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on the
Transfer of Real Resources to Developing Countries)



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Statement by

Mr. Bernard Clerfayt
Secretary of State for Finance
Belgium

**on behalf of Austria, Belarus, Belgium, Czech Republic, Hungary,
Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey**

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**at the 78th Development Committee Meeting
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Introduction

When we met last Spring, we stated that the pace of change in the business environment was accelerating and pointed out that this would test the resolve of the Bretton Woods Institutions. We have now reached a point where the short- and medium-term financial and economic outlook has worsened considerably and is developing into a once-in-a lifetime financial occurrence.

Recent developments have tightened credit conditions globally and emerging markets are no longer sheltered from the turmoil which has triggered almost seismic changes in liquidity conditions. Over the past decade, every economy in the world has become more dependent on other economies. It is therefore reasonable to assume that a systemic shock like the one that we are experiencing now will have economic repercussions for all countries, rich and poor alike. No country will be totally immune to spillover effects. Moreover, we should not think that all crises are alike. Actually, the effects of the current financial crisis may become more pervasive and last longer than previous ones.

All these developments imply a significant slowdown in domestic demand and economic growth in our member countries. At this moment, we do not really know to what extent the liquidity squeeze will negatively affect the real global economy. Neither do we know how much it will affect the confidence in international reserve currencies, or to what extent capital flows to developing countries will react to interest rates increases. What is clear is that the World Bank Group should analyze all the possible scenarios of what might happen to its developing and transition client countries and in particular focus on the poverty reduction impacts in the poorest and most fragile member countries.

The World Bank Group's Response

The end of an unusual long period of stability will test the Bank's relevance and its resolve to implement its new strategic agenda. The World Bank Group is fortunately a robust development institution and well equipped to assist its member countries in facing the challenges.

The IBRD is currently adequately capitalized and has a significant risk-bearing capital buffer, which over the short- and medium term could accommodate a significant increase in lending to middle-income countries. Part of the capital buffer could also be used to enhance the Bank's development effectiveness in addressing the six themes identified by President Zoellick last year. We feel however that, at this stage, it would be premature to address capital adequacy issues at the Governors' level for the following reasons. Firstly, there is a need to wait until the dust of the financial crisis has settled. Secondly, nobody knows what the impact of the crisis will be on the demand for IBRD resources; the Bank's competitiveness and financial soundness must therefore remain intact in the meantime. Thirdly, as we stated before, the Bank's strategic directions remain vague and need to be articulated and translated into a more elaborate strategy. We would therefore like to reiterate our wish to see Management enter into a

constructive dialogue with the Board of Directors on the establishment of a comprehensive Bank strategy that will underlie the discussions on the use of the risk-bearing capital buffer.

The fifteenth replenishment of the International Development Association, which became operational on July 1, 2008, was a genuine success in terms of resource mobilization. The generous US\$41.6 billion replenishment, to which eight countries of my constituency contributed, will be a key instrument in addressing the impact of the broad economic slowdown and the twin oil-food shocks in poor countries. We agree with President Zoellick that this replenishment is a bold step forward in the implementation of the scaling-up agenda and we would therefore like to urge all donor countries to deploy all efforts to fully meet their commitments on a timely basis, despite the expected spillover of the financial crisis into the real economy and the ensuing negative impact on fiscal revenues.

For import-dependent poor and middle-income countries, the spillover effects of the financial crisis will unfortunately be superimposed on the shock resulting from surging food and fuel prices. In the short term, the World Bank has a major role to play in aid-dependent countries that do not have enough fiscal space to respond to the crisis. We are therefore pleased with the Bank Group's New Deal on Global Food Policy, which embraces short, medium, and long-term responses. In particular, we endorse the establishment of the US\$1.2 billion Global Food Response Facility for which fast-tracked commitments will soon reach US\$900 million.

Bank assistance can also take the form of budget-support operations targeted at eliminating unsustainable energy or food subsidies while strengthening social safety nets, stimulating energy efficiency measures, or directly alleviate the oil and food price shocks. Finally, we noted with interest the work done on the proposed Energy for the Poor Initiative (EFPI) to protect the poor and prevent erosion of household and human capital.

We must be mindful that beyond increasing income-poverty, the rapidly rising food and fuel prices can have less visible but more profound impacts by worsening nutrition, education, and health indicators. It is therefore essential that effective nutritional and social protection measures be put into place to protect the very poor, such as direct and indirect transfers, which will have to be complemented by appropriate targeting mechanisms. We would caution against indirect transfers, as their impact on equity and poverty can be difficult to predict. To complement these short-term measures, countries will have to build sounder and more comprehensive social protection systems over the medium term. While the additional fiscal costs are likely to be lower than the present and future costs of not having such measures, fiscal space will have to be created and, for the poorest countries, timely international assistance will be essential.

We must recognize that the current rise in global food prices also has roots in decades of trade-distorting policies that have undermined efficient agricultural production in developing countries. We, therefore, welcome the World Bank Group's increased support to trade activities-related activities, including country programs on trade and competitiveness, infrastructure, training courses, and capacity building. The Bank's expanded efforts on trade to help countries take advantage of the global market would greatly benefit from reaching a conclusion on the Doha Development Agenda negotiations.

