



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)



SEVENTY-EIGHTH MEETING
WASHINGTON, DC – OCTOBER 12, 2008

DC/S/2008-0043

October 12, 2008

Statement by

Mr. Louis Michel
Commissioner for Development and Humanitarian Aid
European Commission

Statement by

Louis Michel

**Commissioner for Development and Humanitarian Aid
European Commission**

Development Committee Meeting, 12 October 2008

Recent Economic Developments: The Role of the World Bank and the IMF

Accra, New York, Washington and Doha: the end of 2008 witnesses a series of important international meetings which we hoped could be crucial for our common fight against poverty, in particular in Africa. Yet every day seems to bring bad news and darkening prospects for international growth affect our expectations for the future and endanger the fragile achievements of the past.

While currently appearing relatively resilient, an increasing number of developing countries is becoming increasingly vulnerable to international economic shocks. Even though food and oil prices have receded from the peaks achieved in the middle of 2008, the situation remains very volatile, prices are expected to remain at a high level compared with the past and broader developments in global financial markets pose significant challenges. It is now clear that the world economy will slow down, and few countries will escape unscathed. The effect of higher food and oil prices will be significant if uneven, with many low and middle income countries experiencing negative shocks to price stability, balance of payments and growth prospects. The crisis is also placing strains on the fiscal position in many countries as they seek to cushion the impact of higher prices on consumers. The impact of the financial market crisis on developing countries is harder to predict at this stage, with much depending on market and policy responses in the developed world. While developing economies have been relatively insulated from the turmoil in global capital markets to date, the threat of shrinking export markets, credit contraction and higher borrowing costs as a result of investors' increased risk aversion, reduced remittances and foreign direct investment, is real.

Nevertheless, improved macroeconomic management and performance as well as debt relief over the past decade across much of the continent have created a sounder foundation for growth and development, and provide a much stronger platform from which Africa can withstand and recover from these shocks. That is encouraging. The way forward must involve an appropriate combination of continued stability orientation and external and fiscal adjustment that preserves the gains made in macroeconomic management, while protecting those most at risk from the effects of higher prices and reduced economic opportunities.

These, however, are not normal times. If left unchecked, ongoing trends can put into serious danger the fight against poverty and the achievement of the MDGs. These are not the times to withdraw and focus solely on our national preoccupations. We face global crises that require global solutions.

In this respect, the international community has a clear role and responsibility to play in seeking to restore stability to international markets, providing support to the developing countries most affected and learning the lessons needed to avoid a repetition of the current crisis.

First and foremost, therefore, it will be particularly important to ensure that the current crisis and its impact on public finances in developed countries do not serve as excuses to avoid our **commitments on increasing ODA spending** yet again. The credibility of the donor community as a reliable partner is clearly at stake. This is already self-evident when the fledging pace with which aid for the poorest is

increased is compared with the speed with which aid for the richest is mobilised, when the policy conditions to which aid for the poorest is subject are compared with the willingness to reward policy mistakes with huge amounts of unconditional aid.

Secondly, the **Bretton Woods Institutions** need to be both key actors and key objects of the changes required.

They need to be actors of the international response as per their mandate. Thus, we encourage the IMF to support developed countries in making the correct policy responses, to continue to carefully monitor the macroeconomic effects of these crises on African countries and to provide support and advice on how to respond, noting the difficult balance to be struck between containing inflationary and fiscal pressures, and protecting the vulnerable. In addition, we encourage the IMF to make additional financing available where necessary through its concessional instruments, and welcome recent revisions to the Exogenous Shocks Facility as a step in the right direction.

With respect to the World Bank, there remains an important role in helping to identify and support appropriate programmes and strategies for minimizing the negative effects of adjustment on the most vulnerable, while ensuring that appropriate reforms and investments for longer term growth and development are sustained.

However, the way in which the globalisation process is governed needs to be reformed – and this includes reforming the Bretton Woods Institutions. The current crisis has clearly shown that the current institutional structures - at both the international and the national levels - have failed to harness the forces of globalisation. This also applies to the way in which the system for international development cooperation is structured and operates. Lessons should not be rushed but will need to be learnt with urgency and some newly found humility.

Voice and Participation

The European Commission considers that developing countries are under-represented within the Board of Executive Directors (the Board) of the International Bank for Reconstruction and Development (the Bank). The situation is specifically acute for **Sub-Saharan African countries**. Unlike the countries of Latin America, Asia and North Africa/Middle East that are better represented on the Board of the Bank (having three seats each), the countries of Sub-Saharan Africa are attributed only two seats for 46 states. Building on the Bank's discussion papers presenting options for strengthening the voice and representation of developing countries, the Commission is convinced that a solution to the present situation is to increase the number of seats for Africa on the Board.

