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)

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NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached for information of the Members of the Development Committee is a Note from the President of the World Bank, James D. Wolfensohn, for the Committee's April 30, 2001 meeting.

<u>President's Note to the Development Committee</u>

Since we last met in Prague, we have responded to the guidance you gave us then, and to the requests you made. We have taken further the task of focusing the agenda of the World Bank. And in doing so, we have built upon and consolidated on the changes of the last five or six years. Today the World Bank is a fundamentally transformed institution. The purpose of this Note is to share with you some of our perspectives on the changes made, and on some of the issues before us.

We must recognize how much has changed in the last five or six years. And it is not often appreciated **how much** we have changed—and how much these changes have sharpened our focus on our mission of poverty reduction. I do not wish to sound self-serving or exaggerated, but these changes are reflected all over the institution, and in the way we are now conducting business. It is remarkable that we have achieved this on a flat budget in real terms, and the strain is really showing. However, we also recognize that on some important issues we have some way to go. And we are working on them as a strong management team.

The challenge of poverty is still immense. We have to make sure that our response is commensurate with the scale and scope of that challenge. The World Bank has become more effective, and many developing countries have made strong progress. The international community has set an agenda at the Millennium Summit: the International Development Goals, which we welcome and which we have integrated into our strategy.

We also welcome the advances the European Union has made on trade with the proposals for the "Everything But Arms" (EBA) agreement, and similar initiatives by Norway and New Zealand. In May last year, the US Congress passed the landmark Africa Trade and Development Act of 2000, that reduced or removed trade barriers for a broad range of articles produced in African countries for entry into the United States. All these initiatives are laudable and very welcome.

But the slowdown in the global economy will have an impact on the developing countries. The industrialized countries must recognize their global responsibilities and act upon them in this context. Events in Turkey and Argentina are a matter of some concern, and we stand by to help them and other countries that need assistance, though we will do so within the framework approved by our Board, and agreed upon with the IMF as to our respective roles.

This is the first year after the Strategic Compact implementation period; over the last few months, we have been taking stock and reviewing what we have accomplished, and what remains to be done. I am happy to report to you that a significant portion of what we set out to do under the Compact has been completed, and we are well positioned to take on and finish the rest, which relates to internal matters and changes in culture.

Commitment to the International Development Goals lays out a road map to focus on as we move ahead. Our mission—poverty reduction—is the principal goal; achieving all the others will hinge on, and are central to reducing poverty. But clearly, they cannot be achieved without a concerted effort on the part of all of us: the international community, international institutions, developing country governments, donors, civil society and the private sector. And now that we all have agreed on the IDGs, it is critical to increase development assistance on the one hand, and ensure that resource commitments —such as to IDA—are met on the other.

Our efforts to become a more effective and efficient institution have required tremendous commitment from staff and management. I am grateful for and appreciative of their dedication and efforts. I would also like to thank the Executive Directors for their hard work, support and advice on many of the issues.

I. Our Corporate Agenda

The emphasis of our mission remains on fighting poverty, with the International Development Goals providing an important frame of reference for our efforts. At the country level our focus is helping poor people to lift themselves out of poverty—complemented by regional and global programs in areas such as trade, environment, and communicable diseases. Two inter-related pillars will underpin our priorities:

- Building the climate for investment, jobs and sustainable growth.
- Empowering poor people to participate in development and investing in them

In late March, we shared with the Board a Strategic Directions Paper that describes the specific steps we are taking to implement that framework and presents for discussion the estimated resource requirements of meeting the World Bank's commitments in an increasingly complex environment.

We are committed to pursuing greater selectivity along three dimensions—within countries, across countries, and for our global programs. Recently, the management team has focused on developing a stronger framework for priority setting and selectivity at the global and corporate levels.

That framework distinguishes between corporate advocacy priorities—issues we see as critical enablers of poverty reduction—and global public goods priorities—where strong externalities and spillover effects exist. In deciding which priorities to adopt, we will be guided by five key criteria: relevance to our mission, the level of client need or demand for the issue, the World Bank's comparative advantage, the adequacy of resources, and the likely effectiveness of our assistance.

