

BOARDS OF GOVERNORS • 2009 ANNUAL MEETINGS • ISTANBUL, TURKEY

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

INTERNATIONAL MONETARY FUND

Press Release No. 11

October 6-7, 2009

Statement by the Hon. **ABDUL MAAL ABDUL MUHITH**,
Governor of the Bank and the Fund for **BANGLADESH**,
at the Joint Annual Discussion

**Statement by the Hon. Abdul Maal Abdul Muhith,
Governor of the Bank and the Fund for Bangladesh,
at the Joint Annual Discussion**

**Mr. Chairman,
President of the World Bank,
Managing Director of the International Monetary Fund,
Fellow Governors,
Excellencies, Ladies and Gentlemen,**

I consider it a privilege to participate in the 2009 Annual General Meeting of the Board of Governors of the World Bank Group and the International Monetary Fund in this historical city of Istanbul at a challenging time for the global economy. It is a privilege because we are at the threshold of restructuring of global financial and monetary institutions as well as of the development enterprise of post-world war period. It is a matter of special personal privilege for me to return to such a meeting after a lapse of 26 years. What impresses me most is that I find after more than a quarter century that we are still grappling with many issues which have remained with us for almost all of the post-War period. First of all, however, let me acknowledge the hospitality of Istanbul and our hosts the Turkish Government for their tradition of warm welcome at such gatherings. I recall with pleasure the hospitality of Turkey in 1983 when I attended the annual meeting of a sister DFI - the Islamic Development Bank.

In 1972 Stockholm conference brought the issue of environment and limits to growth to the forefront, although in a very feeble manner. In 1973 World Bank President McNamara, whose death a few months ago I sincerely condole, brought the issue of eradication of poverty and the crisis of existence of the lower 40 percent to the centre stage of the development dialogue. At that time (1972-74) we also confronted the issue of the new architecture of the global financial and monetary system and IMF for the first time assumed a development role. In 1981 we faced the issue of structural adjustment soon to be buttressed by an emphasis on private sector development. Then we stressed on macro economic stability, identified as an important issue possibly in the WDR of 1981. Later we moved on to the virtues of open economy and invisible hand of competition with a lean public sector that dominated the last two decades. The issues of most concern today are the same issues mentioned here.

The interesting development is the re-emergence of these issues in the wake of financial market turmoil in some of the developed countries and the consequent global economic recession in a vastly globalized and integrated world economy. Since October

last we witnessed a spate of proactive steps by leading economies, both developed and developing, and a number of high level consultations to chart a course of action to reduce the impact of the crisis. In an environment different from that of the 1930s we noticed coordinated global action, activism of the public sector with stimulus packages in all countries and avoidance of competitive devaluations. The G-20 Meetings in London (April 09) and Pittsburg (September 09) and the UN Conference in June 2009 were welcome initiatives and surely they contributed to the air of confidence that has really thwarted the earlier pessimism about a long and deep recession. It is important that this optimism prevails without, however, giving quarters to a sense of complacency. It is important that stimulus packages are not given up early because it is not only employment that is adversely affected in the developed world, but it is more the dramatic thwarting of the growth and poverty reduction undertakings of the weak economies, and especially of the least developed countries who are the worst victims of the crisis.

Mr. Chairman,

The current global economic crisis has led to heavily reduced capital and investment flow, which has in its turn adversely affected the investment decisions by the domestic private sector in the developing countries. It has substantially reduced global trade including a decline in manpower export that has turned into the main export earner for many countries. The unemployment rate in the weaker economies is a matter of serious concern and the consequent need for safety net expansion is a Herculean task. The fall in revenues, due to both external and domestic contractions, is further limiting the fiscal space available to the weak economies to tackle the crisis. This slowdown will impede the fight against poverty and jeopardize the achievement of MDG targets by 2015.

The situation is further complicated by the threat of climate change and environmental hazards being faced especially by the low income countries. Huge populations are likely to be rendered homeless and put out of work in a number of vulnerable countries. Climate change symptoms have already created impossible challenges in my country where devastating effects of successive cyclones and tidal surges have obliterated habitations and warranted investment of billions of dollars for rehabilitation of embankments, agriculture and shelters. The financing needs for adaptation and mitigation of the impact of climate change has assumed critical dimension and additionality of financial commitment is the key issue there. In all likelihood administration of funds for climate change purposes also calls for a new approach. Above all we are left with too little time for agreement on emission levels in unequivocal terms as we look forward to a global compact at Copenhagen in December. We reiterate our call to address the climate change issues on the basis of the principle of “common but

differentiated responsibility” as articulated in the UN Framework Convention on Climate Change. We urge the global community to consider at the forthcoming Copenhagen Summit to forge a post-Kyoto financing architecture which should take into account the special needs of the low income countries to undertake adaptation and mitigation programmes.

