Statement by

Mr. Guido Mantega
Minister of Finance
Brazil

On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname and Trinidad and Tobago
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Supporting Global Development through the Crisis and Beyond

The worst of the financial crisis may well be behind us, but we still have a long way before we can declare victory. The sharp economic contraction has had painful effects in developed countries. However, in most developing countries the impact is catastrophic. Declining growth rates combined with high levels of initial poverty leave many households in developing countries much more vulnerable to the effects of the crisis.

The international response to the crisis in the form of concerted efforts of both developed and developing countries and stepped-up support from international financial institutions needs to be sustained. Only through consistent and broad-based countercyclical policies will we be able to weather this crisis and move the global economy to an inclusive and sustainable growth path.

Some developing countries have been at the forefront of public policy actions to stimulate aggregate demand. Those that were less constrained by either fiscal space or foreign exchange reserves, before the crisis, were able to implement counter-cyclical policies with greater ease. These developing countries have been helping the world economy absorb the impact of the deterioration of trade, credit flows and demand. These new poles of growth are contributing to boosting the global economy. It is now time to increase their voice in the discussions that will shape the future international financial architecture.

Access to credit is now our most pressing challenge. It is a critical issue for most developing countries, particularly the poorest. The financing gap of developing countries will remain large for many years and is estimated between $350 billion and $635 billion for 2009 alone. Figures for 2010 could even be worse. Private capital will be scarce and conditions will be tighter than before the crisis. Fewer developing countries will be able to rely on capital markets as a major source of financing. In most cases, external financing needs will have to be met essentially through public finance sources whether bilateral or multilateral.

The World Bank Group is well-positioned to play a critical role in this new landscape. However, the institution can only be effective and relevant if we strengthen its legitimacy and financial capacity. We need to decide whether we want the Bank to move to business as usual once the crisis is over or if we want to take advantage of the political momentum to raise this institution to a higher level of effectiveness.

So far the World Bank Group has responded to the crisis mainly by stretching the use of existing capital. IBRD tripled its lending in one year. IFC has leveraged its resources. IDA, on its part, has fast-tracked its operations. If we continue with the pace of demand in loans, we will reach the limit of what this institution can lend. Actually, some countries within our Constituency are already reaching their borrowing limits given the current capital constraints. This reality makes them questioning their mid-term relationship with the Bank, and particularly the traditional lending and partnering role that this institution has been playing for their development.
The notion that after FY12 the Bank could return to its pre-level lending volumes is not acceptable. It would be incompatible with our commitment to promote an inclusive and sustainable globalization. First, we know little about how long it will take to recover and how the “new normal economy” will look like. Second, we know for sure that there are pressing challenges ahead of us that will require more global coordination and cooperation in the provision of finance for development.

Challenges like poverty eradication and climate change can only be addressed by cooperating at a truly global scale. The global public goods agenda will require the mobilization of financial resources at larger levels than are currently envisaged.

In the post-crisis phase, we will need a bigger World Bank, not a smaller one. We will need an institution capable of working together also with stronger regional development banks.

In our last meeting, we asked for a review of the financial capacity of the World Bank Group. We now have concrete proposals on the basis of which we should arrive at a decision very quickly. We should focus our work on deciding on the next steps of a package that was already started by the developing countries by accepting an IBRD price increase. Theses next steps should include a selective capital increase, linked to the voice reform, followed by a general capital increase.

Since a capital increase involves a lengthy process, we need to agree now on a timetable that leads us to such agreement. We are prepared to set the next Spring Meeting as our deadline for a decision that truly strengthens the Bank both in terms of its capital base and legitimacy.

Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Phase 2

The main governance problem, which severely undermines the legitimacy and the effectiveness of the World Bank Group is the unfair distribution of shares and voting power. We need to redress now the democratic deficit in voice and representation of developing countries.

Developing countries account today for a larger role in the world economy. Developing countries also shoulder the World Bank Group through their long-standing engagement. These two elements strengthen the case for equitable voting power.

There are two political issues to be defined here simultaneously: the target shift and the criteria for shareholding realignment. To meet the April 2010 deadline for an agreement on the voice reform, it is critical that we agree on both issues before we move forward on other aspects of the reform.

A target for the shift of the order of 6% in the World Bank Group would be significant, moving us towards an equitable distribution of voting power between DTCs and developed countries, and aligning DTC voting power roughly to their share in world GDP. Starting from the floor of a 3% shift set up by the G-20 Leaders in Pittsburgh, we should strive for an ambitious goal worthy of our hopes for the World Bank aiming at the range of 6%.

Once a target shift is agreed, economic weight should be the basis for shareholding realignment. We should measure it through a GDP blend. IMF quotas, actual or calculated, cannot provide a proper basis for IBRD shareholding. They reflect largely the initial allocations and historical evolution, which the IMF is in the process of reviewing.
The mandate of the Fund and the considerations underpinning the quota formula are distinct and different from those of the World Bank. Fifty percent of the IMF formula is comprised of openness, variability and reserves, which have little relevance for the Bank. Furthermore, such criteria would be against the goal of the reform, since if we take IMF quotas, there are over 110 DTCs that could be considered overrepresented and potential candidates for dilution.

Borrowers’ contributions should be recognized for the purposes of shareholding realignment. As a financial cooperative, the World Bank Group benefits from the repayments of loans by IBRD clients, which have allowed the WBG to build up its reserves and transfer net income to IDA. We need to capture this dimension of client engagement into Bank specific criteria for realignment in a simple but not simplistic manner. A parallel approach should be used to weighing IDA contributions.

The rationale of the voice reform is to enhance the voice and participation of all developing countries. In this context, we support only those proposals that would not deepen the current under-representation of those countries or further distort the internal decision-making process within the international financial institutions. Consequently, we do not favor any future initiative on governance that may lead to a change in the permanent status of or in any other way weaken the Executive Board or the Development Committee, which are vital for the accountability, integrity and governance of the World Bank Group.

A key part of the reform is that following the consensus on an open and merit-based process for the selection of the heads of the World Bank and the IMF, an explicit political commitment be made regarding the forthcoming selection processes in these two institutions.

We stand ready to work constructively to agree on a package that encompasses both the voice reform and the financial capacity review. Delivering such a package would provide the international community with an invaluable instrument to promote inclusive and sustainable development.

Thank you.