Statement by

Mr. Didier Reynders
Deputy Prime Minister and Minister of Finance
Belgium

on behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
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at the 80th Development Committee Meeting
Istanbul, Turkey, October 5, 2009

Mr. Chairman,
Governors,

We find ourselves at a critical juncture where far reaching decisions have to be shaped. The complexity of the issues that are debated render the processes protracted and the decisions difficult to reach, but we are making progress. It is nevertheless important that these decisions be taken in this forum which offers to all shareholders the guarantee that the process will be transparent, cooperative and inclusive and ensures that everybody’s voice will be heard.

Review of IBRD and IFC Financial Capacities

IBRD Financial Capacity

In its Spring 2009 Communiqué, the Development Committee confirmed its support for making optimal use of IBRD’s balance sheet with lending of up to $100 billion over three years.

The Bank has done a remarkable job in responding to the needs of its clients. By doing so, it has stretched its balance sheet to a point where future lending will become constrained.

The timid recovery that we are witnessing might not be robust enough to generate the private flows that are needed to fill the large gap in external financing that the crisis has created. The financial needs of developing and transition countries are expected to remain significant during the next decade. So, the current state of the global economy and short- and mid-term prospects call for a continued engagement of the World Bank Group in addressing the challenges arising from the persistent inadequacy of private and public aid flows. Our commitment to achieve the Millennium Development Goals and to pursue the eradication of poverty beyond 2015 in both middle-income and low-income countries will require a significant extension of the Bank’s financial capacity. We take note of the measures that Bank management and the Board have already taken to stretch the use of the existing capital.

We believe that Management should continue to encourage the relevant shareholders to release their national currency paid-in capital.

We supported the introduction of a 20-basis-point general loan price increase as a contribution to stabilize the IBRD’s capital position. We would nevertheless advise against any further price increases as they could have a potential adverse impact on clients’ endeavors to cope with the negative social impacts of the crisis.

It is likely that the ongoing Voice discussion will result in a selective capital increase, allowing middle-income developing and transition countries to increase their share and responsibility commensurately with their new weight in the global economy. This should improve the institution’s capital position as long of
course as all reassigned shares contain a paid-in element and as long as all reallocated shares are subscribed to.

We also acknowledge that all these measures may not be sufficient to give to the Bank the financial capacity it may require to remain relevant in the case of a prolonged crisis scenario and we acknowledge Bank Management’s assessment that a General Capital Increase is the most direct and effective way to enhance IBRD’s capital position and financial capacity in order to meet the prospective demand.

Before reaching our own decision on the need for a General Capital Increase, we would nevertheless require further analytical assessments of the specific post-crisis demand for the Bank resources and services, as well as a demonstration of the Bank’s clear comparative advantage over other international financial and development institutions within the framework of a renewed coordination and division of labor with these institutions. We wonder whether the six strategic themes should not be adjusted but we also wonder whether their adjustment at the margin would be sufficient to be a stepping stone to a post-crisis strategy. Since other international financial and development institutions will soon benefit from a significant increase in their resources we have to define more clearly the niche within which the Bank may have to operate. In this respect, we clearly see a role for the Bank in the provision of public goods and a necessity to reflect on the institutional arrangements it requires. We therefore consider the discussion of this issue as the first step of a reflection process which should culminate in a decision at our next meeting in spring next year.

We welcome the identification of the four key drivers which should shape the Bank’s role in the post-crisis world but we believe that more work has to be done to operationalize them and to make them fit into a comprehensive strategy.

We also see the need to develop an accountability framework in which the Bank Group’s performance on strategic issues can be adequately tracked so as to ensure the efficient use of the capital provided and to reinforce the credibility of arguments put forward in favor of the need for a better capitalized institution.

Decisions made about the allocation of net income should also take into consideration the preservation of the Bank’s financial capacity. Therefore, IDA transfers from the net income of the Bank and of the International Finance Corporation, which we support in principle, should only be envisaged when sufficient net income is available.

**IFC Financial Capacity**

Turning to the IFC, I commend the innovative approaches and initiatives taken in response to the crisis.

We take note of the fact that the financial performance and the capital adequacy of the Corporation have not only been affected by the macro-economic situation but also by the financial market environment.

Given the deterioration of both, the Corporation has registered, in 2009, a negative return on net worth and its capital base has come under strain.

