Statement by

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on behalf of Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovakia, Slovenia and Turkey
We welcome Mr. Robert Zoellick as new President of the World Bank Group. We look forward to working with his team to make the Bank as responsive as possible to requests for its services.

Beyond the necessary strategy papers and frameworks, we are looking to President Zoellick for leadership. While we have worked to support the development of various strategies, not least among them the Governance and Anti-Corruption Strategy, we are keen to see the World Bank Group’s new management team implement them before we agree to develop new ones. In that connection, we plead for a greater streamlining of the next agenda of the Development Committee to reflect the Bank’s focus.

The years ahead will be critical for the World Bank Group, and we foresee a number of critical junctures during which President Zoellick’s leadership will be tested. Some of these testing issues are highlighted below.

**Reaffirming the Role of the Bank in a Changing World and its Business Model**

We have paid close attention to the findings and analysis of the Long Term Strategy Exercise, and we agree with them. There is no major departure from past thematic areas—and no new business model. There are, however, important adjustments which we will touch on below.

We agree with the identification of the four main priorities for poverty reduction: focusing on Sub-Saharan Africa, shoring up fragile states, supporting middle-income countries (MICs) and coordinating global responses. The President has also expressed his views on the implications of these priorities for his first term at the helm of the WB Group: the achievement of a substantial IDA replenishment, servicing MICs, defining a framework for Global Public Goods (GPGs), responding to fragile states, developing the Bank’s knowledge base, and enhancing its presence in the Middle East and North Africa. We are ready to support him in achieving these objectives.
We continue to strongly support the Bank’s current business model, rooted in a country-driven approach to development across the two main pillars of (i) empowering people and (ii) improving the investment climate. It is worth repeating that we remain strong advocates of a more prominent focus on governance as a critical cross-cutting issue, as operationalized through a sensible Governance and Anti-Corruption Strategy.

We agree with the findings that the Bank’s main instruments are its financing and its policy advice, along with a formal recognition of the unique coordinating role that the Bank has gradually come to play in addressing new global challenges. The Bank is indeed a genuinely multilateral organization with a relatively broad range of public policy expertise.

However, we believe that the Bank should support the development of global public goods only as long as they are consistent with its country-based approach. For the very real and urgent issue that is climate change, we see a clear convergence between “adaptation” to climate change and the Bank’s development mandate. When it comes to the “prevention” of climate change, it is much less clear to us that the Bank’s poorest countries have a sufficient stake in the issue to express a genuine demand for the Bank’s services. There is a need for a comprehensive global agreement to define the respective commitments of rich and poor countries, the implementation of which should be supported by the Bank at the request of its clients.

We would also like to sound a note of caution. The Bank’s track record as provider of public goods comprises some significant successes, such as its series of coordinated operations to combat bird flu. It also highlights some of its limitations. For example, the successive debt relief initiatives that can be construed as GPGs have evidenced the Bank’s convening power. But the Bank has not been able to ensure new lending on concessional terms from all sovereign lenders, much less commercial lenders.

**Making the Bank more Relevant to Middle-Income Countries**

We are concerned by the diminishing portfolio of IBRD loans. Some of the decrease may reflect a favorable financing environment and an increasing sophistication in the MICs’ abilities to tap the capital markets. While these developments are welcome, we are disappointed that there has been no commensurate progress by many of these countries in reaching the MDGs. The advisory dimension of the Bank’s product range is therefore not being deployed as effectively as it could.

The Bank has already taken some important measures that will improve the attractiveness of its products to IBRD clients. Given IBRD’s strong balance sheet, reducing loan charges to the level that prevailed before the Asian crisis is a step in the right direction. We believe that it will contribute significantly to the Bank’s efforts to strengthen its engagement with IBRD partner countries. The momentum of this first step should be used to reduce the non-financial costs of engaging with the Bank. Other options have been presented that deserve further discussion: the unbundling of advisory services and financing; the provision of advisory work on a fee-for-service basis if it is not
underpinned by a loan; and the development of contingent financing to respond rapidly to the materialization of specific risks.

Supporting the World Bank’s Approach to Aid Delivery

The World Bank has leveraged its convening powers to great effect in improving the effectiveness of aid. We support the clarification of the roles of aid providers and aid recipients, and the accompanying realization that the Bank will not promote sustainable development if its advisory role impedes on the client’s ownership of its policy choices. We support the fuller implementation of the harmonization and alignment agenda—in particular through country systems—within these bounds.

However, we are also keen to account for the way Bank monies are spent, and find that the use of country systems should be subjected to a satisfactory assessment of their integrity by the Bank. If it cannot be provided, programmatic budget support is unlikely to help fulfill the commitments under the Paris Declaration—including for countries that seem to be making little progress in shaking off their dependency on aid.