Another dimension to the voice issue relates to the weak capacity of some developing and transition countries to make use of their subscription rights within the International Development Association. In addition, it is important to consider an increase in the basic votes of the Bank.

These reforms must be results-oriented and ambitious. Moreover, they have to be geared at augmenting the influence of developing countries within the Bank. In addition the changes need to be substantive and exhaustive so as to improve the relevance, effectiveness and legitimacy of the Bank. This is even more acute within the present context of a difficult economic environment for the world as a whole and for developing countries in particular.

To address the voice and participation issue the need for an **extra seat for Africa** on the Board remains crucial. This is because Africa is the most under-represented region in the Bank. It is important to **increase the basic votes** in IDA and in the Bank. While recognizing the importance of aligning voting

rights on the economic capacity of states, reform in this regard should fully take into account the interests of those countries that ought to fully benefit from the development oriented mandate of the Bank.

Furthermore, it is vital that the procedure for the **selection of the head of the World Bank be transparent**. Any decision on the choice of World Bank President should be based on merit and the process should be open to the citizens of every country.

I look forward to the outcome of the **High Level Commission to address issues related to the modernization of the World Bank Group's governance**.

Climate Change

On the eve of Poznan and with a view to Copenhagen, it is essential for us to act to support the poorest and most vulnerable countries in adapting to the devastating impacts of climate change. Given the major responsibility of developed countries for climate change so far, it is their political and moral responsibility to bear the major burden of meeting the costs of adaptation in the least developed countries.

Various estimates of the cost of adaptation have been produced by different institutions, ranging from \$10 billion to \$80 billion per year. This shows that estimates are clearly based on definitions of adaptation that vary from one institution to another. We therefore urgently need to establish greater clarity on the definition of the still nebulous concept of adaptation.

The National Adaption Programmes of Action (NAPAs) certainly exist and they are a good start. However, they constitute a list of projects without any link yet with the global and sector strategies of the countries concerned.

The Bali Action Programme strongly appeals to the needs of developing countries which are particularly vulnerable to the adverse effects of climate change, especially the Least Developed Countries and Small Island Developing States. Climate change risks upsetting progress towards achieving the Millennium Development Goals and the international community must do its utmost for these countries to counteract this threat. We have therefore launched the **Global Climate Change Alliance (GCCA)** to deepen our dialogue and step up cooperation with these countries. The Alliance is focused in the first instance on supporting climate adaptation and is closely linked to promoting disaster risk reduction. The Alliance will also encourage mitigation activities that contribute to poverty reduction such as tackling deforestation.

I would like to issue a warning regarding the response to the climate change challenge. There is a tendency today to consider that the best response to any problem is the creation of a new vertical fund. Some of those funds have a real added value, but this has to be assessed on a case by case basis. We should strongly avoid the proliferation of funds of all kinds on climate change.

For our credibility, it is vital to ensure good coordination and to apply the Paris Principles of ownership by the beneficiaries and alignment with their policies. Ideally, additional assistance should be integrated into development strategies that fully reflect the effects of climate change and are implemented through budget support. But this will take some time and needs to be prepared carefully. We are ready to explore opportunities for synergies in that direction with all those involved.

I welcome the document presented by the World Bank to the Development Committee; "**Development and Climate Change, a Strategic Framework for the World Bank Group**", which sets out a clear role for the WBG to contribute to bringing climate change to the centre of the development agenda. It incorporates lessons from WB's work on initiating carbon funds (since around 2000) and from the Clean Energy Investment Framework (launched in 2005). It draws on experience gained across several specific

initiatives (e.g. water resources management, greening energy access in Africa, insurance linked to weather indices). The six action priorities that are outlined are all areas where the World Bank can make an important contribution.

I am firmly convinced that no agreement on an ambitious post Kyoto regime on climate change will be reached in Copenhagen without strong support from developing countries. To obtain this support, we need to find adequate resources for financing the costs of adaptation; these resources cannot be a mere recycling of already promised ODA.

I would therefore like to strongly advocate working together towards mobilising **innovative finance** for addressing climate change, in particular for adaptation in least developed countries. This is why the European Union, at the European Council meeting in June, committed itself to exploring ways to mobilise new financial resources to tackle climate change, including the possibility of using the capital markets by launching a bond that would constitute a Global Climate Financing Mechanism. In such a mechanism, the funds generated will be used as grants to help the poorest developing countries deal with climate change, in particular for adaptation activities. The urgency of addressing the financing needs in the climate adaptation area provides a strong argument for frontloading assistance, particularly between 2010 and 2015. There are good arguments in favour of repaying this loan by making use of the carbon market through the revenues generated by future auctioning of emission allowances, thereby mobilising innovative finance, and this is possible. In the spirit of the Paris principles, this mechanism will not be used to create a new fund, but rather to increase the resources of existing multilateral or bilateral initiatives.