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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

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Statement by the Hon. **JEAN-PIERRE ROTH,**
Governor of the Fund for **SWITZERLAND,**
at the Joint Annual Discussion

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Mr. Chairman, Mr. President of the World Bank, Mr. Managing Director of the International Monetary Fund, Governors, and Delegates:

It is a great honor for me to have the opportunity to address you today.

I have the pleasure of doing so in an economic environment that has become calmer in recent months. We seem to be approaching a turning point. The unprecedented economic crisis we have experienced over the past two years seems to be abating. However, this does not mean that the risks have dissipated. On one hand, the improved economic outlook is driven by factors that exert a limited impact over time, such as fiscal stimulus measures and inventory depletion. On the other hand, the financial sector is still recovering. Consequently, I think it would be too early to abandon the special monetary, fiscal, or financial sector assistance measures adopted to cope with the crisis.

It is clear, however, that these measures cannot remain in place over the long term. Central banks and governments must take steps to hand off these measures. To do so, credible exit strategies must be crafted. The International Monetary Fund can play a significant role in this regard. It can and must serve as a forum for communication among member countries. It must allow all member countries to ensure that these exit strategies are mutually compatible.

However, what I would really like to underscore here is the role played by the International Monetary Fund in combating this crisis. The IMF is to be highly commended for its contribution. It has measured up to the expectations of the international community. The volume of loans provided proved commensurate with the magnitude of the crisis. New lending instruments have been established or adjustments made to those already in place in order to contain the scope of the crisis.

The work of the Fund is, nevertheless, far from over. The Fund must act on at least three fronts:

First, it must have a financial cushion. This cushion should be sufficient to allow it to meet potentially higher demand for funds in a flexible manner. To this end, the New Arrangements to Borrow must be extended and broadened. The Swiss central bank stands ready to contribute to this effort.

Second, the Fund must enhance the quality and relevance of its member country surveillance. Specifically, this means that financial sector surveillance should be conducted more systematically and frequently than is presently the case. The same attention paid to monetary and fiscal policy surveillance should be accorded to financial sector surveillance.

Third, governance of the Fund must be adjusted to meet the expectations of many members of the international community. This adjustment involves at least two areas:

The first area pertains to the role and operating procedures of the bodies of the Fund. A review of these bodies is needed. In particular, the capacity of the International Monetary and Financial Committee to provide clear guidance with respect to the Fund's policies should be enhanced. In addition, the capacity of the Executive Board to assume its surveillance responsibilities should be strengthened. The changes necessary to achieve these objectives call more for practical reforms than for fundamental change. I realize that initial steps have been taken in that direction. The work of the International Monetary and Financial Committee here in Istanbul stands as a testament to this.

A second area of governance reform of the Fund entails increasing and reallocating quota shares. The increase in quota shares should be driven by the liquidity needs of the Fund. It should be based on long-term needs rather than on such short-terms needs as those that we have recently seen. Extending and broadening the New Arrangements to Borrow offer a suitable way of meeting short-term needs. The reallocation of quota shares should facilitate a readjustment that favors the most underrepresented emerging countries. Although the latter is an indisputable objective, it seems to me that readjustment should also take other factors into account, in particular the capacity and willingness to finance the activities of the Fund as well as financial openness.

As to the World Bank Group we have analyzed the submitted capital adequacy reviews of both IBRD and IFC, and we would like to comment as follows:

(a) Management, in close consultation with the Board, should formulate as a matter of high priority a comprehensive but succinct strategic framework that provides the necessary vision and direction to inform the forward-looking decisions expected from the Governors. Such a strategic framework has to address the Bank's comparative advantages, its capacity to deliver scaled-up programs without compromising the quality of its lending operations, and the capacity of the clients to implement effectively such programs and to service the corresponding debts.

(b) More attention should be given to the situation of the low-income countries. While appreciating the announced review of IBRD enclave lending policy to IDA countries, the sustained IFC and IBRD transfers to IDA despite the crisis, and some progress in implementation of the Vulnerability Framework for LICs, we consider that more concrete steps are now needed to move this agenda forward and to better take into consideration the forthcoming IDA-16 replenishment in the analysis of the overall discussion on WBG financial capacity and capital adequacy. We acknowledge the Bank's proposal to establish a Crisis Response Facility and ask to use the opportunity of the IDA 15 Mid-Term Review to analyze and discuss the benefits and constraints of such a facility.

(c) The Selective Capital Increases at IBRD and IFC that may result from the Voice & Participation agenda should be fully – even if tentatively – factored in the analysis of any need to strengthen the capital basis. The volume of such SCIs, but also the share of "paid-in capital" would be directly relevant to the decision making process by the Governors. We call on the Bank to fully consider these elements in the work ahead, with the view to providing a comprehensive basis to consider options necessary to strengthen the long-term financial sustainability of the WBG.

(d) Finally on IFC capital adequacy, we acknowledge the very responsive, responsible and innovative approaches implemented by IFC to face the crisis. We expect more in-depth review of different scenarios regarding IFC growth path, that are realistic and sustainable. To this end a more detailed analysis of the priorities beyond the countercyclical role of the corporation, are necessary, particularly to avoid a crowding out of the private sector once the crisis is over.

We welcome the update on progress to date on the first phase of the Voice and Participation reform process, as well as the proposals for discussion under the second phase. This work is an essential contribution that should facilitate progress towards a consensus on the enhancement of the voice and participation of developing and transition countries (DTC) in the decision making at the World Bank Group, and an agreement at the 2010 Spring Meetings.

As regards the proposals for the IBRD shareholding review and realignment, we reaffirm our commitment to a process aimed at considering the evolving weight of all members in the world economy and other criteria consistent with the Bank's development mandate as the basis for such realignment. Solid principles and criteria will be required in this regard, to provide a robust benchmark for measuring members' severe under-representation and for fostering agreement in 2010 on a Selective Capital Increase.

With respect to measuring economic weight, we hence believe that the IMF actual quotas or elements of its underlying formula should be used as a reference for IBRD shareholding. To reflect on the Bank's development mandate and the need to ensure long term financial sustainability of the institution, a significant weight should be given to countries' demonstrated track record on the last three IDA replenishments, on a burden share basis. Providing the right incentive for future contributions to IDA will also be important, and we are prepared to consider modalities to reflect on clients' engagement as well, in particular for smaller members.

We are convinced that the rigorous application of these criteria will provide a solid and sustainable basis for regularly reviewing IBRD shareholding at five years intervals. The review process will permit to take stock of evolving country situations and related classification, as well as of the dynamic move towards equitable voting power between developed and developing countries. In the meantime principles and criteria have to be developed and approved in 2010. We would however be prepared to join a consensus on considering a shift of voting power, in the order of 3 %, in addition to the 1.46 % increase under Phase 1, subject to confirmation that the “non-dilution principle for each and all DTC members” is not applied and to clearly defined criteria and principles. We would also be ready to consider additional measures to protect the progress achieved under Phase 1 for the low-income countries.