to new analysis, global carbon emissions rose rapidly in 2007 due rising charcoal consumption and lack of new energy efficiency gains. In search of climate change justice, the framework should enable developing countries to gain access to technologies that ensure them to maintain economic growth and development without additional emissions. Over the long term and assuming that adequate concessional resources would be available, we would like to encourage the Bank to move away from business as usual. We indeed believe that there is a case to be made for looking at the World Bank Group’s current approach to fossil fuel lending and that investments in new technologies and renewable and clean energy should be better promoted.

We recognize the Bank’s supportive role within the UN system-wide effort to provide a coordinated response to climate change challenges and would like to emphasize the primacy of the United Nations Framework Convention on Climate Change negotiations on the future of global climate change regime. In this context, we welcome the recent establishment of the Climate Investment Funds (CIF) to provide, on an interim basis, scaled-up funding to help developing countries in their efforts to mitigate rises in greenhouse gas emissions and adapt to climate change.

We are also pleased that the World Bank included six African countries in its list of countries eligible for avoided-deforestation credits under the Forest Carbon Partnership Facility. We expect that the Bank specifically be engaged in the Congo Basin in partnership with all stakeholders, including regional organizations.

We would, nevertheless, like to caution against the undue proliferation of funds and initiatives. We would like to reiterate our strong support for the role the Global Environment Facility is playing in the global climate change architecture, although a reform at the level of its governance structures may be called for to better realign the Facility with current circumstances.
Voice and Participation

With the agreement reached last Spring at the Fund on Quota and Voice Reform, the discussions in the World Bank have accelerated and we welcome the consensus reached by Executive Directors on a Voice Reform package at the World Bank in the Committee of the Whole. This agreement shows the overwhelming level of support across the Bank’s membership to ensure equitable participation of all DTCs and to enhance legitimacy, credibility, and accountability in Bank operations.

Although the agreement reached is not perfect, significant progress has been made toward a redistribution of voting power in favor of in particular poor and emerging market members. A consensus has been reached on important elements: the reform package that the Board recommended will raise the DTC voting power to 44%, compared to 42.1% at the Fund. Furthermore, the creation of an additional chair at the Board for Africa will give developing countries the majority of seats at the Bank Group’s Boards. In the future, the President will be chosen on the basis of a process which will be merit-based, open, and transparent. Finally, the package comprises a second step aimed at further realignment of IBRD shareholding over the mid-term.

We also welcome the work that has been done by the Board on internal governance in response to our request with a view to strengthening its effectiveness and its oversight capacity. We also strongly support management’s commitment to staff diversity, decentralization, country ownership, and communication. The agreement thus marks an important step in enhancing the Voice and Participation of poor and developing member countries, but requires significant further work for which a time-bound framework has been agreed upon.

We would like to emphasize here that we were willing to support a more ambitious reform package, but this was unfortunately out of reach at this time. We are, therefore, looking forward to working on a more ambitious second step that would include a meaningful realignment of IBRD shareholding to reflect countries’ relative position in the world economy and a tripling of basic votes.

Statement by Mr. Wayne Swan, Treasurer of the Commonwealth of Australia

Overview

Current events demonstrate the need for strong international economic organisations and responsive development agencies.

We live in an interconnected world. Recent developments in global financial markets and the impacts on economic growth pose significant challenges to governments and the international community. While dealing with these urgent matters, it is also important not to lose sight of important medium and longer term development objectives.

None of the recent turmoil has alleviated the urgency of making greater efforts to achieve the MDGs. It has been clear over the past year that threats to achieving the Millennium Development Goals (MDGs) have been many, varied, and often sudden. Our development partners have faced a multiplicity of challenges that has tested them, their donor partners and multilateral institutions. Australia and our

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17 On behalf of Australia, Cambodia, Kiribati, Republic of Korea, Republic of Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Solomon Islands and Vanuatu
constituency are committed to targeting the economic and social causes of underdevelopment and will be active participants in the Doha Follow-up International Conference on Financing for Development.

A stable international system is crucial to sustainable development. The IMF and G20 will have a key role in promoting financial stability.

**Constituency Developments**

The World Bank Group has demonstrated a sharp increase in engagement with our constituency. On the ground presence of World Bank and IFC staff has increased along with visits to the region by the President and senior managers. An office is shortly to open in Honiara, in the Solomon Islands. We warmly welcome the secondment of World Bank staff to the Pacific Financial and Technical Assistance Centre (PFTAC). This fills a critical gap in analytical capacity and complements PFTAC’s existing capacity. We see the proposed joint presence of the World Bank Group and Asian Development Bank in three countries as a very positive sign and welcome increased institutional collaboration to support regional initiatives.

We also welcome the operations and results of a greater Bank Group effort in the Pacific, Cambodia and Mongolia. We look forward to a fuller suite of IFC business lines and MIGA presence Pacific-wide and look forward to further updates on scaling up in the region.

Lastly, on constituency developments, we welcome the World Bank’s efforts to mobilise attention and financing to address critical unmet needs, such as infrastructure. Initiatives in telecommunications, resource exploitation, risk management are promising steps at both country and regional levels. A vital element of this effort going forward will be the full and timely delivery of the expanded Global Environment Facility program in the Pacific.

**Food and Fuel Prices**

Volatility in fuel and food prices has been extreme and put great pressure on country and household balance sheets. The majority of countries in our constituency have experienced large terms of trade shocks. The Bank’s convening role has been very constructive in developing a regional response to rising food and energy prices.

Of greatest concern is the impact of rising food prices on hunger and malnutrition, although we note that data sets on malnutrition and poverty for the Pacific region do not allow an assessment towards MDGs. All countries need to continue to improve their capacity to respond and adjust to high food and commodity prices. The incentives for developing countries to increase their investment in agriculture and food systems need to be strengthened in order to boost their share of global food output and trade. Completion of the Doha Round is therefore an essential element to tackle the crisis.

**Strategic Framework for Development and Climate Change**

Constituency Governors welcome the new strategic framework. This is an issue critically important to the constituency, in particular the low-lying Pacific atoll countries. Many of our constituencies are small contributors to greenhouse gas emissions, but are the worst affected to the extent that some islands may disappear.

We consider the strategic framework an important element of redefining the World Bank Group role in providing global public goods and managing global transboundary threats. It is appropriate that the World Bank Group define for itself and clients a complementary practical role. In its role the Bank
Group can mobilize additional resources, support strong country ownership, and target specific interventions. Adaptation to climate change is the key challenge to our developing country constituency.

We therefore urge the Bank to continue analysis, policy dialogue, capacity building and operations in this area and look forward to specific reporting on results and emerging lessons learned into the medium term. In this regard constituency donors were very supportive of the Climate Investment Funds and Australia pledged significant resources to meeting these challenges.

*Voice, participation, and internal governance*

We thank management of the Bank for undertaking the task of compiling a package of voice and participation initiatives. The range of views and number of stakeholders made for a complex consultation and drafting process.

We support the proposed package to advance voice and participation of developing countries, although there are some elements with which we are uncomfortable. The proposed package is a first step, and while not delivering all that some shareholders want, will be a positive contribution to the wider discussion on global governance if adopted.

Voice and participation has several dimensions, including region, size and income levels. It is important that advances in one area do not lessen voice and participation for other developing country stakeholders. We believe a package advancing on a number of fronts balances many interests. We also agree that the proposed work program is a pragmatic way of dealing with what are essentially difficult issues, while allowing progress. Looking forward, realigning voting interests to reflect the increased economic weight of emerging economies will be fundamentally important to the long-term relevance of the Bank.

Improvements in the internal governance of the Bank group will improve voice by enhancing the ability of all shareholders to influence Bank policies and use of Bank resources. We consider this to be part of the overall voice and participation package, as it will protect the voice of small countries and will also complement additional voice for developing countries through the adoption of a third African Chair on the Executive Board. Such improvements have the potential to enhance voice, as well support the necessary adaptability and responsiveness of the World Bank in a globalizing world. These changes should proceed as part of the voice package.

*Organizational Effectiveness*

Our states and peoples must have confidence that our development organizations are fit for the numerous and grave problems we face. In particular, we will need a multilateralism that is inclusive and legitimate, soundly and accountably governed and managed, where resolve becomes results, and where assistance is responsive, flexible, and delivered by agencies and institutions working with a clear and common understanding of their comparative advantage.

In line with the strategic goal of modernizing multilateralism, we agree with observations made by President Zoellick and in Bank papers that improved organizational effectiveness is necessary if the Bank is to improve its aid effectiveness and expand its activities. We encourage President Zoellick, the Executive Board and management to work closely to meet this strategic challenge.

We welcome the further elaborations of the new strategic framework of the World Bank Group. There have been positive incremental shifts in the baseline budget to reflect the assigned priorities and to manage down efforts in areas of lesser comparative advantage. This process will necessarily be an
ongoing one, and we urge the World Bank to continue its work on constructing a results framework to complement the strategic directions.

Statement by Mr. Suchart Thada-Thamrongvech, Minister of Finance, Thailand\textsuperscript{18}

We welcome the 78\textsuperscript{th} Meeting of the Development Committee and acknowledge the ongoing efforts of the Bank to fulfill its mandate through development programs that foster the economic progress of its member countries.

We are aware that the oil and food crisis as well as the current financial turmoil, and other emerging issues like climate change have presented great challenges for the global economy. These challenges have begun to hinder the economic development of many countries and bring to the forefront, the role of the Bank as a key development institution. As members, we look forward the Bank for leadership and guidance in addressing these issues. We therefore call on the Bank to ensure that prompt and appropriate action is taken to assist members withstand the pressures of these global challenges so that recent economic gains of countries are not negated.

Recent economic development and their effect on long term growth and overcoming poverty: the role of the World Bank and the IMF in protecting the vulnerable

Assessments have revealed that a concerted global effort is needed to address the significant impact of the food and oil crisis on countries, particularly the poorest. We acknowledge the Bank’s timely efforts in responding to the immediate needs of member countries that have been severely affected by the food crisis alone. We also appreciate the Bank’s Global Food Crisis Response Program and additional measures that will help countries counter the effects of the food crisis. However, the high food prices are expected to persist over the medium term, which could put more communities at risk. In this regard, we believe that the World Bank should consider scaling-up ongoing efforts to ensure that its support is far reaching and continues to meet the needs of client countries.

With regard to high oil prices, we welcome the Bank’s response in providing countries with technical and policy advice, as well as financial support to improve and diversify the supply of energy and also rationalize its pricing. At the same time, we urge the Bank to make further progress on developing a more coordinated response program to cushion the impact of high oil prices on the most vulnerable.

The combined effect of high oil and food prices have also contributed to inflationary pressures and deteriorated balance of payments positions. Many of the countries affected do not have the means to cope with these shocks and therefore, the World Bank and International Monetary Fund must step up to provide the necessary interventions. We also urge the Bank and the Fund to take necessary action to alleviate the possible contagion effects of US financial crisis on member countries.

Development and Climate Change - A Strategic Framework for the World Bank Group

We appreciate the Bank’s move to bolster efforts on climate change in order to sustain progress toward achieving the Millennium Development Goals (MDGs).

\textsuperscript{18} On behalf of Brunei Darussalam, Fiji, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga and Vietnam.
We are aware that the impact of climate change is already being felt by both developed and developing countries. Even so, early mitigation will mean a lesser impact on countries that are likely to be most affected. We therefore urge the Bank, together with other multilateral institutions to join hands in managing this global public good, not only for the sake of economic progress but more importantly, for humanity.

Mitigating the effects of climate change will require an unprecedented scale of solutions in terms of financial support, technology, and capacity. More importantly, it will require political will and sincerity to take bold steps toward a concerted global effort.

We acknowledge the Bank’s efforts to prepare a strategic framework for climate change as requested by the Development Committee in 2007. However, while we broadly agree with the framework, we have some reservations on the treatment of developing countries. We strongly contend that climate change mitigation should be a joint effort of both developed and developing countries, in line with the commitments of the UNFCCC, and the Bali Action Plan.

In this regard, we reiterate the need for developed countries to take a lead role in combating the adverse effects of climate change. This requires developed countries to provide new and additional financial resources to meet the costs of mitigation and adaptation incurred by developing countries. In doing so, the specific needs and special circumstances of developing countries, especially those particularly vulnerable, must be given due consideration.

Economic and social development and poverty alleviation are the first and overriding priorities of the developing countries. The extent to which developing countries will effectively implement their commitments relating to mitigation of climate change will depend on the effective implementation by developed countries of the commitments related to transfer of financial resources and technology.

In regards to the Bank’s financial support for climate change actions, we would not support the use of IDA replenishments. We believe IDA replenishments should be reserved for normal development programs and must not be diverted to address climate change issues.

Further, a concerted global effort on climate change requires unprecedented global cooperation and commitment to the Kyoto Protocol. This obstacle must be resolved if we are to fulfill our commitment to the cause. Another issue is the question of equity and fairness in a policy that requires North–South cooperation, particularly to deliver on the promised new and additional financing.

Climate change actions involve the development, deployment and diffusion of affordable technology. Hence, closer cooperation between developed and developing countries is of critical importance particularly in the area of technology transfer to developing countries. Technology transfer that relates to mitigation and adaptation to climate change should be made available to all developing countries. These include soft technology such as insurance schemes or crop-rotation patterns; as well as hard technology such as irrigation systems, drought-resistant seeds and sea defenses. We therefore call on the Bank to extend assistance to developing countries to access to these technologies at minimum cost.

Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform

We welcome the progress on the Bank’s reform to enhance voice and participation of developing and transition countries (DTCs) in the World Bank Group. In line with the spirit of the 2002 Monterrey Consensus, we believe that increasing voice and participation of DTCs is central to the Bank’s reform. As such, we support the main objectives and the guiding principles set forth in the Bank’s reform, to
enhance the participation of all developing and transition countries in the Bank’s governance; and to further enhance the legitimacy, credibility, and effectiveness of the World Bank Group. We trust that good governance practices of the Bank have been taken into account in the proposed reform options put forward in this meeting.

Indeed, the proposed reform should increase the voice of all DTC countries and its voting power in the Bank’s governance. In this regard, we are of the view that the Bank’s reform must lead to an increase in the voting power of the DTC group as a whole, as well as by individual country. To this end, developed countries should aim at the ultimate goal of Bank’s reform to increase voice of all DTCs and its voting power instead of protecting their power. We contend that this guiding principle is essential to the Bank’s reform. Nonetheless, we concerned that doubling basic votes lead to only marginal increase of DTCs voting power.

While we support parallelism between the Bank and the Fund, we urge Management to take into account the different mandates of the two Bretton Woods institutions in formulating the voice reform. In this regard, we welcome the Bank’s plan to complete a major review of IBRD shareholding that considers the evolution of all countries’ relative weight in the world economy, as well as Bank-specific criteria. Nevertheless, the clearly defined and quantifiable variables must be taken into account.

Further, we contend that any realignment of shareholding should not result in additional financial burden to DTC members. As such we support the allocation of unallocated IBRD shares for subscription, to DTC members whose voting power are diluted as a result of the basic votes increase. However, this should be undertaken at no cost for these affected DTC countries.

We also welcome the proposed reform of IDA. At present a large discrepancy remains in the volume of IDA votes allocated and the actual distribution of IDA voting rights. To rectify the discrepancy, Part II members will have to fully subscribe to the allocated shares amounting to US$20.1 million that could increase its voting power by 7.5 percentage points. As this subscription involves substantial financial implication, affected members should be allowed to access donor support to finance part or all of the US$20.1 million, within the parameters of the Bank’s good governance practices.

Considering the size of the Sub-Saharan African region, we support the establishment of a third Executive Director for the region, in addition to the existing 24 Chairs, as part of the Bank’s reform package. However, the establishment must be cost neutral. A third chair would enhance Board effectiveness and, therefore, its implementation must be given priority.

We agree that the selection of the President of the World Bank Group must be conducted through a transparent, merit-based process that is open to all qualified nationals of member countries. This is significant for the Bank’ reform and must be included as part of the reform package.

We are of the view that in the long term, as a step toward the concept of parity between developed and DTC members into Bank’s governance, we suggest that a review of voice and participation in the Bank’s governance is conducted periodically. This is to ensure that the voice for countries, whose weight in the global economy may be small but significant to the Bank’s mandate, is heard.

To sum up, we reiterate the importance of the Bank’s role in assisting member countries to cushion the impact of recent economic difficulties and ensure prompt action that meet the needs of members. On the Bank’s reform, we would like to emphasize that the voting power of all DTCs, be increased. At the same time, increase in voting power should not result in added financial burden for DTCs. In addressing climate change, we view that developed countries should take a leadership role in meeting the costs of mitigation and adaption incurred by developing countries. Further, financing of climate change activities
should not be included in the replenishment of IDA resources. Instead, separate funding resources should be made available specifically for climate change.

In closing, I would like to express my appreciation to the Board of Governors, Management and Staff of the Bank and the Fund for their efforts in promoting economic growth and poverty alleviation, as well as financial stability and in working towards resolving the difficult challenges that lie ahead.

**Statement by Mr. Mario Draghi, Governor of the Bank of Italy**

*Energy and Food Prices and Financial Turmoil*

Today, the economies of both developed and developing nations are faced with high energy and food prices and financial distress, which are severely testing their resilience. Steady leadership, high-quality analysis, and bold answers are needed to overcome the many new challenges that now confront the development process.

The World Bank has acted quickly to respond to the emergency situation created in several developing countries as a result of rising food prices, demonstrating that it is indeed able to respond effectively and in a timely manner to rapidly evolving circumstances. However, more must be done. It is now important to strike the appropriate balance between alleviating short-term needs and longer term development goals and achieve an effective division of tasks in the international donor community.

The recent financial turmoil puts an extra premium on the role of both Bretton Woods institutions as providers of financial and advisory services, and as facilitators of international dialogue. As financial authorities worldwide contemplate how to reshape existing regulatory frameworks to prevent and contain financial instability, the Bank must retain its role as a source of assistance in the allocation of limited financial resources to infrastructure and to social safety nets to promote equitable growth.

*Development and Climate Change: Two Complementary Economic Challenges*

We welcome the new Strategic Framework on Development and Climate Change for the World Bank Group (WBG). The launch of this strategy is a positive step toward facilitating a more prominent role for the Bank in fighting climate change.

Climate change epitomizes the intricacy of development challenges in an increasingly interdependent world. Adaptation and mitigation of its effects entail not only substantial financial costs, but also inter-temporal and spatial tradeoffs in welfare distribution. Though the battle against climate change is often mistakenly viewed as being opposed to economic growth, it is, in fact, an economic and development issue in several respects.

- First, climate change will increasingly affect the availability and the relative prices of productive factors, such as land, food, and energy.

- Second, the impact on economic activity of unmitigated climate change and its budgetary implications are potentially significant for advanced, emerging, and developing countries alike.

