Statement by
H.E. Ahmad Husni Mohamad Hanadzlah
Minister of Finance II
Malaysia

On behalf of Brunei Darussalam, Fiji, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga and Vietnam
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81st Development Committee Meeting

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Representing the constituency of Brunei Darussalam, Fiji, Indonesia,
Lao PDR, Malaysia, Myanmar, Nepal, Singapore,
Thailand, Tonga and Vietnam

We are meeting today for the 81st Development Committee Meeting at a time when the global economy is recovering from the worst crisis in 50 years, albeit at a slow and uneven pace. Although the most acute phase is now behind us, the impact of the crisis will remain visible for some years to come. These include worsening poverty and high unemployment, reduced financial flows, as well as increasing fiscal pressure faced by many governments due to stimulus packages implemented to mitigate the impact of the crisis.

We congratulate the Bank for its timely and substantial response to counter the impact of the crisis. The unprecedented financial commitments made by the Bank will understandably pose a major constraint to its financial capacity for the years to come. We note with appreciation the Bank’s efforts to improve its financial capacity.

The global economic landscape has also changed with the economic center of gravity shifting towards the emerging markets as they have now become an important engine of growth for the global economy. These Spring Meetings are being held at a critical time as we need to determine the future role of the World Bank Group and the increasing voice of the Developing and Transition Countries (DTCs) in the institution.

THE NEW WORLD, NEW WORLD BANK GROUP
- Post Crisis Direction and Internal Reform

We believe that the World Bank Group will continue to play a critical role in the post-crisis world and, along with other IFIs, is vital in maintaining the momentum of global recovery. In this respect, we support the Bank’s post-crisis strategy as coherent and consistent with its mandate. In going forward, we hope to see a more concrete action plan and clear time line for its implementation and related measurable outcomes. We would also like to see a clear linkage between the Bank’s strategy and its resources. In this respect, greater budget flexibility is desirable so as not to restrict the Bank’s ability to address high priority areas as well as Global Public Goods.

We appreciate the Bank’s Internal Reform initiatives which are clearly interlinked and mutually reinforcing to meet the needs of a dynamic world. The reform process will entail some difficult decisions, but we believe that the key elements of the reform need to be carefully sequenced, properly managed and prioritized. This process is critical in renewing the Bank’s organizational and operational cultures in a manner that brings the World Bank Group (WBG) together and makes it a more effective and efficient organization.
With regard to the decentralization effort, we concur that this will improve efficiency and productivity of the Bank’s service delivery as well as increase its credibility and effectiveness by staying closer to clients. For decentralization to work effectively we believe IT and HR reforms are important elements to connect staff to policies and knowledge. We also urge the Bank to continue improving staff diversity to become a truly global Bank.

**IBRD AND IFC FINANCIAL CAPACITY**

We believe that a financially stronger Bank is critical to maintain its leading role in the post-crisis world and fulfill its expanded mandate. In this respect, we note with appreciation the considerable progress made in reaching the agreement on the need to increase capital for the IBRD. We note a broad consensus for using $15 billion as the post-crisis annual lending assumption; however, we believe that there is scope for the further upward revision of the forecast given the greater uncertainty in the post-crisis world.

As for the method to achieve capital increase, we support a “plain vanilla” General Capital Increase of $58.4 billion with 6% paid-in capital or $3.5 billion. Furthermore, we believe that any discussion on allocation of net income must aim at protecting financial capacity of IBRD and maintaining its AAA status. In addition, we believe the IBRD capital must be allowed to rebuild to reach the upper range of Equity to Loan ratio to ensure that the Bank is able to respond swiftly to future crises.

As for IFC, we commend IFC’s programs for addressing the financial crisis and its commitments towards development impact demonstrated by its increasing focus on IDA’s funds recipients and other frontier markets. With the global recovery gaining stronger traction, we need to ensure that the private sector can start to fill the gap left by the unwinding of the stimulus packages to sustain the growth momentum. IFC, as the leading private sector IFI, therefore needs to be stronger in order to meet the post-crisis challenges and extend its development reach. Hence, we support IFC’s proposed 7-8% investment growth rate with $1.7 billion additional financial capacity.

To achieve IFC’s investment trajectory, we support the proposal of strengthening IFC’s balance sheet through different measures. We support the Selective Capital Increase as part of the IFC Voice Reform with the size of the increase of at least $200 million combined with a long-term hybrid instrument and retained earning as part of measures to strengthen IFC financial capacity.

**WORLD BANK VOICE REFORM**

We are pleased that the IBRD Voice Reform reached its final conclusion and support the underlying principle of combining the evolving economic weight and the Bank’s development mission as the key determinants of IBRD shareholding. This realignment includes a Selective Capital Increase of $27.8 billion with paid-in capital of $1.6 billion. We hope the target of net shift of at least 3% of shares to DTCs will soon be realized. Furthermore, we firmly believe that the parity between developed countries and DTCs will and must be met by next shareholding review in 2015.

We believe that the Building Block model is useful benchmark and serve the shareholders’ diverse interest very well, even for future realignment. However, we insist that the next shareholding review in 2015 must incorporate contributions by client countries in a more concrete manner through a clear, unambiguous formula, which translates the development contribution made by the clients into the share realignment.

We support measures introduced for the protection of the smallest poor member countries from the adverse impact of this voice reform. We agree to add small shareholders to the list of those eligible for
the special protection. The increase in shareholding for these small countries can come in the form of additional shares on a fully-callable basis.

For the IFC Voice Reform, we would like to reiterate our support for the principle of realignment of IFC shareholding to that of IBRD. We also recommend this to be done gradually and in phases since the gap between developed countries and DTCs in IFC are very significant.

We also support the shareholding shift through an increase in Basic Votes to 5.55% in parallel with an open SCI subscription. We view this development as an appropriate step to meet the IFC voice reform objectives while providing substantial financial space for IFC. As the interests expressed by DTC members for the additional share subscription suggested that we might exceed this target, we would like to call for greater flexibility to accommodate as many DTCs as possible.

Finally, we support the provision of periodic review of IFC shareholding and emphasize that this should be institutionalized as in the IBRD and also for the same duration with a view to moving towards parity between developed countries and DTCs.