Out of the Bretton Woods: Building a World Bank for the 21st Century
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Douglas Alexander MP
Chaired by: Professor Ngaire Woods

Thank you Ngaire (Woods, Director of the Global Economic Governance Programme, Oxford University) for those kind words of introduction this evening. I have to say that my excitement and delight when you invited me to LSE was matched only by my trepidation at the thought of sharing the stage with someone so expert in the World Bank.

It's a pleasure to be back here at LSE – I've had the opportunity to speak here on a number of occasions as Secretary of State for International Development, and indeed in other guises before. I've always found the welcome to be warm, and the questions to be worryingly perceptive – and I'm sure that tonight will be no exception.

I'd like to make a particular thanks to all of you for making it here this evening – not least after this event was postponed from last night. I was engaged in the effort to bring the House of Commons somewhere into the 20th Century, let alone the 21st – an effort which gives me a sense of humility as I approach the subject of my remarks this evening: reforming the World Bank.

Out of the Bretton Woods

It was sixty-six years ago this year that a conference of nations gathered at the Mount Washington Hotel in Bretton Woods New Hampshire. They met as the world was emerging from a devastating crisis, and into an uncertain future.

The threat of return to global economic depression loomed over that conference. Yet rather than shrink from the challenge, rather than retreat into self-interest, those gathered at that hotel instead charted a new course in international economic relations.

By establishing the IMF and World Bank, John Maynard Keynes and his colleagues reshaped their century. In the six and a half decades that have followed, the World Bank has raised global ambitions in the fight against poverty, and channelled collective efforts for the common good.

Yet today – sixty-six years on - the world faces a new set of global challenges – greater, arguably than any since that meeting in Bretton Woods.

We have endured the most severe international economic crisis for generations. The early hopes, expressed by many in the economic community, that developing countries would be cushioned from its effects have been dashed – with the World Bank's latest estimates suggesting that an additional 64 million people will be pushed into extreme poverty because of this crisis.

Alongside this financial crisis there looms a climate crisis – and again, the world's poorest people, are most vulnerable to its effects.

And for millions of the poorest people around the world, there is a third crisis at the start of this century – a crisis of conflict and fragility.

Amidst those global challenges, and connected to them, we have the ongoing shame and crisis of poverty. With just five years to go until the deadline to reach the Millennium

Development Goals, it is clear that the world will not fulfil those promises without radical action.

I believe it is our collective moral obligation to take such action. And to this moral imperative, we can add the understanding that in this era of interdependence, such action is needed to assure our common security, our common prosperity – indeed our common future.

In this new century, faced by these new challenges, the World Bank will remain a vital pillar of the multilateral system as Ngaire said in her introduction – alongside the IMF, regional development banks, the United Nations and the European Union.

Time and again, the world has called on the Bank – with its finance, its knowledge, its reach and its capacity to offer necessary advice – to provide leadership. Time and again, the Bank has answered that call – pioneering new approaches, and helping to improve the lives of millions of people around the world.

The United Kingdom has been and will remain a strong supporter of both the World Bank and the mission of poverty reduction that is, and should remain central to its purpose. At the same time, we need now to revisit the global architecture that was established more than half a century ago. We are seeing this happen elsewhere – from the pre-eminence of the G20 to the IMF's response to the new imperatives of the global economy.

And in this changing constellation of multilateral institutions, the World Bank should be the leader in the global fight against poverty – recognised and supported as the primary source of expertise, finance and institutional support for developing countries.

I want to tell you this evening that the United Kingdom – as a shareholder in that institution - is fully committed to playing a constructive role in supporting the development mission of the Bank in the years ahead. We will not turn our back on the Bank.

All of the Bank's shareholders have a duty – both to our own citizens, and to the people whom the Bank serves – to work to ensure that the Bank's resources have the greatest possible impact.

That duty is especially clear this year – as the World Bank is asking shareholders to both replenish the International Development Association, which provides investment for the world's poorest countries, and has also requested an increase in its capital – something that has not been granted since back in 1988.

It is hard to overstate the significance of the International Development Association – known as IDA – to the effort to tackle global poverty. It provides 13 per cent of total global aid to the poorest countries on earth. Since 2000 it has helped provide clean water to over 22 million people, built or rehabilitated roads benefiting over 75 million people, and helped to get some 91 million children around the globe into school.

