WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **JOHANNA BRANDT,**
Temporary Alternate Governor of the Bank and the Fund for the
KINGDOM OF THE NETHERLANDS,
at the Joint Annual Discussion

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Introduction

The world economic outlook has improved since the last meeting, with some signs of recovery in many developed and emerging countries and markets. The recovery seems particularly strong in developing Asia, notably in China, which grew by almost 15% in annualized terms in the second quarter. However, much of the global economic recovery can be attributed to massive monetary and fiscal stimuli, which will need to be wound down at some point. In addition, financial conditions remain vulnerable and the monetary transmission mechanism has not yet recovered. This makes it hard to predict the extent to which this recovery will be sustainable, once these measures are unwound, while levels of output growth and financial intermediation will in any case be lower in the medium term.

Many middle as well as low income countries are severely hit by the global economic downturn, and LICs show no sign of recovery yet. The channels through which countries are affected, differ. A number of middle income countries are affected by the higher cost of financing, as a result of the flight to safety and the drop in private capital flows. Many middle income countries are affected by the decline in exports, caused by the drop in world trade and lower commodity prices.

As world demand has plummeted, for low income countries (LICs) the financial crisis has rapidly transformed into a socioeconomic crisis. Even though the crisis is not of their making, and they are the least prepared, LICs are severely impacted by the crisis. These countries, still struggling with the legacy of the food and oil crises and dealing with the consequences of climate change, are forced to make large macroeconomic adjustments while under pressure to invest in order to mitigate the impact of the economic downturn. Most LICs have only limited capacity for countercyclical (including social) spending, which means that the crisis will have profound and long-lasting effects, especially on the poor.

Unemployment is likely to rise further in 2010 in many economies, which will give further downward pressures on the global economic outlook. Developing Asia's strong recovery can impact the world economy in two different ways; if their growth leads to higher import demand, it would have positive spill-overs, the extent to which depending on a rebalancing of domestic and external demand.

On the other hand, this could also push up key commodity prices and translate into a negative supply shock. The crisis and specifically lower oil prices have had a strong downward effect on inflation. In the longer term, risks to inflation and imbalances more generally could well be upward if the expansionary policies taken in many countries are not exited at the right time.

Ensuring timely availability of finance is crucial. In particular for social spending and investments in areas that affect long-term growth, such as technology and infrastructure. And for ensuring adequate food security, social safety nets, microfinance and trade finance. Many initiatives have already been launched, effective implementation and follow up are needed.

IMF resources

In view of the current crisis and in accordance with the call made by the IMFC earlier this year, members are striving to supplement the available lending capacity of the Fund. The Fund is currently in the process of finalizing bilateral loan arrangements with many members in order to quickly mobilize the necessary resources in the short term. Having these bilateral loan agreements in place will serve as an important additional buffer for the Fund to absorb unexpected large shocks. The second step will be to expand the Fund's back stop credit capacity available under the existing multilateral credit facility of the *New Arrangements to Borrow* (NAB) as called for by the IMFC earlier this year.

In light of the crisis, the large scaling up of resources provides confidence in the capacity of the Fund to provide temporary balance of payment assistance and to make sure the necessary adjustments continue to take place in individual countries, as to avoid a re-emergence of imbalances.

Surveillance

The ongoing crisis shows scope for improving the practice of surveillance in the interest of international monetary and financial stability. The IMF should further work to sharpen financial sector surveillance and to focus on regional and group levels as well, including developing countries. In following up to the request of the G20, the Fund has, in cooperation with the FSB, introduced an *Early Warning Exercise* (EWE), intended to take place every six months. We welcome this initiative since we believe that this kind of exercise can contribute to a more timely identification of macroeconomic and financial risks and the actions needed to address them. As such, we view the EWE as an ongoing systemic risks' assessment that focuses both on short-term risks and long-term, potential high impact events. The insights from the exercise should also feed back into multilateral and bilateral surveillance. Nonetheless, such a process is only complete if members are truly receptive to surveillance. We therefore call for a better use of the surveillance instruments through transparent and clear communication of policy advice by the IMF, good follow-up, and a monitoring and peer-pressure system, including in the IMFC.

In addition, the crisis has also put in evidence the need to look at the interconnectedness between the macro and financial sector analyses and between the country and international levels. In this regard, we support further efforts to integrate financial sector surveillance and recommendations in Article IV reports. In addition, we welcome the commitment by G20 countries to undergo FSAPs. Nonetheless, more should be done, to increase the coverage of FSAP and FSAP updates, in particular for systemically relevant countries. An important step would be to make FSAPs mandatory for all systemically relevant member states and to presume publication of FSAPs. Such a step would signal true ambition and commitment of the membership.

Governance

This global crisis must lead to global policies and a strengthened international system. Here the crisis offers an opportunity, also for sustainable development. It is positive that the G20 has succeeded the G7/8 as the premier forum for international economic cooperation. This represents a significant improvement for developing countries, even if low income countries are still not permanently represented. The quota and vote shifts at the IMF and World Bank that were discussed in Pittsburgh will also benefit developing countries that are currently underrepresented, while protecting the position of low income countries. I hope that the increased legitimacy of these institutions will help to make global growth more balanced and sustainable, for instance by reducing the perceived need for emerging economies to build up unproductive reserves as self-insurance.