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19 On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste.
Finally, environmental protection offers an opportunity for growth, not an obstacle to development. This principle should underpin economic policies in advanced and developing countries, as well as development assistance, whether bilateral or multilateral.

The Role of the World Bank in Fighting Climate Change

As an international organization, the World Bank is well-positioned to face the challenges of combating the effects of climate change as they relate to “global public goods.” As a financial institution, it is well suited to address the intergenerational problems that climate change poses. Finally, as a multisectoral development agency, the Bank can make use of its expertise in many policy areas and engage clients in fruitful dialogue, providing an extensive menu of customized policy options.

We particularly welcome the emphasis placed by the Strategic Framework on market-based instruments and energy efficiency. In particular, well-functioning and more integrated carbon markets are not only cost-effective environmental tools, they also have the potential to foster a more cooperative stance by developing countries by providing new incentives for them to join mitigation efforts and support innovative technologies.

Both Italy and the European Union are leaders in pioneering market-based instruments to address climate change. The European Trading System, while still in its early stages and with ample scope for improvement, is the world’s first trading scheme in operation. Its success has provided a benchmark for the introduction of similar schemes worldwide. The Bank can contribute positively to the promotion of more liquid and integrated carbon markets and help clients reap the gains that will result from an increased demand for environmental protection.

As regards energy efficiency, we believe that policy dialogue has the potential to generate benefits for both industrialized and developing countries. The Bank traditionally has a comparative advantage in the area of energy sector reform as it can help clients pursue sustainable energy policies, establish sound regulatory systems that may mobilize additional private sector resources, and ease the financial challenges posed by climate change.

Enhancing Voice and Participation of Developing and Transition Countries

We welcome the proposed sequential approach to enhancing “Voice” within the World Bank Group. The proposal of a single package that envisages different milestones will accelerate the Voice reform process, a process that will add to the Bank’s legitimacy and credibility by increasing the representation of its poorest members. We also believe that the World Bank Group will benefit from early adoption of those measures that already meet with broad consensus among its membership.

With capital realignment being the most complex issue, we support the proposal to the Board to launch a more comprehensive shareholding structure review, setting the deadline at the 2011 Spring Meetings. We believe that the members’ relative shareholdings in IBRD should be based on the principle of relative weight in the world economy. In this vein, we also favor maintaining a link between the Bank’s shareholding and the outcome of negotiations on IMF quotas. Considering the specific mandate of the Bank, we think that contributions to IDA and Trust Funds cumulated over time should also be included in the criteria for realignment. Additionally, the underlying principle for introducing further criteria should be the preservation of the Bank’s financial soundness.
The definition of broader shareholding realignment should also provide stable guidance for future review of shareholder representation. A realignment plan addressing all these issues cannot be arrived at hastily; on the contrary, it must be the result of a thorough and comprehensive process.

Finally, fairness and widespread acceptability of the capital realignment plan, as well as the need for a virtuous corporate governance incentive structure, will require that the shareholdings of the most severely underrepresented members be adjusted consistently, irrespective of their classification as developed or developing countries.

Conclusion

Unprecedented challenges now face the world economy and require a renewed effort on the part of the Bank in the pursuit of its traditional development mission. These challenges also call for a sharper focus by the Bank, within its poverty reduction mandate, on the provision of global public goods.

- The current financial turmoil has only added to the distress caused by oil and commodities price increases. At a time when the demand for IBRD loans is likely to increase, it is important that the Bank remain focused on the provision of infrastructure—both social and physical—that can shelter the poorest of this world from the dramatic impact of present and future shocks. In view of this daunting task, IBRD resources are extremely limited, requiring that careful consideration be given to avoid spreading these resources too thinly over too many objectives. A few select priorities should instead emerge from an active policy dialogue with borrowing countries.

- Emerging global challenges require that the Bank recognize and clarify its role as a major actor in the protection of global public goods. This calls for a clearly framed and articulated operational strategy that includes detailed assessments of the budget and of the implications for the Bank’s balance sheet of entering these new areas of business.

Confronting these unprecedented challenges requires an institution that enjoys strong governance and the full support of its membership. The Voice reform effort aims to ensure that both of these conditions are met. In this endeavor, the Bank, as a truly global institution, needs to reach out to all its members countries—borrowers and donors alike—ensuring equitable representation and a strong capital base. To achieve this goal, the Bank’s governance structure must be aligned with its characterization as a global multilateral financial institution, reassuring capital markets that its commitments are backed by high-grade callable resources and that its products address development needs otherwise unmet.

Today, important steps are being taken to meet these conditions, and we trust President Zoellick to successfully steer the institution in the direction that the WBG’s global membership has indicated and endorsed at this meeting.
Statement by Mr. Shamsuddeen Usman, Minister of Finance, Nigeria

Recent Economic Developments and their Effect on Long-term Growth and Overcoming Poverty – The Role of the World Bank and the IMF

We meet today against the backdrop of the worst financial crisis in decades, which threatens a further slow down in global growth at a time of historically high oil and food prices. Under these circumstances, weaker demand in high income countries could translate into slow export growth and a further deterioration in current account position of low income countries. A sustained decline in commodity prices is likely to have significant adverse effects on economic performance and balance of payment positions of developing countries.

We are concerned that these developments, if not addressed effectively, will push SSA even further away from meeting most of the Millennium Development Goals (MDGs) well beyond the expected deadlines. The current financial crisis therefore, calls for renewed commitment to the 2002 Monterrey Consensus, to build a global partnership, based on solidarity and mutual accountability. In this regard, the forthcoming International Conference on Financing for Development will provide an important opportunity to reinvigorate the Monterrey Consensus.

We therefore urge the international community to honour its commitment to double aid to Africa, and the BWIs to scale up aid for infrastructure, agriculture, trade and regional projects. We also urge the Bank and the Fund to strengthen their work aimed at facilitating a successful conclusion of the Doha Development Round.

High Food and Oil Prices

We note the report on the rising food and oil prices - the twin shocks - and welcome the emphasis on the promotion of safety nets and social protection programs to combat hunger and to forestall further deterioration in the level of poverty. Indeed, the twin shocks pose the greatest challenge to the poorest and most vulnerable groups, reducing real incomes and pushing millions back into poverty. While this is a global crisis, Sub Saharan African countries are among the most affected.

We would like to use this opportunity to commend the Bank and President Zoellick, for the prompt response to the food crisis, through the setting up of the Global Food Response Program and other initiatives. We are pleased to note that the initiatives have already provided assistance to the most affected countries. While we regard this step as an appropriate response in the short term, we believe that a lot more needs to be done in order to achieve a longer-term solution. In this regard, we appreciate the emphasis on the need to increase access to seeds and fertilizers and investment in irrigation infrastructure in order to achieve sustainable long-term agricultural production and food security. We therefore welcome the intention of the World Bank to support the Comprehensive Africa Agriculture Development Programme (CAADP) of the African Union, which we believe is a comprehensive response to the food crisis and to the agricultural development in general, in Africa.

As we make progress in responding to the high food prices, high energy prices complicate the problems in net oil importing developing countries, especially those in Sub Saharan Africa. In this regard, we welcome the Energy for the Poor Initiative to help the poorest countries weather the impact of oil price shock and address their energy needs in more efficient and sustainable ways and urge the Bank to assist in finalizing the initiative. We see the need to act with urgency and call for a rapid response.

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20 On behalf of the Africa Group 1 Constituency.
Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group

During the 2008 Spring Meetings, we encouraged the Board of the World Bank to advance work on all aspects of voice and participation, keeping in mind the distinct nature of the Bank’s development mandate, and the importance of enhancing voice and participation for all developing and transition countries (DTCs) in the World Bank Group. We asked the Board to come up with concrete options for our consideration at this meeting, with a view to reaching consensus on a comprehensive package by the 2009 Spring Meetings. We therefore wish to commend the Board and Management for preparing the background paper, which we find to be a good basis for our discussion.

At the outset, we want to acknowledge the efforts made by the Board in coming up with the proposed package of reforms. We regard this package, including the timeline for completing this round of reforms, as a good starting point for Governors to undertake a major reform of our Bretton Woods institutions to make them more suitable to the realities and challenges of the 21st century.

A major reform is necessary because today’s world is far more advanced than in 1945 - major shareholders are no longer borrowers from the Bank, DTCs now account for about half of global output, and advances in principles of good governance have rendered the existing Bank governance structure unsustainable. In our view, therefore, the implementation of the Monterrey Consensus with respect to the participation of DTCs in the Bretton Woods institutions is not an option but, a necessary condition for restoring their global legitimacy and credibility.

In Sub-Saharan Africa (SSA), we look at the Bank as a global institution that champions international best practice in both development lending and institution building. Thus, when the Committee asked the Board to keep in mind the distinct nature of its development mandate in coming up with concrete options, we understood this to mean that, the Bank has to be ambitious in its reforms to enhance voice and representation of DTCs. We believe that the proposed package of reforms has largely lived up to that expectation.

We therefore wish to welcome the President’s recommendations to this Committee for (i) the creation of an additional chair for Sub-Saharan Africa, (ii) the doubling of basic votes, increasing DTCs voting share by 1.4 percent, and for efforts (iii) to bring DTC voting share in IDA to 48 percent. We also welcome ongoing efforts to (a) decentralize decision-making to field offices, (b) strengthen internal governance of the Bank and effectiveness of the Bank Board, and to (c) achieve significant diversity in managerial positions.

The third Board chair for SSA is long overdue and we hope that Governors will today announce the creation of the third chair and give the Board clear directions to immediately start the process of creating the chair. With respect to diversity, we take this opportunity to thank President Zoellick for the efforts he has made.

However, we believe that more can be done to achieve an equitable and inclusive global community. In particular, strengthening the global legitimacy and credibility of the World Bank Group will require undertaking major shareholding realignment, restoring basic votes to their original level, and making a fundamental change in the governance of the Bretton Woods Institutions. We recognize that decisive action in this regard will require strong political leadership nationally and globally. In fact, our view is that such leadership is needed now to guide the Board in working through the remaining reforms as recommended in the background document.
We therefore urge Governors to endorse the recommended package of concrete actions and to give the Board the necessary approval to conclude this process by the 2010 Spring Meetings.

**Development and Climate Change: A Strategic Framework for the World Bank Group**

We welcome the World Bank Group’s strategic framework on Development and Climate Change. Climate change poses a major development challenge and has the potential to erode and reverse the gains recorded in SSA over the past decade. This would be catastrophic given that SSA is already far from achieving most of the MDGs.

We acknowledge the role of World Bank Group (WBG) in addressing climate change challenges at the global, regional, and country levels. We believe that this role is consistent with the Bank’s primary mandate of supporting growth and poverty reduction. However, it is important that Bank assistance to countries, particularly in Sub-Saharan Africa, continue to be country-driven and results oriented. In this respect, we encourage collaboration between the World Bank Group and other development partners.

We also urge that the issue of adaptation, be strengthened within the climate change agenda to be consistent with adaptation issues as addressed under United Nations Framework Convention on Climate Change (UNFCCC).

Strengthened partnerships in financial markets and technology cooperation remain crucial in the development of an effective climate strategy. In this regard, we believe the Bank has a critical role to play in the development of new technology and in devising institutional arrangements for technology transfer. We would therefore like to see concrete initiatives and action in this area.

In view of the huge resource requirements needed to address the challenges of climate change, we call for continued efforts and coordination between the WBG and the international community to ensure that adequate resources are provided to meet these needs. In this regard, we would like to emphasize the importance of additionality and concessionality of such financing, while ensuring that financing for other critical developmental needs in poor countries, are not undermined. We also call on the Bank Group to ensure that emerging financing instruments give adequate attention to the adaptation needs of poorest countries, particularly in Sub-Saharan Africa.

**Statement by Ms. Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development, Germany**

When, in a month’s time at the Monterrey follow-up conference in Doha, the international community gathers to take stock of how far we have come on the way towards our goal of reducing global poverty, we will be doing it against a *dramatically transformed international background*. The world is confronted with climate change and with three major crises, often referred to as "FFF" (finance, food and fuel). These developments call for us all to deliver *new ideas, new sources of financing, new rules and regulations and new forms of cooperation. That is why we need a strengthened global partnership for development* that we must reaffirm in Doha. A clear message must go out from Doha that, despite the crises, we will not allow the achievement of the MDGs to be put in jeopardy. I welcome as a good example the creation of a task force on innovative international finance for health systems, whose job will be to elaborate concrete proposals for the next G8 summit. We need to reaffirm, enhance and consolidate the Monterrey Consensus. Doha must be a success. The world cannot afford a failure just now.

The international financial institutions will also have to make sure now that their position is clear and they are ready to go. The World Bank must take the lead internationally and also make a constructive
contribution, outlining the direction to be followed in developing new solutions to pressing global tasks. That applies to the impacts of the financial crises, the food and energy crises and also to the issue of climate change. On the other hand, the Bank also needs to more clearly define its own profile and improve its ability to adapt its operational model to the rapidly changing conditions and needs of its various “customers” and partners. None of the crises can seriously be resolved using the faded blueprints of the past.

Ensuring development gains in times of financial crisis

We need a reliable regulatory framework for the global financial markets in order to prevent our development efforts from being swept away in the rip tide of turbulent financial markets. The upheavals in the international financial markets have revealed the urgent need to quickly learn the lessons of this financial crisis. Government intervention alone will not be enough to prevent distrust from spreading across markets. It will be just as important to lower the likelihood of such crises happening in the first place through better regulation and more transparency. We need internationally binding transparency guidelines. And we must do away with the current model that allows banks and financial jugglers to act unchecked in good times whilst losses must be made good using taxpayers’ money when bad times hit.

Emerging market economies and developing countries should develop supervisory and regulatory systems as they introduce new financial instruments. One key lesson to be learned from the crisis must be that suitable regulations have to be in place before certain financial instruments are introduced. And financial products whose complexity and consequences are no longer understood by anyone should be prevented. I call on the World Bank and the IMF to provide support and advice for all the countries affected by this situation. In particular I call on them to take these points into greater account in their Financial Sector Assessment Programmes (FSAPs).

The impacts of the crises on the potential for growth in developing countries are clear for all to see: the reduction in demand for exports from developing countries is enough by itself to leave a visible mark on the economies of the South. Already now, in 2008, the poorest countries alone will have to pay an extra 50 billion dollars for oil. That is more than they get in ODA commitments. I am particularly concerned about the way the debt situation has worsened for the poorest countries, which – due to the costs of the crises – are now at risk of losing the fiscal flexibility that they had achieved. We must make sure that the reduction in the debt burden as a result of debt cancellations is not negated as countries are sucked into a new spiral of debt. Debt sustainability and responsible lending must therefore become binding core parameters for new loans to these countries, parameters that new creditors should also comply with.

Since many countries are suffering because of the high prices for food and energy, with the poorest people in those countries feeling the pinch the most, we need creative solutions here too. We therefore welcome the Bank’s Global Food Crisis Response Programme as a quick reaction to the food crisis and also the Energy Access for the Poor initiative as an effective vulnerability mechanism for helping particularly vulnerable countries. It is clear that we also need effective arrangements in order to be able to respond quickly to future crises. The World Bank’s experience means that it can take a leading role here.

However, the international community must go beyond purely emergency measures and strengthen its strategies for rural development and sustainable agricultural growth. Since many countries are suffering because of the high prices for food and energy, those countries that are making high profits in this situation should show their solidarity by investing part of their profits in development. The international community should set up an agro-facility for this purpose, to mobilise capital from major investment and sovereign wealth funds for agricultural projects. Germany has tabled a proposal for such a facility.
Strengthening financial systems and micro-finance are also important aspects in these strategies for rural development. Despite many successful programmes we find that, particularly in rural areas, people still do not have enough access to financial services. We must therefore continue and considerably increase our efforts to offer services to these people. Smallholders must also find it easier to get credit for necessary investments. However, this means offering insurance packages too, so that people are in a better position to cope with the threat of natural disasters such as droughts or floods.

There is also urgent need for action on taxation. Developing countries are losing about 500 billion US dollars a year as a result of tax flight. That is five times the amount of annual ODA contributions. We must therefore step up our efforts to develop efficient, transparent tax systems. A joint dialogue must begin at the same time with industrialised countries about possible international agreements and initiatives to fight tax flight. We need an international pact to fight tax flight with the aim of grouping together existing initiatives against tax flight and supplementing them with measures at the national, regional and international levels. That also includes not allowing tax havens to enrich themselves at the cost of the countries where value really is added. That is why we need an international tax compact, so as to put this topic firmly on the international agenda.

One thing has become clear over the last few weeks: transparency and clear rules are necessary for markets to function. And so we must also take a critical look at the latest Doing Business Report. We must question the implication in the recommendations for deregulation that every regulatory intervention by the state is damaging per se for the business climate. No one can expect us to believe that the lack of regulations in the financial sector has been a good thing for global economic development. And ranking countries highly simply because they have abolished regulations is a short-sighted approach. We need to strive instead for the right degree and right quality of regulation and also leave the developing countries enough space to make their own decisions. A standard policy of penalising regulations that are considered “wrong” is also an ownership problem. The current financial crisis shows that an economic order without regulation does not work. We are therefore strongly advocating that greater distinctions should be made in future Doing Business Reports according to the level of regulation and whether or not it does any good. In its present form the Report should not be used indiscriminately as a guide for resource flows, not by the IFC and IDA, and not in the countries themselves.

Climate change – an urgent challenge for development

Climate change has the potential to completely destroy the development successes achieved over the past few years and to endanger the progress made on achieving the Millennium Development Goals long term. It is therefore particularly important for all international financial institutions to respond emphatically and comprehensively to the challenge of climate change. They must devote more attention to efforts to reduce greenhouse gas emissions and to adapt to the consequences of climate change. It is vital that climate change is not treated as a “stand-alone” topic but is mainstreamed in the international development agenda and in all strategies, programmes and activities in this context. Development policy and climate policy must go hand in hand, since achieving the overarching goal of sustainable development depends on success in both areas. We will have to learn to cope with the fact that adaptation to climate change will cause alterations in international development cooperation in all its dimensions.

We therefore expressly welcome the fact that a decision has been taken on the establishment of the Climate Investment Funds (CIF) and that the way has thus been paved for rapid, comprehensive action on climate. We have sent an important political signal with the CIF. We need rapid progress on combating climate change. Because the costs of not taking action far exceed the costs of rapid and determined action. We now expect the World Bank to contribute its vast experience in the field of finance to the discussions about the elaboration of a global architecture for climate financing. That is important in order to make sure that this new structure supports the UN negotiating process for an
international post-2012 climate agreement. Because UN negotiations are the key forum for negotiating a Kyoto follow-up agreement. The new funds can be a support but they are no substitute for a follow-up agreement. Germany will contribute approximately 900 million US dollars altogether to the financing for the CIF.

