Statement by

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on behalf of the Nordic and Baltic Countries
When we met here a year ago, we were in the midst of the deepest financial crisis in more than 70 years. Much thanks to close multilateral cooperation we avoided the worst and the world economy is gradually recovering. The World Bank Group has undoubtedly played an important part in the multilateral response to the 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.

Although the most acute phase of the crisis is over, many challenges remain. The human costs of the crisis are already high. Unemployment rates are double digits in many countries and millions of people have fallen into poverty. The World Bank Group needs to stay attentive to the needs of client countries and keep the development of sovereign debt positions under close scrutiny.

Sixty-six years after the Bretton Woods conference, the case for a strong and effective World Bank Group is as evident as ever. However, it is vital that the World Bank Group adjusts itself to the changing world, building on its comparative advantages and focusing on poverty reduction and sustainable development. Many developing countries find themselves emerging from the crisis in better shape than developed countries. Today, the world is not divided into two distinct and static blocks, rather economies grow or contract in a dynamic manner. To echo President Zoellick, we are now in a fast-evolving multi-polar world economy. The World Bank Group will remain relevant and well-equipped to meet the development challenges in the post-crisis world only by acknowledging, and adapting to, this dynamic change in an objective and rules-based fashion.

The Voice Reform
The Nordic-Baltic countries have long supported strengthened voice and representation for developing and transition countries. We advocated the establishment of the third African chair at the Executive Board and we have financially supported the initiatives designed to enhance the voice of the developing countries at the World Bank Group. We are committed to the Istanbul agreement of a shift of at least 3% in voting power to the benefit of underrepresented developing and transition countries (DTCs).

Our constituency has continuously called for objective, transparent criteria for determining the IBRD shareholding, thus ensuring equal treatment of shareholders. The World Bank Group’s governance should reflect the evolving changes in the world economy and the World Bank Group’s development mandate. The level of financing has to go hand in hand with the level of influence. The Voice reform should strengthen, not weaken the institution.

We are committed to the World Bank Group’s development mission. Going forward, it is critical that IDA contributions, based on relative measures, are included permanently and significantly in the IBRD benchmark formula. This link between IDA contributions and IBRD shareholding would serve as an incentive to increase IDA contributions, for old and new donors, in a way that ensures equal treatment of all shareholders.
Unfortunately, the 2010 realignment does not live up to these conditions and can therefore only be accepted as a one-off ad-hoc approach for the current Selective Capital Increase (SCI). It does not, nor do elements thereof, establish a benchmark formula for IBRD. A shareholder-led process should be established to develop a transparent, principled and rules-based benchmark formula for IBRD shareholding before the next review. This formula should reflect countries’ economic weight, the World Bank’s development mandate, protect the poorest and treat all members equally.

We support the shareholding realignment in IFC based on an increase of basic votes and a SCI. We are encouraged by the great interest that shareholders have shown in subscribing to new shares in the IFC.

We firmly believe that the selection process for the top management of the World Bank Group should be transparent, merit-based and irrespective of nationality.

The World Bank’s Post-Crisis Strategic Directions and Internal Reforms
We have over time argued for a clear and concise corporate strategy for the World Bank. We therefore welcome the Bank’s Post-Crisis Directions. Poverty reduction remains at the centre of international concern, and we welcome that it is articulated firmly as the vision of the World Bank Group.

We concur with the five priority areas outlined for the Bank. We are particularly pleased with the priority given to good governance and that economic opportunities for girls and women are part of the strategy. A successful strategy geared towards fighting poverty must include a strong gender perspective. We also welcome the attention to gender in the 2012 World Development Report and under IDA16. We highly appreciate President Zoellick’s commitment to the economic empowerment of women – illustrated by his inspiring speech at the MDG3 summit in Copenhagen a few weeks ago.

Going forward, we must try to set clear and realistic objectives based on these strategic priorities to make the World Bank even more results-oriented. We welcome the development of a corporate scorecard and call for comprehensive results frameworks covering the strategic priorities. We are pleased that the World Bank budget framework is being reformed to strengthen the links between priorities, results and budget allocations.