It is because of this impressive track record of effectiveness in reducing poverty that the United Kingdom committed in Berlin in 2007 to support IDA with our largest ever contribution to that fund - £2.1 billion pounds – which in turn makes us the fund's largest contributor.

So as we consider the new requests for IDA and for capital, we have a duty to consider also how we can ensure the Bank gets maximum benefit from the investment we provide. That is why, as Britain's governor to the World Bank, I am keen to play a part in renewing the institution: to enable it to take on the toughest development challenges, help the poorest countries, and be the most responsive multilateral institution in the world.

A vision for the Bank

Let me set out therefore in some detail, what I believe should be the three priorities for the Bank in this new era.
First, the Bank must prioritise and excel in tackling the toughest development challenges;
Second, the Bank should do more to help the world's poorest; and
Third, the Bank should be flexible and innovative enough to respond to an unpredictable world.

First, the world needs the Bank to take on the very toughest and newly emerging challenges that we are all confronting in the field of international development.

While some people argue that fragile states – whether Yemen, Sudan, or the Democratic Republic of Congo – are frankly just too risky to engage with, I believe that when half of all children who die before the age of five are born in fragile states, the greatest risk comes from leaving those countries to simply fend for themselves.

This is of course a challenge facing all institutions – that's why, last July, I announced that half of the UK's new bilateral aid will go to fragile and conflict-affected countries, and why I pledged that we will make security and justice priorities alongside basic services like education, health and water and sanitation.

Yet while the World Bank speaks of the importance of tackling poverty in fragile states, its practice lags too far behind its policies. Trust funds managed by the Bank have been slow to disburse in the Sudan and Iraq. The Bank has been slow to post senior staff to the Great Lakes Region and to Yemen.

Make no mistake – this is difficult work. The Bank's efforts in fragile states are limited partly because staff know that in these countries the risks of failure are highest. And we the shareholders have not clearly articulated the level of risk – the balance between risk and return – that we are prepared to accept. For surely we don't just want a coastguard which rescues mostly when the seas are calm and the winds are gentle.

Second - the World Bank should above all be a guardian for the world's poorest people. The Bank has historically led the way in supporting middle income countries to put in place social protection systems and I welcome the Bank's commitment of an extra $4bn in such support, to help countries respond to the financial crisis.

But the Bank now needs to show this same commitment to social justice for the very poorest people in the very poorest countries. In DFID we have taken concrete steps to support new and scaled up social protection schemes - committing to reach 50 million people in over 20 countries- and I will be urging the Bank, with its broader reach, to now step into the lead not only in middle income countries but also in the poorest countries as well.

For as we have been reminded in recent months, while many countries can face difficulties caused by turbulence in global financial markets, the poorest are less able to withstand those shocks. These are the countries that find it so much harder to find alternative sources of affordable finance – so will inevitably rely more on the World Bank both in good times and in bad. These countries should have a priority call on the very best expertise within the Bank.

Third, amidst the risks of such turbulence – not only from the recent global economic crisis, but the food, fuel, Asian and Latin American shocks as well that preceded it - we need a Bank flexible and adaptive enough to cope.

As we look to these issues of architecture, we need to learn from the recent financial crisis – it was right that the Bank had the capacity to support emerging countries when funding from the markets so rapidly dried up only a few months ago.

I welcome the Bank's speed of response in trebling its lending to middle income countries - committing to lend more than $100 billion over 3 years – which has and will provide much needed help in protecting their budgets and protecting their citizens from the worst of the crisis.

But the architecture frankly lacked a way to respond to the scale of need in the poorer countries. That is why, in his report to the G20 at Pittsburgh, the Prime Minister Gordon Brown called for a permanent capacity in the Bank to respond to crises in low income countries.

There is a precedent for this. It was my predecessor as International Development Secretary, Hilary Benn, who saw that the system of responding to humanitarian crises – the equivalent of a fire brigade asking for donations as they arrive at the scene – needed reform.

Now we have a standing fund at the United Nations, that can be called upon in the immediate aftermath of a humanitarian emergency – and indeed was used by UN agencies to fund their efforts in response to the tragic earthquake in Haiti.

Why shouldn't we have an equivalent capacity to help countries deal with economic emergencies? I'm pleased to see that the Bank is now piloting such a facility – but shareholders now need to set it up permanently , agreeing to review it if necessary.

