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

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on behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan

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With the recent spread of the financial turmoil and global economic slowdown, we welcome the opportunity of this 78th meeting of the Development Committee to deepen our exchange of views and analysis on the cumulated impact of the high commodity prices and of the financial turbulences on low- and middle-income countries and to send a clear signal. The current crisis is symptomatic of the challenges of our modern, interdependent and globalized world. Its multiple dimensions and consequences illustrate the limits of individual action by nations and the weaknesses of the "decoupling theory" holding that European and emerging countries would no longer depend on the United States economic engine, but be insulated from a severe slowdown.

More than ever, a strong multilateral system encompassing all nations is needed to mobilize political will, financial resources and technical capacity to deal with the threats to the global commons. The Bank's Development Committee and Board, in their full composition, are the appropriate governance fora to deliberate and decide on the critical issues which we have to tackle. In this respect, today's agenda is most timely, and progress on all fronts is required. As a leading multilateral institution, we must send a strong message to the world: a reminder of the primacy of multilateralism to address global public goods; and the demonstration of its capacity to leverage coordinated actions and resources against the alarming impact of global public "bads" on the life of millions of human beings.

Addressing the consequences of the commodities and financial crisis

The combination of high international commodity prices and shortfalls in domestic food availability have led to severe difficulties for the poor, the degradation of living standards for urban middle classes, and social unrest in many countries. Fiscal and social stability are at risk in numerous countries which calls for a balanced mix of measures to address both the short- and longer-term determinants and consequences of the crisis. With its strong presence at country level worldwide, the World Bank Group has a crucial role to play on these fronts, as well as in leveraging resources for a coordinated action. The Bank has demonstrated its capacity to provide a timely response. We wish to express our particular appreciation for the rapid assistance provided to developing countries in designing appropriate policy responses, as well as the fast and efficient establishment and implementation of the Global Food Crisis Response Program. We agree with the President that many partner countries are affected also by the impact of fuel prices. We therefore have sympathy for the proposed additional intervention under the Energy for the Poor Initiative.

However, given the extent of the challenges ahead, the Bank must remain vigilant. A close coordination with the United Nations system and specialized agencies, as well as the International Monetary Fund will be paramount. In addition, while we acknowledge the objectives of targeted individual initiatives, e.g. the Vulnerability Financing Mechanism, we are concerned about the proliferation of ad hoc trust funds and financing mechanisms that create substantial risks of aid overlapping and are jeopardizing aid effectiveness. We urge the Bank to remain cautious in prioritizing its intervention and to build on IDA and its instruments as the main tool and to ensure additionality and subsidiarity of complementing action. Furthermore, we are in particular concerned by the fiscal sustainability of the proposed short-term social protection measures for the public finances of low income countries.

Beyond the emergency character of the interventions so far, we now encourage the Bank to reinforce its discussion and review of the structural components of the crisis and longer term prospects for coordinated international action. Possible trade-offs between emergency needs and longer-term sustainability must be further addressed. This includes, for example, agricultural diversification, deforestation, and environmental degradation. Increased cooperation with international centers of excellence must be pursued with a view to having a comprehensive assessment, including the real impact of bio-fuels' production on the rise of global food prices, and suggesting appropriate response to the current uncertainties.

Overall, we believe that the food crisis can act as a catalyst for the Bank to strongly reengage in agriculture and rural development. The prospects for continuous, albeit more stable, high food prices also represent an opportunity for further poverty reduction in rural areas, increased investment in agriculture, and incentives for higher production, including by small farmers. The Bank has an important role to play in tapping these opportunities. We welcome the planned sharp increase in resources allocation to the agriculture sector, as part of the strategic directions of the WBG. We look forward to be briefed on progress in this regard, by our next Spring Meeting.

In the aftermath of the high energy and food prices, the turmoil in international financial markets has escalated in the past weeks to reach crisis level. Recent economic data confirms the depth of the crisis and the spillovers that have already taken place. In many countries, the real economy will not be left unharmed. Contagion especially to developing countries is taking place, through inflationary pressure, decreased foreign direct investments, increased current account deficits, and higher refinancing costs on tightened international financial markets, and in spite of the improved macroeconomic fundamentals in many countries.

The Bank has an important role to continue to play to help the developing and emerging economies to avert the current crisis and to sustain the path towards achieving the Millennium Development Goals. In this context we are very pleased that the Bank's prudent financial policies do not impair its own financial solidity (capital and liquidity), so that countercyclical intervention may be activated whenever required. We thank Management and the Board for a prudent application of the policies and fully support a diversified and low risk investment strategy of IBRD capital.

In the months to come, the World Bank and the IMF must jointly undertake a deeper assessment of the impact of contagion at the individual country level, both in a short and medium term perspective. They must also, based on their respective comparative advantage, provide policy advice and capacity building, as well as quick and flexible financial assistance, to mitigate the negative impact on the macroeconomic stability, growth and poverty reduction in the developing countries, especially in the most vulnerable and affected low-income countries. They must continue to be advocates and supporters of an open trading system which is fundamentally instrumental for leading the way out of the crisis.

As the crisis has an important systemic dimension, the WB and the IMF have to be included in the collective efforts to review and strengthen the global regulatory framework and standards of the financial system.