The strong financial position and ability to leverage scarce public resources from private markets is, in our view, a key comparative advantage of the World Bank Group. Indeed, one of the strategic issues for the World Bank going forward is how its business model is evolving along with new challenges. Is the World Bank primarily investing on its own account making use of its capital base, or is it turning into an asset manager for other, mainly donor funds? The relative balance between the two has shifted towards the latter model for several years. We need to consider whether the World Bank’s effectiveness and efficiency is being undermined by this development and take corrective action as necessary, including reining in on the proliferation of trust funds and special windows.

We commend the World Bank for embarking on an impressive range of internal reforms which are to make the institution even more effective, client-focused, and equipped to tackle the challenges ahead. Further decentralization, combined with devolution of authority, is necessary to create a truly client-oriented institution, whilst ensuring continued strong resident Board oversight.

In the implementation phase of these interlinked internal reforms, we see a strong need for the proposed internal reforms results framework. However, work is required to develop more outcome-oriented performance indicators.
The IBRD and IFC Financial Capacities
The IBRD should have the financial capacity to fulfill its development mandate after the financial crisis. Our constituency is prepared to join the emerging consensus regarding a General Capital Increase to the IBRD of USD 58bn, with 6% paid-in capital, which should form a package to strengthen its financial capacity together with further efforts to release existing NCPIC, a capital injection from the Selective Capital Increase and increased pricing for longer loan maturities. That said, the IBRD should not be over-capitalized and amass excessive buffers for future potential crises. When the IBRD’s equity to loans ratio reaches a comfortable level we agree that the net income should be mainly allocated to other purposes than the reserves, preferably to IDA.

The IFC has met the challenge of the financial crisis in a commendable way. In general, we support the strengthening of IFC’s balance sheet through various measures. We welcome that 50% of IFC projects today are in IDA countries. Riskier projects in riskier environments require higher levels of capital. Consequently, we support that the IFC should retain more of its potential future earnings in order to strengthen the capital base of the Corporation. The net income, which would otherwise have been transferred to IDA, should support IFC’s investments in IDA countries.

Financial Stability and Illicit Capital Flows
In an environment where the competition for resources is getting fiercer, it is important to assess proposals that can bring new sources of finance for strengthening global public goods, including financial stability.

Studies indicate that illicit capital flows out of developing countries, often facilitated by secrecy jurisdictions, could be ten times higher than the entire volume of global official development assistance to developing countries. The size and implications of illicit financial flows means that it needs to be an integral part of the “full development equation”. We encourage quantitative analysis on this issue in World Bank country strategies and regional economic analyses.

We are pleased with the increased global focus on international tax issues. In this respect, we welcome the IMF’s intention to provide analysis on the various models on how the financial sector could better contribute to covering the costs of financial instability than what is the case today.

Climate Change
The poorest countries will suffer the most from global warming. We therefore welcome the continued efforts of the World Bank Group and the important progress made to date to integrate the climate change dimension in its core mission of development and tackling poverty, as well as the Bank’s contribution to the global knowledge pool. We urge the Bank to further increase the share of renewable energy in its energy portfolio.

We appreciate the World Bank’s broad consultations and its establishment of important climate funds, especially the Climate Investment Funds, and the new carbon funds within infrastructure and forestry. We encourage the World Bank to share emerging lessons learned from these initiatives and to inform the ongoing discussions on climate financing. The World Bank should urgently address the challenges of monitoring and reporting of climate change related activities in its operations.

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If the crisis has taught us anything, it is that we need multilateralism just as much as when the Bretton Woods Institutions were founded. The Nordic-Baltic countries have a long tradition of supporting multilateral, statutory-based institutions and solutions, both politically and financially. We remain highly committed to the World Bank Group’s overarching vision of overcoming poverty. We trust that our long-standing support will be reflected in the future operations and governance of the World Bank Group.