But responsiveness is not just needed in times of crisis. Still it is suggested - in the case of the very poorest countries – that the Bank can still be too slow to disburse, too bureaucratic and too inflexible. Indeed the Bank's own reform papers, provided to shareholders just this week, described the need for the bank to – and I quote directly from those papers – 'unclog' its own processes.

The reform agenda

Of course progress in this effort has been made, and that I welcome. Yet we must ensure that we match the scale of our ambitions for reform to the scale of the challenge that we face. To do so requires the efforts of both the Bank's management and the Bank's shareholders.

For we cannot sensibly address the need to do more in fragile states, the right balance of resources between middle and low income countries, or indeed the ability of the Bank to respond to crises, without addressing weaknesses in the governance and accountability of this post-war institution.

That is why I want to suggest to you this evening that we have an opportunity at the forthcoming Spring Meetings of the Bank to address the governance and accountability questions that continue to impact directly on the legitimacy and effectiveness of the institution.

I believe that such questions should be addressed with an appropriate sense of urgency – that is why I pressed for wide reaching reforms at the Bank's Annual Meetings in

Istanbul last October. And I welcome the work undertaken by the Bank on this agenda since that meeting.

Now within the last few days the Bank's management have set out an operational reform agenda, with recommendations including simpler and faster investments, getting staff out into client countries and more focus on performance and results.

Reform is therefore a key test for management, but also a test for shareholders. The Bank's shareholders need to take tough decisions, and show political courage, in order to make the changes that are required – from top to bottom – to ensure that the Bank is not only fit for purpose, but fit to lead.

Let me be clear – after attending both the Copenhagen climate talks in December and the world trade negotiations in Geneva, I am under no illusions as to the challenge of achieving progress through multilateral negotiations.

Progress is sometimes measured in inches, rather than in yards. But the reason that I am setting out my suggestions tonight is because I believe that to have even a possibility of making important and fundamental reforms will require shareholders like myself to engage early and with candour in that process.

So in advance of the Spring Meetings in April, let me be clear to you this evening – as I will be clear with my colleagues on the World Bank's Development Committee – about the UK's priorities for reform. They are:
Agreement on voting reform, to give the poorest a greater voice;
Accelerating the promise of decentralising staff and decision-making to improve the organisation's delivery on the front line; and also
A new compact between shareholders and management – each held to account for the highest performance

Let me briefly take each of those in turn, starting with voting reform.

Voting

Such reform is long overdue, and critical to ensure that the Bank is a true partnership reflecting the reality of its work and its mission today – not that of 66 years ago.

And we have already made a start. The United Kingdom has helped to secure an extra seat on the Board of Executive Directors for sub-Saharan Africa. We have pushed for and secured agreement from all shareholders that the selection process for the President of the Bank should be transparent and based on merit.

Last October, shareholders promised to agree reform of the voting system at the forthcoming Spring meetings. We agreed that the World Bank's development mandate, and not just economic weight, should determine the apportionment of shares in the Bank. We agreed at least 3 per cent of the vote be transferred immediately from the developed countries.

But we haven't yet agreed the detail. We have the opportunity to design a new and relevant foundation for the Bank's governance and we should seize that opportunity. The aim must be to agree a dynamic system that will be reviewed every 5 years as the world changes – not arguing again in 5 years time whether it is right for developing countries to have more say.

We should agree that economic strength should only partly decide say within the Bank – and that more weight will be given to those countries making the largest financial contribution towards the Bank's efforts to fight poverty in the poorest countries

We should, I also believe, agree that more weight will be given to the poorest countries themselves – for the World Bank is a partnership, and the poorest countries should have a real say in deciding its direction. Because it is those countries that arguably have the strongest interest of all in ensuring that the Bank is effective – it is they, not the richer countries, who bear the greatest cost when things go wrong. They who work in partnership with the Bank to make poverty reduction happen on a daily basis .

Such reforms will help to ensure that the Bank responds to the needs of the world's poorest countries. But voting reform, challenging though it is, will not be enough to create the responsive Bank we need for today's world. That is why the second priority for the Spring Meetings should be to give a clear indication that more of the Bank's staff should be moved out of Washington and into poor countries.

Moving staff out of Washington

Even with its vast financial resources, the Bank's staff is still arguably its greatest asset. For too long, too many of the Bank's employees have been based in Washington however, rather than in developing countries.

I strongly support new proposals by the Bank to decentralise staff and decision-making to make the Bank more agile, more global and yes more responsive. Success in delivering this reform will remove the delays caused as governments wait for senior Bank staff to visit their countries to take important decisions. And it will improve impact – making sure that Bank staff are working with Government as genuine partners – accompanying their development efforts.

