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

Istanbul, 5 October 2009

Statement by Bert Koenders,

Minister for Development Cooperation of the Kingdom of the Netherlands, representing the constituency comprising Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, the Republic of Macedonia, Moldova, Montenegro, the Netherlands, Romania and Ukraine

1. Middle as well as low income countries are severely hit by the global economic downturn, following the financial crisis. As world demand has plummeted, the financial crisis has rapidly transformed into a socioeconomic crisis. 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. Furthermore, many middle income countries are affected by the decline in exports, caused by the drop in world trade and lower commodity prices.

   Even though the crisis is not of their making, low income countries are severely impacted by the crisis as well, while they are also the least prepared. 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 low income countries 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.

2. Progress made towards eliminating poverty and achieving the Millennium Development Goals is therefore 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 Millennium Development Goals. We fully support the efforts of the World Bank Group to contribute to the

recovery of economic growth. The World Bank Group needs 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.

3. Climate change is inextricably linked with development and human progress. It is the ironic truth that developing countries, which have historically contributed little to global warming, are now faced with 75 to 80 percent of the potential damage from it. With an eye to Copenhagen this December, it is timely and appropriate that this year's World Development Report is dedicated to climate change. It manages to outline the road to a "climate-smart" world if countries and individuals act now, act together and act differently than in the past. In this regard, we would appreciate further work during the course of the next months on the potential size of the Bank with an expanded mandate for Global Public Goods, in particular climate change

Financial capacity of the World Bank Group

4. 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 enough 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.

5. With respect to IBRD, we recognise the envisaged capital scarcity after 2012 and are open to consider a request from management for a capital increase. A capital increase would be consistent with the concept of fair burden sharing between different shareholders.

6. Taking into account the severity of the crisis in low-income countries we support and appreciate the IBRD’s continuous financial support for IDA-15 in difficult financial times. However, in order to protect the soundness of the Bank’s finances and in order to allow the capital increase to generate the maximum degree of leverage, we would welcome work by management on a framework for income allocation for IBRD. This framework should take into account the maintenance of the real value of IBRD's equity base and assure that the need for future capital replenishments is limited.

7. With respect to IFC, we think a general capital increase should be considered as well. Private sector development, in particular in low income countries, is key in the recovery from the crisis and will remain important in the medium to long-term. Furthermore, IFC is able to catalyse private funds for development. We feel IFC should be able to maintain its annual growth in development impact, especially in the poorest countries, by continuing its pre-crisis growth path. As part of a potential general capital increase IFC should continue its efforts to further increase its activities in the poorest countries and poorest regions in middle-income countries, in projects with the highest development impact, while taking into account its broad membership and the need for an adequately diversified portfolio.

8. 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. We would welcome a review during the Mid Term Review in November of the financial capacity of IDA-15, not only based on a demand analysis, but on an analysis of finance gaps as a consequence of the crisis as well. 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.

9. In a world where crises may increasingly have a global impact, affecting developing countries in particular, we would welcome the World Bank Group to further explore its countercyclical role. We would like to further encourage work on possible temporary crisis response facilities and measures, for middle income

countries as well as for low income countries, while recognising the need to safeguard the financial solidity and income-generating capacity of the Bank.

Voice and representation

10. 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 their engagement with the World Bank's development mission, and that generates in the next shareholding review 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.

11. 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.

12. A shareholding formula should also take into account contributions by donor countries. We feel a variable should be included that reflects past contributions and that provides strong incentives to contribute to future IDA replenishments. Contributions to IDA-16 should be incorporated as well, recognizing the importance of a large IDA-16 envelope in times of crisis. Since trust funds can give Bank policy, research and implementation a boost, we believe that contributions to trust funds should be included, as long as their earmarking is focused on development effectiveness and supports the other activities and strategic themes of the Bank. We recognize that further progress on trust fund

reform is necessary in order for the above mentioned conditions to be met. Therefore, we insist on further measures by management to continue trust fund reform and stress the importance of incorporating trust fund contributions in future shareholding reviews.

13. We strongly support the protection of the representation and voting power of the smallest poor countries. Loss in voting share of these countries could be compensated in an efficient way by assigning callable shares.

14. Reforms on voice and representation 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.