Statement by

Mr. Didier Reynders
Deputy Prime Minister and Minister of Finance
Belgium

on behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
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Despite the increasingly clear prospects of missing a number of Millennium Development Goals (MDGs) in too many countries, progress toward reaching the MDGs has been reasonably good, if uneven across countries and sectors. While some MDGs appear out of reach in all of the countries, almost all MDGs appear out of reach in some of the countries. We had already predicted this likely outcome two years ago. The fact that the general trend is broadly in line with our expectations may indicate that we are improving our ability to link resource levels with outcomes. We are also willing to read into this trend a better targeting of aid flows to promising policy initiatives, a sounder understanding of the mechanisms by which this aid is allocated within the country, and perhaps also more reliable Public Financial Management.

During the past year, the World Bank has made strides to operationalize important themes: Governance and Africa. The Governance and Anti-Corruption Strategy is a sound overarching document to guide the World Bank Group’s activities over the medium term. We look forward to supporting its implementation on a country-by-country basis, consistent with the Performance-Based Allocation framework. We do however encourage Management to work on specific technical issues – such as governance indicators - to take as much political judgment out of its future decisions. The Africa Action Plan has become more focused and manageable; the linkages between objectives, activities and resources are clearer.

Taking Stock of the Uneven Progress towards the MDGs

The contrast between the real progress in growth performance and the disappointing outcomes in human development is worrisome. We do not believe that the targets set for human development are unrealistic, and note that they are strongly correlated with polices and activities that are mostly associated with state provision and state financing. We are therefore concerned that the state in many countries is at pains to fulfill its role of providing equal chances in life to all. The state’s ability to deliver on these promises requires close scrutiny at various levels: policy direction in some cases, choice of public vs. private provision, access, teacher or doctor training, standardized
testing, funding mechanisms, etc. Different countries may adopt different approaches to tackle this problem. We encourage MDBs to intensify the dialogue with the client countries, and together find solutions that meet the countries’ needs.

Next to the MDGs, there is a need for a new set of international goals to tackle global public goods, such as climate change or pandemics. We support the discussion of an explicit set of objectives under a ninth Millennium Development Goal to track progress on these global public goods that cannot be addressed adequately through the eight existing ones. Deforestation and greenhouse gas emissions should figure prominently among them.

Addressing Shortcomings in Human Development

Shortcomings in Human Development often point to the need for policy adjustments, not policy reversals. The increasing prominence of the issue of quality in education – and perhaps health – is one dimension of the broader problem of unsatisfactory human development indicators. It comes, quite naturally, on the heels of a first wave of reforms (e.g., primary enrollment) that has often been successfully undertaken with the support of the Education For All – Fast Track Initiative. It serves to underscore that policy-making is a multifaceted endeavor, requiring tight coordination of the multiple facets of policies to deliver on its promise. We support defining equivalent levels of learning across all countries. We also support the development of standardized testing for monitoring and evaluation – with a light and nimble international coordination framework. We have always been proponents of a strong results orientation, and are therefore also backing basic learning goals, albeit on a country-by-country basis, to take into account the diverse set of initial conditions and resource availability. As regards implementation, we encourage client countries and donors to review their funding mechanisms, including the use of vertical funds, and adapt them to meet the challenge of the new generation of reforms.

Mainstreaming the Promotion of Gender Equality

We note the uneven progress on gender equality, and share the concerns expressed in the Global Monitoring Report for 2007. We are all the more disappointed that many indicators should be easily actionable (e.g., primary school enrolment ratios or secondary school enrolment ratios where primary school parity is achieved). We agree with the proposed approach to recognize the cross-cutting nature of gender issues and emphasize gender in advice and lending operations. Consistent with this view, we also advise strongly against addressing gender issues by launching gender-specific projects, and developing within the Bank and other Multilateral Development Banks a line department for gender. Rather, we see a case for strengthening a small and capable unit within a network to support gender mainstreaming across regions, in all operations that have the potential to improve gender outcomes. We also support the use of a limited number of novel indicators and targets to better track progress on gender equality.
Making Fiscal Space to Scale Up Public Interventions

Fiscal space is an issue that needs to be tackled on three fronts simultaneously: the definition of sustainable fiscal imbalances, resource mobilization, expenditure effectiveness over the medium term. Resource mobilization has been addressed by donor commitments and the Multilateral Debt Relief Initiative. Without prejudice to our call for increases in foreign aid, we see greater promise in practical efforts to improve resource allocation, through wider uses of medium-term budgeting frameworks and improved Public Financial Management. Fiscal space is also at the heart of the relationship between the IMF and the Bank. In that connection, we noted the Malan Report’s findings that Bank-Fund collaboration has changed little. We believe that the division of labor between the two institutions remains appropriate, but encourage more formal inter-institutional transparency for all policy matters, since there is never more than one or two degrees of separation between them.

Improving the International Aid Architecture

The general assessment of the functionality of aid architecture paints a picture of goodwill and inefficiency. While we do not necessarily share the message that the situation has degenerated, we agree that the current situation can be improved by leaps and bounds. Many fast responses to developing crises have required ad hoc and country-driven arrangements for the delivery of aid. We believe that, in the short run, many of these have been useful (e.g., tsunami response mechanisms, Pakistan earthquake relief, etc.) and the best alternative under the prevailing circumstances. The real issue arises when these mechanisms are not abandoned or streamlined into a broader template for international aid architecture once their raison d’être has faded.