We have identified an initial list of these priorities, and we are now working on how to apply them across the World Bank. This work will help us to align our activities and budgets behind a clear set of corporate priorities. The Management Committee that has been recently established will play a key role in overseeing the stock and flow of our corporate priorities in the future.

II. Supporting Country Development

In September 2000, a report titled *Comprehensive Development Framework: Report on Country Experience* summarized experience with the implementation of CDF principles in 12 countries. Since then, these principles have received wider acceptance in the international community as a basis for achieving greater and deeper poverty reduction and sustainable development.

The Strategic Framework Paper (SFP) and the Strategic Directions Paper (SDP)—presented to the Board in January and March respectively—make it clear that the application of CDF principles are key to achieving development impact. The principles that underpin the Comprehensive Development Framework (CDF) guide selectivity within countries, based on our comparative advantage and development effectiveness.

Low-Income Countries

A. Implementing Poverty Reduction Strategies

The introduction of Poverty Reduction Strategy Papers (PRSPs) has significantly increased the number of countries adopting the CDF approach. The PRSP process has emerged as the principal vehicle for implementing CDF principles in low-income countries.

The PRSP approach has accelerated and broadened its regional coverage since the Committee's September meetings. The number of Interim PRSPs (I-PRSPs) considered by the Executive Boards of the World Bank and Fund has risen from 13 to 32 and the number of full PRSPs from two to four.

A new IDA lending instrument, the Poverty Reduction Support Credit is being introduced, specifically tailored to supporting countries' poverty reduction strategies; we are also streamlining our respective conditionalities in PRSP countries and strengthening the division of labor between the two institutions.

Uganda is one country that has a full PRSP in place. It has also been one of the fastest growing African economies, growing at over 7 percent in 1998-99. It is a prime example where the rapid progress that has been made can be related to the policies and actions that the country has taken.

B. Debt Relief: The Highly Indebted Poor Countries (HIPC) Initiative

I am pleased to report that to date, 22 countries have reached their decision point under the enhanced HIPC Initiative framework, for debt relief amounting to about $34 billion over time. In combination with traditional debt relief mechanisms, the total debt of these countries will be reduced by two-thirds. Most important, this relief is boosting critical social spending, with heavy investment in health and education.

We have also continued to strengthen coordination with the IMF, and with all of our partners participating in the Initiative. To date, total bilateral contributions and pledges to the HIPC Trust Fund stand at approximately $2.5 billion. And governing bodies of nearly all of the relevant multilateral development banks have now confirmed their participation in the Initiative. Our attention is now focused on those countries near their completion points, many of which are affected by severe conflict. Preliminary documents have been reviewed for Chad and Ethiopia, which could reach their decision points in the spring and fall of 2001 respectively.

It bears reiterating that debt relief, to be effective, must be delivered in addition to sustained aid flows. Breaking out of the debt trap and moving into the process of sustainable growth sustainable growth is not a one-shot result. Developed countries, donors and development partners have to sustain their commitments to the HIPC Initiative, without which the gains made so far may become vulnerable to roll back.

C. Assistance to Post-Conflict Countries

The last ten years have witnessed a proliferation of armed conflicts in low-income countries, most of which have been domestic, and in which civilian populations have been especially affected. These conflicts have destroyed past gains and pose a major threat to the future economic and social development of these countries. They have regional, even global, implications through the dislocation of economic activity and the rapid spread of communicable diseases, HIV/AIDS in particular.

Africa has been particularly hard hit; directly or indirectly, conflict has affected almost half of the countries in sub-Saharan Africa. And unless it is contained, achieving the international development goals in Africa will be severely impacted. It is unlikely that any of the IDGs could be achieved.

The Bank has supported the social and economic recovery of almost every low-income country that has emerged from conflict over the last decade. We have provided financing and policy advice, with particular attention to the needs of conflict-affected and other vulnerable populations. While we are already well positioned to assist countries as they emerge from conflict, their urgent needs leave no room for complacency.

