Statement by

Mr. Michael Callaghan
Executive Director of Macroeconomic Group
Australian Treasury

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

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Overview

The impact of the global financial crisis has now transmitted to the real economy and is having a devastating impact on the daily lives of millions of poor people around the world. The economic crisis is proving a challenge to achieving the Millennium Development Goals, and leaders at the recent G20 Leaders Summit highlighted the importance of not leaving developing countries behind during the crisis. Continued action is needed to mitigate the negative impacts of the food, fuel and financial crises to guard against social and human crises.

International economic organisations have demonstrated swift and timely responses. We warmly welcome the initiatives put forward by the World Bank Group (WBG). It has proven that large international organisations can harness their intellectual and financial resources in times of crisis. The WBG has been able to identify the systemic constraints and devise innovative proposals to meet the needs of their clients. The significant additional measures announced by G20 Leaders will further strengthen the efforts of these organisations.

Close cooperation and coordination between the MDBs and the IMF is critical. The Bank and the IMF should draw on each other’s expertise and resources to ensure continued and effective responses to the global economic crisis.

We endorse the G20 Leaders’ support for at least an additional $100 billion lending by MDBs and welcome the World Bank’s commitment to contribute $60 billion of this by increasing its IBRD lending to up to $100 billion over the next three years.

Further options to assist developing countries to respond to the crisis should be explored. Small states are especially vulnerable to the current economic crisis. While the first round of the financial crisis had a relatively benign impact on small states, the second and third round effects are having a far more dramatic impact. Small states tend to have highly open economies, yet lack the fiscal resilience and formal social protection mechanisms that assist the most vulnerable in times of economic hardship. Given the current demands on international economic organisations like the WBG, it is important that small states receive the swift and responsive assistance and advice they need to weather these difficult times.

Climate Change

We would like to emphasise the importance of not losing sight of the climate change agenda in the current economic crisis. The WBG’s Strategic Framework for Development and Climate Change that was welcomed at the 2008 Annual Meeting Development Committee provides a solid framework for the Bank’s operations in the area of climate change. Impressive progress has been made already in the operation of the climate funds managed by the World Bank Group, proving that the Bank can be a leader in delivering practical, tangible and country-driven results.
Voice and Participation

The legitimacy of the World Bank Group is enhanced when all members - large and small, developed and developing - have a say and are able to access Bank services.

It is important that shareholdings both reflect the economic importance of members and also protect the interests of smaller states. Making the adjustment to a more modern representative structure will require developed countries as a group to surrender relative vote shares. The consequence for those countries gaining a greater voting share is that with the greater share also comes greater responsibilities as development partners.

We welcome the G20 statement regarding implementing Bank Reforms. We recognise the substantial Bank staff resources that have gone into previous work in developing reform proposals and the substantial work required to implement the next phase. Successful acceleration of voice and representation reforms in the World Bank will be assured if key developing and developed countries can reach the understandings necessary for a realignment of voting shares.

Constituency Developments

The opening of the World Bank Group office in the Solomon Islands on November 10, 2008 was a tangible sign of the continued increase in World Bank engagement in our constituency. We warmly welcome the WBG’s efforts to work more closely with other development partners in the constituency, including the hosting of the Asian Development Bank country coordinator in the Solomon Islands office, and progress in creating a joint presence in three Pacific countries.

We would like to acknowledge the World Bank’s leadership in Mongolia, where their efforts have helped secure additional external assistance as the country faces significant challenges as a result of dramatic fluctuations in its export prices. The work by the World Bank on helping to overcome short-term difficulties while also remaining focused on Mongolia’s longer term prosperity is greatly appreciated by the Mongolian authorities.

We also welcome the WBG’s increased engagement with new donors such as Korea. While Korea was affected by the financial crisis, it remains committed to quickly establishing itself as a donor with a reputation for a commitment to peaceful development of its developing country neighbors as well as more global development needs.

Organisational effectiveness reform

We welcome the World Bank Group’s move to undertake reform efforts on a number of fronts. The early work on reforms to the Bank’s investment lending model in particular are very promising, and we call on the Bank to continue to think boldly when developing these reforms. In particular, we call on the Bank to be more adventurous and creative in small and fragile states, where the IDA envelopes are often small, with lower client capacity and ability to handle complex – and frankly, often unnecessary - Bank requirements. We also see fruitful possibilities in the reforms to HR systems, decentralisation, IT, knowledge and IDA controls.

We look forward to hearing more from the Zedillo Commission about its work. We ask the Commission to seek ways to engage World Bank members to provide information about Commission thinking, especially in light of the G20 Leaders Summit.