Statement by

Mr. Jean Daniel Gerber
State Secretary for Economic Affairs
Switzerland

On behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan
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Development Committee
Washington, DC, April 25, 2010

Last October in Istanbul, we were encouraged by initial signs of stabilization and recovery of the world economy. Since then, this positive trend has been validated; the world is emerging from the most severe recession since the Great Depression. After a staggering fall in 2009, global growth, trade volumes and foreign investment flows are expected to expand by about 4% in 2010. But this rebound remains fragile. Considerable uncertainty clouds the economic outlook; much more is needed to re-establish confidence in the markets and to revamp growth prospects.

In many countries, recovery remains indeed dependent on exceptional stimulus leading to rapidly deteriorating fiscal and public debt positions. Labor markets are under stress with high level of unemployment. In these uncertain times, a strong multilateral system is more than ever needed to catalyze political will, to coordinate action and to leverage resources. In particular, strengthened multilateral cooperation in trade is essential to boost global growth, by resisting protectionist pressures and keeping markets open as expansionary policies unwind.

Developing and transition countries will make a robust recovery already in 2010. But the performance is uneven across regions and countries; while several emerging economies are clearly on the “pull-side” for fast global growth, many other countries lag behind. Moreover, a changed paradigm - including increased risk aversion, more prudent regulatory stance, higher borrowing costs and reduced international capital flows – will tamper growth prospects in the coming years; it may take several years before developing countries recoup the losses endured during the crisis.

The Global Monitoring Report 2010 provides a timely contribution to better understand the high human cost associated to the global economic downturn; the impact on the Millennium Development Goals (MDG) is already worrisome. Urgent action is therefore needed at the international level to reaffirm the world’s commitment to the MDG and to boost the cooperation for development. In this context, while developing countries themselves have to continue introducing and sustaining sound macroeconomic policies and effective service delivery to the most vulnerable, multilateral and bilateral donors have to reinvigorate their efforts to scale-up aid and to improve aid effectiveness.

We note with satisfaction that the World Bank Group (WBG) has deployed considerable resources to support countries since the start of the crisis, reaching a historically high level of USD 100 billion lending by early April 2010; we believe this remarkable achievement will have to be carefully followed-up to ensure high quality and impact of operations. Debt sustainability will also be of paramount importance to avoid the repetition of past debt crisis. At the same time, as the world and the development challenges evolve, the WBG has to refocus its priorities, to modernize its governance and to enhance its capacity to meet new needs, beyond the crisis. We are therefore encouraged by the comprehensive package of proposals being submitted at this DC Spring Meeting for consideration and decision.
First, as regard the **WBG Post-Crisis Directions**, we thank Management for the formulation of a strategic framework to guide its future policies and operations, in a transforming global landscape. Within the overarching role of poverty reduction we welcome the reaffirmed WBG vision to support an inclusive and sustainable globalization, and agree with the five strategic priorities. We encourage Management to define the WBG’s comparative advantages even more clearly, and concur on the importance of applying strict selectivity in defining programs, making trade-offs and shaping cooperation with others. We expect these directions to be translated as soon as possible into the country partnership strategies, sector-wide strategies, as well as in the resource and budget frameworks, with solid results-frameworks. We would also like to see an improved cooperation with the IMF, the Regional Development Banks and the UN system. We would appreciate a regular update of the DC Governors on concrete progress and results in implementation.

Second, on **Internal Reforms** we acknowledge a pertinent and ambitious agenda. We support the direction and substance of this transformative work which aims at a more effective, efficient and accountable business model. But implementation will be a key determinant for success. We therefore request Management to ensure a realistic timeline, prioritizing and sequencing of actions, as well as appropriate administrative budget provisioning. Adequate incentive and information to staff will be essential; the latest Staff Survey gives a rather poor rating to the outcome achieved so far of the change initiatives, and this has to be seriously taken into consideration.

Third, we are fulfilling today a commitment taken at the DC Meeting in October 2008 on **Voice and Participation**. The proposal in front of us envisages a cumulative historical shift in voting rights to Developing and Transition Countries (DTC) both at IBRD and IFC. This has been an arduous road and we regret that the contemplated outcome falls short of a fair treatment of over-represented members, due protection of smallest poor countries, and the recognition and protection of the IDA contributions incentive structure through fair burden sharing. With the upcoming critical replenishment for IDA, we are very concerned that these shortcomings may negatively impact on donors’ demonstrated generosity. However, our Chair remains committed to join the emerging consensus and to approve the proposed IBRD shareholding restructuring based on the “building block” approach and the selective capital increase of over USD 27 billion with paid-in capital of USD 1.6 billion. This provided that the approach used in this 2010 Shareholding Realignment applies for the resulting SCI only and that no precedent be created. In this sense neither this approach nor elements thereof should be considered as a benchmark for a formula to underpin IBRD shareholding. We believe that a shareholders-led process should be established and a work plan approved in order to develop a transparent, rules-based and sustainable formula before the next review in five years. In the same timeframe, a review of the DTC classification needs to be carried out.

We also endorse the proposal for IFC to proceed with a selective capital increase of 200 USD million open for subscription to all Members, in addition to an increase in basic votes.

Fourth, we acknowledge the substantive review of the **WBG Financial capacity and capital adequacy**. We appreciate the actions undertaken in the past months to enhance IBRD financial capacity, including sustained budget discipline, release of national currency paid-in capital, increased loan price last August and agreement in principle to review loan maturities by the next annual pricing policy review in June 2010. In that context we recognize the need for IBRD to proceed, in addition to the above-mentioned Voice-related selective capital expansion, with a general capital increase of USD 58 billion (with USD 3.5 billion paid-in). This expanded capital basis is required to support a reasonable post-crisis medium-term lending scenario of USD 15 billion per year, while preserving IBRD financial integrity and AAA-rating. We agree that subscription should take place over five years.
As regard IFC we are encouraged to note that, despite the severity of the global crisis, the corporation is in a position to sustain overtime a significant annual growth of its portfolio without general capital increase. We are confident that a combination of measures, such as the Voice-related selective capital increase of USD 200 Mio, the further exploration of the Long Term Hybrid Capital Instrument, and discussions around future retained earnings will ensure a solid capital basis for growth. We fully concur with IFC Management on the importance to consolidate and further expand the focus on IDA and frontier contexts, along the five strategic pillars.

Fifth and finally, we welcome the report presented by the Board on **strengthening internal governance and accountability**. We appreciate the significant progress achieved to date, and support the identified next steps. We encourage in particular the on-going work to establish, based on best practices, a framework for dual evaluation of the Board and the Management.

Overall, on behalf of our constituency, we confirm our approval of the presented package, subject to the caveat highlighted above and to final necessary approval by our relevant authorities and Parliaments regarding Voice and Capital increase.