Many low-income conflict-affected countries have very large external debts and are thus eligible for HIPC debt relief. With the Fund, we are taking steps to ensure that we have the capacity to respond fully to the debt-relief needs of these countries. In particular, we are making sure that the debt burden does not slow down economic and social recovery by helping countries gain early access to the HIPC process.

Moreover, substantial technical and capacity building assistance is needed to help these countries develop, launch, and sustain effective recovery programs. So far, contributions to the financing of these activities has been provided from IBRD net income, donor supported country specific trust funds and the Post-Conflict Fund (PCF), but more resources could be deployed effectively especially as needs will increase when more countries emerge from conflict. The Bank's proposals now in front of you will allow us to increase our contribution, as well as to provide net positive transfers to these countries throughout the recovery process, as long as we have parallel action by other creditors.

Supporting Middle Income Country Development

Last fall the World Bank Group created a Task Force that held extensive consultations with client countries, shareholders, partners, and World Bank Group managers and staff, and undertook substantial analytic work, following discussions in Prague on World Bank support to the middle income countries (MICs).

Based on the work of the Task Force, and extensive discussions with Executive Directors, World Bank management has produced a paper ***Strengthening the World Bank Group's Support for Middle-Income Countries***. A clear consensus emerged from those consultations: the World Bank Group must stay engaged with middle-income countries (MICs). There is a moral imperative: 80 percent of the world's poor (those living on under $2 a day) live in MICs, so in order to combat global poverty, poverty must be tackled in MICs.

Even when countries have access to private finance, such access is often volatile and limited. Experience has shown that volatility and the knock-on effects on economic activity can result in a dramatic increase in poverty. Poverty is a long-term challenge requiring commitment over the long haul. Poverty reduction efforts require stable partners—which include the international institutions. Over time, our work can have an important impact. In addition, experience gained from MICs informs the advisory and knowledge base for work in the low-income countries.

But the World Bank should only remain engaged in areas in which it is making a difference, concentrating on assistance that others—including private markets—cannot or will not provide. The main drivers of growth and poverty reduction in these countries are good policies and institutions to implement them.

Since the World Bank's share of overall funding is limited, its role is to act as a catalyst for policy and institutional change, for stable and sustainable private investment flows, and for policy and financial support from development partners. We intend to use and develop our lending instruments that allow for a medium term programmatic approach to better support this role.

An important part of the agenda requires the World Bank Group to be highly selective in what it does, drawing on analyses by other development partners and countries themselves, and looking to development partners to take the lead in supporting reforms in particular sectors wherever feasible. In particular we will be working together with the Fund to develop more structured and streamlined Bank-Fund co-operation in middle-income countries in line with the vision that Horst Kohler and I set out last September.

Supporting Private Sector Development

The poorest people in any developing country do not work in the public sector. It is more likely that they will be employed in agriculture, which is privately owned, or in small and medium enterprises. And the ability of these enterprises to access capital markets is difficult under the best circumstances.

And private capital markets are not going to make this easy. Between retrenching international lending and still underdeveloped financial systems, many firms in developing countries will not invest unless there is support and assistance.

IFC: Within the World Bank Group, the strategy for this is embedded in the work of the International Finance Corporation (IFC) and the Multilateral Guarantee Agency (MIGA). The mission of the IFC is to promote sustainable private sector investment in developing countries as a way of reducing poverty and improving people's lives.

New investment approvals for FY01 are expected to reach $3.8 billion in 274 projects. Investments in building domestic financial markets are the largest sectoral focus. Private infrastructure has the second largest share. And 25 percent of the projects are expected to be in sub-Saharan Africa.

MIGA: Since issuing its first guarantee in 1990, MIGA has since issued a total of more than 500 guarantees. At the end of December 2000, the guarantees covered about $7.7 billion that facilitated an estimated $38.6 billion in investment. In FY01, gross issuance is expected to be between $1.6 billion to $2 billion.