It is important that the Climate Investment Funds also convey a positive message with regard to the coherence of global initiatives. Existing financing instruments and tried-and-tested mechanisms must be part of the solution for the climate problem. These mechanisms should – wherever necessary – be complemented and further developed in order to generate real value added. We need to avoid duplication and use synergies with existing financing mechanisms such as the GEF, the new Adaptation Fund established in Bali and the Forest Carbon Partnership Facility.

In addition to radical, rapid reductions in the emissions produced by industrialised countries there must also be a commitment by the more advanced developing countries that is verifiable in the long term and further measures by other developing countries (with the exception of LDCs) to reduce their emissions of greenhouse gases. Only then will we be successful in the fight against climate change – true to the principle of common but differentiated responsibilities and respective capabilities. However, this needs to be coupled with serious international efforts in the field of development, diffusion and technology transfer, in order to enable developing countries to contribute to this global effort too. We welcome the fact that the Strategic Framework on Development and Climate Change (DCCSF) and the Climate Investment Funds are giving prominent attention to this aspect and we hope that the World Development Report 2010 will produce further insights here. We must also be sure to support the particularly vulnerable people in Africa, in the LDCs and in the Small Island Developing States in their efforts to adapt to the consequences of climate change. This is also a matter of global justice: those who have contributed the least to global climate change must not be the ones to suffer.

Bringing forward the voice agenda

At the Financing for Development Conference in Doha at the end of this year we will also be taking stock of the reform of the international financial institutions. I therefore call on us all to make every effort to bring the reform discussion forward substantially. The task that we have is to adapt the Bank’s voting rights and share structure to the changing weight of individual countries in the global economy. As we seek to do that we must also strengthen the voice of small and poor countries. Now is the time to act, as our credibility and the legitimacy of the World Bank as a whole are at stake.

We now have a solid basis for agreeing on the concrete details of the reform package. It is now time for energetic action to bring the process forward taking the reform elements proposed by the World Bank as a basis for our actions. In troubled times such as these, when we are facing an international financial crisis, a successful reform will also send out a signal about the Bank’s legitimacy and ability to act. The shareholders have a special responsibility here. We welcome the options listed for increasing basic votes and creating another African seat on the Board, particularly in order to substantially increase the voice of smaller developing countries. The results of the IMF reform can provide a frame of reference for the adjustment of voting rights. However, we do not have to copy the IMF outcome in every way. The World Bank and the IMF are separate institutions with different mandates and tasks – therefore they can have different voting rights structures wherever it is justified by their differing mandates. It should be possible to give greater weight to IDA contributions when identifying countries that are entitled to shares, because those contributions are proof of solidarity with and a sense of responsibility for the poorest countries.

However, a meaningful voice reform must also reflect improvements in how much of a voice countries have in the design, implementation and evaluation of World Bank programmes and projects under local dialogue and coordination structures. One aspect of this is the continued development of suitable
instruments, such as the Poverty and Social Impact Assessments (PSIAs), which can be a starting point for an open and democratic dialogue on different policy options in the partner countries. In order to make sure that decision options with policy relevance are available, the PSIAs must be carried out in good time, i.e. as part of programme planning.

The increased use of country systems in procurement and planning processes also helps to build capacities. The outcomes of the Accra Conference and the Accra Agenda for Action (AAA) point us in this direction. The World Bank too must take a more pro-active approach when it comes to integrating its programmes into country programmes and with regard to cooperation and the division of labour. Discussion must also focus on how to stop the additional funding that has been mobilised being consumed by increasing transaction costs. And we must make sure that country priorities and ownership are not undermined. The key prerequisite for ownership is the existence of good institutions at all levels of government. That is why capacity development should remain a focus of the international community’s attention. The World Bank must take a proactive role in this process and be prepared to adapt its way of doing business to a common approach.

Statement by Mr. Li Yong, Vice Minister of Finance, People’s Republic of China

We welcome the Development Committee discussion on three important agenda items- the world economic situation, Development and Climate Change: A Strategic Framework for the World Bank Group, and Enhancing Voice and Participation of Developing and Transition Countries (DTC) in the World Bank Group. I would like to share with you some of my observations on these three topics and other related issues.

Current World Economic Situation

The current world economic and financial situation is complex. The slow-down in the world economy would adversely affect global development and poverty reduction. The international community should make correct judgment on the situation and strengthen cooperation to jointly maintain world economic stability. To this end, I would like to make the following comments:

- Developed countries should adopt responsible macro-economic policies to maintain international macro-stability. The policy responses should not only effectively address the present crisis, but also take into account long-term interests as well as their impact on international macro environment. Major developed countries should maintain the stability of the value of international reserve currencies and prevent the acceleration of global inflationary pressure. The international community should also be vigilant against the possible deflation caused by slow-down of the world economy.

- Developing countries’ efforts to maintain stable growth should be supported by the international community. Developing countries are strong forces of the global efforts for containing a world-wide vicious economic recession. Facing the changes in the international economy, developing countries are stabilizing macro economy, conducting domestic restructuring, and also pro-actively pursuing South-South Cooperation, sharing their respective development experiences, and mutually complementing each other based on their respective comparative advantages. This is not only conducive to middle-income developing countries’ expansion of overseas markets nurturing new growth points, but also supportive of low income developing countries’ infrastructure development and lay a solid growth foundation. Therefore, the economic stability and social security of entire developing world is an important part of the solution to the present crisis, and a necessary condition for achieving
long-term growth and development of world economy. Such an effort deserves full recognition and support of the international community.

- The international community should intensively review the development models and concepts being followed in the process of globalization over the past several decades and explore the establishment of an international economic order aimed at promoting global common development. President Zoellick’s vision of an inclusive and sustainable globalization is far-sighted. The Growth and Development Committee has made a useful effort in summarizing a new development concept in its Growth Report. We should pursue the establishment of international economic, financial, monetary, trade and development systems which suit inclusive and sustainable globalization, and enhance global economic governance from all aspects. At present, we should guard against the resurgence of investment and trade protectionism.

- We should look into the impact of the current crisis on the attainment of the UN Millennium Development Goals (MDGs). The international community should respond actively to all the initiatives by the high level UN conferences for MDGs. Especially developed donors need to safeguard ODA increase for the least developed countries and regions so as to ensure the achievement of MDGs as scheduled.

- In view of the great difficulties faced by the world economy, the Bretton Woods Institutions (BWIs) should play a fair, strong and effective role in coordinating efforts to overcome difficulties. To this end, I would like to put forward three suggestions:

  - BWIs should face squarely the systemic issues in globalization and world economy and improve global economic governance. The BWIs should give particular attention to the impact of financial crisis on capital flow as well as ODA; follow closely the stability of the international monetary environment and curtail global inflationary pressure; and also keep a watch on the possibility of deflation. They should learn the lessons of financial crisis and strengthen global cooperation on financial regulation. They should take an open and forward-looking perspective on sovereign wealth funds and new types of development cooperation and enhance effectively the participation of developing countries in the international economic rule-making.

  - BWIs should carefully assess some special difficulties faced by developing countries such as price rise of food and fuel, rising financing costs, deterioration of international balance of payments, and acceleration of inflationary pressure. They should make good use of financial and human resources and take relevant actions.

  - BWIs should fulfill their responsibility with professionalism, objectivity and fairness. They should not only meet the challenges faced by developing countries, but also face up to issues in developed economies, and urge developed members to shoulder their due responsibility for stabilizing the international economy.

- In view of unfavorable external and domestic factors, the Chinese Government has made efforts to improve its macro management capacity, solved in a timely manner the acute constraints and problems in its economic operations, made continuous structural readjustments and expanded domestic demand in order to maintain balanced and rapid economic growth.
In the first half of 2008, China’s GDP grew by 10.4%, a decline by 1.8 percentage points over the same period of 2007. CPI grew by 7.3% during the first eight months. The contribution of consumption to GDP growth over the first half of 2008 reached 50.2%, registering an increase of 10.5 percentage points over the same period of last year. Contribution of net export was 4.9%, a decline of 16.6 percentage points over the same period of 2007. Energy consumption per GDP declined by 2.88% over the same period of 2007. Financial institutions have witnessed an overall improvement in strength and profitability. The financial system is both sound and safe. All this indicates that the dynamics of China’s growth has evolved with an improved balance between domestic and external demand and an enhanced ability to resist economic risks.

However, the institutional constraints and structural imbalances in China’s economy, the inflationary pressure, and the uncertainty of external shocks by the US financial crisis subject China to immense economic challenges. To cope with these complexities, China will adopt a prudent economic policy. It will enhance the foresight, pertinence and flexibility in its macro economic management. It will take measures to maintain stability in the economy and in financial and capital markets so as to achieve sound and rapid economic growth. Sustained, stable and rapid growth in a country with 1.3 billion people itself represents the biggest contribution to world economic stability and development.

*Development and Climate Change: A Strategic Framework for the World Bank Group*

Climate change as a global challenge is both an environment issue and a development issue. It needs joint cooperation of all countries. As the largest global financial institution for development, the World Bank Group (WBG) should play an active role. We welcome the Strategic Framework on Development and Climate Change for the World Bank Group.

To ensure that the Bank’s climate change actions maintain the primacy of the UN Framework Convention on Climate Change (UNFCCC) and Kyoto Protocol, we advocate that the WBG should adhere to the following principles in implementing this Strategic Framework:

- Maintain its core mission of supporting growth and poverty reduction;
- Pursue country-owned and country-driven approaches;
- Impose no conditionality;
- Maintain a balanced approach to mitigation and adaptation, and increase financial resources for adaptation;
- Ensure additionality of resources, and non reduction of existing ODA level;
- Promote R & D and technology dissemination;
- Respect countries’ technology choices;
- Establish balanced monitoring and measurement systems.

*Enhancing DTC Voice and Participation*

Historical experience proves that it is necessary to establish an equitable global economic governance system to support the goal of inclusive and sustainable globalization. Therefore, enhancing DTCs voice and participation in the decision-making of the WBG is a necessary requirement for the WBG as a part and parcel of global governance. We urge the parties concerned to continue to make efforts, especially the developed countries to demonstrate political will, to support meaningful improvements of the DTCs position in the WBG’s decision making.
Ensuring that all DTCs benefit from voice reform, and achieving parity voting power between developed and DTC members is the most fundamental and important goal. To promote this objective, we are open to all options on realigning shareholding and voting mechanism. We have strong reservation on the ODA linkage without distinguishing the different role between developed and developing countries, for it will raise the threshold for all DTCs and bias against their equal participation in the Bank’s decision making.

We support an additional chair for Sub-Saharan Africa. We hope to see a higher DTC representation in the Bank’s senior management, and a specific plan of action by the Bank for this objective.

We support further discussion of the selection process for the President of the Bank. We believe such a process, according to the concept of modern governance, should be open, competitive and merit-based.

Strategic Directions for the World Bank Group-Progress and Next Step

Since the initiation of the six new strategic directions by President Zoellick at the Annual Meetings last year, the Bank has made substantial progress in delivering better, quicker and cheaper services to its client members, especially in IDA replenishment, innovative financial products, South-South cooperation, and response to oil and food price shocks. We appreciate this. We hope that the Bank will achieve further breakthroughs in more areas such as promoting country ownership, use of country system, and decentralization.

As the largest global financial institution for development, the Bank should always put development financing as its core business. Therefore, we support IBRD long-term capital adequacy framework. We believe that on the basis of ensuring IBRD’s AAA credit rating and financial sustainability, IBRD should consider the development needs of countries at different development stages, provide more support to IDA countries and fragile states, and promote global public goods and R & D. It should coordinate resource allocation so as to efficiently utilize its capital resources.

The current international financial turmoil has brought new challenges to all developing members. While actively mobilizing financial and human resources to help developing countries respond to the shocks, the Bank should timely draw lessons and readjust in good faith its own aid strategy so as to ensure aid effectiveness. The current international financial crisis shows once again that it’s necessary to establish a global economic governance system that all countries participate on equal footing if globalization is to benefit the whole mankind. As an integral part of global governance system, while constantly improving itself, the Bank should make its due contribution to the improvement of global governance in conjunction with the need of global development undertaking.
Prepared Statements Submitted by Observers

Statement by Mr. Haruhiko Kuroda, President, Asian Development Bank

On behalf of the Asian Development Bank (ADB), I wish to express our appreciation for the invitation to attend the 78th meeting of the Development Committee as an Observer.

Regional Outlook

The economic outlook of developing Asia and the Pacific\(^1\) has been buffeted by the global financial crisis in 2008 and face tougher headwinds at home. The region and the Asian Development Bank (ADB) must address the urgent issues of financial turmoil, inflation, and rising food prices while not losing sight of the long-term objectives of achieving the Millennium Development Goals (MDGs), spreading the benefits of growth more broadly, and making growth more energy efficient and environmentally sustainable. Regional growth will likely slow to 7.5% in 2008 and 7.2% in 2009, down from 9.0% in 2007, which marked the highest rate in almost two decades. This remarkable expansion was supported in part by years of accommodative monetary policies. Fueled by soaring commodity prices, inflation will surge to 7.8% in 2008 from 4.3% in 2007, before moderating to 6.0% next year. With the myth of decoupling now largely discounted, Asian economies see more risks and uncertainties ahead as growth slows in the U.S., Europe, and Japan. The crisis that began in the U.S. credit market has crossed to Asia, rattling investor confidence and causing large swings in equity markets. The risk premium is up sharply on Asia’s dollar denominated offshore bonds, and capital can be expected to become harder to access for many of our developing member countries (DMCs).

Growth and inflation prospects vary across the region. Despite higher inflation, soft landing is predicted for East Asia, with its growth slowing to 8.0% and 7.7% in 2008 and 2009, respectively, from 9.6% in 2007. Weakening external demand and the impact of tightening policy has trimmed GDP growth in the People’s Republic of China to 10.4% in the first half of 2008, and is forecast to decline slightly to 9.5% in 2009. In most Southeast Asian countries, curbing inflation will be the crucial macroeconomic challenge. While some primary commodity exporters, such as Malaysia, have benefited from higher commodity prices, double-digit inflation projected this year for Cambodia, Indonesia, the Lao People’s Democratic Republic, the Philippines, and Viet Nam will dampen growth of this sub-region. South Asia’s growth will also decelerate from 8.6% in 2007 to 7.1% in 2008 and to 6.7% in 2009. Inflation is forecast to more than double from 5.5% to 11.8%, and then recede to 9.2% in this three year period. With this economic outlook, South Asia will need to strengthen its macroeconomic management to rein in fiscal and current account deficits and to avoid a hard landing. This would be particularly true for India, with inflation expected to reach 11.5% this fiscal year, and its growth forecast to slow to 7.4% in 2008 and to 7.0% in 2009. Growth slowdown is underway also in Central Asia. Although hydrocarbon exporters are benefiting from commodity inflation, importers such as Kyrgyz Republic and Tajikistan have suffered from higher oil prices. Likewise, natural resource exports have bolstered Papua New Guinea’s economic performance but about half the 14 economies in the Pacific sub-region are expected to grow more slowly or contract in 2008.

Given the economic outlook, Governments and monetary authorities throughout the region must undertake corrective policy measures and shift their basic monetary stance in order to tame inflation and prevent major fiscal imbalances. Political realities may make policy changes difficult, particularly in view of their anticipated consequences to the society’s poorest and most vulnerable. Despite looming risks and uncertainties, the region should be reassured of its fundamentally sound growth prospects and recognize

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\(^1\) Developing Asia (and the Pacific) refers to 44 developing member countries of the Asian Development Bank.
that the sooner governments act the sooner developing Asia will return to its robust growth path and resume its record advances in the elimination of poverty.

Addressing the Challenges of Food Crisis, Financial Turmoil, and Climate Change and their Impact on Poverty

Food Crisis

The rapid rise in food prices can push tens of millions back into absolute poverty from which many were only recently lifted. Hundreds of millions more, already subsisting on less than $1 a day, face even greater deprivation. A 10% spike in food prices increase the number of absolute poor by more than 7 million in Pakistan alone; a 20% rise doubles that figure. Given that about 60% of all spending in poor households of this region goes to food, higher food prices have an immediate impact on the most vulnerable. As a result, income and non-income inequalities will widen, and disparities between the region’s DMCs will grow, with the hardest hit economies falling further behind. The governments face complex issues and difficult choices. On one hand tightening monetary policies and reducing subsidies can risk social and political stability, as growth slows and inevitable hardship follows. On the other hand however, swollen food and fertilizer subsidies strain public resources and fiscal budgets, undermining sound macroeconomic management. In Bangladesh, for example, food subsidies are expected to double in the current fiscal year to well over $1.5 billion.

ADB is implementing both short- and long-range programs to address a problem that combines long-term structural factors such as rising oil and fertilizer prices, the loss of food crop acreage to biofuels, rising demand for grains from populations growing in both number and income, and a fall-off in agricultural investments, and short-term cyclical events like the weakening US dollar and the effects of bad weather on recent food crop production. ADB is providing up to $500 million in immediate budgetary support to countries in greatest distress to alleviate their fiscal pressures and assist imports of food grains and agricultural inputs. To mitigate the immediate impacts of the crisis, ADB will engage in targeted interventions to protect food entitlements of the most vulnerable groups and income and livelihood programs for the poor. Support will also be extended to government efforts in providing smallholder farmers with critical inputs like seed and fertilizers. At the same time, ADB will target farm productivity and profitability gains through improved rural infrastructure and services, including rural roads and bridges, rural electrification, and water and irrigation services, in line with ADB’s newly adopted long-term strategic framework 2008 – 2020 or Strategy 2020. It will support better access to rural finance and information and help enhance agricultural market infrastructure. More generally, one of Strategy 2020’s three key agendas - inclusive growth - will seek to increase economic participation, productivity, and incomes of the people most affected by rising prices for basic needs.

Asia’s Financial Systems

Although Asia appears better positioned to withstand the immediate effects of the current financial turmoil, the magnitude of the global turbulence highlights the pressing need for central banks and regulators to assess underlying risks and build a cogent and proactive plan of action to better preserve regional financial stability. ADB’s recent flagship study on Emerging Asian Regionalism identified weaknesses in national financial systems, differences in national financial regulations, and unevenness in market openness and capital market liberalization. There is also a wide variance in financial system development among Asian economies. For example, while financial centers like Hong Kong, Japan, and Singapore have adopted Basel II standards, other countries are only just beginning to develop their most basic banking systems and capital markets. Under Strategy 2020, ADB supports both national and regional financial sector development as one of its five core operational areas. Emphasis is placed on improving legal and regulatory frameworks, developing regulatory capacity, bringing accounting and
auditing standards up to international levels, upgrading information disclosure, and establishing anti-money laundering regimes.