We acknowledge the fact that, given its capital constraints, IFC will not have the financial capacity to sustain average commitments of about $12.5 billion per year over the FY10-12 period. We note the proposals from management to undertake a two-step process: starting with the possibility of raising “Hybrid Capital” and then increasing paid-in capital in the range of $1.8 to $2.4 billion.
Just as in the case of IBRD, a number of issues have to be clarified before making any final decision on the timeliness of a capital increase. Issues such as the desired IFC’s future portfolio growth path and the feasibility of the Hybrid Capital proposal deserve a thorough discussion.

Enhancing Voice and Participation of DTCs in the WBG – Phase 2

While much had already been achieved in the first Phase, we agreed to further reflect on IBRD shareholding with a view to reaching a situation where the relative weight of developing and transition countries in the world economy is better reflected.

It is important that this second phase be driven by all the shareholders in order to be objective, fair, transparent, and inclusive. In this context, we very much welcome the new broadened format of the Development Committee Deputies’ meetings.

We would like to underscore that the wording of the Communiqué of the Meeting we held a year ago “moving over time towards equitable voting power between developed and developing countries” remains valid and does not require more clarification or qualification.

We are of the opinion that the allocation of voting power among members needs to be envisaged in a dynamic rather than a static perspective. For this reason we support a periodic review of members’ shareholding with a view to adjusting the voting power of all members. Such review should also include a revision of the classification of developing and transition countries. Furthermore, we do not favor an ex ante decision on a target figure or range which would be decided independently of the metrics that will be chosen for economic weight. Whatever the mechanism for shareholder alignment on which a consensus will be reached, the objective should not be limited to a shift in voting power to developing and transition countries as a group, but include all underrepresented members.

The relative weight of the members in the world economy should remain the main criteria and, as a point of departure, we favor IMF quotas as a reference point for IBRD shareholding. It could be used in combination with a GDP blend or a compression factor. We would support the factoring in of past IDA contributions as a booster.

While we generally cannot support the principle of non dilution for one category of shareholders, we think that a mechanism should be put in place to protect the smallest and poorest countries from further erosion over time. This could be achieved through another round of basic votes’ increase.

While, on governance issues, we prefer to wait until all the ongoing work on phase 2 has been completed, we think that a consensus could be reached at this time on the selection process of the President and Senior Management which should be transparent, merit-based, and irrespective of nationality or geographic preference.

The Challenge of Low Income Countries

The challenges posed by the global economic crisis to low-income countries deserve special attention. Although the banking systems of these countries were integrated into the global financial system to a limited extent only, this fact did not insulate a number of them from the fallout of the crisis once it turned into a full-fledged economic crisis. Moreover, many of them had already been made fragile by the increases in food and energy prices.

Whilst we have to acknowledge that particular low-income countries are impacted in different ways and to a much varying extent, the difficulties they are encountering are to be traced in a significant reduction
in private capital inflows, a stagnation, or even a decrease, of worker’s remittances, and a decrease in exports. In this context, we cannot take the risk that progress painstakingly achieved over several decades be wiped out in just a few months and that all the efforts made to enable the low-income countries to reach as many Millennium Development Goals as possible be annihilated. We therefore strongly support the initiatives that the World Bank Group has taken to scale up its efforts to assist this particularly vulnerable group of countries while at the same time not jeopardizing their debt situation. We look forward to discussing a proposal to establish a Crisis Response Facility at the upcoming IDA-15 Mid-Term Review.

Review of the Debt Sustainability Framework

In order to better enable the low-income countries to access sufficient financing in order to respond to the crisis, the G-20 suggested introducing more flexibility within the Bank-Fund Debt Sustainability Framework. The application of the Framework has been instrumental in preventing low-income countries from falling back into unsustainable debt situations and has demonstrated its usefulness in guiding borrowing and lending decisions in these countries. It is also being used as an analytical tool by an increasing number of creditors, thereby contributing to an enhanced consistency in lending decisions.

We believe that the Framework already allows for a flexible interpretation of the debt sustainability outlook, taking into account country specific circumstances. While we consider it legitimate that the Board of Directors agreed to further study the debt assessment analytical tools, we would caution against unduly relaxation of the Framework which would increase the risks for some countries to fall back into debt distress further down the road. Given the high financing requirements resulting from the crisis, the regular development agenda, and the climate change agenda, there is very little room in national budgets for yet another debt initiative.