MIGA has undertaken a number of initiatives to improve operational efficiency and better focus. It has formed a cross-departmental Africa team to support both guarantees and technical services across the continent. MIGA also works closely with IFC in the field, which cooperation makes MIGA more client-responsive.

Harmonization across Development Agencies

The number of donor institutions has increased over time, and the importance of effective partnerships has grown too. Understandably, there is pressure for harmonizing these operational policies and procedures as a way of reducing the transaction costs of development assistance that have mounted, and imposed on developing countries.

Overall progress toward harmonization had been limited and uneven. Harmonization should be accelerated at all levels—agency, country and global levels—and should adhere to standards or common principles that take into account recipient country capacity and requirements, and guide efforts to strengthen them. It is appropriate to begin to focus these harmonization efforts on concrete progress in three key areas – procurement, financial management, and environmental assessments.

As we go forward, it is my hope—and the consensus of our Board—that the World Bank will continue to play a key role in harmonization by developing an analytical framework for assessing its costs and benefits and preparing a detailed time-bound work program to ensure measurable, concrete progress on this important issue.

III. Supporting Global Efforts

In Prague the Development Committee had discussed the Banks' involvement in the provision of global public goods, and had endorsed criteria for Bank action. The Committee also outlined five areas as having particular priority for Bank engagement in global collective action: communicable diseases, environmental commons, financial stability, trade integration and the knowledge revolution. Two of these—the global environment and the knowledge revolution will be discussed in the future.

Communicable Diseases

There is near universal consensus in the international community that curtailing the spread of communicable disease is a critical global public good. HIV/AIDS alone has killed 14 million people, and infected another 36 million. Other diseases—malaria and tuberculosis, to name two—have re-emerged as major threats. Conflict and woefully inadequate resources have undermined childhood immunization and public health interventions.

The World Bank's role is visible at three levels. First, World Bank-supported programs and projects can provide the country-level framework on which global action must be based. The projected total of FY01 World Bank commitments with a focus on communicable diseases is $900 million, triple the commitment of FY00. The expansion of World Bank lending for HIV/AIDS is helping deepen and extend national strategies to combat the disease in Africa and elsewhere.

Progress on TB control has been slower, but the World Bank is still the single largest source of external support for TB control in developing countries. We support malaria interventions with 74 operations in 46 countries—the disease is responsible for more than a million deaths a year—and an additional 10 operations are in preparation.

Our involvement in major alliances, such as UNAIDS and the Global Alliance for Vaccines and Immunization (GAVI), continues to be deep. We help provide seed capital, both intellectual and financial for new disease initiatives of a public-goods nature.

These approaches—country-anchored, building on partnerships and exploiting the catalytic opportunities—are an appropriate response to the breadth of the global disease challenge. They reflect the World Bank's global role on disease, which while expanding rapidly, can only be a limited contribution to the massive investment in prevention and eradication that is required. Given the sensitivity of areas such as the availability of drugs in poor countries and pharmaceutical pricing, they also emphasize the importance of the World Bank's participation in broader and strongly supported partnerships.

The case of HIV/AIDS deserves special consideration. The World Bank has committed more resources to HIV/AIDS in FY2001 than in any previous year. The Executive Directors have approved $566 million for HIV/AIDS programs so far, more than half as much as the World Bank committed to HIV/AIDS in the previous 15 years combined.

The World Bank last year designed and prepared (in just a few months) the Multi-Country AIDS Program (MAP) for Africa, which was approved by the Board in September 2000. The MAP makes available $500 million to IDA-eligible countries, which they access through individual country projects. It will help countries scale up national prevention, care, support, and treatment programs, as well as prepare to cope with the mounting burdens they will face as the millions living with HIV today develop AIDS over the next decade.

The World Bank, in conjunction with UNAIDS, PAHO/WHO, and other regional partners, is preparing a similar approach with several Caribbean nations. The first phase of a $100 million Caribbean MAP is scheduled for Board presentation by the end of this fiscal year and is expected to include Barbados and the Dominican Republic. Several countries have expressed interest in a second phase. Countries in other regions have also an interest in pursuing this approach.