Bank finance and equity markets still dominate the financial sector in Asia though progress is underway to deepen the debt market. For instance, ASEAN+3 has established a new Asian Bond Markets Initiative roadmap, designed to increase issuance and demand for local currency bonds, and to improve the regional regulatory framework and market infrastructure. ADB is supporting such initiatives by issuing local currency bonds in seven Asian markets. While aiding financial sector development at the national level through policy advice and institutional capacity building, ADB also acts as an active coordinator of regional efforts for building a more resilient and efficient regional financial systems, capable of withstanding unanticipated exogenous shocks.

**Climate Change and Energy Efficiency**

Ignoring climate change—or not recognizing its perils—also risks the reversal of hard-won development gains. Heat waves, changes in rainfall patterns, more frequent and severe storms, flood and drought, crop failures, disease, rising sea levels, and the destruction of natural resources pose serious setbacks for achieving the MDGs by 2015. Delay or inaction will hurt the region’s poorest countries and poorest people the most. Asia and the Pacific, with large populations at risk in coastal cities and deltas, fragile mountain areas, arid lands, and small islands, will be severely affected. As the fastest growing contributor to global greenhouse gas (GHG) emissions, the region must also play an important role in finding and implementing solutions. With the use of appropriate cost effective technologies, DMCs can move directly to energy-efficient and environmentally sustainable development, avoiding past approaches with detrimental impact.

Under Strategy 2020, ADB has made environmentally sustainable growth one of its three strategic agendas and the environment is included as a core area of operations. It has stepped up support for projects that move the region on to a low-carbon growth path by using clean energy sources, improving energy efficiency, and reducing fugitive GHG emissions. In addition to mitigating measures, ADB is helping countries adapt to unavoidable impacts of global warming and consequent climate change through national and municipal planning, climate-proofing of projects, and insurance and other risk-sharing instruments. ADB supports sustainable management of forest and other natural resources, protection of biological diversity, and sequestration of carbon from the atmosphere to offset GHG emissions. Our Carbon Market Initiative provides up-front financing as well as technical support for GHG mitigation projects. ADB is also investing $100 million as seed capital to help establish five funds to catalyze private sector capital in advancing energy efficiency, clean and renewable energy, and other low-carbon opportunities. Also, preparation is underway to provide concessional funds to many low-income developing countries for covering the incremental cost of shifting to more energy efficient technologies.

**Enhancing Institutional Relevance and Effectiveness**

**The Asian Development Fund**

The successful $11.3 billion replenishment in 2008 of the Asian Development Fund (ADF), ADB’s concessional lending window, will help ADB strengthen its support to lift millions out of absolute poverty. Elimination of poverty remains the region’s largest challenge and ADB’s vision to 2020. One hundred million of the absolute poor and 300 million on the verge of falling into this category live in nations that qualify for ADF concessional loans and grants. Most of these countries’ per capita income has grown at 3% to 4% or less in recent years, well below the developing Asia average, and too slowly to achieve the MDGs by 2015. Higher ODA will be indispensable to speed up growth and spread the
benefits of growth more broadly, as well as to reform policies, improve governance, build development partnerships, both private and public, and produce substantive results from assistance they receive.

ADB will expand its operations in these countries through ADF funded projects in transport, energy, water and sanitation, and rural infrastructure. These undertakings foster growth and reduce poverty and inequality by raising productivity and incomes, lowering commodity prices, and giving the excluded, especially in the countryside, better social services such as health and education. Access to quality education, a special priority of ADB operations, can directly benefit women, whose empowerment is essential for achieving the region’s non-income MDGs. Promoting gender equity will be central to ADF project planning and implementation.

Results Framework and Aid Effectiveness

ADB is also taking further steps to improve its own performance based on results. In September, a new four-part results framework was finalized to monitor progress in ADB’s operational and institutional transformation to 2020. It will track the region’s progress in the collective development efforts that ADB contributes to, with indicators covering poverty and human development, as well as GDP per capita, regional cooperation and integration, access to basic infrastructure, governance, and the environment. ADB will assess its contribution to country and regional outcomes by aggregating key outputs of projects in five operational priority areas: transport, energy, water, education, and finance. The new framework will measure ADB’s operational effectiveness in five main categories: operational quality and portfolio performance, finance mobilization, strategic focus in operations, knowledge development, and partnerships. ADB’s use of human and budgetary resources and its business processes and practices will also be assessed annually to measure progress in making it a more efficient, effective, relevant, and results-oriented organization. An annual Development Effectiveness Review report assessing performance against set goals and targets will help to sustain ADB’s progress towards attaining greater operational efficacy and institutional responsiveness to clients needs.

Statement by Mr. Louis Michel, Commissioner for Development and Humanitarian Aid, European Commission

Recent Economic Developments: The Role of the World Bank and the IMF

Accra, New York, Washington and Doha: the end of 2008 witnesses a series of important international meetings which we hoped could be crucial for our common fight against poverty, in particular in Africa. Yet every day seems to bring bad news and darkening prospects for international growth affect our expectations for the future and endanger the fragile achievements of the past.

While currently appearing relatively resilient, an increasing number of developing countries are becoming increasingly vulnerable to international economic shocks. Even though food and oil prices have receded from the peaks achieved in the middle of 2008, the situation remains very volatile, prices are expected to remain at a high level compared with the past and broader developments in global financial markets pose significant challenges. It is now clear that the world economy will slow down, and few countries will escape unscathed. The effect of higher food and oil prices will be significant if uneven, with many low and middle income countries experiencing negative shocks to price stability, balance of payments and growth prospects. The crisis is also placing strains on the fiscal position in many countries as they seek to cushion the impact of higher prices on consumers. The impact of the financial market crisis on developing countries is harder to predict at this stage, with much depending on market and policy responses in the developed world. While developing economies have been relatively insulated from the turmoil in global capital markets to date, the threat of shrinking export markets, credit contraction and higher borrowing
costs as a result of investors' increased risk aversion, reduced remittances and foreign direct investment, is real.

Nevertheless, improved macroeconomic management and performance as well as debt relief over the past decade across much of the continent have created a sounder foundation for growth and development, and provide a much stronger platform from which Africa can withstand and recover from these shocks. That is encouraging. The way forward must involve an appropriate combination of continued stability orientation and external and fiscal adjustment that preserves the gains made in macroeconomic management, while protecting those most at risk from the effects of higher prices and reduced economic opportunities.

These, however, are not normal times. If left unchecked, ongoing trends can put into serious danger the fight against poverty and the achievement of the MDGs. These are not the times to withdraw and focus solely on our national preoccupations. We face global crises that require global solutions.

In this respect, the international community has a clear role and responsibility to play in seeking to restore stability to international markets, providing support to the developing countries most affected and learning the lessons needed to avoid a repetition of the current crisis.

First and foremost, therefore, it will be particularly important to ensure that the current crisis and its impact on public finances in developed countries do not serve as excuses to avoid our commitments on increasing ODA spending yet again. The credibility of the donor community as a reliable partner is clearly at stake. This is already self-evident when the fledging pace with which aid for the poorest is increased is compared with the speed with which aid for the richest is mobilised, when the policy conditions to which aid for the poorest is subject are compared with the willingness to reward policy mistakes with huge amounts of unconditional aid.

Secondly, the Bretton Woods Institutions need to be both key actors and key objects of the changes required.

They need to be actors of the international response as per their mandate. Thus, we encourage the IMF to support developed countries in making the correct policy responses, to continue to carefully monitor the macroeconomic effects of these crises on African countries and to provide support and advice on how to respond, noting the difficult balance to be struck between containing inflationary and fiscal pressures, and protecting the vulnerable. In addition, we encourage the IMF to make additional financing available where necessary through its concessional instruments, and welcome recent revisions to the Exogenous Shocks Facility as a step in the right direction.

With respect to the World Bank, there remains an important role in helping to identify and support appropriate programmes and strategies for minimizing the negative effects of adjustment on the most vulnerable, while ensuring that appropriate reforms and investments for longer term growth and development are sustained.

However, the way in which the globalisation process is governed needs to be reformed – and this includes reforming the Bretton Woods Institutions. The current crisis has clearly shown that the current institutional structures - at both the international and the national levels - have failed to harness the forces of globalisation. This also applies to the way in which the system for international development cooperation is structured and operates. Lessons should not be rushed but will need to be learnt with urgency and some newly found humility.
Voice and Participation

The European Commission considers that developing countries are under-represented within the Board of Executive Directors (the Board) of the International Bank for Reconstruction and Development (the Bank). The situation is specifically acute for Sub-Saharan African countries. Unlike the countries of Latin America, Asia and North Africa/Middle East that are better represented on the Board of the Bank (having three seats each), the countries of Sub-Saharan Africa are attributed only two seats for 46 states. Building on the Bank’s discussion papers presenting options for strengthening the voice and representation of developing countries, the Commission is convinced that a solution to the present situation is to increase the number of seats for Africa on the Board.

Another dimension to the voice issue relates to the weak capacity of some developing and transition countries to make use of their subscription rights within the International Development Association. In addition, it is important to consider an increase in the basic votes of the Bank.

These reforms must be results-oriented and ambitious. Moreover, they have to be geared at augmenting the influence of developing countries within the Bank. In addition the changes need to be substantive and exhaustive so as to improve the relevance, effectiveness and legitimacy of the Bank. This is even more acute within the present context of a difficult economic environment for the world as a whole and for developing countries in particular.

To address the voice and participation issue the need for an extra seat for Africa on the Board remains crucial. This is because Africa is the most under-represented region in the Bank. It is important to increase the basic votes in IDA and in the Bank. While recognizing the importance of aligning voting rights on the economic capacity of states, reform in this regard should fully take into account the interests of those countries that ought to fully benefit from the development oriented mandate of the Bank.

Furthermore, it is vital that the procedure for the selection of the head of the World Bank be transparent. Any decision on the choice of World Bank President should be based on merit and the process should be open to the citizens of every country.

I look forward to the outcome of the High Level Commission to address issues related to the modernization of the World Bank Group's governance.

Climate Change

On the eve of Poznan and with a view to Copenhagen, it is essential for us to act to support the poorest and most vulnerable countries in adapting to the devastating impacts of climate change. Given the major responsibility of developed countries for climate change so far, it is their political and moral responsibility to bear the major burden of meeting the costs of adaptation in the least developed countries.

Various estimates of the cost of adaptation have been produced by different institutions, ranging from $10 billion to $80 billion per year. This shows that estimates are clearly based on definitions of adaptation that vary from one institution to another. We therefore urgently need to establish greater clarity on the definition of the still nebulous concept of adaptation.

The National Adaption Programmes of Action (NAPAs) certainly exist and they are a good start. However, they constitute a list of projects without any link yet with the global and sector strategies of the countries concerned.
The Bali Action Programme strongly appeals to the needs of developing countries which are particularly vulnerable to the adverse effects of climate change, especially the Least Developed Countries and Small Island Developing States. Climate change risks upsetting progress towards achieving the Millennium Development Goals and the international community must do its utmost for these countries to counteract this threat. We have therefore launched the Global Climate Change Alliance (GCCA) to deepen our dialogue and step up cooperation with these countries. The Alliance is focused in the first instance on supporting climate adaptation and is closely linked to promoting disaster risk reduction. The Alliance will also encourage mitigation activities that contribute to poverty reduction such as tackling deforestation.

I would like to issue a warning regarding the response to the climate change challenge. There is a tendency today to consider that the best response to any problem is the creation of a new vertical fund. Some of those funds have a real added value, but this has to be assessed on a case by case basis. We should strongly avoid the proliferation of funds of all kinds on climate change.

For our credibility, it is vital to ensure good coordination and to apply the Paris Principles of ownership by the beneficiaries and alignment with their policies. Ideally, additional assistance should be integrated into development strategies that fully reflect the effects of climate change and are implemented through budget support. But this will take some time and needs to be prepared carefully. We are ready to explore opportunities for synergies in that direction with all those involved.

I welcome the document presented by the World Bank to the Development Committee; "Development and Climate Change, a Strategic Framework for the World Bank Group", which sets out a clear role for the WBG to contribute to bringing climate change to the centre of the development agenda. It incorporates lessons from WB's work on initiating carbon funds (since around 2000) and from the Clean Energy Investment Framework (launched in 2005). It draws on experience gained across several specific initiatives (e.g. water resources management, greening energy access in Africa, insurance linked to weather indices). The six action priorities that are outlined are all areas where the World Bank can make an important contribution.

I am firmly convinced that no agreement on an ambitious post Kyoto regime on climate change will be reached in Copenhagen without strong support from developing countries. To obtain this support, we need to find adequate resources for financing the costs of adaptation; these resources cannot be a mere recycling of already promised ODA.

I would therefore like to strongly advocate working together towards mobilising innovative finance for addressing climate change, in particular for adaptation in least developed countries. This is why the European Union, at the European Council meeting in June, committed itself to exploring ways to mobilise new financial resources to tackle climate change, including the possibility of using the capital markets by launching a bond that would constitute a Global Climate Financing Mechanism. In such a mechanism, the funds generated will be used as grants to help the poorest developing countries deal with climate change, in particular for adaptation activities. The urgency of addressing the financing needs in the climate adaptation area provides a strong argument for frontloading assistance, particularly between 2010 and 2015. There are good arguments in favour of repaying this loan by making use of the carbon market through the revenues generated by future auctioning of emission allowances, thereby mobilising innovative finance, and this is possible. In the spirit of the Paris principles, this mechanism will not be used to create a new fund, but rather to increase the resources of existing multilateral or bilateral initiatives.
Statement by Mr. Lennart Båge, President, International Fund for Agricultural Development

We meet amidst troubling crises that are reversing hard-won development gains, pushing millions more into poverty and hunger. While the global financial crisis is likely to dominate our discussions this weekend, the challenges of rising food and fuel prices are expected to be with us over the next several years. If we are to create opportunity from these crises, we will need to address them in all of their complexity and interconnectedness. While dealing with the financial crisis and the risk of a global downturn, we must simultaneously move ahead with the policy measures and actions needed to grow and market more food, fuel, and fiber, taking into account the effects of climate change.

The effect of high food prices – and the cost of inaction -- is visited most harshly on poor and vulnerable households, which typically spend fifty- to sixty percent of their incomes on food. Rising food prices have already resulted in 75 million more people going hungry, according to recent estimates by the Food and Agriculture Organization. Similarly, the World Bank has calculated that food price increases may swell the ranks of the world’s poor by 100 million people. Nearly one-third of the newly poor are in Africa, the region most severely affected by the current rise in prices. Twenty-one of the thirty-four countries in crisis due to food price increases are in sub-Saharan Africa. In addition, by 2020 almost 50 million additional people may be at greater risk of hunger as a direct consequence of climate change.

At the same time, there is evidence that higher food prices are having a positive effect on agricultural production in some parts of the world. Higher food prices have prompted an expansion this year in the area planted with cereals in the Russian Federation and Ukraine. As a result, the aggregate output of wheat in the European Commonwealth of Independent States in 2008 is set to rise to more than 73 million tones, 13 percent above the good harvest of 2007. In a number of developing countries, agriculture, especially smallholder agriculture, has large underutilized potential - which given the support necessary - could be mobilized to enhance food security as well as reduce poverty.

The present food crisis thus presents both an urgent need and an opportunity that the world cannot afford to miss. The lasting solution to the current crisis requires investment in long-term agricultural development, which has been sorely neglected for decades. This long-term investment must be an “all-hands” response – mobilizing resources from governments, bilateral and multilateral donors, and the private sector and putting smallholder farmers squarely at the center of initiatives to grow and market more food.

Private sector investment is essential for poverty-reducing, long-term agricultural development. Private investors who could mobilize substantial resources have increasingly expressed interest in using their financing to develop under-utilized crop lands in countries that have adequate land and water and so boost potential yields. There are a number of regulatory, legal, and social issues to be addressed for such investment to go forward. Regulatory frameworks in many recipient countries need to be strengthened and the land rights of current farmers need to be safeguarded. IFAD is supporting a pilot initiative in Ghana in which large numbers of smallholder farmers are organizing as a counterpart to a foreign investor. The investor is financing infrastructure and production inputs and the farmers are providing assured supplies on agreed market-related prices. The outcome of this pilot project may provide lessons for replication and scaling up in other countries.

There is growing consensus on the need for a global partnership on agriculture and food, as called for by G8 leaders and others. The basis for swift and effective coordination among the international community has been established in the Comprehensive Framework for Action, or CFA, formulated by the United Nations Secretary General Ban Ki-moon’s High Level Task Force on the Global Food Crisis. The Task Force brings together the UN system, the World Bank, the IMF and the WTO. The CFA gives full recognition to the importance of promoting agricultural investments focused on smallholder farmers and
rural development. It also recognizes the Comprehensive African Agriculture Development Programme (CAADP) as the right framework for coordination in that most-affected region.

Outlines of a coordinated global response are in place. What is needed are the resources to support the necessary action. In the short-term there is an urgent need to sustain production in the coming growing seasons. Without prompt action, many smallholders will not be able to access seeds and fertilizer for planting. For its part, IFAD is making available funds from existing loans and grants to provide an immediate boost to agricultural production. In Haiti, we are supporting nationwide expansion of a programme to intensify production of seed crops, including seed distribution and seed multiplication by farmers’ organizations. In Mauritania, we are working through the government’s Special Intervention Programme on Food Prices to purchase and distribute seeds and other inputs and to set up cereal banks. In Benin, a food security component has been added to the ongoing Rural Development Support Programme to stimulate food production in the coming season. We have also identified opportunities in sixteen other countries to expand existing programmes or start new initiatives to improve food production in the next few years. Each of these offer cofinancing opportunities for development agencies seeking to deepen their engagement in agriculture.

The effects of climate change – such as increased exposure to drought, rising temperatures, more erratic rainfall and extreme weather events – jeopardize water and agricultural systems, dramatically increasing the risk of increase malnutrition and water shortages. Our long-term efforts to improve food security must address the causes and consequences of climate change. In this regard, IFAD is focusing on climate change issues as they affect these poor rural producers and on strengthening their long-term resilience to climate change. It is working to fully integrate climate change adaptation into its operations and is developing a strategy that will include approaches for promoting adaptation and for enabling the rural poor to participate in mitigation efforts.

At IFAD we are ready to step up our effort, to improve our partnership capacity, and maximize the contribution we make to the overall international response to growing food insecurity. The outcome of IFAD’s Eighth Replenishment, which is currently under discussion, will set the course for IFAD in the period leading to 2015, the target date of the Millennium Development Goals. The urgent need for immediate and longer-term action to address the challenges facing billions of poor rural people today means that we are seeking a major increase in contributions from our member states to reach a target of US$1.5 billion, which will enable us to help fund an IFAD programme of US$3.3 billion for the period 2010-12.

