



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 November 18, 2001 meeting to be held in Ottawa, Canada.

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## **President's Note to the Development Committee**

The coming years will pose enormous challenges, testing our effectiveness as a development community. The developing countries face the challenge of sustaining development, moving forward with reforms, and safeguarding stability as new stresses arise from falling commodity prices, plummeting revenues from exports and tourism, and reduced private investment. Compared with a year or even six months ago, we face together a world with a more sobering global outlook, more refugees, higher tensions, and much greater uncertainties—all of which will make our fight against poverty still more difficult.

As we take on these challenges, however, we can draw on a growing, but still fragile, new asset: an international recognition of global interdependence. We must build on this recognition, while also recognizing and gaining from global diversity, to renew and deepen our efforts to launch an international response that matches the scale of the problems that the developing world faces. Most of these problems were already with us on September 10<sup>th</sup>—they are not new. But what is new is a far deeper understanding of their magnitude and importance, and a much greater willingness to act together. This must inspire us all to deepen the fight against poverty—both the short-term struggle to control and limit the ripple effects of September 11, and the longer-term campaign to meet our shared development goals.

### **A New Recognition of an Interdependent World**

The trend toward greater interdependence among nations has gathered momentum for centuries, accelerating rapidly in the past two decades. September 11 painfully underscored that new reality. These terrorist attacks were not the first to cost innocent lives, nor will they be the last, but they were of a scale that reverberated around the world in a way that no one could ignore. I trust that we will not hear again the argument that what happens in Afghanistan is of no relevance to someone living in Alabama, Amsterdam, or Auckland.

I believe that we now all recognize that poverty and frustration in central Asia can create havens for terrorists whose actions are felt across the planet. We see that AIDS in Botswana is part of an epidemic that affects all countries—not only because of the common tie that binds all humanity together, but because communicable diseases spill over national borders, and because epidemics weaken economies and threaten social stability. In the same way, we now must recognize that poverty in Northeast Brazil is the responsibility of us all. If the argument of a common humanity did not convince us of the importance of acting together before September 11<sup>th</sup>, then an expanded understanding of our self-interest will surely do so now. We live in one world. How we manage our interdependence will determine whether we are intimidated or empowered by the bonds that unite us.

One world does not mean one *model*. It is fundamental that we recognize that what is at issue here is *interdependence*—that is, our dependence on each other. We must not be dependent on, or subordinate to, any one dominant set of values or views on development. The great potential of the integrated world lies precisely in the richness of its diverse parts. Diversity provides a source of strength, both at the national level and globally. It is something to celebrate. All cultures have something of value to provide to the world, and we must be open to all. The challenge we face is in

large measure a challenge of changing attitudes, of learning to work together rather than simply making demands of each other.

Resources, goods and services, values—all these are things to be exchanged, not simply exported from one dominant culture to all the others. There are more than a billion people living in China, more than a billion in India, another 600 million in Africa, 500 million in Latin America, and so forth. Notwithstanding their many contributions, it is impossible that the billion people living in the richer countries—or any other single group, for that matter—could have a monopoly on the answers to all questions about development strategies or societal values. This is all the more true as the reform effort has shifted, in so many countries, from macroeconomic reforms to deeper structural and social reforms whose success will hinge on their ability to adapt to local conditions. In this context, there must be a shared understanding of values and cultures across the development divide.

Developing countries themselves must make the key decisions driving their development. Country ownership of development and programs is more important than ever, and it will become even more so with expected demographic changes. In the next thirty years, the population of the world will increase from 6 to 8 billion, and virtually all of those two billion additional people will live in the developing world. The sooner we are able to embrace the implications of this, the better. The new framework for global development must tap the wealth of our shared knowledge and the promise of global integration; it must also draw on local preferences, values, and aspirations.

In this environment of interdependence—not new, but newly recognized—global governance and global institutions play a crucial role. Only such institutions and governance structures can ensure that all countries have a voice, and can thus help to ensure global commitment to the common endeavor of peace and prosperity. Only with a new commitment to building global governance and addressing global problems will we be able to tackle the challenges of long-term development and short-term instability. The World Bank Group is central to this agenda, together with the other IFIs.

