



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)



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Statement by

Mr. Arni M. Mathiesen
Minister of Finance
Iceland

on behalf of the Nordic and Baltic Countries

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There have been many positive developments in developing countries in recent years. Economic growth has been robust, inflation and debt ratios have been falling and trade has increased.

But today the outlook for the world economy is much more challenging. After a period of robust growth, the tide has turned. Growth is slowing down and demand is contracting. In addition, the current financial sector problems are likely to further hamper growth. Rising energy and commodity prices have boosted inflationary pressures. The combination of higher prices and the deepening of the credit crunch present us with considerable challenges.

In the last year, food prices rose significantly and the social consequences have been drastic. Many low-income countries face difficulties in ensuring adequate food supplies for their poorest citizens and risk losing the gains in macroeconomic stability achieved in recent years. In this economic climate it is essential to support sustainable growth and employment and not the least to increase the predictability, flexibility and amount of food aid.

As this situation continues, we are faced with the possibility that many of the achievements of past years might be lost. The inroads that have been made towards the Millennium Development Goals are in danger of being lost. The global financial crisis has led to tightening of available credit and thus negatively affected financing for development. In this environment, governments and international institutions, such as the Bretton Woods institutions, have a vital role to play. Unlike most of the private players, the World Bank Group is currently well capitalized. In this context, the first priority for the use of IBRD and IFC capital must be safeguarding their ability to respond to the potential increase in lending demand by their country and corporate clients. On the other hand, it is also now more important than ever that donors honour their financial commitments to increase aid to the poorest countries – still being \$39 billion short of the 2010 target.

The World Bank Group and the IMF have the appropriate capabilities and the required tools to offer client countries advice and necessary assistance, and should continue to work proactively to protect the vulnerable from the effects of the economic turbulence. The Global Food Crisis Response Program (GFRP), approved by the Bank last May, is an important tool to address the immediate needs arising from the food crisis, but it is not enough. Over the longer term, it remains essential to design reforms that boost agricultural productivity and improve food security in the developing world, especially when considering the potential fallout from climate change.

Issues of climate change continue to require urgent action. It is now of more pressing importance than ever before that we understand the comprehensive challenge of sustainable development, and act accordingly.

Development cooperation faces many important challenges in this respect, including the direct impact on the sustainability of development projects. Long-term projections indicate that global potential food production will begin to decline if global average temperatures continue to rise and significant higher number of people will be affected by floods each year due to rising sea levels.

We can not afford to delay responding to climate change. Nor can we allow a lack of financial resources, technologies or expertise to create a major hindrance to the achievement of the Millennium Development Goals and sustainable development. When developing countries set forth climate sensitive development policy we must be ready to assist. Resources must be put forth for adaptation and mitigation measures in those developing countries vulnerable to the impacts of climate change. Mitigation measures for emerging economies experiencing rapid growth must also be in place. In fact, measures to address climate change should be perceived as a contribution to economic growth and development.

Environmental sustainability is at the heart of sustainable development. The Bank has successfully advocated economic and social sustainability in recent years, and it is now encouraging to see environmental sustainability emphasised as the third dimension of sustainability.

The WBG is in a unique position to address the climate change challenge for it operates at both the global, regional and country levels, providing grants and loans, investments and incentives. It also has entry points both to finance ministries and the private sector, through the IFC and MIGA.

But, it is important that the Bank consolidates itself within a consistent framework, instead of launching new climate initiatives at a time when new initiatives are springing up everywhere. It is important that the Bank Group takes the overall climate change financial architecture into account to avoid overlap amongst current and future initiatives and programmes on climate change.

We appreciate the work that the Bank has undertaken in coordinating different donor initiatives into the CIF and the Forest Carbon Partnership Facility. In these endeavours we appreciate the clear role and understanding vis-à-vis the UNFCCC, and the intention of working in close partnership with relevant stakeholders like the UN and GEF. The Bank Group is a significant channel of climate finance for its clients and we hope that its concrete experiences will assist countries in making informed decisions in the UNFCCC negotiations.

We strongly support the focus on country led priorities and processes. Developing countries are faced with many important and pressing challenges in poverty reduction, and their capacity to address emerging issues is limited. It is important that partners together find ways of strengthening those capacities and build incentives for addressing climate change issues effectively.

The WBG has an important role in technology transfer. However, this may be a difficult landscape to manoeuvre in when it comes to choosing technologies, intellectual property rights, patents and more. This is also linked to the question of which technologies to pursue. But we strongly encourage the Bank to show more support to renewable energy than it currently does.

The Nordic and Baltic countries have for a long time promoted increased voice and representation of developing and transition countries in the World Bank in accordance with our commitment to the Monterrey consensus. We support the proposed package of voice reforms and emphasize the following issues to make the reform outcome successful.

The first phase of the reform particularly strengthens the voice and participation of the poorest members of the World Bank Group, which is important for Sub-Saharan Africa. While our constituency has advocated even higher increase in IBRD basic votes, we can accept the proposed doubling as part of a compromise solution. As stated before we also welcome the increase of Board seats to 25 to accommodate one additional chair for Sub-Saharan Africa. In other respects, we think the current Board structure works well, balancing adequate representation with effectiveness. We do not see merit in proposals aimed at reducing the number of Board seats. In addition, we are happy to note that the

selection process for the President is part of the reform package. In our view reforming this process should be started well before the selection of the next President commences and it should be coordinated with the process of selecting the Managing Director for the IMF.

We also broadly support the proposed work program for the second phase of the reform, related to the IBRD shareholding review. In our view increased IBRD voting share and representation should continue to be linked to evolving economic weight in the global economy as measured by the IMF quotas and to increased financial contributions to the Bank Group. While we agree that the IBRD is currently well capitalised, it does not mean that it will stay so forever. Therefore, we believe Selective Capital Increases in line with past precedents (incl. a paid-in portion) would be the preferred way to implement any future realignment of the IBRD capital shares. In terms of timing, we think the process should be linked to the next IDA replenishment round and the upcoming review of IMF shareholding.

In sum, we will continue to work towards an ambitious, fair and equitable reform package that achieves its core objectives of enhancing the participation of developing and transition countries in the WBG's governance bodies while strengthening legitimacy, credibility and accountability of the Bank Group operations. Finally, it is important that the reform principles ensure a dynamic realignment of the WBG shareholding in line with changing economic realities, while supporting the long-term financial strength of the institution.