The challenges before us are momentous. The commitments made at the dawn of the new millennium must continue to guide our efforts as we work together to resolve today’s crises and continue to build a healthier, safer, more prosperous world.

Statement by Mr. Juan Somavia, Director-General, International Labour Office

Summary

The crisis of the international financial system has grave consequences for enterprises, workers and families around the world. Coming on top of still high food and fuel prices, its effects are provoking a slide into a recession that unless averted by prompt and coordinated government actions could be severe, long lasting and global.

We have abruptly moved from an era of changes to a change of era.
Today global action has four key elements:

First, the immediate priority is to get credit flowing again quickly through continued coordinated action by monetary authorities before more serious damage is done to the productive capacity and social fabric all around the world.

Second, we need to put a floor under the slide into recession not only by emergency measures to rescue banks and finance companies, but also by

- maintaining and enhancing social protection systems to support working women and men and their families who are now suffering job and income losses as a result of a crisis for which they had no responsibility,
- ensuring that productive enterprises, and in particular small businesses which employ a large share of the workforce in all countries, are able to access affordable credit lines, avoid layoffs and wage cuts and prepare for recovery, and
- increasing development assistance (ODA) to the least developed countries so that they are also able to protect the most vulnerable people and enterprises.

Third, we must start rebuilding the regulatory regime for global finance markets to reduce chronic volatility and instability. Money must work for people. The foundation of a new regime for market economies is the old ethic that good hard work deserves a fair reward. Our financial systems must support, not undermine, fairness in society and the importance of sustainable enterprises and decent and productive work to stable, peaceful communities. We need financial policies that promote productive investment, restrain speculative behaviour, ensure transparency and rebuild credibility in the system. In an open international system, the quality of national banks and other financial institutions practices and instruments should be subject to international standards of supervision. The surveillance mechanism of the Fund must apply with equal weight to big and powerful nations as well as smaller and weaker countries.

Fourth, we must move from recovery to sustainable development. This will require a new governance framework to support a fair globalization providing opportunities for all. We need to start the world economy down a path to sustainable economic, social and environmental development – with low carbon, employment intensive, poverty-reducing strategies. That will require a new balanced combination of smart regulation and intelligent public policy, responsible innovation and creativity of the market, inclusive societies and a focus on Decent Work as the key to a decent life.

We were in a crisis before the financial crisis erupted. It is a crisis of continuing and now increasing massive poverty worldwide and growing social inequalities in advanced, emerging and developing countries. An effective and coordinated effort to address the immediate financial crisis must be a first step towards increased cooperation and coherence in global policy-making. We need to construct a new stronger international institutional architecture that fosters a balanced and integrated approach to sustainable development. Developing integrated policies among relevant international organizations to generate Decent Work opportunities worldwide is one of the foundations of a sustainable recovery and a fair globalization.
The ILO represents the world of work constituency in the multilateral system, actors of the real economy – employers, workers and the employment, labour and social functions of governments. Their needs and their experience must be reflected in the task ahead.2

Restoring Trust in the International Financial System

The credit freeze within the international financial system has grave consequences for employers and workers around the world. Coming on top of still high food and fuel prices, it’s effects are provoking a slide into a recession that unless averted by prompt and coordinated government actions could be severe, long lasting and global. Already businesses are not be able to function normally and are being forced to lay off workers. Trust in the banking and financial system must be rapidly restored.

Now the immediate priority is to get credit flowing again quickly before more serious damage is done to the productive capacity and social fabric of countries all around the world. Smaller businesses and more vulnerable workers with least assets to fall back on will be hit hardest and will find it most difficult to recover. It is particularly important that smaller businesses, the backbone of the real economy in the developing as well as the developed world, are able to access to credit lines and other financial services in the normal way. The shock waves of the credit freeze are spreading through the advanced economies but are already hitting many developing countries.

Placing a floor under the downswing

We know from past experiences that severe financial crises cause economic recessions that are extremely costly in human, social and economic terms. There is every reason to believe that the looming recession we now face could be particularly severe unless we react quickly to block the channels by which it spreads to hit the lives of the most vulnerable people and enterprises.

While attention is focussed on rescuing banks and finance companies with massive injections of public money, it is equally vital that systems of social protection are maintained and enhanced. Those who had no responsibility for the crisis but are now and in the near future suffering job and income loss must be supported. As the IMF has said in its World Economic Outlook, automatic fiscal stabilizers help to place a floor under a downswing. Unemployment insurance systems not only give time for working women and men to seek a new job, they also serve to maintain an adequate level of consumption and thus support business sales. The importance of a strong public social security system is now thrown into sharp relief by the difficulties facing private pension schemes as stock markets tumble. Just when retirees need their savings most they vanish. Attention needs to be given to ways to protect pensions from catastrophic declines in the value of funds.

Small enterprises are most vulnerable in a recession especially one induced by a credit freeze. Access to affordable credit is vital if a large numbers of small businesses are not to be pushed into bankruptcy with severe effects on jobs and incomes.

2 In October 2007, I argued in my statement to the IMFC for “a balanced policy to regulate the impact on the productive economy and sustainable enterprises of highly leveraged debt instruments and non-transparent ownership vehicles.” At this year’s Spring meeting we stressed that “imbalance in financial markets are related to wider disequilibria in society and in the process of globalization. Averting the risk of a major global slowdown and ensuring recovery to a sustainable global development path thus requires coherent policy action within and between countries across several policy fields, including finance and investment, trade, employment and social affairs and environment.”
Public infrastructure investments should be brought forward and designed to ensure maximum employment opportunities and contribute to lower greenhouse gas emissions. Local authorities access to credit markets must be supported where necessary by central governments.

In the developing world more and more countries are introducing various types of employment guarantee scheme which, by offering work to informal economy workers, helps maintain local economic activity and contribute to building essential infrastructure such as roads or irrigation and drainage canals. In most of the developing world where unemployment schemes are weak or non-existent such schemes are vital to the working poor and their families hit first by food and fuel prices rises and now by the threat of economic slowdown.

Basic pensions and child support are also effective means of getting vital cash into the poorest communities and together with basic health care schemes have a direct impact on poverty, preventing for example the resurgence of child labour that has been a feature of past crises. As the World Bank has stressed in its report on rising food and fuel prices, building and extending basic social protection systems is a neglected element in our poverty prevention and reduction strategies. They are policies that enable people to become productive and start working out of poverty.

Official Development Assistance (ODA) is a potentially vital global fiscal stabilizer for least developed countries in particular. Achieving the global aid flows goals set five years ago in Monterrey is increasingly important to preventing a slowdown sliding into a damaging world recession that would set back progress on poverty reduction dramatically. Just meeting the Gleneagles commitment for increased ODA by 2010 has a price tag of $22 billion, a fraction of recent bank bailouts. The Bank estimates that 100 million have fallen back below the $1 a day poverty line and the billions living in poverty are seeing their inadequate purchasing power eaten away by price increases.

Redesigning the financial system

Recovery from the recession that financial collapse is causing must rest on sound and broad foundations. The most dramatic financial crisis in 80 years calls for rebuilding the regulations that govern capital markets. I welcome the proposal of Managing Director Dominique Strauss-Kahn that this year’s Annual Meetings should commence a process of reform of the global financial system to ensure that financial institutions and markets are properly regulated.

Self regulation of finance markets has failed. We need smart regulation and intelligent public policies. Decisions about when, whether and how much to regulate or deregulate markets are about the use of a policy tool. When deregulation is regarded as always the best policy in all circumstances it becomes an ideology not a tool.

The foundation of market economies is the ethic that good hard work deserves a fair reward. Salaries and rewards to the finance sector have become grossly inflated and unrelated to the productivity of the real economy. Bringing reward systems back into the range of normality is part of the rebuilding of public confidence in the financial system. Our financial systems must support not undermine fairness in society and the importance of sustainable enterprises and decent and productive work to stable, peaceful communities.

Markets without ethics are destructive and dangerous. Transparency, public oversight and good regulations can help to ensure that ethical values are not forgotten but we also expect leaders in business and finance to follow a moral compass. It is evident that many have thrown that compass overboard and are now rightly being heavily criticized for their behaviour.
It is vital that regulations, or the lack of regulations, concerning mortgage lending practices and the way in which derivative instruments pass on and disguise risks are reconsidered, but it is equally important to ensure that disposable incomes keep pace with the growth of productivity, or in ILO language, that workers have a fair share of the wealth they have contributed to create.

The risk of high volatility is systemic and requires a systemic response. In an open international system, the quality of national banks and other financial institutions practices and instruments should be subject to international standards of supervision. The surveillance mechanism of the Fund must apply with equal weight to big and powerful nations as well as smaller and weaker countries. The world’s main international reserve currency cannot be unaccountable to other countries through the world’s primary financial fora.

*A New Governance Framework for Sustainable Development and a Fair Globalization*

Moving from recovery to sustainable development will require a new governance framework for a fair globalization. The proximity in time and geography of the 1944 Conferences in Bretton Woods, Philadelphia and Dumbarton Oaks which launched the IMF/World Bank, ILO and the UN into the second half of the twentieth century illustrated a vision of balanced economic and social policies, the promise of which was never fully achieved. The time is overdue to revisit and rebalance the international system for the twenty-first century. President Sarkozy has called for global solutions that are determined within “legitimate, trusted multilateral forums”.

We must remember that we were in a crisis before the financial crisis erupted. It is a crisis of continuing massive poverty worldwide and growing social inequalities in advanced, emerging and developing countries. As IMF and other research has shown, labour shares in national income are falling in a large number of countries -- developed and developing and this is not unrelated to the difficulty of affording the mortgage payments on a modest family home.

It is time we reasserted the primacy of human beings at work. As the ILO’s Constitution reminds us “Labour is not a commodity”. We need a system and rules that reward and encourages investment in productive enterprises, skilled workforces and cohesive communities in the long term without the constant, destructive and illogical pressure of financial markets for very high short term returns.

The increasing political questioning of the current globalization has its roots in imbalances in the relationship between the state, the market, society and individuals. A sound and stable governance structure for globalization needs to establish a new balance. In recent decades we have undervalued the role of the state, overvalued the market, failed to listen to the democratic expressions of social concerns and neglected the needs of too many individuals, families and communities for a decent quality of life. As the World Commission on the Social Dimensions of Globalization said in their 2004 report ¹ “there are deep-seated and persistent imbalances in the current workings of the global economy, which are ethically unacceptable and politically unsustainable.”

The first Gallup Global Poll, on the basis of surveys in 100 countries, concluded that “What the whole world wants is a good job.” The CEO of Gallup Jim Cullen draws the conclusion that “The leaders of countries and cities must make creating good jobs their No. 1 mission and primary purpose because

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¹ A Fair Globalization: Creating Opportunities for All, World Commission on the Social Dimension of Globalization, ILO 2004
securing good jobs is becoming the new currency for leadership. Everything leaders do must consider this new global state of mind, lest they put their cities and countries at risk.\(^4\)

This is not news to political leaders who know that they have to answer the popular demand for more and better jobs at every election. The ILO’s Decent Work Agenda has received wide support, repeatedly expressed at global and regional levels, and the endorsement by Heads of State and Government at the 2005 World Summit of the United Nations who made fair globalization and the goals of full and productive employment and Decent Work for all, central objectives of their relevant national and international policies.

We need to plan for a low carbon, employment intensive, poverty-reducing growth path for the global economy.\(^5\) That will require a new balanced combination of smart regulation and intelligent public policy, the responsible innovation and creativity of sustainable enterprises in the market, inclusive societies and a focus on Decent Work as the key to a decent life.

A global movement for Decent Work and a decent life was born on October 7\(^{th}\) 2008 when the first World Day for Decent Work mobilized in more than 100 countries. It unites the traditional labour movement with many civil society organizations and a wide range of political parties. I forecast we will hear more about this movement.

Making money work for people will require placing the goal of full and productive employment and Decent Work at the heart of economic and social development. This year at the ILO’s annual Conference a landmark Declaration on Social Justice for a Fair Globalization initiated a process of reform at the ILO which aims to improve the Organization’s capacity to assist its constituents in the era of globalization. Amongst other things it invites the ILO to work with other international and regional organizations with mandates in closely related fields to promote Decent Work. It highlights the importance of trade and financial market policy and defines the ILO’s role in evaluating their employment effects to achieve its aim of placing employment at the heart of economic policies.

Developing a new stronger international institutional architecture that fosters a balanced and integrated approach to sustainable development can and must emerge from the present crisis. Developing integrated policies among relevant international organizations to generate Decent Work opportunities worldwide is one of the foundations of a sustainable recovery and a fair globalization.

**Statement by Mr. Ahmad Mohamed Ali, President, Islamic Development Bank**

The Islamic Development Bank (IsDB) Group has the honour and privilege to participate in the 78\(^{th}\) Meeting of the Development Committee, which has on its agenda the following items (i) Recent economic development and their effect on long-term growth and overcoming poverty; the role of the World Bank and the IMF in protecting vulnerable, (ii) Development and climate change; a strategic framework for the World Bank Group, and (iii) Enhancing voice and participation of developing and transition countries in the World Bank Group. The background documents to the first two agenda items address major development challenges facing the developing countries, including the IsDB member countries. These two documents provide rich analysis on the impact of the twin food–fuel crisis on the deepening of

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\(^4\) Report available at [http://gmj.gallup.com/content/101680/Global-Migration-Patterns-Job-Creation.aspx](http://gmj.gallup.com/content/101680/Global-Migration-Patterns-Job-Creation.aspx)

\(^5\) Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World\(^{1}\), UNEP/ILO/IOE/ITUC, September 2008.
poverty as well as its threat to the human capital of the poor and identify key operational areas aimed at mitigating the adverse consequences of climate change.

This meeting of the Development Committee is taking place in the midst of a full-blown global economic crisis. It is a triple-crisis that is enveloping both developed and developing countries - the twin energy-food crisis mainly affecting large number of developing countries, particularly putting the low income countries under severe stress, while the developed countries are experiencing a deep crisis of an unprecedented scale in their financial system which is posing a serious threat to the overall global financial system. According to the World Economic Outlook (WEO) of the IMF, the financial market meltdown in the United States and other advanced economies could lead to a longer and deeper recession with adverse consequences on the growth prospects of developing countries.

For the developing countries, an important issue is the impact of financial cycle on economic growth – the transmission channel is through the downgrade of creditworthiness of borrowers and de-leveraging of bank's balance sheet. In the face of higher external financing needs due to the twin energy-food crisis, the developing countries are now likely to experience evaporation of global liquidity accompanied by significant slowdown in private debt capital flows. In the present situation, growth prospects and overall macroeconomic stability of developing countries is under a serious threat – particularly, those countries that are more dependent on external financing and have a higher trade openness. An immediate short-term implication is that some developing countries can, to some extent, mitigate their external sector vulnerability through a drawdown of their foreign exchange reserves. However, with the onset of global liquidity crunch and the tightening of access to international capital markets, developing countries face serious challenges for attracting new FDIs and private debt capital flows. In these grave circumstances, the multilateral financial and development institutions have an obligation and an opportunity to prove their mantle and worth by initiating immediate and concerted actions aimed at mitigating the macroeconomic vulnerabilities and, more critically, the threat of poverty and human deprivation to socio-economic order and stability in many developing countries.

On this occasion, the IsDB Group wishes to reiterate its commitment to further widen different areas of partnership with the international development community in order to foster social emancipation and economic progress of the poor and the underprivileged people in the developing world. Along with the other participants, the IsDB Group welcomes the opportunity to participate in the discussions on the major developmental challenges during the 78th meeting of the Development Committee. The IsDB Group would like to briefly update the recent economic performance of its member countries and to share its perspectives on the agenda items of this meeting of the Development Committee.

Recent Economic Performance of IsDB Member Countries

According to the WEO, the global economy which grew at 4.9 percent in 2007 is projected to slow down to 3.7 percent in 2008. This drop in growth has been mainly due to the food, fuel, and financial crises which have affected the growth performance of a large number of countries. The on-going financial market meltdown in the United States and its contagion impact in Europe have created major uncertainties and now there is a serious risk of the onset of a deep and longer global recession.

Over the past six years, economic growth in 56 IsDB member countries (as a group) has been sustained at above 6 percent. This has been possible largely because of improved terms of trade, strong domestic demand, favourable business environment and financial conditions, and growth in world trade. The GDP growth of IsDB member countries was 6.1 percent in 2007, but with the global slowdown this rate is projected to decline to 5.9 percent in 2008. At the same time the inflationary pressure has continued to increase and the inflation rate is projected to increase from 8.2 percent in 2007 to 12.2 percent in 2008.
The overall current account balance which declined from $303 billion in 2006 to $291.2 billion in 2007 is improving and is projected to reach the level of $500 million in 2008.

The core macroeconomic challenge facing member countries is to maintain the growth momentum during this and the next year. However, the most important challenge, in the face of sharp spikes in prices of energy and food commodities as well as potentially reduced access to international capital markets due to the on-going financial crisis in advanced economies, is to mitigate domestic inflationary pressures by calibrated balancing between fiscal and monetary stance, on the one hand, and protecting the most vulnerable groups in the society, on the other. In addition to the global risks emanating from the triple crisis, relatively higher inflows of FDIs and remittances have also resulted in rapid expansion in domestic credit leading to a rise in domestic asset prices, which has the potential for over-heating of the economy. In terms of developmental challenges, rising inequality in IsDB member countries shows that the distribution of gains from robust economic growth performance has yet to be institutionalized. In order to maintain social stability, it is critical to ensure that economic policies are tailored to produce equitable growth through sustained human development in developing countries, including IsDB member countries.

**The Effect of Recent Economic Developments on Long-term Growth and Overcoming Poverty**

The IsDB Group would like to compliment the World Bank for preparing a well-researched background document on the threat of the rising food and energy prices to the human capital of the poor in the developing countries. Another related work of the World Bank has led to the revision in the global poverty benchmark, the International Poverty Line (IPL) from $1-a-day to $1.25-a-day. An immediate implication of the revised IPL is that the number of poor people in the developing countries has been estimated at 1.4 billion people in 2005, which is higher by 400 million people as compared to the earlier IPL of $1-a-day. A good news, however, is that using the revised IPL, the number of poor has fallen from 52 percent of the developing world's population in 1981 to 26 percent in 2005. Except for Sub-Saharan Africa (SSA) region, the developing world is still on track to achieve the MDG target to halve the 1990 poverty rate by 2015. In terms of the new IPL, the number of poor in SSA region was estimated at 380 million and the poverty rate was estimated at 50 percent in 2005, the same that it was in 1981.