Voice and Participation Reform in the World Bank Group

We welcome the Options Paper submitted in response to our request made at the last Spring Meeting. We appreciate the substantial work undertaken by the Board and Management to provide a solid and comprehensive review of the various options. This work is an essential contribution that should facilitate consensus on how to enhance participation of developing and transition countries (DTC) in the decision making at the Bank.

We have been among the early advocates of an enhancement of the voice, participation, and representation of DTC in the World Bank Group, to better reflect today's global realities and to ensure improved development effectiveness of multilateral aid. The primary aim of this reform should be focused and should remain on one hand, to increase the voice of the poorest countries and, on the other hand, to adjust the voting power of severely under-represented members.

At the onset of the process, we collectively agreed that a fully defined package is essential for a fair and transparent assessment of the benefits and costs of the reform, overall and for every member. We regret that the proposed options fall short of this agenda and expected outcome. In our view, the actual outcome of the IMF quota discussion had paved the way for a more ambitious move and a potential consensus at the Bank with respect to the IBRD shareholding realignment and Basic Votes increase in favor of the poorest and the severely under-represented members.

In view of the complexity of this issue and the high expectations given to the reform, we are prepared to join a consensus on the adoption, during this session, of the proposed first stage of concrete options – provided that we do not reconsider this outcome at a later stage. In addition, we expect further clarity with regard to the sequencing and deadlines for the work program of the second stage to complete the review of IBRD shareholding. Moreover we wish to reiterate that the actual outcome of the IMF quotas negotiation must remain the starting point of such a review. Further we consider that countries benefiting from a share increase through the realignment of IBRD shareholding should also adequately contribute to future IDA replenishments. We look forward to periodic reports on progress and future proposals for realignment of Bank shareholding within the comprehensive reform package.

Development and Climate Change – A Strategic Framework for the World Bank Group

Knowing that the poorest countries will suffer most from global warming, we *welcome* the integration by the World Bank Group of the climate change dimension in its core mandate of development and poverty reduction. We commend Management for conducting extensive internal and external consultations in shaping up the Strategic Framework for Development and Climate Change.

We are satisfied with the *guiding principles* of the Strategic Framework, which acknowledge the primacy of the UNFCCC process and ensure consistency with the recommendations of the Bali Action Plan. We appreciate that the Strategic Framework encompasses IFC and MIGA, thus taking advantage of a comprehensive array of instruments and ensuring an effective Bank Group's response to climate-related risks in poor countries. Focusing on comparative advantages, partnering with other multilateral and bilateral actors and mobilizing the private sector are other key principles. We welcome the multi-sector dimension of the Strategic Framework; we thus expect sectors such as agriculture, land use, rural development as well as water management and use to become more prominent in the Bank Group's operations. We encourage in particular the Bank to pay more attention to regional water and energy issues, especially in Central Asia.

In view of the huge *financing needs* for mitigating and adapting to climate change, we support the Bank Group's efforts to mobilize and leverage resources from the public and private sector. Creating sound regulatory frameworks and structuring innovative instruments to crowd in private sector investments is critical; we are convinced that the Bank Group has a key role to play in this respect. We consider carbon finance as an important funding instrument for addressing climate change challenges. The Bank Group's initiatives to deepen carbon markets and broaden their reach to new areas like forestry are most welcome. The new Climate Investment Funds are another significant channel to scale up resources. We commend the Bank for its instrumental role in setting up the CIFs. Switzerland is participating to the Strategic Climate Fund and is looking forward to participating to its ‘Scaling-up Renewable Energy Program’ in low-income countries.

The Bank Group has to significantly step up its support to *renewable energies* and ensure that investments in renewables are considered as the first option. Yet, to meet energy demand, recourse to *fossil fuels* remains necessary in developed as much as in developing countries. We acknowledge the role of the Bank in upgrading existing fossil-fueled power plants; the Bank should set thresholds for emissions reductions as a criterion for investing in such projects.

Carbon accounting and carbon shadow pricing are important methodological tools to better understand and address climate-related challenges. We fully support the work of the Bank Group to develop such tools. It is critical not to hamper economic growth while addressing climate change. We particularly encourage the Bank to engage more actively in supporting the development of low-emission technologies and facilitating and accelerating R&D and technology transfer to developing countries, as well as supporting their work towards capacity building. The Bank can play a major role in that field.

The Strategic Framework has now to translate into operations and progress on the ground. We look forward to reviewing its successful *implementation*.

Strategic directions of the World Bank

We acknowledge the progress report about the six strategic themes of the World Bank Group. During our last Spring Meeting, we had asked for a strengthening of the dialogue between Management and Board to further clarify the Bank’s role, comparative advantages and priorities for actions in a rapidly evolving aid architecture. We regret the limited progress in this respect. At a time of increasing global uncertainties and great challenges, we believe that a renewed discussion on the Bank’s priorities is paramount, with the view to reaching consensus on a concrete, concise, and results-oriented strategic framework. The foreseen discussion on the medium-to-long term IBRD capital use provides a renewed opportunity in this regard. We urge Management and the Board to address the obvious link between these two strategic dimensions, and we look forward to reviewing progress and results during our next meeting.