Under such difficult current circumstances, it is important that donor governments keep their commitments to increase aid to the most vulnerable people. Most poor countries are making the necessary reforms aimed at achieving economic growth and reducing poverty. To successfully complete this task, they need to be able to rely on adequate volumes of reliable, predictable, and efficiently delivered aid resources. Most important, bilateral and multilateral donors must establish effective donor coordination at the country level with the government firmly in charge, in line with the well known objectives of harmonization and alignment.

The Bank's Role in Fragile and Conflict-Affected Member Countries

Today, close to a billion people, many of them among the poorest people, live in nations that have either collapsed or are close to failure. These fragile states represent the biggest development challenge for the Bank. We noted with interest President Zoellick's ten suggestions on what to do in fragile situations, where needs are overwhelming, but adequate resources are almost always lacking. These suggestions provide an adequate framework to improve support to fragile states. We agree with him that these states are not quick-fix countries and that they need continuous and dependable aid over a decade or more, but that helping fragile states is not only a matter of money and that we sometimes face critical gaps in international capabilities. Adequate attention must therefore be paid to donor coordination and the specialized knowledge available in peacekeeping and peace building at the UN system should be taken into consideration.

We also agree with President Zoellick that one of the strategic challenges for the World Bank is to modernize multilateralism. Addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state is a key component of this modernization process. Indeed, current resources allocation mechanisms do not allow for adequate funding at the time it is most needed. But financial support without appropriate overall governance and reliable institutions to ensure effective use of aid resources would deteriorate the situation further. We therefore reiterate the view that we have expressed consistently over the past years, that reestablishing the functionality of the state is the most urgent priority, and that resilient fiduciary systems are the backbone of effective development. If we are serious about these priorities, we need to find funding mechanisms that ensure continuity and stability of adequate resources.

Development and Climate Change

We are pleased that the Bank Group's Strategic Framework on development and climate change, which embodies its understanding and commitment to common goals, has recently been finalized. We reiterate our continued strong support for the World Bank Group's role in addressing climate change issues. Addressing climate change is an urgent matter. According to new analysis, global carbon emissions rose rapidly in 2007 due rising charcoal consumption and lack of new energy efficiency gains. In search of climate change justice, the framework should enable developing countries to gain access to technologies that ensure them to maintain economic growth and development without additional emissions. Over the long term and assuming that adequate concessional resources would be available, we would like to encourage the Bank to move away from business as usual. We indeed believe that there is a case to be made for looking at the World Bank Group's current approach to fossil fuel lending and that investments in new technologies and renewable and clean energy should be better promoted.

We recognize the Bank's supportive role within the UN system-wide effort to provide a coordinated response to climate change challenges and would like to emphasize the primacy of the United Nations Framework Convention on Climate Change negotiations on the future of global climate change regime. In this context, we welcome the recent establishment of the Climate Investment Funds (CIF) to provide, on an interim basis, scaled-up funding to help developing countries in their efforts to mitigate rises in greenhouse gas emissions and adapt to climate change.

We are also pleased that the World Bank included six African countries in its list of countries eligible for avoided-deforestation credits under the Forest Carbon Partnership Facility. We expect that the Bank specifically be engaged in the Congo Basin in partnership with all stakeholders, including regional organizations.

We would, nevertheless, like to caution against the undue proliferation of funds and initiatives. We would like to reiterate our strong support for the role the Global Environment Facility is playing in the global climate change architecture, although a reform at the level of its governance structures may be called for to better realign the Facility with current circumstances.

Voice and Participation

With the agreement reached last Spring at the Fund on Quota and Voice Reform, the discussions in the World Bank have accelerated and we welcome the consensus reached by Executive Directors on a Voice Reform package at the World Bank in the Committee of the Whole. This agreement shows the overwhelming level of support across the Bank's membership to ensure equitable participation of all DTCs and to enhance legitimacy, credibility, and accountability in Bank operations.

Although the agreement reached is not perfect, significant progress has been made toward a redistribution of voting power in favor of in particular poor and emerging market members. A consensus has been reached on important elements: the reform package that the Board recommended will raise the DTC voting power to 44%, compared to 42.1% at the Fund. Furthermore, the creation of an additional chair at the Board for Africa will give developing countries the majority of seats at the Bank Group's Boards. In the future, the President will be chosen on the basis of a process which will be merit-based, open, and transparent. Finally, the package comprises a second step aimed at further realignment of IBRD shareholding over the mid-term.

We also welcome the work that has been done by the Board on internal governance in response to our request with a view to strengthening its effectiveness and its oversight capacity. We also strongly support management's commitment to staff diversity, decentralization, country ownership, and communication. The agreement thus marks an important step in enhancing the Voice and Participation of poor and developing member countries, but requires significant further work for which a time-bound framework has been agreed upon.

We would like to emphasize here that we were willing to support a more ambitious reform package, but this was unfortunately out of reach at this time. We are, therefore, looking forward to working on a more ambitious second step that would include a meaningful realignment of IBRD shareholding to reflect countries' relative position in the world economy and a tripling of basic votes.