The twin food–energy shock now represents a threat to basic survival of the poorest households, particularly in low income developing countries. According to a recent IMF study, the food commodity prices are 44 percent higher and oil prices are double their levels recorded between end-2006 and mid-September 2008. In terms of macroeconomic impact, fuel importing low income countries are facing an increase in their oil imports equivalent to 3.2 percent of their GDP or US$60 billion. For the 43 net food importing countries, the rise in their food imports is estimated at 0.8 percent of GDP or US$7.2 billion. Although the rise in international prices of energy and food commodities have moderated in recent months, still the higher domestic prices in the developing countries have added an average of 3 to 5 percentage points in global poverty rates or pushed an estimated additional 100 million people in dire poverty.

Across all regions in the developing world, the twin food–energy crisis has led to an acceleration in inflation and serious deterioration in the balance of payments and fiscal balance positions. Given the limited space for fiscal response, the short-term prospects for building a sound and comprehensive social protection system aimed at mitigating survival risk of the poor appears to be limited. At the micro or households level, worrisome outcomes are mainly manifesting through an increase in malnutrition, reduced spending on education, and an overall increase household indebtedness.

For the international development community the implication is that efforts aimed at supporting the achievement of MDG targets needs to be intensified by scaling-up of financial resources and further
sharpening the effectiveness of aid delivery. However, it is also apparent that the multilateral development banks (MDBs) alone cannot provide additional resources for achieving the MDGs. In fact, the MDBs through coordinated efforts need to collaborate with philanthropic foundations as well as partner with the private sector to implement projects that create employment opportunities and reduce poverty in the developing world.

Like other MDBs, the IsDB Group is determined to support the member countries through mitigating the immediate impact of food crisis and the longer-term need to revive growth in the agriculture sector. In this context, the IsDB Group has launched three inter-related initiatives for promoting human development and pro-poor growth in member countries. During the 33rd IsDB Annual Meeting, which was held on 2–4 June 2008 in Jeddah, the Board of Governors adopted the Jeddah Declaration Initiative with an assistance package of US$1.5 billion over the five-year period. This Initiative is aimed at supporting member countries affected by the global food crisis to strengthen their food security and to revitalize the agricultural sector. Under this Initiative, the first phase of the short-term programme has been commenced with a grant allocation of US$20 million for the 25 LDMCs to provide support to farmers acquire urgently needed agriculture inputs in order to boost local productions over the 2008–2009 cropping seasons. In the medium and long term, the IsDB Group will support improvements in the agricultural sector productivity and rural incomes through enhancing access to agricultural inputs and services, improving agricultural infrastructure and strengthening agricultural support institutions. In this regard, the IsDB Group has finalized preparation of 10 projects amounting to over US$178 million in 10 LDMCs; in addition, trade operations amounting to US$52 million have been approved to help improve food security situation in the LDMCs. Furthermore, a number of Technical Assistance operations are underway for developing a pipeline of projects in the agricultural sector in the coming years.

The second initiative is the launching of the Special Programme for the Development of Africa (SPDA), which is a five-year Programme for the period 2008–2012 for which the Bank has earmarked US$4 billion. The sectoral priorities in the SPDA will target the twenty-two LDMCs in the SSA region to help achieve human development targets in the MDGs as well as to raise the competitiveness of their exports. So far during 2008, the total financing volume under the SPDA initiative has reached a total of US$725 million. A unique feature of the SPDA that the Bank will play a catalytic role by attracting additional resources from other development partners particularly through the regional funds, the private sector and the Islamic banks. Through this catalytic role, the SPDA is targeting a total financing volume of US$12 billion over the programme period.

The third initiative was the launching of the Islamic Solidarity Fund for Development (ISFD) in May 2007, which is a IsDB poverty fund with an initial principal targeted amount of US$10 billion. During 2008, the total ISFD financing volume is expected to reach US$304 million. In its work programme, the ISFD has devised two-front runner poverty reduction programmes; namely, the Vocational Education and Literacy Programme (VOLIP) and the Microfinance Programme for Entrepreneurship and Self-employment. These two front-runner programmes will be implemented through a country programming process with the aim of creating a significant impact on the targeted poorer communities in selected regions.

Finally, the IsDB Group is currently in the process of developing an initiative for promoting partnership arrangements among the GCC countries to support their large-scale investments in developing exports of food commodities in other member countries with competitive agriculture sector. According to the FAO, food import dependency will reach 60 percent in the arid GCC countries by 2010. This also poses a major challenge as the GCC countries population is expected to double to nearly 60 million by 2030. The rising need for food imports in the GCC region has come up at a time when the exportable surplus and stockpiles of food commodities are declining. In order to ensure their food security, the GCC
governments and in partnership with their private sector are planning greenfield investments in the food and dairy sectors in selected countries in the Asia and Africa regions that have large-scale agriculture sector. The expected IsDB Group initiative will support the GCC food security concerns by promoting private sector investments in the agriculture in other member countries.

*Development and Climate Change*

The IsDB Group would like to compliment the World Bank for preparing a comprehensive paper and aligning its operational activities to supporting sustainable development in the face of adverse consequences of climate change. As articulated in the background paper, the design of the global climate policy requires an unprecedented cooperation among the nations and, in particular, the leadership role of the developed countries to supporting transformation of production process and lifestyle changes. The World Bank Group has rightly identified its operational responses to the six areas in the Bali Action Plan.

It needs to be stressed that mitigating the adverse consequences of climate change is critical for reversing the damage to the global eco-system and to ensuring the survival of the humans. Therefore, it is important that the concept of clean energy framework is expanded to the broader infrastructure sector power, telecommunication, mass transportation, and conserving scarce water resources. A broader approach to ensuring clean and environmentally-compliant new investments in the infrastructure sector, particularly, in the emerging economies in Asia and Latin America, will help to control the additional emissions of greenhouse gases.

The IsDB Group participated in the UN Climate Change Conference in Bali, Indonesia, which was held in December 2007. The Bank supports the Bali Road Map, including the Bali Action Plan, which provides a new negotiating process designed to tackle climate change with the target date of completion by 2009. During the Conference, the Bank announced its commitment to support member countries cope with the impact of climate change by encouraging adaptation of clean technologies.

The Bank launched its first IsDB Infrastructure Fund with a total size of US$730.5 million in December 2001. The demand for infrastructure investment in the IsDB member countries has been estimated around US$1,183 billion over the next ten-year period. In order to support such huge investment needs, the Bank is currently in the process of launching its second IsDB Infrastructure Fund with the target size of about US$2 billion. Under its commitment to support the implementation of the Bali Action Plan, the IsDB Group will support clean energy investment framework under its commitment in the Bali Conference as well as ensure compliance of Bank-financed infrastructure projects to international environmental and clean energy standards.

With these words, I wish the 78th meeting of the Development Committee every success.
Statement by Mr. Angel Gurría, OECD Secretary-General, and Mr. Eckhard Deutscher, Chairman, OECD Development Assistance Committee (DAC)

Progress in aid effectiveness: The Third High Level Forum on Aid Effectiveness and next steps

- The Accra Agenda for Action—a significant step forward
- An agreement built on wide and inclusive consultation
- Ownership at the heart of the AAA
- Effective and inclusive partnerships for development
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Progress in aid effectiveness: The Third High Level Forum on Aid Effectiveness and next steps

The Accra Agenda for Action—a significant step forward

The Third High Level Forum on Aid Effectiveness (HLF3), held in Accra, Ghana 2-4 September 2008, exceeded all expectations. This event, which built on one of the most extensive consultation processes ever held, achieved a far-reaching set of agreements that commit developing countries and donors to put the Paris principles on aid effectiveness into practice. In doing so, it paved the way for progress on financing for development and the achievement of the MDGs.

The discussions at Accra, and the preparations for the HLF3, marked a fundamental shift in the nature of the relationship between developing countries and their donors. The 1700 participants at Accra—including ministers, officials, parliamentarians, experts and activists from 130 countries, 40 international institutions, 80 CSOs and many private institutions—called for a step change in the way aid is provided. The Accra Agenda for Action (AAA), the main outcome document of the HLF3, provides the roadmap to ensure that aid delivers more development impact.

An agreement built on wide and inclusive consultation

Both the Paris Declaration and the AAA have been driven by the Working Party on Aid Effectiveness (WP-EFF)—an international partnership of donors and developing countries hosted by the OECD-DAC.
AAA – Consultation Process

Figure 1: The AAA is based on a wide and inclusive consultation process led by the Working Party on Aid Effectiveness (hosted by the OECD-DAC).

Since the Paris Declaration was endorsed in 2005, the international community has grown progressively more aware of the need for developing countries to take the lead in its implementation. The work of the WP-EFF builds on this principle of ownership, which has provided the foundation for the HLF3 and AAA.

The AAA is the product of wide consultation and is built on inclusiveness, transparency and trust. The preparations for the Accra High Level Forum brought together over 100 governments, most multilateral agencies, hundreds of CSOs from around the world, many non-traditional providers of development assistance, global funds and middle-income countries. Developing countries were at the heart of the process: over 80 of them participated in regional preparatory events and 54 took part in the 2008 Survey on Monitoring the Paris Declaration.

Developing countries had their priorities for Accra from the beginning of the preparatory process. They called for progress in six key areas: conditionality; multi-annual predictability of aid; untying; complementarity and division of labour; incentives for donor staff to implement the Paris Declaration; and capacity development. The significant actions laid out in the AAA reflect these concerns, with a series of realistically ambitious commitments that are designed to take effect immediately.

Ownership is at the heart of the AAA

The first theme of the AAA is strengthened country ownership of development. The AAA calls for increased leadership from developing countries in making sure assistance is driven by demand rather than supply. This includes broadening the definition of ownership to include parliaments, local authorities and civil society.
The AAA also includes commitments to strengthen local capacity to lead and manage development, calling on developing countries to identify where their own capacity needs to be strengthened, at all levels. It specifies that technical co-operation should be provided by local and regional resources, including through South-South co-operation, and that technical co-operation should be jointly managed and draw on local and regional sources.

One of the most important agreements in the AAA is that donors will use country systems as a first option so that nationally owned priorities are not bypassed and local capacity for public management and accountability is not undermined. Increasing the quality and use of countries’ own systems is a key aim of the Paris Declaration. Yet the findings of the 2008 Survey on Monitoring the Paris Declaration show that, while developing countries have made significant progress in improving the integrity of their systems, donors have not responded by making greater use of them.

Through the AAA, donors have agreed that if they are not able to use country systems, they must state transparently the reasons for this, and they must ensure that any other options they use do not undermine country systems. At the same time, developing countries have committed to take the lead in defining reform programmes and priorities to further strengthen their systems.

Effective and inclusive partnerships for development

The AAA recognizes that aid is about building partnerships for development which fully harness the energy, skills and experience of all development actors. Donors and developing countries have therefore agreed to reduce the excessive fragmentation of aid that impairs aid effectiveness at the global, country and sector level, and to promote better division of labour among donors. These actions put developing countries in the lead in determining the roles of donors. The WP-EFF will promote the good practice principles on country-led division of labour that it plans to finalise by June 2009 and will evaluate progress against these, promoting dialogue on division of labour across countries. In doing so, donors have committed to give special attention to addressing the needs of countries that currently receive insufficient aid.

Donors have also agreed to increase the value of development assistance by untying aid to the heavily indebted poor countries and promoting the use of local and regional procurement. Those donors who have not yet fully untied their aid have agreed to set out their plans to increase their use of untied aid.

The AAA encourages all development actors, including those engaged in South-South co-operation, to use the Paris Declaration principles as their point of reference in providing development co-operation. It recognises the role of CSOs as development actors in their own right and invites them also to reflect on how the Paris principles apply to their work.

The HLF3 also represented a step change in the partnership and dialogue among donors and governments in situations of conflict and fragility. For the first time, a consensus between donors and partner countries was reached on priority actions in these situations. These include monitoring the Principles for Good International Engagement in Fragile States and Situations (starting with the DRC, Afghanistan, Timor Leste, the Central African Republic and Sierra Leone) and launching an international dialogue—led by the DRC and France—on international objectives for state building and peace building as prerequisites for development.
Delivering and accounting for development results

The third major theme of the AAA is ensuring that development assistance delivers results. Donors and developing countries agreed in Accra to achieve this by building the necessary management and information systems at the country level. Rather than pushing for visibility and attribution, donors agreed to undertake fundamental reforms in their agencies, changing organisational and staff incentives so as to promote behaviour that is in line with the aid effectiveness principles.

Donors and developing countries alike agreed in Accra to deliver and manage aid in a more transparent and accountable way. As a result, significant commitments were made by donors and recipients to facilitate better parliamentary and public oversight of aid flows, to conduct mutual assessment reviews and to fight corruption. The AAA also pledges to reduce the prescriptive conditions donors attach to aid—relating to how and when money is spent. Donors will, instead, focus on conditions based on the developing country’s own objectives, as set out in its national development plans. Together with developing countries, they will make public all conditions linked to disbursements.

Last, but not least, donors agreed specifically to increase the medium-term predictability of aid. This will have far-reaching implications for aid effectiveness, allowing developing countries to effectively plan and manage their own development programmes. Developing countries agreed to strengthen budget processes for managing domestic and external resources and to strengthen the linkages between expenditures and results. They also agreed to work with donors on improving the medium-term predictability of aid, as well as the tools to measure it; this will make it possible to conduct better analyses of medium-term fiscal sustainability in aid-dependent countries. The IMF is keen to help with medium-term evaluations to meet the MDGs.

Figure 2: Progress on the Paris Declaration commitments—evidence from the 2008 Monitoring Survey
Aid Effectiveness—next steps

The evidence that has emerged in the preparation of the HLF3—including the results of the 2008 Monitoring Survey—shows that, despite some progress, real change is needed by both partners and donors if the 2010 targets of the Paris Declaration are to be reached. The AAA responds to this challenge, bringing renewed political will to push for more effective aid. As development actors—within a global partnership—implement the actions in the AAA, and as they work to promote the inclusive ownership embodied in those actions and to focus on results, they will ensure that development policies are informed by the right principles at the right time.

Many of the actions in the AAA call for greater transparency and capacity. In particular, donors must provide timely and realistic information on aid commitments and disbursements and they must help to develop aid management capacity. The OECD-DAC Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans (www.oecd.org/dac/scalingup), which examines donors’ forward spending plans as well as existing aid fragmentation and concentration, provides the basic information required to enable medium-term planning as well as adjustments in aid allocations among and within countries.

But the real impact of Accra will be seen in terms of development results. In focusing on the issues that were most difficult or contentious in Accra, we can lose sight of important areas where our agreements came easily and quickly. Perhaps the most important of these is the most obvious: people are at the heart of the Accra Agenda for Action. Whilst improving the operational efficiency of aid delivery mechanisms is essential, the AAA recognises that what ultimately matters are results, i.e. their impact on the lives of poor women and men.

International Conference on Taxation, State Building and Capacity Development in Africa
Pretoria, South Africa
28-29 August 2008

This meeting was attended by Commissioners, senior tax administrators and policy makers from 39 countries, together with representatives from bilateral and multilateral organisations active in Africa on tax issues. The meeting was hosted by the South African Revenue Service, and financed and supported by the DAC’s GOVNET and the OECD’s Centre for Tax Policy and Administration.

The President of the African Development Bank, Mr. Donald Kaberuka, South Africa’s Minister of Finance, Mr. Trevor Manuel and OECD Deputy Secretary General, Mr. Pier Padoan, addressed the meeting on the importance that revenue mobilisation plays in building capable state institutions in Africa, which are the bedrock for a democratic state. More efficient tax systems can reinforce state legitimacy through promoting accountability of governments to tax-paying citizens, building effective state administration and good public financial management.

The meeting took stock of the progress made, challenges faced and a possible new direction for African tax policy and administration in the 21st Century. In this regard, the meeting produced a Pretoria Communiqué, which paves the way for the creation of an African Tax Administration Forum to act as a focal point to strengthen African Tax Administrations by providing a space to develop joint strategies, exchange good practices, benchmark performance and improve cooperation between tax administrations and donors.
Over the three years since the Paris Declaration, we have seen a growing body of evidence of how its implementation has reduced poverty and inequalities—the Declaration's overarching goals. Now, more than ever, gender equality, human rights and environmental sustainability are the cornerstones of our collective efforts. The AAA is a solid platform for achieving social and economic justice all over the world; it will contribute to revitalising our agreed international commitments and to realising them in a more effective aid environment.

Building the foundations for Doha and the MDGs

The Accra Agenda for Action is not only fundamental to the implementation of the Paris Declaration; it also provides global taxpayers with the assurance they need that aid resources will be used effectively. This is an essential part of the compact that must be reached at the Financing for Development conference next month in Doha. That conference will determine the volumes of funding that will be made available for reducing poverty and tackling inequality. Many donors have made commitments to significantly increase their aid in the years immediately ahead. Now, more than ever, they must make the budgetary provisions needed to ensure predictable assistance in line with their promises.

Following the July impasse in the Doha trade talks in Geneva, ministers came to Ghana knowing that they must not fail the world’s poorest yet again; in Accra, they agreed to deliver on their promises. But serious challenges remain, including serious concerns about food and oil prices and climate change. There are important linkages between better aid, better trade and increased financing for development—and all are needed for long term, sustained poverty reduction.

In Accra we found common ground. We sent out a resounding message to the world: governments are serious about making development assistance work. We must continue to carry this momentum forward, through the Doha Development Round, the campaign for the Millennium Development Goals and the Financing for Development Review meeting in Qatar in November. What was achieved in Accra gives major impetus to the push to ensure that the 1.4 billion people who still live in extreme poverty get what they need to live fully and to enjoy equal opportunity. Accra promised a breakthrough in the way assistance is delivered. If accompanied by equal progress on trade reform and financing for development, we can finally offer countries the chance to work their way out of aid.

OECD-DAC perspectives on Development Committee agenda items

The effect of recent economic developments on long-term growth and on overcoming poverty

Developing countries have demonstrated an impressive growth in performance over recent years. As noted in the new Bourguignon report on the MDGs at midpoint, annual growth rates were, on average, three to five times higher in emerging/developing economies than in developed economies between 2000 and 2007; in the same period, almost all developing countries experienced positive growth in GDP per capita. In sub-Saharan Africa as a whole, GDP per capita growth has now been positive for seven consecutive years.

Yet at the same time, this growth has not had the impact it could—and should—have had on reducing poverty. New poverty estimates published by the World Bank reveal that the absolute number of poor people in sub-Saharan Africa nearly doubled—from 200 million to 380 million—between 1981 and 2005, using a USD 1.25 a day poverty rate. Although Africa’s poverty rate fell after the mid-1990s (from 58% in 1996 to 50% in 2005), this was not sufficient to bring down the number of poor.

