Statement by

Mr. James M. Flaherty
Minister of Finance
Canada

on behalf of Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines
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Washington, D.C., April 25, 2010

Over the past few years, the World Bank has been on the front lines responding to the global financial and economic crisis. This crisis has precipitated exceptional international collaboration, including joint efforts by the Group of Twenty (G20) and other multilateral financial institutions. This experience underscored the need for these multilateral institutions, including the World Bank, to continue to advance critical reforms to ensure they remain effective and responsive. Ongoing governance and operational improvements have positioned the World Bank well to respond to future global turbulence. However, significant challenges still lay ahead and much remains to be done. Continuing to support countries as they deal with the aftermath of the financial crisis, getting back on track as we head toward the critical final years of implementing the Millennium Development Goals, and developing a global response to climate change are just a few of the challenges that the Bank now faces.

Today’s meeting of the Development Committee is an especially important one. Decisions taken today will shape the future of the World Bank Group, and put it on a course to meet these important challenges.

We must make the improvements necessary to ensure that the World Bank becomes an even more focused, effective and responsive institution. We must modernize voice and participation within the Bank, rebalancing its governance structure to better reflect the views of all shareholders. And we must enhance the effectiveness of these significant reforms by strengthening the Bank’s financial capacity, including new capital for the International Bank for Reconstruction and Development (IBRD).

The financial replenishment for the World Bank’s International Development Association (IDA) will be finalized later this year, and will represent a renewed commitment to helping those countries with the highest levels of poverty. This replenishment presents a great opportunity for Canada and other shareholders to strengthen the Bank’s policies and practices in such areas as crisis response and fragile states, where performance has been mixed.

Creating a Focused, Effective and Responsive Institution

The financial crisis has left a legacy of global economic slowdown and weakened financial markets. It has also left fiscal challenges in many countries. A growing global economy is the surest path to prosperity for all members of the international community. That is why we have been working hard to reach agreement within the G20 on policy actions necessary to meet our shared objectives of strong, sustainable and balanced growth.

Yet, as we have seen, the poorest countries are still suffering the consequences of the global recession with decreased capital flows, remittances and income from tourism. As a result of these factors, the number of people living in poverty is projected to rise this year. As a result, an effective and responsive Bank meeting the needs of the poor is required now more than ever.
The World Bank has put considerable effort into a strategy to reposition itself for a world emerging from financial crisis. I am encouraged by elements of the strategy that emphasize the highest value interventions: targeting the poor and the vulnerable; creating opportunities for growth; providing cooperative models; strengthening governance; and preparing for the inevitable crises of the future. As important as the strategy itself is a plan for implementation that includes benchmarks with which we can track progress and review performance over time.

I would also like to commend the Board’s work on strengthening its governance and oversight role, and in many ways has acted as a catalyst for many of the operational reforms. Last April’s review of internal governance by Executive Directors led to an ambitious work program for the Committee on Governance and Executive Directors’ Administrative Matters, and many of the recommendations are either completed or in progress. This suite of reforms to internal governance structures and the accountability framework has been designed to improve the efficiency and effectiveness of the World Bank Group and strengthen its standing and trust as a global development institution.

Many of the reforms are interdependent and mutually reinforcing, and successful implementation will result in an organization which is closely aligned with the vision and objectives of a proactive and responsive World Bank. Success in the eyes of poor countries will also mean timelier project approvals, streamlined disbursements, and a clear understanding of the results that are achieved from shareholders’ investments.

The World Bank will also need to determine how it can be most effective by working collaboratively with other multilateral institutions, each according to its own strengths. Over time, this will result in the World Bank increasing its efforts in particular areas, and decreasing its efforts in others.

One area in which the Bank should continue its focus is on reducing global poverty, including remaining steadfast in the fight against hunger. Last Thursday, I had the pleasure of attending the launch for the new Global Agriculture and Food Security Program (GAFSP), a multilateral trust fund focused on scaling up sustainable agricultural and food security assistance to low-income countries. We see the GAFSP as an effective means of improving food security through sustainable agricultural development, and Canada is proud to be among the first contributors to the program with a contribution of $230 million. We hope that other donors will participate in this important initiative.

The work done by the World Bank through IDA is another good example of how it strives to maintain its focus on the world’s poorest. For instance, IDA provided US$39 million in further debt relief to Haiti as a response to this year’s earthquake. Also, important improvements to the Multilateral Debt Relief Initiative of the Bank have been agreed to amongst donors as part of the IDA replenishment discussions currently taking place. Going forward, we would like the World Bank to (i) review both the length and volume of its engagement in fragile states; (ii) establish clear triggers and objectives for a permanent Crisis Response Window; and, (iii) simplify and strengthen its financial instruments to benefit borrowers most in need of its assistance.

**Modernizing Voice and Participation**

A more effective and responsive World Bank must reflect the present realities of the international community. As such, the Bank’s voice and participation reform is another critical part of strengthening the Bank for the future, and we are committed to reaching an agreement at this meeting. It is already significant that the membership has agreed to develop a Bank-specific formula for shareholding for the first time, and with shareholding reviewed regularly, this should give us a basis for a proper evolution of voice and voting power over time.
We give our full support to the agreement reached in Istanbul for an immediate shift of at least an additional 3 per cent to developing and transition countries, on top of the 1.47 per cent already agreed through the first phase of reforms, with contributions from over-represented countries, and protection for the smallest poor countries.

In choosing a formula that reflects this agreement, it is important that we make sure it remains grounded in sound principles and can serve as a sensible foundation for shareholding into the future.

**Strengthening the World Bank’s Financial Capacity**

The World Bank, through IBRD, played a critical role in supporting its client countries through the recent global financial and economic crisis. It responded swiftly and significantly, including a tripling of its lending levels to compensate for a tightening of credit from other sources. We recognize that this effort has resulted in a reduction of resources for the future. In recognition of this effort, and the implementation of the reforms already noted, we support increasing IBRD’s capitalization to ensure that it has enough capacity to continue lending at its pre-crisis level.

We all have a shared responsibility to support this increase in capitalization. It is critical that members release capital previously contributed to IBRD in an unusable form. And, recognizing the important role that loan pricing plays in long-term financial sustainability, we look forward to a comprehensive review of IBRD loan pricing during the annual review process.

We have confidence providing significant financial support to IBRD because we know that this contribution provides important support for middle-income countries, as well as low-income countries, including through IBRD’s net income transfers to IDA. We look forward to the development of a rules-based framework to ensure continued transfers to IDA, in line with IBRD’s financial ability.

The World Bank’s International Finance Corporation (IFC) plays an important role as the largest provider of multilateral finance to the private sector in developing countries. Canada is pleased to have partnered with this institution on a number of occasions recently, including through the Global Trade Liquidity Program. IFC’s growth rate remains impressive. We are open to it seeking resources for continued growth through a Specific Capital Increase, voluntary hybrid capital and earnings retention. Similar to IBRD, it remains important that IFC continue to support the development of low-income countries through IDA, using a rules-based framework that recognizes IFC’s financial capacity and triggers transfers of its net income as appropriate.

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The crisis has galvanized unprecedented international cooperation and has underscored the need to modernize and strengthen multilateral institutions to reflect the present reality. It requires institutions that are responsive to client needs, accountable and that can give voice to the voiceless. The World Bank has been a leader, unleashing a vigorous response to the global financial and economic crisis. Now, we must work together to build on this momentum, taking the decisions necessary to create a World Bank that is well structured, well capitalized and ready to take on the challenges of today and tomorrow.