<u>International Financial Stability</u>

The World Bank has been contributing, in partnership with the IMF, the development and dissemination of international standards and good practices relevant to developing countries. The collaboration with the Fund has been central to our efforts, and we will continue to work closely with our colleagues there on these issues.

The joint Bank-Fund Financial Sector Assessment Program (FSAP) and the collaboration with the Fund on the Reports on Observance of Standards and Codes (ROSC) are two central pillars of this effort and now provide a valuable framework for helping countries strengthen their financial and economic systems.

<u>A. Developing Effective Insolvency Systems</u>

In the aftermath of the 1997-98 financial crises, reliable insolvency and creditor rights systems have been identified as one of the key elements needed both for the sound functioning of domestic real and financial markets and for reducing the risks and costs of systemic instability.

Given that there were previously no agreed principles in this area, and the need to integrate analysis and lessons that spanned different functional disciplines and institutions, the World Bank took the lead in the formulation of the Principles. We have worked in collaboration with the IMF, the IFC, the regional development banks, the OECD, the United Nations Commission on International Trade Law (UNCITRAL), and two private international organizations concerned with insolvency reform.

The Principles were discussed by the Executive Board on April 10, 2001, who took note of the substantive work that had been done, and of the catalytic role of the World Bank in integrating and distilling lessons on a complex issue. At the same time, there was recognition that this was still work in progress.

This will be discussed again in a year or so, based on further experience and continued dialogue with the international community on insolvency and creditor rights systems reform. The Board has requested a more nuanced treatment of the balance between public and private rights and of the role of courts in supervising bankruptcy cases.

B. Debt Management

The World Bank and the Fund have recently published a set of Guidelines for Public Debt Management. I particularly welcome the strong international endorsement that the Guidelines received during an extensive set of consultative meetings covering more than 300 representatives from 122 countries and territories.

I believe that the Guidelines will provide valuable assistance to governments by helping them to build capacity for managing their debt, thereby reducing their vulnerability to international financial shocks. The World Bank will assist client countries to strengthen their debt management capacity.

These Guidelines are designed to assist policymakers in considering reforms to strengthen the quality of their public debt management and reduce their country's vulnerability to international financial shocks. They were discussed and approved by the Executive Directors of the World Bank and the Fund in March 2001, and we would welcome the Committee's encouragement that they be utilized by member countries and incorporated into World Bank and Fund technical assistance work.

C. Combating Financial Abuse

Money laundering has become an issue of growing global concern, affecting both large and smaller economies, and with significant development costs. The Bank and the Fund have already been making important contributions through their ongoing programs to help countries strengthen their economic, financial and legal systems, thereby reducing susceptibility to financial abuse.

We have—with the Fund—proposed steps to support international efforts to curb money laundering, including through close collaboration with the relevant international bodies, notably the Financial Action Task Force and the UN bodies. We support incorporating relevant anti-money laundering elements in the assessment and implementation of standards, and will help countries strengthen their anti-money laundering defenses through support for capacity building.

Leveraging Trade for Development

There is a simple lesson we can draw from experience. Those countries that have embraced trade have grown the fastest, and have also made the deepest inroads into poverty reduction.

At the global level, developing countries are now pivotal to the success of the world trading system. The World Bank's objective is to help developing countries use the system of multilateral rules to expand their trade and development, particularly for least developed countries (LDCs).

Of particular importance is the Integrated Framework effort, a multilateral initiative designed to help least developed countries respond to market opportunities and accelerate their integration into the multilateral system. The World Bank's support in assisting developing countries build their capacity to negotiate on trade issues is an important part of our work. Regional arrangements are becoming increasingly important for trade policymakers, as steppingstones to more effective multilateral participation.

Strengthening Partnerships

Strategic partnerships with national governments, civil society, international organizations and the private sector are critical to the World Bank's engagement in global programs. The business of development is beyond the capacity of any one institution and requires the coupling of mandates and capabilities of many organizations.

