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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at the 81th Development Committee Meeting
Washington, D.C., April 25, 2010

Strengthening development after the crisis

Since meeting in Istanbul, in October 2009, there are encouraging signs of economic recovery, partly as the result of the dynamism of many developing countries. Their strong performance can be attributed both to better preparedness anchored on sound macroeconomic fundamentals, and to countercyclical pro-poor policies introduced or scaled up in the aftermath of the crisis.

Paradoxically, many poor countries face now a path to development that is steeper since the crisis. Global economic recovery may not translate into a comparable progress in achieving the Millennium Development Goals. The human impact of the crisis will have longer term consequences. This prospect increases the urgency of intensified efforts to address the plight of millions of people, both in middle and low-income countries, who still suffer from hunger, lack access to water and sanitation, where child and maternal mortality rates are high, gender equality and primary school completion rates are low.

Progress could be hampered by further constraints in external financing both from concessional and non-concessional sources for developing countries. In this regard, the strengthening of multilateral development institutions, such as the World Bank, becomes an imperative.

The “new world” that emerges after the crisis needs a more effective, accountable and legitimate World Bank Group with adequate financial resources to meet the development challenges of the 21st century.

(i) World Bank Group Post-Crisis Directions

The World Bank should remain focused on its core mandate of poverty reduction and should keep a high-level of engagement with both middle and low-income countries.

We support the five strategic priorities outlined in the document “Post-crisis directions”. We appreciate the fact that the strategy does not attempt to provide a rigid blueprint for an institution that needs to be more responsive, innovative, flexible, and accountable to its clients.

We welcome the World Bank’s efforts to improve its effectiveness and accountability, including through the ongoing work on internal reforms. We expect that these reforms help the Bank to provide flexible and adaptable instruments for country-appropriate solutions to development needs of a variety of clients in the post crisis world. We expect the Executive Directors to be fully engaged in the process.

We look forward to a Bank with strengthened country offices and regional presence that bring it closer to the clients. However, decentralization should not lead us to a regionally fragmented institution, unable to take advantage of its global network and promote south-south cooperation across regions.
(ii)  Financial Capacity of IBRD and IFC

We welcome the compromise reached among shareholders to strengthen IBRD’s financial capacity. However, the financial capacity package will not put IBRD at its necessary capital adequacy level to address the huge development challenges the institution has ahead, which are not only poverty reduction, but also addressing future global and regional economic crises, food security issues, health pandemics, and climate change, among other challenges. The package would only bring IBRD’s annual lending capacity to the $15 billion average level of the decade prior to the crisis, which is even less than the annual average program of $19 billion over the last 20 years. The upper range of $19 billion IBRD annual lending would have been the realistic one for this discussion.

In addition, we welcome the annual integrated financial approach, as part of the IBRD financial capacity package. This approach would allow the Board of Directors to make the appropriate budgetary, pricing, and net income decisions on an annual basis with the premise of seeking IBRD’s financial sustainability and costs and products efficiency.

Capital requirements cannot be addressed through price increases. This is neither an effective nor a fair way of strengthening IBRD’s capital base. Good corporate practice recommends that pricing decisions be taken exclusively on the basis of lending cost recovery considerations, transparently presented by management to the Executive Board.

The discussion of price increase for longer maturity loans should, therefore, be based only on the objective of covering lending-related costs. Pricing measures should not address long-term financial capacity gaps nor transfers of income, since pricing is subject to annual reviews given the market and demand volatility.

We are concerned that the proposal considers a contingent pay-out mechanism for redirecting General Capital Increase resources, when IBRD’s E/L ratio reaches the upper bound of its capital adequacy range (27%), or even below that level. We do not support any contingent approach, and do not concur with pre-setting or prioritizing transfers overtime. Any excess of capital should be discussed under the annual income allocation exercise and in accordance with the Articles of Agreement. We, as Governors of an International Financial Institutions, should follow the highest financial sustainability standards.

We welcome the agreement on IFC that includes: a selective capital increase – albeit modest in size - linked to voice reform, a long term hybrid instrument, and earnings retention. We regret that these measures do not include a general capital increase as an option for IFC as part of the package, since the annual investment growth of the IFC should be higher than the proposed 7% to 8%, if the institution is to preserve its AAA credit rating and keep moving into riskier transactions for the bottom of the pyramid as well as frontier markets that demand relatively more resources. In this context, we should leave room for reconsidering this option in the future.

Finally, in the next months, a key challenge will be to ensure a strong IDA16 replenishment. We urge developed countries to consider IDA’s platform role in support of low-income countries in honoring their ODA commitments.

World Bank Group Voice Reform

We welcome the conclusion of a package of voice reforms.

In phase 1, we addressed the issue of the smallest and poorest countries through the increase of basic votes. We reduced the democratic deficit in the representation of Sub Saharan Africa by establishing a new chair for this region.
Since the beginning of phase 2, DTCs have demanded a 6% shift in IBRD voting power from developed countries as a reflection of the new and rapidly changing reality in the world economy. In Istanbul, we accepted as a major compromise, a target shift of “at least 3% in 2010” as a first step towards equitable voting power in the World Bank. We regret that the 3% floor practically became a ceiling during our negotiations.

There are some positive aspects of phase 2 of the voice reform. It is the first time that we use World Bank criteria to determine IBRD shareholding, setting aside the IMF quota formula.

Another achievement was the adoption of economic weight, measured through a GDP blend, as a primary criterion for shareholding. Economic weight should remain equally central in the future.

This package also includes protecting the voting power of the poorest, including some lower middle income countries, as an important principle.

We welcome the fact that contributions to the Bank’s development mission were considered in this exercise, including contributions to IDA. However, we believe that an excessive weight was given to one of the components of contributions to the development mission, while the other component – client contributions - was completely excluded for this shareholding realignment. This exclusion unavoidably leads to an imbalance.

Future realignments need to capture the contribution of clients to the World Bank’s mandate. Long-standing IBRD borrowers have helped build-up the Bank’s capital base throughout many decades of loan repayments. They are also the main source from which the Bank is able to draw the expertise and knowledge it needs to remain a leading multilateral development institution.

As we move forward, we should not compromise on our ambition to enhance the legitimacy of this institution. Developing countries are still significantly under-represented based on their weight and role in the world economy. Given the rapid changes in the economic landscape, a dynamic formula for IBRD shareholding should deliver at least parity in 2015, moving towards equitable voting power.

We maintain our position that, beginning with the next appointments, there should be an open, competitive, transparent and merit-base process of selecting the heads of both the IMF and the World Bank, without regard to nationality or regional preference. In this regard, we should accelerate the discussion on rules and procedures for the selection process of the next heads of the institutions.

**Haiti**

We wish express gratitude on behalf of Haitian authorities for the timely response by World Bank Group and its member countries in the aftermath of the January 12 earthquake. We welcome the launching of the Haiti Reconstruction Fund, which will finance activities to improve basic living conditions in Haiti through the delivery of essential services, infrastructure reconstruction and assistance in economic recovery. Countries of my constituency stand ready to collaborate with the World Bank in their support to the reconstruction and long-term assistance to Haiti. We emphasize the importance of the speedy delivery of assistance, particularly budget support, and of country ownership. We also emphasize the role of IFC in promoting opportunities for private sector led growth in Haiti.