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)
78th MEETING, WASHINGTON DC, 26 APRIL 2009

Statement by Bert Koenders,
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Implications of the Global Economic Crisis for Developing Countries and the role of International Financial Institutions

1. The current economic and financial crisis, threatening the quality of life of many people all over the world, puts the counter-cyclical role and function of the World Bank to the foreground. We fully support the strong efforts of the World Bank Group, in coordination with the IMF and other MDBs, to mitigate the detrimental effects of the crisis and contribute to a recovery of economic growth. A robust and quick recovery of economic growth across the world will be the first and foremost requirement to safeguard our poverty reduction efforts as well as the attainment of the MDG's. It should be our collective ambition to enable the World Bank Group to play its important leveraging and executing role in the global community's collective effort to steer us through this crisis.

This will also enable us to handle the possibly largest challenge that human kind will be confronted with in the 21st century, the threat of irreversible climate change, as effective and efficient as possible. Even though we are busy addressing the consequences of the financial crisis, the climate crisis should not be forgotten.

At the same time, the economic and financial crisis could turn into a severe human crisis, particularly for low income countries but also for the poor in middle income countries. It is this looming social crisis and its effects on our long-term sustainable development agenda that should indeed be the core element of our deliberations today.

2. We are in favour of strengthening the set of instruments of the World Bank to fulfil its counter-cyclical role. To do so, existing instruments may be revised and simplified. We call upon management to ensure that the ad-hoc measures we take today to make World Bank procedures more nimble and swift, will translate into structural improvements of the World Bank tomorrow. This crisis is an opportunity for innovation, also in the way the Bank deals with its clients. As every country and every situation is different, we strongly believe that instruments, new and old, must in the first place provide staff on the ground more room to manoeuvre in order to satisfy in real-time a country's most pressing and urgent needs. These needs include avoiding deterioration of their fiscal position, support to social safety nets, trade financing, bank recapitalization, and infrastructure investments.

3. It is essential that not only middle income countries, but also low income countries, heavily affected by the current crisis, have access to strong financial support. These countries, many of them in Africa, are unable to use their balance sheet as a leverage and IDA's envelope is limited. In this respect, we fully support the IDA fast track facility. We realise that such a facility may have limited use for recipient countries. Therefore, and in line with the G20 recommendation, we are also in favour of permitting low income IDA countries with sustainable debt positions access to non-concessional IBRD-lending to compensate for the loss of (potential) access to capital markets. In order to do so, we can make use of the existing flexibility in the Debt Sustainability Framework, also weighing in the diversity in different LICs and thus keeping the debt situation in these countries sustainable. We also believe that the IFC can help to mitigate the impact of the crisis on the private sector in the poorest countries, under the condition of sufficient capital. Finally, with regard to IDA, we strongly urge donors to fulfil their IDA-commitments. We ask Bank management to closely monitor IDA-needs and not hesitate to propose bringing forward the IDA-16 replenishment if necessary.

4. We appreciate IFC's proactive reaction to the crisis by extending a number of existing facilities and introducing new facilities. The package, consisting of the Global

Trade Finance Program, Global Trade Liquidity Pool, Bank Recapitalization Fund, Infrastructure Crisis Facility and Microfinance Liquidity Facility, is fully supported by us. However, the success of these facilities will largely depend on the possibility of generating leverage by participation of private partners. We are aware of the limits of this approach and we note IFC's very quick reversal in the course of two years of a situation of excess capital into one of capital scarcity. We are open to consider all possible options to allow IFC to increase its countercyclical response.

5. To adequately fulfil its counter-cyclical role during the crisis and in order to execute the Bank's long term potential, the World Bank should have enough capital at its disposal. We believe that the Bank should use its existing capital as effectively and efficiently as possible. However, we realise that IBRD's capacity to leverage is restricted by the need to guarantee a certain level of income for crucial non-banking tasks related to global public goods.

6. Given the downside risks with respect to duration and depth of the crisis, it is possible that a capital increase will be necessary, both for IBRD and IFC. Therefore, we are in favour of timely anticipating a possible IBRD and IFC capital increase. It is essential that a possible capital increase scenario will be based on a clear long term vision of its use, within the mandate of the Bank and accompanied by an implementation strategy warranting the quality of delivery.

7. The Global Monitoring Report 2009 (GMR) signals that most MDGs in the field of human development will not be achieved in time. The progress in the last few years in decreasing poverty is threatened by the financial and economic crisis, quickly turning into a social crisis. On a regional level, Sub-Saharan Africa lags on all MDGs and South Asia is especially off track on human development MDGs. At the country level, the situation of fragile states is especially worrying. The MDGs relating to health have the gravest prospects.

8. The GMR notes, that the crisis underlines the need of increasing ODA flows to the poorest countries. We therefore request donors to achieve their ODA pledges. We also acknowledge that development effectiveness and managing for results is of paramount importance, in particular in a context of scarce and perhaps even

dwindling ODA-resources. We call on the World Bank to continue its leadership role in implementing the Accra Agenda for Action. More specifically, we would like to stress the need of strengthening the knowledge and technology absorption capacity in developing countries.

9. We also share the view as expressed in the GMR, that the role of the private sector is very important, not only in improving infrastructure, but also in the field of human development. We believe that the World Bank, and especially IFC, should play an important role in strengthening the cooperation between governments and the private sector. Therefore, partnerships between the World Bank Group and the private sector should be strengthened, through additional financing and-or transfer of knowledge.

10. The GMR warns against possible protectionist reactions to the crisis and rightfully states that trade distortions could threaten the competitiveness and diversification of economies. Trade promotion therefore remains very important. We further believe that a fast and successful conclusion of the Doha round is crucial, also to avoid new barriers to investment or to trade in goods and services.

Voice and Participation

11. Concerning voice and participation in the World Bank, the current crisis has underlined the need for reform and has resulted in calls to accelerate the existing timetable. We appreciate that the political support for the reform agenda is now stronger. In line with the statement made by the leaders of the G20 on 2 April, we advocate finalizing the V&R reform process faster than envisioned during the 2008 Annual Meetings, reaching agreement at the Spring Meeting in 2010. With regard to this reform process, there is a strong need for close coordination with the IMF.

12. The World Bank will be more effective if its legitimacy is improved. The challenge is to ensure adequate and effective representation, reflecting the growing importance of emerging economies as well as the interests of borrowing low income countries, in particular the least developed countries, and major contributors. We advocate adopting a dynamic approach to shareholding reviews, and improving the incentives

for shareholders, by making voting shares dependant on the contributions to the organization and the use of the organization. Financial contributions to the Bank and the extent a country takes up loans and /or receives grants should positively influence their relative shareholding and voting power.

13. V&R reforms should be accompanied by voice-enhancing reforms in other aspects of Bank governance. As a first step and an important signal, we should implement a merit-based, open and transparent selection process for the presidents and top managers of all multilateral development banks, regardless of geographical preference.