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
Today we meet at an important juncture. Rarely before have we had to deal with such a vast array of important reforms and to take such critical decisions in only one meeting.

Post-Crisis Directions

We would like to once again welcome the vigorous actions that the Bank Group has undertaken to assist its clients in the crisis that has abruptly slowed down the progress of development and the fight against poverty.

While economic recovery seems now under way, it remains fragile and very uneven. The world around us has changed. The role of both developed and developing countries is evolving rapidly. Like the other international financial institutions, The World Bank Group (WBG), if it wants to remain relevant, must reassess its own role, its instruments, the way it operates, and its governance structures.

While the fight against poverty must remain its overarching goal, the WBG has to fit into a more inclusive and sustainable globalized environment. But this cannot be done haphazardly. It requires a clear strategy designed in such a way it will allow us to answer four basis questions:

- What is the Bank doing that it should continue to do without changing anything?
- What is it doing that it should continue to do, but differently?
- What is it doing that it should not be doing?
- What is it that it does not do, but should be doing?

It is all about comparative advantage, division of labor, selectivity, and innovation.

The post-crisis directions paper which is submitted to us provides answers to most of these questions but could have been bolder on issues such as selectivity and division of labor.

While we agree that the post-crisis directions should not hamper the necessary flexibility of the WBG, we also firmly believe that activities and available finances of the Group could be better streamlined into selected priority areas so as to prevent unwarranted deviations that may occur as a result of too broad interpretations of what the strategic directions only vaguely define.

Projects, programs, and advisory services in these priority areas should be selected with due consideration to complementarity and coordination with other multilateral and bilateral donors, allowing a real division of labor. Comparative advantage should guide us in establishing this complementarity. The Bretton Woods Institutions, for example, have distinct mandates with the WBG oriented toward longer term development goals. The extension of the IMF’s mandate by the G20 warrants therefore a discussion on clearer division of labor.
With its global knowledge and convening power the WBG is ideally equipped to play a pivotal role in regional integration. We encourage management and staff to invest additional efforts in enhanced elaboration of the Group’s role in this area of growing importance for its client countries. We urge the Bank to develop specific approaches to work more effectively in fragile states with a view to better addressing the specific issues these countries face and to achieving long-term results. We also expect that the Bank Group will continue to play a leadership role in the growing global public goods agenda.

Last but not least, given that the financial capacity of the WBG will ultimately determine the scope for selection and implementation of the new strategic directions we deem it necessary to fully integrate the financing aspects in the preparation of this implementation plan.

**Internal Reform Agenda**

We acknowledge that the World Bank Group has gone a long way in responding to the request we formulated at our last meeting in Istanbul to move forward with the internal reform process. We support the overall objective and general thrust of the proposed reforms which aim at improving the Bank’s responsiveness, flexibility, innovation capacity, and accountability.

The proposed investment lending reform will allow a more timely and customized response to client’s needs while improving risk management and ensuring that the institution focuses more on results than approvals. It is worth stressing the fact that the recourse to simplified procedures, in what is viewed as low risk settings, will require a commitment to strengthen the focus on borrowers’ capacity building and governance.

We strongly support the work underway on a decentralization model which would respond better to the changing role of the Bank. We encourage Management to pursue a balanced approach taking into account the optimization of service delivery, the full deployment of regional and global expertise and knowledge, and cost effectiveness.

We welcome the elaboration of a comprehensive Knowledge Strategy which will allow the capture, the sharing and the dissemination of knowledge across the Bank and the regions. We also welcome the reform of the matrix structure to promote greater connectivity, staff mobility and accountability although we feel that more could have been done to fully eliminate dilution of responsibility.

The successful implementation of these reforms will hinge on an overhaul of the information technology platform, on a strengthened accountability framework for management, and on improved human resources strategy and management with a view, among other things, to reinforcing the Bank’s presence in fragile states and to improving staff’s perception of the Institution.

Finally, we emphasize the importance of reviewing some corporate governance proposals. By improving and strengthening the relationship between the Board, the Development Committee, and the President, the Bank’s decision making process could be made more effective.

**Review of IBRD and IFC Financial Capacities**

We have also come a long way since last year in identifying a compromise on how to enhance our institutions’ financial capacity and relevance in a post-crisis world.

IBRD and IFC have been two major players in addressing the impacts of the current crisis, they have stretched their capital resources and responded well. Now we, the shareholders, need to take the
responsibility to preserve these institutions’ financial health, and thus to enable them to fulfill their long term development mission and to respond to the challenges posed by possible future crises.

When it comes to make decisions on expanding the financial capacity of our institutions, we believe in the power of shared responsibility. No single member’s interest, or interest of a group of members, should be the driving force behind this exercise. Rather, we need to remember that we are a cooperative, and that we should apply the principle of even burden sharing among developing and developed members. While the solution proposed by the document on the institutions’ financial capacities is far from being perfect, it does respond, more or less, to the interests of all our members and thus provides an acceptable compromise on the way forward.

The proposed structure of filling IBRD’s FY19 equity gap through a NCPIC release, an SCI, a GCI and a set of further measures is adequate under the present circumstances. We would nevertheless like to stress that any discussion on further measures should take place at the level of the Board. We understand that technical work on a rules-based approach to pricing, budget and net income allocation is underway and we consider that the Board is the most appropriate set up for consideration of these issues and for taking decision. We look forward to hearing about the outcome of these discussions.