### ***A Shared Objective: The Millennium Development Goals***

This new commitment to global action can and should be turned immediately toward specific and concrete actions. Indeed, the international community has already taken the first steps, by moving strongly to confront terrorism directly and increase security. We have also seen real collaboration—and it must continue—aimed at averting global recession. These *are* signs of a rising international response to international problems.

But we must go one step further. The greatest long-term challenge for the global community in building a better world is that of fighting poverty and promoting inclusion worldwide. We recognized both the scale of the challenge and our moral obligation to take it on, when we as an international community pledged last fall to meet the Millennium Development Goals. We have committed to reach the ambitious income poverty target of reducing the proportion of people living in absolute poverty by half by 2015. But the goals for 2015 must and do go beyond income. Importantly, they include the goals of achieving universal primary education (as well as gender balance in education by 2005) and reducing child and maternal mortality rates by two-thirds and three-quarters, respectively.

There is no doubt that meeting the MDGs was a great challenge before September 11<sup>th</sup>. Even with the relatively strong growth predicted last year, the trends at that time indicated that many of the world's countries, indeed whole regions, would fall short of the income poverty goals, and that the world as a whole was in danger of failing to reach the non-income goals. While three billion people live in countries that are integrating, reforming, and catching up with the rich countries, another two billion are in countries that are being left further behind. Far too many of the countries of Sub-Saharan Africa belong to this latter group. And the scale of the challenge is not only immense now, but rising, as a further two billion people are added to the populations of developing countries by 2030.

Last fall, we committed to the Goals; this fall, the prospects of reaching them may seem remote. Yet a strong push toward the Goals is even more imperative now, in the wake of September 11<sup>th</sup>. Because of the terrorist attacks, growth in developing countries will falter, and progress in poverty reduction will slow, with farmers, rural laborers and others especially in Africa and parts of Latin America bearing a particularly heavy burden. We will not meet our goals unless together we take urgent steps to scale up our activities. This was true several months ago, and it is still more true now.

### **Dealing with the Short-Term Consequences of September 11<sup>th</sup>**

We must not allow the immediate consequences of September 11<sup>th</sup> to derail our long-term strategy for growth and poverty reduction. To this end, there are pressing issues on which we must act together urgently, with each country or organization playing its own role.

Even before the attacks, developing countries were feeling the strain of the global economic slowdown. Trade and capital flows were already down, for example. Trade growth had dropped from 13% last year to less than 2% this year, hitting East Asia especially hard; capital market flows to developing countries had already dropped by more than 25%; and commodity prices had fallen more than 7%. All of this worsened financial strains in such countries as Argentina and Turkey. As a result, developing country GDP growth was already projected to slow from 5.5% in 2000 to just 2.9% in 2001.

September 11<sup>th</sup> has of course darkened the picture substantially, for developed as well as developing countries. First, there are the immediate costs. Tourism revenues have fallen sharply, especially in the Caribbean and the Middle East and North Africa region, and transport costs have soared (with the costs of ship freight to South Asia increasing 15%, for example); both factors have combined with depressed developed-country demand to hit the export earnings of developing countries. In capital markets, the spreads on emerging-market debt increased immediately (160 basis points for Brazil and Argentina, 70 basis points for others), and the combination of reduced demand and more risk aversion among investors has placed new strains on these debtor countries. And finally, refugees represent a major new economic burden for countries close to the conflict. Even before the attacks, 3.5 million Afghans were already living as refugees in Iran and Pakistan; this figure is now swelling, and the increase in numbers is straining public services and could create budget and food security pressures.

Second, there are the medium-term costs of the delayed global recovery. For the middle-income countries, this means a more extended period of both reduced export earnings and reduced capital flows. Our expectation is that the delayed recovery plus the greater risk aversion will lead to sharp falls in capital flows in 2002, even beyond the fall that we will see this year. For the low-income countries, the effects will be felt primarily through reduced export earnings. Demand will fall, and prices of commodity exports, such as metals and agricultural goods, are likely to drop further. Moreover, there are considerable uncertainties about the timing and durability of recovery.