We see two main entry points into the reform of the international aid architecture: through the intended beneficiaries, and through the main multilateral aid agencies. As a matter of elementary good governance, and in line with the Paris declaration, we strongly believe that sustainable development will come from working through country systems and from the development of national strategies aiming at strengthening the fiduciary systems. In practice, the impetus needs to come more consistently from the institutions that stand to gain from improvements in the international aid architecture. These are the ministries of finance of client countries; they are clearly tasked to (i) mobilize resources; and (ii) ensure the integrity and efficiency of Public Financial Management. The convening power of the Ministry of Finance is second to none for all interested donors; and, when harnessed methodically, the multiplication of donors should help generate more resources without the added burden from fragmentation. Some of the largest recipients have already recognized this, and have set up units within their administration entirely devoted to donor coordination – with convincing results. These units are also well positioned to track down donors’ performance, and provide this information to support a donor peer review mechanism. Not unimportantly, such country-led initiatives generate dynamics that make donor coordination increasingly easy as a critical mass of donors establish generally accepted fiduciary rules and procedures. It
may also be worth noting that there are risks to successful donor coordination: aid dependency, and confusion on the government’s part regarding its accountability to both beneficiaries and donors.

At the same time, we recognize that many countries do not have the capacity to design and implement a clear and consistent donor coordination mechanism acceptable to all donors. When the country’s leadership is genuinely interested in pursuing the general interest, donors should be willing to reconsider their stand-alone approach. Multilateral agencies are often a natural coordinator on the donor side, and are a repository of knowledge, a point that underscores the need for a successful IDA15 replenishment, reflecting the full additionality that all donors agreed on in the context of the Multilateral Debt Relief Initiative. The IMF, by fulfilling its mandate as leading international adviser on macro-financial policy, has its role to play. Bilateral donors should also make an effort to gear themselves for coordinated engagement. They have done so by declaring their support for the principles in the Paris Declaration. We urge those that have not done so to reconsider – especially emerging non-traditional donors. Some, including the Bank, have already reviewed their internal policies to be more flexible in terms of resource levels and Public Financial Management procedures. The Bank has also shown greater flexibility in reassigning internal resources on short notice. Increasingly, as donors fall in line, the spotlight will turn to recipient countries, and, in a number of situations, to the transition between emergency interventions and traditional donor support.

Addressing the Special Cases of the Fragile States

Situations when the state has virtually collapsed are alarmingly frequent. Such situations have terrible consequences for the people in fragile states, but also for neighboring countries. It is not a surprise to us that civil conflagrations engulfed Democratic Republic of Congo, Rwanda and Burundi in close succession; or that Liberia, Sierra Leone and Cote d’Ivoire also experience such collapses. In all cases, the dynamics of civil strife have ignored borders, or used them to their advantage.

These catastrophes are associated with fundamental governance problems, and their onset is usually closely related to a hollowing out of the state. At this juncture, there is a need for creative thinking in assessing and addressing the needs. First and foremost comes the need to reestablish the authority and functionality of the state on a minimal scale. We take this opportunity to reiterate our strong call for the Bank and donors to support fragile states with which the partnership is strong enough with a redesign of the state’s core administrative frameworks (administrative, human resource management, Public Financial Management) to promote simplicity and reliability. We also find that, at this stage, the hiring of international experts to carry out critical functions in the operations of the state (especially Public Financial Management) for a number of years, and at the request of the client country, is probably the only way to mobilize the critical mass to make it functional again – while helping to build capacity along the way for sustainability. It has already been done successfully in a number of countries. The technical nature of their positions would not undercut country ownership of the key
policy decisions – to the contrary, their actual implementation would reinforce the willingness of stakeholders to participate in the key decision-making processes.

Since we advocate interventions in fragile states that are among the most difficult in terms of policy advice, we must also stress the importance of putting the very best Bank staff on these cases. The Bank’s human resources framework has improved, but still requires additional changes. At this stage, promotions to higher administrative grades require experience in fragile states. But if the Bank is serious about putting the very best bankers in the most demanding situations (passing mature judgments in fast changing situations with compressed checks-and-balances processes), it should raise the relative attractiveness of positions associated to fragile states. Bank staff should not get to higher level positions only because they deserve to. They should also get to higher level positions because the institution has a need for these positions.

Adjustments in human resource management in the Bank may not be enough. There may also be a case for a more structural adjustment. Africa is rightly becoming a region of focus, and decentralization of Bank operations has logically progressed apace. However, finding top level staff to work in some of the most dangerous regions is exceedingly difficult. We urge Management to think through these issues.

Enhancing Voice and Representation is another way to enhance Bank responsiveness. We are strong proponents of increasing diversity among staff and especially senior management. Regarding structure of the shareholding and the composition of the Board, we are interested in proposals that reflect the principles of accountability to shareholders, and functionality of constituencies at the IMF and the World Bank. In the near term, we support ad hoc increments in the shareholding at the Bank of the countries for which a clear case for correction has been established and broadly accepted. The concept of basic votes is also consistent with the principles we hold dear.