As we consider the response of the global system to the present crisis of recession we find it to be extremely slow and very limited. The World Bank has yet to start operations directed at anti-cyclical measures in its member countries. There is very little of trade financing from any quarter although global liquidity is at very comfortable levels. The regional development banks, however, are doing much better in holding the hands of the low income countries. The IMF has at least allocated the new issue of SDRs and the flexible credit facility is proving to be helpful to some countries. The debt reduction initiative is proceeding in its traditional slow motion as if the crisis is nothing new. But the systemic problem of what I would term punishment for good performance and prudent debt policy is an issue that cannot be neglected any further. The economies such as Bangladesh, who are doing better by being cautious in their trade transactions and prudent in their debt management are, indeed, being punished. They cannot qualify for debt reduction nor can they get any IMF support for trade financing as they have no balance of payment crisis. They are forced to borrow costly short-term money to finance essential imports such as fuel, fertilizer or food and undertake their development effort at a lower level of their potential. This is a problem that defies any explanation or justification and only alternative ways of budget support or sector lending for infrastructure investment or social protection can possibly find some solution. Such economies need firstly grants and concessional loans that are available now at much reduced levels and secondly rapid commitment of external assistance without elaborate conditionalities. IFIs have to consider a “minimum convergence criteria’ principle in place of the antiquated conditionalities to guide their programmes in low income countries. This principle will entitle countries to receive IFI funding provided their macro-economic policies are sound and the funding must support effective policies in the real sectors.

Distinguished Participants,

You must have realized by now that the point I am making is that the development enterprise anywhere is a long term undertaking. Keeping this in mind it is wrong for a DFI to withdraw from any critical sector such as agriculture and water sector, transport and road sector or energy and power sector in any developing member country. Mercifully the World Bank has realized the folly but needs firmly to confirm a policy of continuous engagement in various sectors of its member countries. World Bank group’s

withholding of support in growth-inducing areas such as roads, railways and power on a plea of institutional deficiencies in a particular country context does not augur well for unimpeded growth and development. We must stem this tendency towards stop-go kind of interventions in the credit recipient countries.

We must renew our commitment to further improve the predictability and effectiveness of development assistance. An effective implementation of the Paris Declaration principles is needed to strengthen donor harmonization and alignment with country systems. Promoting country ownership of the development agenda must be the common recurring theme in WB and IMF's operation under a mutual accountability framework. Country ownership should not be viewed as synonymous only with local consultation with the civil society and other interest groups, it must entail buy-in of the people's representatives and a fuller involvement through a political process. Domestic capacity building for policy formulation and speedy implementation of programmes must be given priority. Procurement disciplines must be attuned to country requirements only ensuring transparent practices relevant to the economies.

While we appreciate the G20 initiative to almost triple the IMF resources for supporting developing countries to fight the economic slowdown, we also note that a large part of this support will be earmarked for middle-income countries leaving little leeway to underwrite balance of payment and fiscal deficits in the LDCs. The LDCs have neither received any substantial support so far from the WB group to ride out the crisis. While IBRD has almost tripled its annual lending operation in recent times, IDA has not made any provision for providing additional resources to the LDCs other than 'front-loading' its regular resources. When additional development financing is needed to face the economic crisis, it is not clear how this 'front-loading' without any additional allocation can sustain the development momentum. We strongly urge that a special fund be created with core resources of the WB for the LDCs to provide quick disbursing budget support.

Ladies and Gentlemen,

We would like to extend support to a general capital increase for the IBRD to ensure capital adequacy for its operation. In the same vein, we would also ask the donor countries to consider a special replenishment of IDA resources to help the LICs address the stresses being generated by the current economic crisis and climate change. We urge the global community to revive the stalled Doha negotiations and consider duty and quota free entry of all exports from LDCs under a simplified rule of origin.

It is imperative that the voice and representation of the developing countries in the decision making of the Bank and the Fund is enhanced to improve the legitimacy and credibility of the World Bank and IMF as multilateral development institutions. The voice, visibility and participation of LICs/developing countries must also be substantially increased in the informal decision-making fora as well. The total voting weight of the developed and developing countries should be equal and no veto power should be applied by any one member. Besides contributions/shareholdings, LICs may be allowed a greater participation in the Bretton Woods institutions based on population size, poverty level, good macro-economic management and the volume of borrowing. This change is critical for bringing a sense of 'ownership' by the developing countries, as opposed to a mere passive participation by them.