The case having been made for a General Capital Increase (GCI) for IBRD, we can endorse the recommendation of around $58 billion GCI, including $3.5 billion in paid-in capital.

We favor a plain vanilla increase as it is likely to be the least controversial solution, and therefore, the fastest and the easiest solution to implement. The introduction of the contingent-out option may pose some technical problems for a number of countries of our Constituency. Furthermore, since we can neither know how a contingent-out mechanism could affect the future capital position of IBRD, nor predict the evolution of future demand for IBRD lending, it may not be prudent to opt, ex-ante, for an automatic mechanism to deal with potential excess capital. In this respect, it is worth remembering that the Bank could not have reacted to the crisis in such a swift and effective manner if it had not been somewhat “over-capitalized”. It would be therefore advisable to carefully study the conditions that would warrant alternative uses of capital. The target risk coverage range of the present Equity-to Loans ratio should be one element that would have to be taken into account. Any excess capital no longer needed to support IBRD lending in the future should be redirected to other uses through the annual income allocation framework.

Concerning IFC, we endorse a package of options to combine increase in Voice with shares acquired through a selective capital increase, the issuance of a long term hybrid capital to shareholders to boost capital, and earnings retention. This package offers a feasible compromise which will enhance the financial capacity of the Corporation. We note that IFC’s growth rate will be significantly slower than in the past, but we trust that the proposed measures will be adequate to preserve the gains recorded during these dynamic years, especially those achieved in IDA-countries and frontier countries, as well as those ensuing from the implementation of the recent IFC crisis initiatives.

**Voice and Participation Reform in the World Bank Group**

Our constituency supports the move towards increased voice and representation for developing and transition countries in the World Bank Group. We have therefore endorsed the adoption of a two-phased Voice reform. We welcomed the 2008 agreement on the first phase of that package, which included a significant increase in voting power of developing and transition countries and added an elected Executive Director for Sub-Saharan Africa on the WBG Boards of Directors, We trust that all IBRD members will soon ratify this first phase.
Since our last meeting, substantial efforts have been undertaken by World Bank management and staff to bring the second phase of the Voice and Participation reform process to fruition.

The adoption of an ex-ante target range of at least 3 percent and the shortened time frame to reach a decision has made it particularly difficult to meet the call for a simple, transparent and sustainable shareholding formula, and a rules-based, dynamic mechanism. The model submitted to us to implement the IBRD shareholding realignment has the look and feel of a Rube Goldberg machine, making the easy unduly complicated. Antoine de Saint Exupéry once said that “perfection is reached not when there is nothing left to add, but when there is nothing left to take away.” The proposed model does obviously not fit this definition of perfection. We believe that the model’s adhockery and differential treatment of members greatly diminishes the voice reform’s sustainability and legitimacy.

This being said, in line with the agreement reached in Istanbul, we reaffirm our commitment to a shareholding realignment that better reflects the balance between the evolving weight of members in the world economy and the Bank’s development mandate. We therefore believe that proper weight and recognition should be given to IDA contributions, including those from small donors, and that a right balance should be struck between recognizing IDA contributions from DTC donors and those from advanced countries. It also requires that notional burden share be included as a reference when benchmarking contributions to IDA.

Concerning the next review, building on the consensual elements of this discussion, we should give ourselves the time to reflect on how to deliver a new formula which truly corresponds to the expectations we had six months ago.

As far as IFC is concerned, we can endorse the realignment through an increase in basic votes and a selective capital increase.

**GMR**

With only 5 years left before the 2015 deadline, it is even more critical for us to take stock of the situation. The results being somewhat mixed, there is an urgent need to intensify our efforts.

We were encouraged to learn that the deterioration in human development indicators has not been as severe during the current crisis as in previous ones and that social spending may have held up better during this crisis than in previous crises, thanks to the build-up of social safety nets, formal or informal. But of course this is not a time to be complacent because the longer-term consequences of the crisis remain worrisome in low-income countries.

We take note of the fact that developing countries have achieved significant progress towards reaching the Millennium Development Goals (MDGs). However this progress has been uneven – with considerable variations between countries and country groups, as well as between particular MDGs.

We acknowledge the fact that, while Middle-Income Countries have progressed fastest towards the MDGs, these countries remain home to the largest number of the world’s poor. We see this as a reflection of the persisting prevalence of high income inequality in these countries, a problem which will have to be addressed more vigorously.

We note that low-income countries have progressed at a slower pace, with significant variability from country to country, and with fragile and conflict-affected states generally exhibiting slowest progress.
With respect to particular MDGs, while noting that considerable progress has been achieved with regard to goals influenced by economic growth, such as income poverty, we are concerned about the disappointingly low progress in other crucial areas, especially those reflected in health indicators such as maternal and infant mortality.

We acknowledge the fact that the rapid and flexible responses from the International Financial Institutions will need to continue in combination with bilateral aid as well as measures to stimulate trade.

In closing, we would encourage the Bank to strengthen, in coordination with other institutions, the statistical and analytical capacities of member countries with a view to improving the timely availability and the monitoring of the MDGs.