The Bank’s ability to engage fragile states is of paramount importance, and proposals to improve its responsiveness deserve further attention. While the Performance-Based Allocation system has proven valuable in distributing IDA resources fairly, it is becoming apparent that Bank management needs greater flexibility to seize the often unpredictable opportunity to reengage meaningfully with fragile states. The additional discretion that we would be happy to give management in these cases should then be complemented by regular briefings to the Board on adjustments in allocations.

Drawing the First Lessons from the Multilateral Debt Relief Initiative

Progress in implementing the Heavily Indebted Poor Countries (HIPC) Initiative and its successor, the Multilateral Debt Relief Initiative (MDRI), cannot be assessed in isolation from efforts to replenish IDA. Resources are fungible and scarce. At this stage, donor countries are coming under increasing pressure to meet their commitments to providing the 0.7 percent target of GNI in the face of uncertain economic growth prospects. They are also under pressure to ratchet up their contributions to alternative aid vehicles that generate positive cash flows for developing countries, while at the same time compensating IDA for its forgone reflows.

Recent borrowing developments in countries eligible for IDA have been worrisome. New loans have been secured and disbursed on terms that are not concessional. Some have been collateralized against the state’s rights in the exploitation of natural resources. The proceeds of these loans are often used in a manner that is not transparent, and not necessarily in the general interest of the country. These practices fall far short of acceptable governance standards, and often contradict contractual undertakings of IDA’s client countries to either disclose promptly their external debt situation, or refrain from borrowing at non-concessional rates.
It should be abundantly clear to all that donor countries do not have deep enough pockets to finance a new round of debt relief. The consequences for the broader development agenda are likely to be dramatic. If new borrowings, that may or may not have been used for developmental purposes, lead to an unsustainable public debt burden at the expense of productive expenditures, new sovereign debt defaults cannot be ruled out over the medium term. Programmatic budget support from IDA will likely be scaled back to avoid IDA monies being used to pay back outstanding loans on commercial terms. The state’s functionality, along with public services, is likely to deteriorate, triggering a vicious circle of increasing political instability and poverty.

The Bank must use its limited leverage to help prevent these nefarious developments. Moral suasion and global coordination will be necessary to codify responsible lending practices in member countries, and to prevent sovereign and commercial lenders from extending loans at non-concessional rates. Without prejudice to their overall concessionality, it may be useful for IDA deputies to examine the grace period for credits on IDA terms so as to limit the built-in moral hazard in excessively long gaps between loan disbursements and their reimbursement.

Making it Work: Design and Implementation Issues

President Zoellick’s leadership will also be tested by his ability to gear the Bank’s structure and internal policies to achieve the Bank’s objectives. We strongly encourage him to establish a genuine results-based budget process that would eliminate the existing disconnect between strategic priorities and budget figures linked only to administrative cost-drivers, such as salaries and travel. Should he make a case for an adjustment in the Bank’s organizational structure, we stand ready to support him. However, it is already clear that such organizational realignments cannot proceed without recognizing the current shortfalls in some of the Bank’s policies.

We strongly support a radical improvement of Human Resources policies. Today, Human Resources policy at the World Bank consists mainly of a passive administration of an ad hoc basis of recruitments decided by any one manager in isolation. This is inadequate to support the Bank’s ambitious decentralization drive or its diversity objectives, let alone its fragile state rapid response initiative. The Bank needs to give itself a new medium-term, Bank-wide framework within which to manage rotations into and out of field assignments, with due consideration for staff diversity. As regards management’s legal ability to decide on certain assignments, it already exists—but requires professional leadership in the Bank’s HR department. President Zoellick may also find that he needs to take a step back and review the Bank’s decentralization plans to have a workable Human Resources framework.

We applaud the first steps taken by President Zoellick in meeting with African staff members, and in appointing a highly regarded African professional as Managing Director. They hold the promise of a further improvement of representation of Part II country nationals. We are also open to proposals to improve the Bank’s corporate governance structure. It will be important to root them in a consensual approach that can
only be fostered by agreeing on the fundamental principles or corporate governance. Among them are (i) accountability to the shareholders; (ii) transparency of decision-making toward all; and (iii) continued parallelism in the structures of multi-country constituencies at the Boards of the IMF and World Bank Group, to support coherent decision-making.

The ethics issues that have caused an unprecedented crisis in the Bank Group in the past year have also highlighted the need for an improvement in the Bank’s checks-and-balances. These include a radical review of the protection afforded to whistleblowers if their allegations are made in good faith and substantiated by a preliminary review. They also require adjustments to INT’s mandate and its reporting relationship to senior management. At this stage, and in keeping with the above principles, they do not require radical changes in the corporate governance structure of the World Bank at the level of the Board. More than any other policy area, corporate ethics require strong leadership, with frequent and public recognition by the President that intelligent and ethical dissent is inherently constructive and highly valued.