What is the poverty effect of all these shocks? As a result of the decline in income growth, millions of people who would have escaped poverty will not do so. The increase in poverty will inevitably exact a human toll, as mortality rates are strongly correlated: for example, the fall in income could well mean that tens of thousands more children will die. And the social upheavals that have followed September 11th in a number of countries will exact additional costs, which will doubtless fall disproportionately on poor and vulnerable people.

In our view, the international community will need to move strongly in four areas to respond to the shock of September 11<sup>th</sup>, beyond the steps it is already taking to disrupt terrorist financing:

- The developed countries, particularly Europe, Japan, and the United States, must continue to work to keep the engine of growth moving; they have already been moving on monetary and fiscal policy. Without this engine, there is no doubt that the global economy will stall, and with it poverty reduction.
- We must put in place support mechanisms for countries that suddenly find themselves hosting large numbers of new refugees.
- We must provide greater support for countries that are highly dependent on tourism, and that have thus incurred collateral damage from September 11<sup>th</sup>.
- And finally, we must continue to intensify our efforts to provide financial and other support for reform in the countries most affected by the shock to international capital markets, as well as by the general economic downturn.

In addition to taking these steps, the uncertainties in the global political and economic situation demand that we carefully monitor the situation as it develops and prepare to respond further as necessary.

The Committee has a separate paper setting out in more detail our assessment of the potential impact on different regions and groups of countries, and the preparations underway in the Bank Group and the mechanisms we will use to help. As Ministers know, we are working to deliver on our programs and are preparing to assist affected member countries as and when help is needed. And we are doing so in close coordination with our colleagues in the IMF and with the other multilateral development banks (MDBs).

With the sharp slowdown in private flows, the activities of our private-sector arms take on added importance in the wake of the attacks. The IFC is assessing the need for additional support to help sustain private investment flows to countries most affected by the crisis. First indications are that main impact on private investment will come from reduced access of corporate entities to financial markets. Reduced access could have serious repercussions for developing countries, contributing to bankruptcies, unemployment, and further economic decline. The IFC is therefore exploring options

to support projects sponsored by such corporate entities by mobilizing funding from the markets. In MIGA's assessment, a scale-back of foreign direct investment in the aftermath of September 11 is likely to reduce demand for some guarantee products, while increasing demand for others, such as war-related risk coverage.

We are also monitoring the situation in Afghanistan, as we have been for several years. We are working with our partners on developing a comprehensive reconstruction program that could be implemented if circumstances permit.

Events have lent added urgency to the collective efforts of the international community to curb financial abuse, including terrorist financing. In collaboration with the Fund, the Bank is joining the international program of action through stepped-up diagnostic work under the joint Financial Sector Assessment Program, and helping countries strengthen their governance and supervising frameworks through training and capacity-building. We are working with our borrowers to tighten still further our safeguards and scrutiny of the use of funds we provide.

I believe we currently have sufficient financial capacity in IDA, in the IBRD, in the IFC, and in MIGA to respond to the emerging needs of members, in cooperation with other international institutions and donors. But we live in a world of both financial and political uncertainty, and we will need to monitor the situation carefully.

## **Deepening the Fight for Development and Poverty Reduction**

Our new deeper understanding of the global interdependence and balance affects how we see the world being governed. It affects how we see our mutual responsibilities and our ability to help each other. But we must also act, and we must act effectively to fight poverty, in very practical ways. We have recognized the challenge. We have an agenda. And we have an action plan. The actions of developing countries themselves are of course paramount in determining progress in the fight against poverty and whether we meet the goals. In countries whose governments have little real commitment to poverty reduction and the reforms necessary to achieve it, no amount of aid is likely to move us very far in the right direction. Countries must help themselves through well-designed development strategies, as well as reforms to policies and institutions. Such policies and reforms not only provide for progress in poverty reduction but also are the best protection from outside shocks. And yet that is not enough; even with strong progress on reform, many countries will fall far short of the Goals if they do not receive greater international support. This action plan recognizes that we will all need to work together to achieve the Goals; with the new recognition of our interdependence, I am confident that we will be able to do so.

