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World Bank's Greek Welfare Fix Shows Shift From Emerging Markets

By Sandrine Rastello - Feb 4, 2014

The [World Bank](#), best known for helping developing nations from [Kenya](#) to Pakistan combat chronic poverty, is advising euro-area members Greece and Cyprus on how to strengthen their economies in the wake of debt crises.

About 55 World Bank staff have spent some time in the Mediterranean nations to advise them on competitiveness, welfare policies or public administration, according to Dirk Reinermann, who manages the programs. Based on the collaboration, Greece this month plans to announce a new system to simplify the process of setting up a business, Development Minister Kostis Hatzidakis said in an e-mail.

World Bank President Jim Yong Kim is taking on little-publicized consulting work from developed nations to find a new outlet for the bank's expertise in a test of the demand for services that would otherwise be provided by private companies. Officials in [Greece](#) and Cyprus, initially reluctant to work with a poverty-reduction agency, are indicating the partnerships are starting to show results.

"In some parts of the world, some parts of Europe, we have a bit of a perception of being the bank of poor countries only," Reinermann said in an interview last month in Washington. "As we work in more countries, this perception will fade over time."

Kim, a physician and former president of [Dartmouth College](#) in Hanover, [New Hampshire](#), has set a goal of ending extreme poverty by 2030 and boosting the income of the poorest 40 percent. Offering advice to wealthier members may also bring in business once the number of borrowers starts to dwindle, said [Eswar Prasad](#), who teaches economics at [Cornell University](#) in Ithaca, [New York](#).

'Other Avenues'

"The World Bank might be strategically positioning itself for a future where, if it is successful in its mission of poverty reduction, it will have to seek other avenues of engagement with a broader

group of its member countries in order to maintain its relevance,” said Prasad, a former International Monetary Fund official.

Demand for such advisory services has doubled to \$95 million this year from 2012, covering 70 programs in 14 countries, including Poland and [Romania](#), according to the bank. The Greek and Cyprus services combined are billed at about \$6 million to Cyprus and the European Union, which led bailouts of the two crisis-stricken countries.

It's a small business for the Washington-based agency that has about 15,000 employees and made \$53 billion worth of loans, investments and guarantees last year. The bank says it doesn't profit from the consulting activities, charging just enough to recover costs such as salaries and travel.

Questioning Results

While still limited in scope, Kim's expansion of advisory services beyond the world's poorest countries is drawing criticism that it's unnecessary and is spreading the lender's capabilities too thin.

“We do fear that the bank is simply testing the water before seeking to increase significantly these sorts of consultancies,” said Sargon Nissan, a program manager at the Bretton Woods Project, a London-based watchdog of the bank and the IMF. He said the bank's advisory work does much the same as the IMF, yet at a more “micro level.”

Prasad said there is also concern in the development community that the World Bank's increased engagement with its richer members could divert human and financial resources from low-income countries.

Reinermann said demand for consulting services contributes to higher revenue and enables the bank to gain knowledge that will benefit all of its 188 member countries.

Zoellick's Reluctance

While the bank had done some work on the investment climate with some high-income countries before, the decision to respond to a country in crisis such as Greece was a new level of involvement that Kim's predecessor, [Robert Zoellick](#), tried to avoid.

Speaking in June 2012, days before leaving the bank, Zoellick said he had decided to keep some distance from Greece as the government sought to address bailout conditions. His concern was, he said, “given the political tensions, that it might not be as productive for Greece as it would be harmful to the bank.”

Two weeks later, Kim said he was open to sharing technical expertise with developed economies, including Greece. After initial contacts with [Portugal](#) didn't pan out, a first agreement was signed with Greece in December 2012 to help improve the country's competitiveness, Reinermann said.

Global Ranking

Greece received assistance to improve its standing on the bank's annual "Doing Business" ranking. Dropping a minimum capital requirement for start-ups helped.

In the latest [report](#) released in October, Greece ranked 72nd overall -- behind [Ghana](#) and second-to-last among members of the Organization for Economic Cooperation and Development -- and 36th on a subcomponent measuring the ease of starting a company. That was up from 78th overall and 146th on the forming-a-business category a year earlier.

The collaboration "is especially satisfying in regard of simplifying procedures for setting up businesses and improving the functioning of supply-chain logistics," Hatzidakis, the Greek development minister, said in the e-mailed response to questions sent through a spokesman.

A second project followed in the latter half of 2013 to put in place a social safety net for the poorest, a condition attached to Greece's bailout.

Cyprus Reviews

A program reviewing Cyprus's public sector, including an evaluation of the efficacy of education spending, started around the same time. The bank is reviewing the functioning and effectiveness of three Cypriot ministries, including health and education, and will present the final recommendations in March.

There was early skepticism in Cyprus about collaborating with an organization known for funding dams, fighting malaria and boosting farm production.

"Given the bank mandate for the reduction of poverty in less-developed countries, I was concerned that the messages that would go out both nationally and internationally would be tainting the already tarnished reputation of Cyprus," Emmanuela Lambrianides, commissioner for the reformation of the civil service, said in an e-mail.

Now, Lambrianides said she's happy with the cooperation. The bank brings diverse views and can quickly mobilize experts, though coordination is sometimes complicated as staff travels to different time zones, she said.

Stronger Demand

Reinermann said he's confident other clients may follow, including in [Europe](#), as the word spreads that the bank can deliver good and fast services in an expanded range of countries.

The advice in developed economies may be similar to emerging counterparts anyway, said Scott Morris, a former deputy assistant secretary for development finance and debt at the U.S. Treasury Department.

“If you think of the bank's long-going engagement to pretty sophisticated economies, [China](#), [Brazil](#), even [India](#), a lot of aspects of that engagement don't look any different from the kinds of things they can bring to bear in situations like Greece,” said Morris, now a visiting policy fellow at the Center for Global Development, an aid research group in [Washington](#).

“Why not exercise those capabilities and demonstrate the value of the institution to all of its shareholders?”

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