# 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)

**EIGHTY-SECOND MEETING**
**WASHINGTON, D.C. – OCTOBER 9, 2010**

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**Statement by**

**Jan Kees De Jager**
**Minister of Finance**
**of the Kingdom of the Netherlands**

**On behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, former Yugoslav Republic of Macedonia, Moldova, Montenegro, The Netherlands, Romania and Ukraine**

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**on behalf of Armenia, Bosnia and Herzegovina, Bulgaria, Croatia,**
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**82nd Meeting, Washington, D.C. 9 October, 2010**

The World Bank Group has responded timely and effectively to the crisis, making efficient use of the means at its disposal. Nevertheless, while recognizing that the impact of the crisis on regions and countries is diverse, the crisis will have a lasting effect on poverty and inequality. The World Bank estimates that compared to the pre-crisis trend, 64 million more people are living in extreme poverty in 2010 and some 40 million more people went hungry last year. These developments constitute a permanent setback in reaching the Millennium Development Goals.

***The World Bank Group's financial capacity and lessons from the crisis***

We welcome the joint study of the International Monetary Fund (IMF) and the World Bank into the resilience of developing countries in coping with the crisis. Overall, for a large part as a result of good macroeconomic policies in the period leading up to the crisis, developing countries have shown remarkable resilience and countries with sufficient policy buffers in terms of external and fiscal positions have been able to respond with countercyclical policies. We also concur with the conclusion that the Fund's and the Bank's assistance during the crisis was adequate, both in terms of increased funding as well as knowledge contributions. An easy accessible record of best practices in terms of knowledge products - which made a difference during the crisis - could increase the wide use of these in future crises. We welcome the fact that, when adequately designed, social protection systems were used effectively to mitigate the impact of the crisis on the poor. However, it remains an enormous challenge for developing countries to put in place adequate and efficient safety nets.

From a policy perspective we therefore encourage the World Bank, in close cooperation and dialogue with its client countries, to continue its work on strengthening resilience of its client countries, be it through better safety net systems, improved systems of domestic resource mobilisation or adequate financial sector strategies. What is missing, however, is an analysis of the Bank's strengths and weaknesses in helping countries to become more resilient, in particular with regard to the relationship with long term development objectives and any restrictions the Bank may experience, for example with regard to its instruments. We think that an increased flexibility and a better design of the instruments, taking into account clients' feedback, will be of mutual advantage to both sides, increasing the Bank's effectiveness via lending and knowledge products while meeting clients' debt management and technical assistance needs.

We recognize that IBRD's strong capital position contributed to its ability to act counter cyclically during the recent crisis. In order to not only maintain pre-crisis levels of lending volume, but also with an eye to possible future crises, we welcome the agreement on the capital increase which will enable IBRD to regain its financial strength. With regard to IBRD's future financial position and reserve range, a balance should be sought, recognising the importance of IBRD's countercyclical role, while taking into account efficient use of resources and current client demands. Furthermore, we would welcome an analysis of possible options on innovative contingent facilities to support IBRD's role during future crises in an efficient way. We would like to stress further the importance of instruments that help countries in ensuring the sustainability of their public finances. Potential future reform of instruments should take into account the importance of long term maturities for debt management.

We note the Independent Evaluation Group's observation that knowledge activities were crowded out by lending activities during the crisis. The flat real budget restriction is perceived as a constraint in this regard. We therefore think that the notion of a flat budget should be reviewed for activities that recover their own costs, such as lending. Client countries, having first-hand experience in dealing with the Bank and benefiting directly from efficiency gains, could take the lead in monitoring the budget expenses for loans. Secondly, we advocate more flexibility and client-orientation in the provision of knowledge service. In our view, client countries should be able to select knowledge services from a larger menu of options and be charged directly for those services obtained. This fee-based system should be applied not only for new knowledge services, but also for the existing services. In our view, the above proposals will lead to efficiency gains.

Another important lesson for post-crisis policy is the significance of a dynamic private sector. We therefore encourage IFC to keep playing its important role in private sector development in both low income countries as well as middle income countries. We are confident, IFC's experience during the crisis will contribute to its leverage capacity in the medium and long term. IFC has ample opportunities to achieve development results and can act as a catalyst for domestic resource mobilisation in both IDA and non-IDA countries. In the discussion on transfers to IDA, the consequences for IFC's growth path and its capital position should be considered carefully. With a view to possible future crises, IFC's capacity to build a crisis reserve capital buffer in order to act counter cyclically should be assessed.