Recent global challenges could well exacerbate this situation, as well as set back recent improvements in economic conditions in developing countries. Climate change, high prices for food and fuel and financial
market instability will all have profound impacts on economic growth and poverty reduction—in other words, on poor people. Already, growth is being set back, a number of food importing poor countries are experiencing social and political unrest and migration pressures are building. Demographic trends also mean that “more of the same” will not be enough. It is projected that in 2030, one in four youths will be African; it will be a challenge to create enough decent jobs to absorb this burgeoning workforce. Insufficient opportunities for these youths could further add to migration pressures, as well as social and political unrest.

To have a greater impact on reducing poverty, growth in developing countries needs to remain at sustained high rates. But there is equally a need to ensure that growth is more broad-based and that poor people are more employable and can develop and exploit entrepreneurial skills; only in this way will they be able to benefit from the opportunities provided by growth. Finally, greater access by women to the labour market as well as to land, financial and other markets will help accelerate growth.

A number of avenues can be pursued to increase the impact of growth on poverty reduction:

- International trade and investment linkages need to be harnessed so as to increase demand for a range of local goods and services and to raise productivity; aid for trade can help to increase the impact of trade on growth, employment and poverty reduction.

- Entrepreneurship needs to be encouraged to expand the private sector. More decent jobs need to be created within the formal economy and conditions and productivity need to be improved in the informal sector, where up to 90% of the active population in developing countries earns their livelihood. By responding more to the needs of enterprises, especially those in the informal sector, vocational training systems can have a much greater impact on improving the employability and productivity of the poor.

- Expanding and maintaining access to affordable infrastructure can remove bottlenecks to growth, reduce production and transport costs and help to connect poor people up to larger and more competitive markets.

- Increased agricultural productivity is central to promoting development in agriculture-based economies, but this needs to be done in parallel with the growth of employment in the secondary sector, so as to absorb the labour force moving away from farming.

- Social protection measures stimulate the participation of the poor in the growth process and help to shield the most vulnerable. They enable the benefits from growth to be better shared and help to break the intergenerational transfer of poverty.

- The binding constraints that are holding back the poor can be more easily identified if the latter are empowered and become more involved in, and able to monitor, decisions affecting their livelihoods. This, in turn, will help to ensure that reform processes are transparent and accountable, and that they serve the interests of the poor. Civil society needs to be involved in policy formulation, as well as in the implementation and monitoring of reforms, to ensure that policies are successfully translated into effective actions.

More than ever, there is a need to focus on promoting more rapid but also more inclusive patterns of growth in order to overcome poverty. As stressed by many developing countries, social protection and employment are two critical—yet underutilised—means for achieving the MDGs and accelerating pro-poor growth. Productive and decent employment is the main route out of poverty for most poor people, as recognised by the new MDG target on achieving full employment. Social protection shields the poor from
global development challenges and helps prevent people from falling back into poverty, an increasingly important consideration in today’s world.

Climate change—a development issue

As we are seeing all too often, climate change has the potential to affect all sectors of society. Droughts, floods and other extreme weather events undermine livelihoods, destroy critical transportation and communication infrastructure, jeopardize food security and energy supply, and even lead to dislocation and conflicts within and across nations. The AAA highlights that “…climate change threaten[s] the advances against poverty many countries have made.” It is now well understood that adaptation to climate change is not just an environmental issue but an economic, social and political challenge. “Development as usual” will not allow us to face this challenge. In many cases, development initiatives may even increase vulnerability to climatic changes. For example, coastal zone development plans that fail to take into account sea level rise will put people, industries and basic infrastructure at risk, proving unsustainable in the long term. Climate change risks must therefore be considered systematically and integrated into development policy-making and planning, at all levels and in all sectors.

The Declaration on Integrating Climate Change Adaptation into Development Co-operation (OECD, 2006) committed us to assisting developing country partners in their efforts to reduce their vulnerability to climate variability and climate change; to identify and prioritise adaptation responses; and, where necessary, to integrate such considerations within a wide range of sectoral interventions and projects, in line with the principles and objectives of the Paris Declaration on Aid Effectiveness.

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Climate Change in Africa

Although Africa is the continent least responsible for climate change, it is acutely vulnerable to its adverse effects – on economic growth and sustainable development, on poverty reduction, on human security, and on the prospects for achieving the Millennium Development Goals (MDGs). The impacts range from energy shortages reduced agricultural production, worsening food security and growing malnutrition, to spreading disease, more humanitarian emergencies, growing migratory pressures and increased risk of conflict over scarce land and water resources.

Africa is the continent least able to meet the costs of adapting to these impacts, with the greatest need to develop its energy sources, and also with the potential to contribute to global efforts to reduce emissions through its forest resources. Yet it is also the continent which receives least from current carbon finance mechanisms.

The emerging agenda for action to address climate change risks in Africa were discussed at the April 2008 Africa Partnership Forum, attended by senior political leaders from African countries and their development partners. Participants agreed:

- Political will to address climate change on the continent must now be urgently mustered.
- Adaptation, capacity building and technological transfer are key vectors in Africa for addressing this issue.
- Good meteorological observatory systems for climate information and early warning systems are fundamental for climate risk management.
- There is a window of opportunity now for Africa to develop clean and renewable energy sources using affordable technologies—drawing on private sector know-how, technology and resources.
- Development partners and African governments need to facilitate and promote greater access to the carbon market and other GHG-friendly activities for Africa, including consideration of compensation for avoided deforestation.
In order to achieve these goals, we need to review our agencies’ approaches and procedures, and to equip them with the right tools to tackle these challenges. A comprehensive review of DAC donors and multilateral financial institutions’ efforts to integrate climate adaptation into their operations has revealed progress on a number of fronts:

- The recognition of the need to integrate climate change adaptation is happening at the highest levels.
- This is a necessary first step: we have found that most donor agencies now have a high-level mandate to integrate climate change adaptation into their operations.
- Donors are raising the awareness of their agencies’ staff.
- Most agencies surveyed have indicated that they have undertaken a range of awareness-raising and training initiatives to ensure that their staff understand the climate change adaptation challenge. This includes, for example, systematic briefings for locally-based staff, preparation of country profiles outlining specific climate risks, etc.
- Donors are integrating climate change adaptation into ongoing or planned development co-operation activities.

At the level of individual development co-operation projects, many donors have begun to develop screening tools to identify projects that are potentially vulnerable and build in appropriate responses. Some agencies are examining not just individual projects or activities, but also their entire support strategies in order to inform development co-operation programming in a pro-active manner. Several agencies have conducted comprehensive country or sector-level climate risk assessment.

Donor agencies are also beginning to develop tools and methodologies to assess climate vulnerability in development policies and to identify adaptation options, plans, programmes and projects. These tools, which build on approaches such as Strategic Environmental Assessment (SEA) and Environmental Impact Assessment (EIA), should be shared and harmonized in order to reduce redundancy.

At their meeting in May 2008, DAC ministers and heads of agencies took note of progress on this front but recognised that much remains to be done. The most important challenge ahead is to integrate climate change adaptation into development policy making and planning, including in the context of national plans, such as poverty reduction strategies. Donors should play a more active role in bringing climate change-related risks and opportunities to the attention of developing country policy makers.

In addition, donors and partners need to move from identifying the risks facing ongoing development projects to reducing these risks in a pro-active and strategic manner, starting from the early stages of policy and programme formulation. Current trends towards providing development co-operation support at the level of policies, programmes and plans open up new opportunities in this regard, notably for enhanced dialogue on policies and strategies that can support “climate-resilient” long-term development.

Donors also need to recognise that traditional knowledge may offer experience and insights that can help build resilience to climate change at the local level. This in turn can help develop appropriate and situation-specific approaches.
Building on the experience and expertise of the OECD development co-operation and environment agencies, we are working to develop guidance for integrating climate change adaptation into development co-operation. This body of work is intended to facilitate climate risk management in the context of long-term development strategies and planning. It is benefiting from the experience and active support of UNDP, UNEP and the World Bank, as well as the regional development banks (AfDB, AsDB, EBRD, IADB, EIB).

**Statement by Mr. Sha Zukang, Under-Secretary-General for Economic and Social Affairs, United Nations**

*World economic situation and prospects*

The global financial crisis has markedly intensified. Equity prices have fallen sharply worldwide, a number of major financial institutions have collapsed, while liquidity has evaporated in financial markets. These financial strains are exerting tremendous downward pressure on economic activity worldwide. A large number of developed economies are already in recession, and growth in many developing countries is decelerating significantly.

The UN expects world gross product (WGP) growth to decline to a recessionary pace below 2 per cent for 2008, down from the 3.8 per cent of 2007, implying zero growth in world per-capita income and likely falls in income for a large proportion of the population, particularly the poor. The outlook for 2009 will be even worse, with the growth of WGP expected to drop to about 1 per cent.

The impact of the global financial crisis on developing economies and economies in transition has also been deepening markedly, through both financial and trade linkages. Amid the synchronized global sell-off, equity markets in a large number of emerging economies have plummeted much more than their counterparts in developed markets. An increasing number of financial institutions in developing countries and economies in transition, particularly in Asian economies, are bearing sizeable losses from holding troubled assets of US financial institutions. The much larger impact, however, is expected to come from the significant weakening of demand in most developed economies. Growth in developing countries and economies in transition is expected to decelerate on average by about 2 percent in 2008, from the previous year, and by another one percent or so in 2009.

The broad international economic environment for developing countries and economies in transition has deteriorated considerably. At the same time that external financing costs are rising, a reversal of capital inflows is already evident in many countries, even though the degree of financial constriction for these countries is still not as pronounced as in the Asian and Latin American financial crises of the past. The heightened global financial turmoil has also led to considerable volatility in the prices of commodities. For a group of low-income developing countries, which suffered from steep rises in the prices of food and energy in early 2008, the current high level of these prices continues to threaten progress toward the Millennium Development Goals, particularly the primary goal of reducing poverty and hunger. For oil-exporting and commodity-exporting developing countries, increased volatility in commodity prices and a significantly dimmed outlook for global demand portends growing vulnerability in the prospects of these economies.

The root cause of the global financial crisis is deeply embedded in policy deficiencies in the international financial system and in the unsustainable fundamentals of the world economy. As has been reiterated in UN publications over the last few years, the accumulation of global imbalances before the eruption of this financial crisis was an early warning signal of unsustainable global growth. The creation of the housing bubble in the United States was one consequence of the pattern and dynamics of recent growth. The UN
has long advocated an internationally coordinated policy to adjust the global imbalances in an orderly manner, to avoid an abrupt slowdown in the world economy which would have serious consequences on an over-extended international financial system. With the heightened risk of widespread breakdown of the international financial system and of global recession, an internationally coordinated policy is even more badly needed.

*International Cooperation to Restore Growth and to Regulate Finance*

The prospect of a systemic world financial breakdown – and, consequently, a long lasting economic slowdown – is real. In recent weeks, individual country policies – both to do nothing and to undertake drastic measures to rescue their domestic financial sectors – have inflicted new vulnerabilities on other economies and have been attended by international political recriminations, reminiscent of the 1930s, when only *ad hoc* processes for coordinated action existed.

Since the 1980s, *ad hoc* international coordination has been coming back into vogue and this has coincided with the reduction in the capabilities and the narrowing of the policy agendas of global institutions set in place after the 20th century Great Depression. In the 1930s, a retreat by all countries from global commerce did not reduce competitive actions and counter-actions, but actually intensified them, to the detriment of all.

The disjointed policy initiatives undertaken by developed countries in response to the market failures that originate in their jurisdictions reflect the incapacity of national authorities to commit their public resources to rescue institutions in other industrial economies in the absence of a commonly recognized framework of regulatory oversight. Existing institutions, all dominated by developed countries, including the IMF, OECD and the Financial Stability Forum, have, so far, not provided a platform facilitating effective coordination in response to crises and their prevention.

Beyond the obvious failure of concerted action, ongoing developments indicate that the most significant policy initiatives undertaken so far have not addressed the fundamental basis of the crisis. While these interventions ostensibly aim to avoid damage to the real sector, they have focused on restoring the viability of financial companies instead of addressing the process of reconciling overvalued financial assets with long-term rates of return in the real sector.

Developing countries now represent a much larger proportion of world economic activity than they did in 1944. Developing countries – as a group – are now net creditors to the global economic system and have an abiding interest in a rules-based and impartial debt workout system. Given the large and persistent trade and fiscal deficits in the US, the bulk of the financing for the $700 billion US bailout will likely be funded, directly or indirectly, from savings generated by developing countries.

There is clearly an urgent need to reform the international monetary and financial system to ensure that it is more inclusive and equitable, and thus enable credible and effective global economic governance. Already some developed countries, such as the UK and France, and many developing countries, such as those in the Commonwealth, have called for an international conference to redesign the system of international economic governance into a new post-Bretton Woods system, designed to restore accountability and transparency in international economic policy-making and to overcome existing systemic weaknesses.

*Doha Follow-Up Conference on Financing for Development*

In 2002, the Monterrey Consensus, reached after the Asian financial crisis and the “9/11” terrorist attacks in the United States, appeared to represent a revival of multilateralism, under the framework of Financing
for Development as a shared responsibility of both developed and developing countries. Developing countries committed to improve their macroeconomic management while developed countries promised to increase aid, alleviate debt distress, and ensure a global economy supportive of investment and growth.

The current crisis throws a spotlight on the international community’s failure to adequately address systemic issues. The UN General Assembly is convening a follow-up conference on financing for development in Doha, Qatar in 29 November to 2 December 2008. Member countries of the United Nations have begun intensely negotiating an outcome document that seeks to address obstacles encountered in meeting their commitments and to respond to new and emerging issues.

The United Nations conference on Financing for Development in Doha beginning in late November provides an early opportunity to send a clear signal of the urgency of considering these matters while ensuring counter-cyclical and other measures to contain the consequences of the ongoing financial turmoil. We urge the international community to recall the spirit with which the institutions of global governance were established in 1944 – against the backdrop of a ruinous depression and millions of lives lost in a world war, and to reform global institutions and mechanisms based on rigorous and appropriate analysis, by taking the necessary decisions in the Financing for Development conference at Doha. The following areas require critical attention:

- more effective regulatory frameworks, particularly in financial markets;
- more effective, globally coordinated, counter-cyclical policies and institutions;
- improved risk monitoring and crisis avoidance as well as management better suited to the realities of contemporary global financial integration;
- more universal and equitable distribution of voice and representation in global decision-making bodies; and
- follow through, in an accountable manner, on all international commitments made in the areas of aid, trade, debt reduction, and access to technology and affordable medicines in support of developing country efforts to achieve the MDGs.

**Financing Global Efforts in Addressing Climate Change**

Progress on the question of how existing mechanisms can provide financing on the scale and in the form required to address climate change is urgently needed. Recent experiences under both the Kyoto Protocol and the Financing for Development process point to the limitations of relying solely on voluntary mechanisms and of the size of financial resources identified for climate change to date.

It is critical that the international community reach agreement on financing targets and mechanisms to which all parties can be held accountable in the negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). Deficiencies in global governance, already much in evidence in the financial crisis, will therefore have to be overcome in order to adequately and effectively address climate change.
NOTICE OF MEETING

The 78th meeting of the Development Committee will be held on Sunday, October 12th, 2008, commencing at 9:30 a.m. in the Preston Auditorium, The World Bank Main Complex, Washington, D.C. The session will be followed by the Chairman’s Luncheon for Members (1:45-3:00 pm) in Room MC13-121.

DEVELOPMENT COMMITTEE - PROVISIONAL AGENDA

1. Recent economic developments, and their effect on long term growth and overcoming poverty: the role of the World Bank and the IMF in protecting the vulnerable

2. Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform


LUNCHEON

Background Documents

- Development and Climate Change: A Strategic Framework for the World Bank Group
- Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform

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1 A note on "Fiscal Vulnerabilities in Developing Countries and the Twin Oil-Food Shocks" and the paper on Rising Food and Fuel Prices: Addressing the Risks to Future Generations" are circulated separately.

2 The Chairman’s Luncheon is expected to allow for informal discussion on the Bank strategic directions. In addition, ministers may also raise other topics they wish to highlight, or suggest issues for future discussion.
Washington, DC, October 12, 2008

DEVELOPMENT COMMITTEE COMMUNIQUÉ

Summary Statement

The Development Committee met today, October 12, 2008, in Washington DC.

Our meeting took place at a critical time for the global economy, with financial markets experiencing unprecedented turmoil. Developing and transition countries (DTCs) - many of them already hit hard by current high prices for energy and essential foodstuffs - risk very serious setbacks to their efforts to improve the lives of their populations from any prolonged tightening of credit or sustained global slowdown. The poorest and most vulnerable groups risk the most serious – and in some cases permanent – damage.

Against this background, we endorse the commitments made yesterday at the International Monetary and Financial Committee.

We stressed that aid volumes need to be consistent with existing commitments and we called for full compliance with these commitments.

In support of these concerted actions, we called on the World Bank to join with the IMF in drawing on the full range of its resources - finance, analysis and advice - to help DTCs strengthen their economies, maintain growth, and protect the most vulnerable groups against the impact of the current crises.

The World Bank Group stands ready to help its partner countries:

- The Bank’s recently announced $1.2 billion rapid financing facility is providing immediate help for countries coping with the impact of high food prices on the poor, and already has $850 million approved or in the pipeline. We urge countries to consider making contributions to this fund.
• We encouraged the Bank and its partners to move forward with a planned new program – Energy for the Poor – that would provide rapid support for countries’ efforts to strengthen social safety nets to protect the poor against the impact of high fuel bills.

• IBRD has the financial capacity to comfortably double its annual lending to developing countries to meet additional demand from clients. IBRD lending was US$13.5 billion last fiscal year.

• We urged IFC to explore options for helping recapitalize banks in developing countries adversely affected by the global liquidity crisis, including the possibility of a fund.

We also supported longer-term efforts beyond the immediate crisis, including:

• Expanded help for energy-deficit countries to improve energy efficiency and improve domestic production to reduce their vulnerability to future price shocks.

• Reforms designed to increase the World Bank’s responsiveness to its clients.

• A new strategic framework for the World Bank to play a stronger role in helping countries deal with the causes and effects of climate change, and the recent launch of the new Climate Investment Funds.
DEVELOPMENT COMMITTEE COMMUNIQUÉ

Main Text

1. We met in Washington DC today, Sunday, October 12, 2008.

2. We are concerned by the impact of the turmoil in world financial markets and the continued high prices of fuel and food. We welcomed member countries’ commitment to take comprehensive and cooperative measures to restore financial stability and the orderly functioning of credit markets. The World Bank Group (WBG) and the IMF must help address these critical challenges, in particular the impact on developing countries, and draw lessons from the current crises. It will be crucial to maintain a focus on support for sustainable growth, poverty reduction, and the achievement of the Millennium Development Goals (MDGs). We welcomed world leaders' renewed commitment to the MDGs at the recent United Nations (UN) high-level event, and we reiterated the urgent need to forge a deepened global partnership at next month’s Financing for Development Conference in Doha.