Excellencies, Ladies and Gentlemen,

I would like to say a few words on the restructuring of the global public sector for the financial and monetary system of the future. The architecture of the international financial institutions and the global economic system as drawn up in Bretton Woods still survives with some significant modifications. This system when it was shaped took into account the experience of the Great Depression of 1930s and the urge for a Post-World War II economic order enshrining equity, peace and prosperity. In recent times Bank-Fund collaboration has flourished and the much expected third institution of WTO has come into existence. IMF has taken up a larger role as development financier and as supporter of economies in sudden and enormous balance of payment crisis. With the sudden arrival of a severe depression and near-collapse of the financial sector in course of the last two years new ideas are in the air about a restructuring of the international financial institutions. These ideas need to be carefully and systematically pursued and not put under the carpet once the crisis is temporarily contained. On the one hand we need a regulatory body on greater and asymmetric monitoring of the global economy, more comprehensive regulation of the financial sector and the capital market (in particular OTC innovative instruments) and development of an effective early warning system. On the other hand, we need to consider institutions for special financial assistance programmes for poverty alleviation in low income countries, for protection of the environment in the developing countries and for survival of small and vulnerable economies while continuing with some institution for facilitating financial intermediation globally. If poverty is considered a disgrace for humankind and we are really committed to its eradication and we are determined to save the vulnerable communities then the tackling of development issues on two separate plains is perhaps unavoidable for the future. It will take some time for a new order or system to evolve but it demands unflinching attention and devoted exercise. Meanwhile rapid reforms of the international financial institutions as touched on earlier should be undertaken.

In conceptualizing the new architecture the leadership provided by the G20 is appreciated but in order to carry out the restructuring it has to become more inclusive a forum. It must be acknowledged that new global actors are emerging and centres of attention are shifting. It must also be recognized that growth through export promotion must be tempered with domestic demand generation and creation of regional markets. Further, the intervening role of the public sector must be constructed with care without adversely affecting the creative role of the invisible hand but not giving in to the orthodox notion of complete freedom.

Ladies and Gentleman,

Before concluding let me say a few words about my country Bangladesh. A new Government came to power nine months ago with a huge mandate through a peaceful and smooth transition to democracy. We are committed to ending illiberal democracy and upholding parliamentary system of governance. Our election manifesto promises to eradicate poverty and transform Bangladesh into a digitalized and middle-income country by 2021 – the 50th year of the country's independence. The present Cabinet led by the Hon'ble Prime Minister Sheikh Hasina has committed all its energy and labour to achieving this goal. This calls for good governance involving public service reforms, control of corruption more through systemic reforms rather than intimidation, upholding of human rights and the rule of law, devolved implementation of development programmes, social mobilization in a big way, and above all regular parliamentary debate on national issues, systematic consultation with people and effective public private partnership. A number of steps have already been taken to live up to the above commitment although I shall not deny that containment of explosive expectations have, indeed, frustrated slowed down some good efforts. With speed the new Government has recast a three year poverty reduction strategy while long term vision and medium term indicative planning are being worked out in details. The PRS is now ready for negotiation as it is being discussed widely in the country. This is a programme that calls for immediate engagement of the Bank and the Fund.

Bangladesh has been fortunate in keeping up its growth prospect in the current crisis by emphasizing agriculture, employment programmes and social safety net expansion. The stimulus package sought to keep the export industries from going under, accelerate domestic demand and fine tune banking policies. The limited exposure of the country to the international financial and capital markets helped the economy to largely escape the first-round effects of the global economic slowdown and we did achieve an economic growth of nearly 6 percent. But it seems unlikely to get away with the second-

round effects unless the turn-around in the global economy is rapidly achieved. Bangladesh has been experiencing now a gradual decline in export earnings and in the volume of manpower export. Remittance receipts are not affected yet mainly because of improvement in the system of money transfer. Revenue collection has slowed down and investment is not moving at all. The efforts of the government in deepening tax system and expanding tax net will take a while to show results. Investment partnership with the private sector holds the key to further growth. But unfortunately infrastructure bottlenecks of the past and the dismal situation with the supply of energy and power is holding the economy back. Gigantic moves and bold undertakings in the area of infrastructure development demand the support of the development partners and FDI. The Government is committed to ambitious targets and programmes as there is no other alternative for a population of 150 million with one of the heaviest concentration of poverty on earth. Yes, implementation weakness is the Achilles' heel next only to the energy crisis. Here all that the popular and determined Government that I have the honour of serving can do is to put its best efforts and best style of inspired management. In this we seek the support of the global community.

Let me conclude, Mr. Chairman, with the assurance to you all and to the World Bank and IMF of my Government's strong support and commitment to achieving the common goals of poverty reduction and inclusive development. I am confident that we would be able to translate our commitments into concrete actions to build a world free of poverty.

Thank you, ladies and gentleman, for your kind attention. Thank you all for your indulgence for some harsh comments and out of the way recommendations for which my only explanation is very extended period of observation from the sidelines after an early period of deep involvement.