*Replenishment of IDA16*

With regard to support for low income countries, IDA is a critical cornerstone on which country-led and donor-coordinated support is built. Over the last 10 years, IDA has increased its concessional and grant funding in support of developing countries from $4.4 billion in 2000 to $14.5 billion this year. We commend IDA for its contribution to immunization of millions of children, provision of access to water and sanitation for millions of people, and education of millions of girls.

IDA needs a new replenishment this year. We welcome the proposed Crisis Response Window to assist countries hit by severe exogenous economic shocks, such as recent global economic crisis. With regard to the financing framework, we welcome and appreciate efforts from former and current IDA clients. With a view to IDA's financial sustainability, especially in the long term, we stress the importance of broad and appropriate burden sharing between donors and more innovative use of IDA's scarce resources. This is necessary to attract resources, which is crucial for the development mandate of the Bank. We also welcome contributions from other members of the WBG to IDA, reflecting the relationship between and shared membership of the institutions of the World Bank Group.

In our view, the IDA replenishment rounds could be improved by stronger and more meaningful involvement of client countries and more strategic discussions, for example regarding IDA's role within the international aid architecture. In our view, the creation of working groups could contribute to these objectives. First, IDA countries' partnership in the working groups is crucial and will improve incorporation of client views. Moreover, the in-depth work on important IDA topics, such as IDA's financial sustainability, could provide a good basis for Deputies' more strategic discussions. The working groups should function transparently, on the basis of an inclusive process and would provide advice to IDA Deputies, who would maintain decision making authority.

*Post-crisis directions and reforms*

Our constituency's support at the Spring Meetings for the package of reforms was based on the belief that the World Bank Group should be able to play a leading role in addressing regular development needs, attend to the challenges of the current millennium and support crisis responses and recovery actions. In our view, the package, next to the strategic priorities, provides the necessary internal reform measures to attain these goals. Success depends crucially on speedy and effective implementation.

First, we welcome the development of an integrated development results and corporate performance framework. In this regard, we look forward to the corporate scorecard which will report on operational and organizational effectiveness and the implementation of internal reforms, and will play an important accountability role. We emphasize the integrated nature of the scorecard. It should not be an additional performance report, it should bring together the various indicators already in existence and translate them into one Annual Results Report.

Second, the resource constraint requires, based on the proposed selectivity framework, a further focussing of interventions, especially in those areas where priorities can be reached most efficiently. In this regard, the World Bank could take a more proactive role in the division of labour with other institutions, especially on the country level, based on an understanding of the respective comparative advantages. The selectivity framework should take into account the need to be responsive to client needs, and enable staff to remain flexible while at the same time provide accountability to stakeholders.

Furthermore, we would like to stress again the importance of speedy continuation of the decentralization progress. One of the greatest strengths of the World Bank Group lies in global reach and expertise in combination with local policy dialogue with governments, national parliaments and other stakeholders. Moreover, local presence - especially in the form of decision-making authority – can improve client responsiveness and effectiveness. We appreciate decentralization measures taken so far, but further efforts are needed. In particular, we advocate delegation of decision authority to the field, based on clear strategic directions, and with a strong emphasis on harmonization and alignment. Moreover, decentralization should go hand in hand with continuing work on the matrix system. While acknowledging the need to incorporate lessons learned in the decentralization process and to address possible barriers within the organization, the objective of the organizational structure should be central to decision making and there should be no delay.

In our view, reforms to the World Bank Group's internal governance structures and accountability framework are an essential measure in making the institution function more effectively. We acknowledge the progress achieved since our last meeting, however we regret there are no concrete proposals for strengthening corporate governance and accountability at the WBG. We advocate enhancing shareholder stewardship and oversight by strengthening the Development Committee, for example by stronger involvement of shareholders in the agenda-setting. This should be accompanied by a clearer delineation of responsibilities between Executive Board and Management, which should give Executive Directors more time to deal with strategy and oversight, instead of operational tasks.

Furthermore, we strongly support the two Working Groups: (1) on a merit-based and transparent selection process for the president and senior management, irrespective of nationality or geographic preference, and (2) on a framework for the dual performance feedback of the Board and the President. We would welcome concrete recommendations and proposals for decision by the Spring Meetings on modernizing the Development Committee, selection of the President and the dual performance feedback of the Board and the President.