3. Developing and transition countries (DTCs) could suffer serious consequences from any prolonged tightening of credit or sustained global slowdown. Prices for fuels and staple foods remain at high levels. This is pushing up inflation in many countries and worsening income distribution, setting back progress towards meeting the MDGs, in particular the poverty and human development MDGs. Higher food and energy prices are also causing balance of payments problems, which are especially severe for low-income energy importing countries, many in Africa. We recognized that countries face difficult policy challenges, including dealing with the distributional effects of the commodity price shocks and protecting the most vulnerable groups with carefully targeted assistance, controlling inflation, and managing the shocks, while maintaining sound public finances and sustaining growth.

4. We recognized the important role of the DTCs in the global economy, and called on the international community, including the WBG and the IMF, working in a coordinated way, to draw on the full range of their financial, analytical and technical assistance resources and policy advice to help DTCs strengthen their economies and maintain growth, and protect the most vulnerable groups within their populations against the short and medium term impact of the current crises. Poorer countries, with their limited sources of fiscal revenue, will be especially dependent on timely and predictable flows of Official Development Assistance (ODA). In this regard, we emphasized the enhanced importance, in the current context, of donors meeting their ODA commitments. We especially appreciate the strong increase in overall WBG commitments to members in fiscal year 2008. We welcomed the WBG’s collaboration with the UN and other partners, particularly through the UN High Level Task Force on the Global Food Crisis. Supporting President Zoellick’s call for a New Deal for Global Food Policy, we welcomed the expedited financing provided through the Global Food Crisis Response Program and parallel efforts to increase substantially the level of WBG financial and analytical support for food and agriculture. We welcomed the progress on the Energy for the Poor initiative and encouraged the WBG, with the help of donors, to finalize the proposal. This will provide rapid assistance to social safety nets, and support projects to reduce countries’ longer-term vulnerability to high and volatile fuel prices. We also welcomed the IMF’s mobilization of the Poverty Reduction and Growth Facility (PRGF) in response to its members’ needs, and the recent reform of its
Exogenous Shocks Facility, which provides for easier and more rapid access to concessional assistance in response to shocks.

5. The need to address these new global stresses adds to an already extensive agenda of critical issues confronting the international community. These include meeting the challenges embodied in the MDGs and providing the necessary funding for their achievement in a transparent and accountable way. ODA volumes need to be consistent with existing commitments and we called for full compliance with these commitments. We also highlighted the role of domestic resources for development. We called for: continued attention to the sustainability and full delivery of debt relief initiatives; addressing issues of global public goods including climate change; supporting health delivery systems in developing countries and countering international health scourges including HIV-AIDS; promoting gender equality and the empowerment of women; and maintaining and building upon the system of open international markets, including completing the Doha Development Round and delivering increased aid for trade. These challenges are particularly acute in conflict-affected countries and those in fragile situations, where we need to step up our efforts at collaboration, knowledge-sharing and ensuring adequate and timely resources. We called upon the Bank to intensify its efforts to operate flexibly and effectively in fragile and post conflict situations, and we welcomed the upcoming signing of the UN-World Bank Partnership Framework and Fiduciary Principles Accord for Crisis and Emergency Situations. The above agenda serves as a reminder of the crucial importance of intensified international co-operation and multilateralism in effectively addressing shared global challenges.

6. In this context, we welcomed the endorsement of a substantive Agenda for Action at the Accra High Level Forum on Aid Effectiveness by a broad partnership including stakeholders engaged in South-South cooperation. We noted in particular the reinforced commitment to: mutual accountability; support for country ownership through capacity development and institution building and increased use of strengthened country systems; enhancing value for money; transparency and predictability of aid and its underlying conditions; and the reduction of aid fragmentation. We urged development partners including the WBG to develop action plans to implement the Accra Agenda for Action and look forward to seeing the Bank’s action plan before our next meeting.

7. In light of the new global challenges, we called on the Bank to urgently review the implications for its strategy and operations, and to articulate detailed objectives and actions. We asked management and the Board to work together to enhance Group synergy and make the Bank a more efficient, flexible, decentralized and client focused organization. We look forward to reviewing progress in this regard. We encouraged the Bank to complete its strategic review of IBRD’s capital.

8. We discussed and welcomed the strategic framework for the World Bank Group on Development and Climate Change. The framework benefited from extensive consultations with member countries and other stakeholders. It provides a basis for the WBG to fulfill its core mission of promoting economic growth and poverty reduction, at the global, regional and country levels, in the context of the challenges posed by climate change. While re-emphasizing the primacy of the UNFCCC negotiation process, and taking account of the Bali Action Plan, we encouraged the WBG to support climate actions in country-led development processes in a
holistic manner, and to customize support to climate change adaptation and mitigation efforts, as well as capacity building needs, in its member countries. Recognizing the enormous financial gap for addressing climate change, we encouraged the WBG to strengthen its resource mobilization efforts, including facilitating access to additional concessional financing, ensuring complementarity with other financing mechanisms (notably the Global Environment Facility and the Adaptation Fund), supporting the development of market-based financing mechanisms, leveraging private sector resources, and seizing opportunities for innovation. We encouraged the WBG to play an active role in supporting the development and deployment of clean and climate-resilient technologies, and facilitating relevant R&D and technology transfer. In this context we welcomed the recent successful launch of the Climate Investment Funds (CIF), including the Clean Technology Fund and the Strategic Climate Fund, as a positive first step, and called on the WBG to give increased attention to mobilizing resources for adaptation.

9. The package of reforms enhancing voice and participation of all developing and transition countries (DTCs) in WBG governance and work, brought forward by the Bank’s Board, addresses many aspects of voice and participation in light of the Monterrey Consensus. This is an important first step in the ongoing process of comprehensive reform. This package includes both concrete immediate steps and commitments to further work. An additional Board seat for Sub Saharan Africa on the Bank’s Board will be created. DTC voting shares in IBRD and IDA will increase, giving special emphasis to smaller members. Further realignment of Bank shareholding will be taken up by the Bank’s Board in an important shareholding review that will develop principles, criteria and proposals for Bank shareholding. The review will consider the evolving weight of all members in the world economy and other Bank specific criteria consistent with the WBG’s development mandate, moving over time towards equitable voting power between developed and developing members. The Board would develop proposals by the 2010 Spring Meeting and no later than the 2010 Annual Meetings, with a view to reaching consensus on realignment at the following meeting. There is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates. In addition, Bank Management has committed to continue enhancing diversity of management and staff and decentralizing decision-making. We asked the WBG’s Boards and Management to take prompt action to implement this agreed first step. We look forward to the periodic reports on progress and future proposals for a subsequent realignment of Bank shareholding as part of comprehensive reform.

10. We welcomed the continuing work by the Board to review and further strengthen internal governance at the World Bank.

11. The Committee’s next meeting is scheduled for April 26, 2009 in Washington, DC.
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)

DEVELOPMENT COMMITTEE MEETING

Sunday, October 12, 2008
Washington, DC, United States

CONSTITUENCY LIST
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<th>Members</th>
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| Ibrahim Al-Assaf *(attending)*  
Minister of Finance  
Saudi Arabia | Abdulrahman M. Almofadhi  
(Bank)  
Abdallah S. Alazzaz  
(Fund) | Saudi Arabia | 1 |
| Alternate Member  
Hamad Al-Sayari  
Governor for the Saudi Arabian Monetary Agency | | | |
| Douglas Alexander *(attending)*  
Secretary of State for International Development  
United Kingdom | Susanna Mary Davies Moorehead  
(Bank)  
Alex Gibbs  
(Fund) | United Kingdom | 2 |
| Alternate Member  
Alistair Darling  
Chancellor of the Exchequer | | | |
| Ahmed bin Mohammed Al Khalifa  
Minister of Finance  
Bahrain *(attending)* | Merza Hussain Hasan  
(Bank)  
A. Shakour Shaalan  
(Fund) | Bahrain, Arab Republic of Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar, Syrian Arab Republic, United Arab Emirates, Republic of Yemen | 3 |
| Wouter Bos  
Minister of Finance  
The Netherlands | Herman Wijffels  
(Bank)  
Age F. P. Bakker  
(Fund) | Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania, Ukraine | 4 |
| Alternate Member  
Bert Koenders *(attending)*  
Minister for Development Cooperation  
Ministry of Foreign Affairs  
The Netherlands | | | |
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| Bohoun **Bouabré** *(attending)*  
Minister of State, Planning and Development  
Côte d’Ivoire | Louis Philippe Ong Seng  
(Bank)  
Laurean W. Rutayisire  
(Fund) | Benin, Burkina Faso,  
Cameroon, Cape Verde,  
Central African Republic,  
Chad, Comoros,  
Côte d’Ivoire, Democratic Republic of Congo, Djibouti,  
Equatorial Guinea, Gabon,  
Guinea, Guinea-Bissau,  
Madagascar, Mali,  
Mauritania, Mauritius, Niger,  
Republic of Congo, Rwanda,  
São Tomé and Principe,  
Senegal, Somalia  
(informally), Togo | 5 |
| **P. Chidambaram**  
Minister of Finance  
India | Dhanendra Kumar  
(Bank)  
Adarsh Kishore  
(Fund) | Bangladesh, Bhutan, India,  
Sri Lanka | 6 |
| **Carlos Fernández** *(attending)*  
Minister of Economy and Production  
Argentina | Felix Alberto Camarasa  
(Bank)  
Javier Silva-Ruete  
(Fund) | Argentina, Bolivia, Chile,  
Paraguay, Peru, Uruguay | 7 |
| **James Michael Flaherty**  
Minister of Finance  
Canada | Samy Hanna Watson  
(Bank)  
Jonathan Fried  
(Fund) | Antigua and Barbuda, The Bahamas, Barbados, Belize,  
Canada, Dominica, Grenada,  
Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines | 8 |
| **Juan Fuentes** *(attending)*  
Minister of Finance  
Guatemala | Jorge Calderon Familiar  
(Bank)  
Jose A. Rojas  
(Fund) | Costa Rica, El Salvador,  
Guatemala, Honduras,  
Mexico, Nicaragua, Spain,  
República Bolivariana de Venezuela | 9 |
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<tr>
<td><strong>Aleksei Kudrin (attending)</strong> Deputy Chairman of the Government</td>
<td>Alexey G. Kvasov (Bank)</td>
<td>Russian Federation</td>
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<tr>
<td>Minister of Finance</td>
<td>Aleksei V. Mozhin (Fund)</td>
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<tr>
<td>Russian Federation</td>
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<tr>
<td><strong>Dmitry Pankin</strong> Deputy Minister of Finance</td>
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<tr>
<td><strong>Christine Lagarde</strong> Minister of Economy, Industry and Employment</td>
<td>Abroise Fayolle (Bank and Fund)</td>
<td>France</td>
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<td>France</td>
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<tr>
<td><strong>Alternate Member</strong></td>
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<tr>
<td><strong>Xavier Musca</strong> Director General of the Treasury and Economic Politics</td>
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<tr>
<td><strong>Benoît Coeuré (attending)</strong> Assistant Secretary for Multilateral</td>
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<tr>
<td>Affairs. Department of the Treasury</td>
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<tr>
<td>Ministry of Economy, Industry and Employment</td>
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<tr>
<td><strong>Doris Leuthard (Ms.) (attending)</strong> Federal Councillor</td>
<td>Michel Mordasini (Bank)</td>
<td>Azerbaijan, Republic of Serbia, Kyrgyz Republic, Poland, Switzerland,</td>
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<tr>
<td>Minister of Economic Affairs</td>
<td>Thomas Moser (Fund)</td>
<td>Tajikistan, Turkmenistan, Uzbekistan</td>
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<tr>
<td>Switzerland</td>
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<tr>
<td><strong>Jean-Daniel Gerber</strong> State Secretary for Economic Affairs</td>
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<tr>
<td><strong>Guido Mantega (attending)</strong> Minister of Finance</td>
<td>Rogerio Studart (Bank)</td>
<td>Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines,</td>
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<tr>
<td>Brazil</td>
<td>Paulo Nogueira Batista, Jr. (Fund)</td>
<td>Suriname, Trinidad and Tobago</td>
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<td><strong>Alternate Member</strong></td>
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<tr>
<td><strong>Henrique de Campos Meirelles</strong> President Central Bank of Brazil</td>
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<tr>
<td><strong>Arni M. Mathiesen (attending)</strong> Minister of Finance</td>
<td>Svein Aass (Bank)</td>
<td>Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden</td>
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<tr>
<td>Iceland</td>
<td>Jens Henriksson (Fund)</td>
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<tr>
<td><strong>Ms. Ingibjorg Solrun Gisladottir</strong> Minister of Foreign Affairs</td>
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<td>Iceland</td>
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| Salaheddine Mezouar  
Minister of Economy and Finance  
Morocco  
*Alternate Member*  
Nizar Baraka *(attending)*  
Minister of Economic and General Affairs | Javed Talat  
(Bank)  
Mohammad Jafar Mojarrad  
(Fund) | Islamic State of Afghanistan  
(informally), Algeria, Ghana,  
Islamic Republic of Iran,  
Morocco, Pakistan, Tunisia | 15 |
| Shoichi Nakagawa  
Minister of Finance  
Japan  
*Alternate Member*  
Naoyuki Shinohara *(attending)*  
Vice Minister of Finance for  
International Affairs  
Ministry of Finance | Toru Shikibu  
(Bank)  
Daisuke Kotegawa  
(Fund) | Japan | 16 |
| Henry M. Paulson, Jr. *(attending)*  
Secretary of the Treasury  
United States  
*Alternate Member*  
Reuben Jeffery III  
Under Secretary, Economic,  
Energy and Agricultural Affairs  
Clay Lowery *(attending)*  
Assistant Secretary for  
International Financial Markets and  
Investment Policy | Eli Whitney Debevoise  
(Bank)  
Meg Lundsager  
(Fund) | United States | 17 |
| Didier Reynders  
Deputy Prime Minister and  
Minister of Finance  
Belgium  
Bernard Clerfayt *(attending)*  
Secretary of State | Gino Pierre Alzetta  
(Bank)  
Willy Kickens  
(Fund) | Austria, Belarus, Belgium,  
Czech Republic, Hungary,  
Kazakhstan, Luxembourg,  
Slovak Republic, Slovenia,  
Turkey | 18 |
| Wayne Swan *(attending)*  
Treasurer of the Commonwealth of  
Australia | James Russell Hagan  
(Bank)  
Richard Murray  
(Fund) | Australia, Cambodia,  
Kiribati, Republic of Korea,  
Marshall Islands, Federated  
States of Micronesia,  
Mongolia, New Zealand,  
Papua New Guinea, Republic  
of Palau, Samoa, Solomon  
Islands, Vanuatu | 19 |
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| Suchart Thada-Thamrongvech  
Minister of Finance  
Thailand *(attending)* | Mat Aron Deraman  
(Bank)  
Perry Warjiyo  
(Fund) | Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam | 20 |
| Giulio Tremonti  
Minister of Economy and Finance  
Italy  
*Alternate Member*  
Mario Draghi  
Governor  
Bank of Italy  
Carlo Monticelli *(attending)*  
Director of International Financial Relations, Ministry of Economy and Finance | Giovanni Majnoni  
(Bank)  
Arrigo Sadun  
(Fund) | Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste | 21 |
| Shamsuddeen Usman  
Minister of Finance  
Nigeria  
Trevor Manuel *(attending)*  
Minister of Finance  
South Africa | Mulu Ketsela  
(Bank)  
Peter Gakunu  
(Fund) | Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe | 22 |
| Heidemarie Wieczorek-Zeul (Ms.)  
Federal Minister for Economic Cooperation and Development  
Germany *(attending)* | Michael Hofmann  
(Bank)  
Klaus D. Stein  
(Fund) | Germany | 23 |
| Xie Xuren  
Minister of Finance  
Ministry of Finance  
P.R. of China  
*Alternate Member*  
Li Yong *(attending)*  
Vice-Minister of Finance | Zou Jiayi (Ms)  
(Bank)  
GE Huayong  
(Fund) | China | 24 |
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<td>Mr. Donald Kaberuka, President</td>
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<td>Arab Bank for Economic Development in Africa</td>
<td>Mr. Ebe Ould Ebe, Counsellor in the Cabinet of the Director General</td>
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<td>Arab Fund for Economic and Social Development</td>
<td>Mr. Abdulatif Y. Al-Hamad, Director General/Chairman of the Board</td>
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<td>Mr. Jassim Al-Mannai, Director General/Chairman of the Board</td>
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<td>Mr. C. Lawrence Greenwood, Jr., Vice President</td>
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<td>Commonwealth Secretariat</td>
<td>Indrajit Coomaraswamy, Director, Economic Affairs Division</td>
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<td>Mr. Nasser I. Al-Kaud, Deputy Assistant Secretary-General for Economic Affairs</td>
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<td>Council of Europe Development Bank</td>
<td>Mr. Raphaël Alomar, Governor</td>
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<td>Development Assistance Committee</td>
<td>Mr. Eckhard Deutscher, Chairman</td>
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<td>European Bank for Reconstruction &amp; Development</td>
<td>Mr. Erik Berglof, Chief Economist</td>
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<td>European Commission</td>
<td>Mr. Louis Michel, Commissioner for Development and Humanitarian Affairs</td>
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<td>Mr. Philippe de Fontaine Vive, Vice President</td>
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<td>Mr. Daniel Gustafson, Director, Liaison Office for North America</td>
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<td>International Fund for Agricultural Development</td>
<td>Mr. Lennart Bage, President</td>
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<td>International Labour Office</td>
<td>Mr. Juan Somavia, Director General</td>
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<td>Islamic Development Bank</td>
<td>Mr. Ahmed Mohamed Ali, President</td>
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<td>Nordic Development Fund</td>
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<td>Nordic Investment Bank</td>
<td>Mr. Johnny Akerholm, President and CEO</td>
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<td>OPEC Fund for International Development</td>
<td>Mr. Suleiman Jasir Al-Herbish, Director General</td>
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<td>Mr. Angel Gurría, Secretary General</td>
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<td>Mr. Richard Carey, Director, Development Co-operation Directorate</td>
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<td>United Nations</td>
<td>Mr. Jomo Kwame Sundaram, Assistant Secretary General for Economic Development</td>
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<tr>
<td>United Nations Conference on Trade and Development (UNCTAD)</td>
<td>Mr. Heiner Flassbeck, Director, Division on Globalization and Development Strategies</td>
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<td>United Nations Development Programme (UNDP)</td>
<td>Mr. Paolo Galli, Deputy Director, UNDP Washington Office</td>
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<td>West African Development Bank</td>
<td>Mr. Abdoulaye Bio-Tchané, President</td>
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