Statement by

Mr. Erik Solheim
Minister for the Environment and International Development
Norway

on behalf of the Nordic and Baltic Countries
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The economic crisis and the developing countries

The global economic and financial crisis has severely hit many fast growing middle income countries, but also poor countries. During the last five years, Africa has benefited greatly from strong global economic growth. For the first time in decades, Africa has experienced relatively high per capita growth, making good progress towards attaining several of the Millennium Development Goals. The financial crisis risks putting an end to a period of exceptionally high growth rates, even though we do see early signs of recovery in most regions.

To ensure a sustainable long-term recovery, we need to draw on the lessons from responses to past economic crises. They teach us that stabilisation policies must include safeguards to protect poor women, men and children. We should assist developing countries to retain the fiscal space they need for spending on social sectors, such as education and health, in order to create better living conditions for people and to improve competitiveness in the long run.

Structural reforms to strengthen pre-conditions for growth and efforts to strengthen good governance should neither be put on hold. They are continuously needed in order to diversify economies and diminish vulnerabilities to shocks. Restoring confidence in the global financial system and a swift recovery in developed countries will also be crucial for poor countries’ return to a high growth path and poverty reduction.

It is even more important than before to fight the illicit flow of capital out of developing countries and to avoid a new debt crisis.

This crisis presents us with also an opportunity. Developing countries are part of the global solution. I can assure you that the Nordic-Baltic constituency, which is already providing substantial financial resources to offset the negative effects of the crisis, is committed to continue supporting multilateral action.

The World Bank Group’s response to the crisis and its financial capacity

Multilateral institutions are playing a key role in providing counter cyclical support in the global economic and financial crisis. We commend the IBRD and IFC for their speed, innovation and flexibility in responding to the crisis, and IDA for its strong focus on protecting the poorest and most vulnerable. We welcome the Fast-Track Facility that has been used extensively by poor countries to counter-act the crisis. The World Bank Group’s combined commitments of USD 60 bn in FY09 is impressive.

The current financing demand warrants a careful analysis of the long-term sustainable level of World Bank Group operations. We therefore welcome a thorough needs assessment and a review of the World Bank Group’s financial capacity in the context of an evolving global economy and institutional architecture, the World Bank Group’s comparative advantages and capacity to respond to new and existing challenges. We believe that the need for a capital increase is dependent on many factors including the global economic outlook, pricing levels for IBRD and IFC products, the internal transfers
from IBRD and IFC to IDA and the outcome of the Voice reform which is likely to result in a selective capital increase for underrepresented countries. First and foremost the Bank should optimize the use of its existing capital base. In addition, all options for securing the financial sustainability of the World Bank Group should be put on the table, including a possible temporary or permanent injection of capital from shareholders. The Nordic-Baltic constituency is prepared to take all of these options into consideration. In practise, we are at crossroads to decide on how to finance the Bank Group’s work in the decade to come. One important lesson from the financial crisis resulting from the bursting of the financial bubble is that private capital flows to emerging economies and developing countries are inherently very volatile. Official flows can serve as an important buffer against such volatility.

We urge the Bank to work effectively in collaboration with the IMF and the regional development banks, but also with the UN, to ensure a clear division of labour in line with respective mandates and comparative advantages. This is equally significant when discussing the multilateral response to the financial and economic crisis as to other global public goods, such as health related issues, fragile situations, environment and climate change. We recognize the important role of the World Bank has in fighting climate change, and the various initiatives the Bank has taken to this end.

The IDA 15 concluded in a record replenishment through which USD 42 billion are to be allocated to the world’s poorest countries over three years. The Nordic Baltic constituency is the fifth largest contributor to IDA 15. We look forward to the upcoming Mid Term Review of IDA 15 in November, in which the Nordic-Baltic countries will especially follow-up on commitments in the areas of gender, climate change, fragile states and aid efficiency. This will be an important stock-taking occasion, preparing us for the IDA 16 replenishment next year.

**Voice and governance reforms of the World Bank**

The Nordic Baltic countries are strong supporters of increased voice and representation for developing and transition countries in the World Bank. We therefore welcome the significant progress made at last year’s Annual Meetings including establishing an additional chair for Africa in the Board and a doubling of basic votes. It is important that this package is implemented promptly.

We welcome that the process is moving forward towards reaching agreement by the 2010 Spring Meetings. However, we continue to insist that the reform should be based on objective criteria reflecting member countries’ evolving weight in the world economy as well as taking contributions to the World Bank Group into account. A shift of voting power should therefore be from over– to underrepresented countries. We advocate that, as in the past, the objective formula should be IMF actual quotas and if one wants to simplify this, it would not be warranted to move to using only one part of the formula, that of GNP/PPP in a 60/40 share. As a minimum it would have to be on a 70/30 basis, if at all, and include the compression factor.

The financial crisis has increased the momentum for reform. The second phase of the reform must lead to the maintenance of the long-term credibility, legitimacy and financial sustainability of the World Bank Group. Therefore it should respect the following principles:

First, for the legitimacy of the reform, it is crucial that the process going forward must be dealt with within the governing bodies of the World Bank and all countries should be treated equally in the reform by using objective criteria to decide upon countries’ voting shares.

Secondly, it is only natural that the shareholding of fast growing, but currently underrepresented, developing and transition countries is increased at the WBG in line with their evolving weight in the global economy. We need to move beyond a one-off shift of transfer and recognize that IBRD
shareholding is to be reviewed periodically. Such growing influence should also come with increasing financial responsibilities in the WBG and a possible selective capital increase should therefore also include a paid-in part.

Third, IDA contributions should have a significant weight, of at least 20 percent, in the formula. We suggest that proven track records of the three last replenishments of IDA should be accounted for. The periodic shareholding review every five years will incentivise future contributions to the Bank’s poverty reduction mandate. IDA contributions should therefore constitute a large component of the formula. A road-map should be developed to include contributions to Trust Funds in the next shareholding review.

Fourth, in line with the reform objectives, we need to protect the voting power of smaller members in the institution by further increasing the basic votes.

Fifth, the reform should ensure appropriate representation of all member countries in the governing bodies of the Bank Group. We believe that the Bank’s legitimacy benefits from a broad representation of rich, poor, small and large countries. Indeed, we think the current governance structure works relatively well balancing adequate representation with effectiveness.

Sixth, as stated before we support a merit-based and transparent selection process of the President and senior management. Selection of the President and senior management should be based on professional criteria, irrespective of nationality or geographic representation.

Finally, all elements of reform should be dealt with together in a package by the 2010 Spring Meetings.

We take note that the G20 leaders have proposed that a dynamic formula should be adopted which primarily reflects countries’ evolving economic weight and the World Bank’s development mission, and that generates a shift of at least 3 percent increase of voting power for developing and transition countries.

The Nordic Baltic countries have a long tradition of supporting multilateral institutions and solutions, both financially and politically. Combined we are the 9th largest economy in the world, one of the largest financial contributors to the World Bank, and have comprehensive experience with development assistance.

A continued generosity of the Nordic Baltic countries requires that we have the possibility to influence how the resources that we provide to the Bank are actually used in practise. The Parliaments in our countries are no different from those in other countries: there can simply not be “taxation without representation”.