We underline the importance of the IMF governance reforms that continue to ensure the legitimacy and efficiency of the Fund and welcome the discussion taking place. In recognizing the strengths of the Fund's decision-making structures, we should continue to work towards practical improvements to make the IMF a more effective institution. In this regard, we would like to stress that the various governance issues under consideration should be treated as much as possible together, including the discussion on quota-review scheduled for January 2011.

We especially welcome proposals to strengthen the IMFC, where we think much of the effectiveness can be achieved, as well as the suggestion that the Board should have a more strategic and less operational role. For example, limiting the number of delegates that can attend the IMFC-meeting might lead to more engagement of the IMFC-members through better interaction and more open discussions.

To further enhance the legitimacy of the Fund, voice and representation of the IMF should continue to reflect economic reality as well as the Fund's mandate, with due regard to small countries, including low income countries. We support bringing forward the next quota review to 2011, which automatically leads to a larger share –for dynamic economies, including emerging countries. This upcoming review should be based on the formula agreed in 2008.

We support reducing the threshold for qualified majority voting to 70-75 %, possibly in combination with double majorities applied to a small set of key decisions. An example of the latter could be the selection of Senior Management. Concerning this selection, we believe that it should be based on an open and transparent process, and on individual merits, regardless of nationality. On the same note, we welcome more diversity in the backgrounds of staff.

World Bank: Voice and representation.

We support the agreement reached by the G20 in Pittsburgh on voice reform. We recognize the importance of moving towards equitable voting power over time through the adoption of a dynamic formula which primarily reflects countries' evolving economic weight and engagement with the World Bank's development mission. We also support the decision that the next shareholding review will lead to a significant increase of at least 3 percent of voting power for developing and transition countries, to the benefit of underrepresented countries. While recognizing that overrepresented countries will make a contribution, it will be important to protect the voting power of the smallest poor countries.

A dynamic formula should reflect member's engagement with the World Bank's development mission, by incorporating development contributions by client countries, as well as financial contributions by donor countries. Client countries contribute through sustainable development and poverty reduction, as well as through their contribution to the enhancement of the development experience and knowledge of the World Bank. This contribution should be taken into account, for example by introducing a measure for borrowing volume or by introducing an additional, fixed number of shares for IDA and IBRD clients. We would welcome further work by World Bank staff on overcoming any practical obstacles to including client contributions.

Furthermore, we believe contributions to IDA as well as trust funds reflect donor engagement. Contributions to trust funds can give Bank policy, research and implementation a boost, as long as their earmarking is focused on development effectiveness and supports the other activities of the Bank. Moreover, trust fund contributions should concern strategic themes of the Bank. Not incorporating these type of trust funds into the shareholding framework would simply deny an important aspect of shareholder engagement.

V&R reforms should be accompanied by voice-enhancing reforms in other aspects of Bank governance. As a first step, we should send an important signal by introducing a merit-based and transparent selection process for the president and senior management, irrespective of nationality or geographic preference.

World Bank: Capital

We recognise the importance of the four drivers for demand - traditional and innovative development finance, knowledge products, public goods and future crises - that will shape the role of the World Bank Group in the period after the crisis. In order to be able to respond to these drivers for demand and to play a leading role in addressing global development challenges in the medium and long-term, we believe that the World Bank Group should have sufficient capital and concessional resources at its disposal. In response to the crisis, IBRD and IFC have made effective and efficient use of existing capital. However, we recognise that possibilities for further leverage are limited and that an increase in the World Bank Group's capital is probably warranted.

Support to Low Income Countries

We are concerned about the fact that the low income countries (LICs) are severely being affected by the current crisis, and welcome the initiatives to increase the resources aimed towards these countries. At the same time, we note that these resources need to become available on a timely basis, and with enough safeguards for the general resources of the IMF as well as its income model.

Moreover, we support a further refinement of the facilities available for LICs and the streamlining of conditionality. The latter should be directed towards a responsible macroeconomic policy in line with achieving the MDGs. As such, we welcome the more tailored approach of LICs by the IMF, as this will give LICs much needed space during this crisis period.

In a world where crises may increasingly have a global impact, affecting developing countries in particular, we also welcome the World Bank Group to further explore its counter cyclical role. We would like to further encourage work on possible temporary crisis response facilities and the need for an adequate countercyclical capital buffer as part of IBRD's strategic reflections with respect to future crises.

It is crucial that concessional resources for low income countries are - and remain - sufficiently available. While low income countries are severely affected by the crisis, we recognise that a counter cyclical response beyond IDA's *fast track facility* is difficult to establish, since concessional resources are limited. With respect to IDA-16, we support a bringing forward and speeding up of the process of replenishment, if needed. Furthermore, the focus of IDA-16 should be on the mitigation of the effects of the economic crisis in IDA countries.

Although grants and concessional loans are preferable, the options to extend access to less concessional loans to those LICs with good fundamentals should be considered. In this regard, we support using the flexibility within the *Debt Sustainability Framework* and welcome the ongoing discussion on this topic.

Progress made towards eliminating poverty and achieving the *Millennium Development Goals* (MDGs) is under threat, with women and children in particular carrying the burden. A robust and rapid resumption of sustainable economic growth across the world is of utmost importance if we are to safeguard our poverty reduction efforts and the attainment of the MDGs.

The International Financial Institutions need to be able to respond today but also to maintain the capacity to respond to the challenges of tomorrow, with particular emphasis on the climate and food crisis affecting the long-term development agenda of countries worldwide.

Thank you.