The fundamental partnership with the IMF is central to the World Bank's role in providing public goods of a global nature relating to global economic governance, financial stability and trade. United Nations agencies are at the center of many areas, in which the World Bank is working, and have a global mandate in several of them—world health, for instance, or peace and security.

The partnership with the regional development banks is the third leg of multilateral partnership, with which collaboration has been expanding rapidly. Other crucial partners—bilateral donors, foundations, non-governmental organizations (NGOs) and the private sector need to be engaged, and roles and divisions of labor established. This is already occurring, but much more remains to be done.

Vaccines are an area where international partnerships have grown rapidly in the last few years. GAVI is an organization founded in 1999 to address the widening disparities between life saving immunization rates in developed and developing countries. The WTO looks to the World Bank to integrate trade policy with development programs, an important dimension of which is to strengthen developing countries' capacity within the WTO framework.

I would also ask the Ministers to consider an equal partnership in funding such important partnerships. CGAP is a prime example, which helps build a fullscale microfinance industry that can provide hundreds of millions of the poor with sustainable access to financial services—credit, savings and insurance. Access helps the poor build incomes, smoothen consumption and reduce their vulnerability to shocks.

IV. Concluding Remarks

The six months since our last meeting in Prague have been a period of intense internal review that has sought to address how a fundamentally transformed institution should take on the global challenge of poverty reduction. It is sobering to reflect upon how far we have to go. While we have made many advances, others remain to be made.

Our focus on our mission—poverty reduction—has been sharpened dramatically. We have broadened our product base and increased sharply our effectiveness in promoting the private sector. We have become a more open and participatory institution. Nearly all our country assistance strategies are now accessible to the public and over 70 percent of projects have involvement from civil society.

We have taken steps to improve the cost effectiveness and quality of our operations. With most of our country directors in the field (and nearly half our regional staff) we have improved client responsiveness and reduced project preparation time from 24 to 15 months. We have become a more open and participatory institution.

We have strengthened our systems for compliance with safeguards and standards, including social and environmental, as well as financial and procurement. All of these steps have raised the quality of our operations, but they have also raised the costs.

Today, we have global reach and diagnostic capability; we have the knowledge and the resources, and we can play a catalytic role in bringing together economic, political and social capabilities—governments, Parliaments, donors, the private sector and civil society—in the global fight against poverty.

At the same time we have accomplished all this under conditions of considerable internal strain. The Strategic Compact money aside, we have not had a budget increase in real terms. Over the last two years, the level of our budget has been declining (as agreed upon under the Compact), but we have also been fitting in new and more complex requests.

For example there are demands from the expanded HPIC program, the new Poverty Reduction Strategy Papers, and the expanded scope of our work on issues such as anti-corruption, AIDS, and post conflict assistance. The result has been an institution under pressure—resulting in increasing work overload for staff and the squeezing out of some critical investments in the World Bank's future capabilities, such as economic and sector work and lending preparation.

And yet, over the next 25 years, the challenges will only grow bigger. In 2025, even if we achieve our goal of reducing the numbers living in poverty by half, we will still have 3.4 billion people in poverty. It is important that the World Bank be near the head of the fight against global poverty. We look to you for your support and guidance on our meeting the challenges that face all of us.

The Strategic Directions Paper presents a resource planning framework based on a thorough, bottom-up estimate of resources required to meet client needs, redeployments from lower priority activities, and continuing efforts to increase our cost effectiveness. We have made considerable progress in these areas this year. We have strengthened our budget allocation and shifted resources, improved our monitoring and reporting functions.

To meet our commitments and to address the current resource pressures, even with redeployment and cost savings, will require a budget increase (in real terms) in FY02 and with additional increases in FY03 and FY04. We are working on developing a detailed proposal by end-May that will provide a sound basis for the World Bank to scale up its impact, re-invest in staff, and focus our energies on continuing to meet the growing challenge of world poverty.