The Bank is now stepping up efforts to base more professional staff in Africa and make its lending more flexible. I support the Bank in going further and faster in implementing these reforms. Because we know this is what brings real benefits to people - as the Bank itself attests, projects in fragile states are four times more likely to perform well if they are overseen by staff based in country.

So shareholders should agree in Spring to move more Bank staff out of Washington as an urgent reform priority. And as shareholders we need to be realistic about the cost of this – it may indeed increase direct costs, especially in the short term, but I would argue that the costs to the Bank of not decentralising are far greater – in relation to loss of influence, legitimacy and impact.

So I stand ready to consider the possible additional costs, but the costs of closeness and greater accountability to clients must be matched by a drive from shareholders for the very best performance right across the institution.

That is why my third suggested priority for the Spring Meeting will be for shareholders to recast their relationship with the Bank's management.

Leadership and Corporate Governance

Because behind the continuing challenges of delivery we see at the Bank today are enduring weaknesses of corporate governance that have grown as successive Bank leaderships – shareholders and management alike – have failed to grasp the opportunity, indeed the imperative, to modernise.

Indeed, the independent Zedillo report "Repowering the World Bank for the 21st Century", personally commissioned by President Bob Zoellick to address the need for corporate governance reforms and staffed by some of the sharpest people in development, delivers a sobering critique.

“The World Bank’s governance”, to quote directly, “forged in the 1940s – has not kept up with historical change and today is not adequate to deal with global problems that require forward-looking, flexible, inclusive and legitimate institutions.”

As Zedillo points out, the current accountability systems “at best have only a limited impact”. We have a World Bank today where shareholders are not provided with a clear corporate strategy that sets out priorities for the Bank, and that guides the tough decisions and trade-offs that must be made.

All Shareholders – whether from rich, middle income or poor countries now need to take on this challenge. At the Annual Meetings we said that reforms to corporate governance are needed. We must not now shy away from this challenge.

I hope we can agree three important measures.

First, we need a new way of working that sees shareholders take more direct responsibility for the stewardship of the Bank, agreeing a strategy and taking tough – collective - decisions on where priorities lie.

I believe that a Ministerial board of Governors – meeting 4 times a year – would strengthen the leadership of the institution. We need an urgent shift so that Bank management – in common with the management of other organisations - expects to answer searching questions at the Annual and Spring Meetings on their performance and on the delivery of the strategy that Governors have tasked them to take forward. In turn, Governors should expect to have tough issues put to them, and equally have an obligation to work to resolve them.

Second - we should remove the ambiguity about the role of the President. Is he or she there to lead the shareholders or to follow their lead? The time is right to think about an independent Chair for the Board. And – at a minimum –shareholders must agree to hold annual performance reviews for the President and for Senior Management.

Third – in return for clearer strategy and tighter measures of performance, we shareholders need to give management the freedom to deliver. That means frankly getting out of the operational detail of the day to day running of the Bank.

Conclusion

Now I realise that for some shareholders, and indeed some within management, reform is a contentious subject. Some may fear that attempts to reform will somehow imperil the Bank’s status. Yet I think that those of us committed to the Bank can afford to be more confident – emboldened rather than cowed by the scale of the challenge that together we face.

With just five years to reach the Millennium Development Goals, with more than a billion people going hungry every day, with 72 million children out of school, with half a million women dying each and every year in pregnancy and childbirth, we have a collective responsibility to take the necessary radical action.

Such action cannot simply mean an increase in resources. Instead it will require us to aspire to the ambition and the vision to not only see the world as it is, but imagine how it might be – and to harness the commitment of all of us to work tirelessly towards that vision.

In so doing, I believe that we can regain some of the spirit of common action for the common good that was evident and indeed was forged at Bretton Woods.

More sixty years ago the man often referred to as the architect of that historic agreement – John Maynard Keynes – set out in his General Theory an insight that I want to share you with this evening.

“The difficulty lies” he said, “not in the new ideas, but in escaping from the old ones”.

He was writing in a different time, acting in the shadow cast by another great crisis. Yet that insight I believe rings as true at the start of this century as it did in the middle of the last.

So we must be bold in our efforts to tackle the challenges of our era – of poverty, of conflict, of climate change - for it is only through bold collective action that we can hope, together, to overcome them.