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)  

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Statement by  
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on behalf of Argentina, Bolivia, Chile,  
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In the last years, remarkable progress has been made in terms of poverty reduction due to economic growth and, in particular, to the high growth rates in most developing countries. Some significant progress had also been made toward achieving the Millennium Development Goals before the onset of the current crisis.

The global economy faces the direst times in decades. We are meeting today in the midst of a crisis of unforeseeable proportions. The current crisis threatens to undo the progress made so far, particularly in social development.

After years characterized by strong fundamentals, some developing countries are better prepared to weather the crisis than in the past. However, everything suggests that the current crisis is much more severe than past ones and that no country is immune to its impact.

The developing countries are already bearing the brunt of a crisis that they did not create. The financial crisis, originally limited to developed countries and a handful of emerging economies, is now also hitting developing countries. Their access to global capital markets is affected by the growth of developed countries’ public debt, and capital flows from developing countries to developed countries have increased. Furthermore, the impact of the crisis has been felt in the real economy. Growth prospects in developing countries are constantly reviewed—confirming a downward trend—and marked down to 2.3% growth for 2009 from an average of 8.1% for 2006-2007, according to World Bank’s estimates. The developing world is being struck by the global recession, a slowdown of international trade and the fall in commodity prices, tourism, foreign direct investment and, in the case of the poorest countries, development aid.

These shocks, in turn, will have an impact on public finances, placing additional pressure on public expenditure programs, particularly social protection programs.

Not only have developing countries made a substantial contribution to global growth in the last decade, but they also have the potential to play a similar role in successfully overcoming this crisis. Shoring up growth in developing countries will help mitigate the impact of the crisis on this group of countries. Furthermore, without robust growth in the developing world it is impossible to foresee a way out of this crisis.

It is against this backdrop that the World Bank has an essential countercyclical role to play by providing part of the external financing that is indispensable for countries to maintain and increase their investment in infrastructure and social protection. Strong and active action on the part of international financial institutions toward restoring capital flows to developing countries is imperative.

As a global development institution, the Bank’s main role is to support developing countries in their efforts to bolster their economies and weather the consequences of this crisis. In this context, ensuring economic growth and protecting the most vulnerable—who, as usual, will be the most severely hit—are priorities.
We acknowledge that the Bank is making a great effort to expand its levels of financial and technical support to its client countries. It is in times of crisis that the Bank should show leadership in responding adequately to increasing demands. It is for this reason that we strongly support the commitment to substantially raise the Bank’s annual lending levels over the next three years, to approximately 35 billion dollars. We believe it is essential that the Bank be able to respond by ramping up its financial assistance to all member countries in need. This is the time for the Bank to lend more and more expeditiously, to respond effectively to the growing demand, to stay flexible and ready to react in support of its member countries.

We also acknowledge the efforts of all the World Bank entities to develop new financial instruments in response to current demands, as well as to strengthen existing instruments that have special relevance in the present context, such as trade financing through the International Finance Corporation, the support to new infrastructure projects and other projects affected by the crisis, and fast disbursing programs.

As a result of the crisis, the demand for financial assistance on the part of developing countries has increased substantially. A significant part of this increase is due to the need for support for existing and future programs focused on development and poverty mitigation (as is the case of social safety nets). By supporting this type of programs, the Bank is not only responding to the crisis but also promoting sustainable development in the long term.

Crises, regardless of their depth, are never permanent. The need for an immediate response should not make us lose sight of the Bank’s strategy. In this sense, we still believe that the six strategic pillars, endorsed by this Committee over a year ago, remain effective.

It is also paramount to rethink the role of the Bank in the post-crisis. To the human and economic development challenges we faced prior to the crisis, we will have to add the challenges derived from it. The decrease in capital flows to emerging countries could persist in the aftermath of the crisis, underscoring the relevance of Multilateral Development Banks. It is for this reason that we need to open a debate on the Bank’s financial capacity in the medium term. It is essential that the Bank’s lending capacity does not dwindle in the next decade. More resources will most likely be needed. Therefore, we think that the WBG needs to review the capital adequacy of IBRD and IFC and the adequacy of IDA resources.

Looking forward, I think that globalization will continue its course but it will have to be more inclusive. For that to happen, the Bank will have, among other things, to strengthen the dialogue with its client countries and strongly promote country-led reforms and programs. At the same time, it is important to draw lessons from the crisis in order to acknowledge that there are different alternatives for development; reappraise the relevance of efficiency in the role of the state; attach more importance to the benefits of sound regulation; and foster the international dialogue to deal with global problems.

On voice and representation of developing and transition countries in the Bank, I would like to start by expressing my satisfaction at the fact that the implementation process involving the measures taken in the first phase is already afoot. I would also like to express my strong support to an accelerated timeline for the second phase, with a view to reaching agreement by the 2010 Spring Meetings.

The reform package endorsed by this Committee last October is a step forward in certain dimensions of voice and representation, such as in terms of Board composition.

However, the first phase of reforms is not a major step toward rectifying the existing underrepresentation of the developing world.
A substantial reform is still necessary, particularly in one of the most important aspects of the voice agenda: the realignment of voting power and shareholding. We, along with many developing countries, have endorsed the reform package especially with the expectation that the evident underrepresentation of developing countries will be rectified in the second phase of the reform process.

The Bank’s credibility and legitimacy could be tarnished if substantial and concrete progress in this area does not materialize. In the coming decades, the Bank’s member countries should be able to see this institution as their own bank. In this sense, if we are successful with the reform of voice and representation of developing countries, we would have taken a significant step forward in terms of improving the legitimacy and credibility of this institution.

But a real reform should place developing and developed countries on an equal footing. This is the result we expect for the second phase of the reform process. The increase in voting power should include all developing countries so as to avoid that the increase in favor of some of them be at the expense of others.

It is my opinion that this outcome must be clear from now on so that both Management and the Board start working on the second phase of the reform with a clear understanding of what we expect from them.

A clear political signal about the expected outcome would significantly facilitate the technical work on the criteria to be taken into account in coming up with a formula for the realignment of the shares.

On the realignment of shares, I believe the Bank should have its own formula that contemplates measures that are relevant to its mandate (which considers, for example, the GDP at PPP, or takes into account some type of measurement of the relevance of the country as a Bank’s borrower, etc.). For example, the contribution of borrowers to the Bank’s mission is well known and upholds its relevance as a criterion to be taken into account. These countries are home to most of the world’s poor. Through loan repayments, this group of countries contributes significantly to the Bank’s financial standing. They also contribute to the Bank’s knowledge base by providing examples of what works or does not work in terms of development. For this reason, I believe the relevance as borrowers should carry significant weight in the event that a formula be devised.

On the International Finance Corporation, the fact that the voting power of developing countries currently stands at 31.8% speaks volumes about the need for a substantial reform in this entity. For this reason, I believe the Corporation should start its own reform process as soon as possible with a view to achieve results similar to the ones we pursue at the Bank and within a similar time frame.