### ***An International Community Working Together for a More Integrated World***

I would propose four priority areas for international action:

**First, continue the move toward better policies, investment climate, and governance in developing countries.** Improvements in policies, institutions, and governance are essential to development progress even in the best of times. But now, as uncertainty and the economic downturn dry up sources of funds, it is all the more imperative that developing countries accelerate

reforms to improve their investment climates and to enable poor people to participate in the process of growth. If it supports such reforms, additional financing from the international community will be a real help in implementing pro-poor programs and encourage private investment.

We know that when we back countries that have a clear strategy for development and are doing what is necessary to implement it, our development assistance can have very large development payoffs. At the same time, we must work with countries that are having greater difficulty, to ensure that they are laying the groundwork for better policies, institutions, and governance. I will return in a moment to what the Bank is doing in this area; here, the important point is that this is a task for the whole development community.

**Second, tear down trade barriers and give developing countries a better chance in world markets.** Now more than ever, we must support the new WTO negotiations and ensure that the next round is indeed a development round, motivated primarily by a determination to make trade an effective engine for poverty reduction and development. Rich countries must increase market access for the exports of developing countries, thus increasing the payoffs to policy and institutional reforms. We estimate that dismantling trade barriers could well provide an additional cumulative income in developing countries of some \$1.5 trillion over a decade and increase annual GDP growth in the developing countries by an additional 0.5 percent over the long run. This in turn would lift an additional 300 million people out of poverty by 2015, beyond the 600 million that will escape poverty with the growth we are currently anticipating. But to make this happen, the developed countries must be willing to put agriculture and textiles on the negotiating table. We must also press ahead with capacity building to help developing countries negotiate as equal partners; and we must build a development architecture that makes trade work for the world's poor.

Outside the WTO framework, the Bank, together with other international financial institutions and agencies, can provide "aid for trade" through stepped-up development assistance in several areas. One vehicle for this is the Integrated Framework, which was set up by bilateral donors to provide trade-related technical assistance to LDCs. Poverty Reduction Strategy Papers (PRSPs) can provide the basis for setting out the actions needed on trade policy and infrastructure, and for securing the support from the international community for priority reforms and investments.

**Third, increase development aid, but allocate it better and cut down the burden it imposes.** Private capital flows to developing countries are falling sharply, reversing the trend of the last decade. They are currently expected to fall from \$240 billion in 2000 to an estimated \$160 billion this year. This makes it still more important that governments increase official assistance. Currently, aid claims only 0.22 percent of GNP of the OECD countries, far short of the 0.7 percent goal set by most of the international community. The evidence from the Bank's work on aid effectiveness demonstrates that well-directed aid, combined with strong reform efforts, can greatly reduce poverty; it can also mitigate particular effects of crises, such as terms-of-trade shocks. If we are serious about meeting the MDGs, we must generate a substantial increase in ODA from its current level of \$50 billion a year. In our paper for the Development Committee on Financing for Development we argue that, assuming that recent policy improvements are sustained and that policy performance in countries with poor policies improve, then ODA flows would need to double to approximately \$100 billion per year to achieve the 2015 poverty goal. Over the longer term, the international community should strive to meet the target of providing 0.7 percent of GDP—the Millennium Goals are only one step in the fight against poverty, and they cover only the next 15

years. Moreover, the developed world is significantly more wealthy than it was when the target was set.

Donors are approaching the final stages of considering the 13th replenishment of IDA. It is critically important that IDA has strong resources going forward to meet the extraordinary challenges of the coming years. IDA is central to the global effort to support the poorest countries, with almost 80 countries looking to it for support. We must build on IDA's success in backing good policies, good governance, and real government commitment to poverty reduction, to ensure that aid is both increased and also focused on those countries that suffer from severe poverty and are making strong efforts for poverty reduction.

At the same time, we must harmonize our aid procedures and flows. Development effectiveness depends on making the best use of available resources; but the transaction costs of aid management and delivery have risen even as aid volumes have declined. Harmonization of donor policies, procedures and practices can have tremendous potential to liberate country capacity and reduce transactions costs. A separate paper has been circulated setting out the progress we are beginning to make on this issue, in cooperation with other donors.

**Fourth, act as a global community where it really matters.** This means confronting terrorism and internationalized crime, and money laundering, but also combating communicable diseases like AIDS and malaria, building an equitable global trading system, promoting financial stability to prevent deep and sudden crises, and safeguarding the natural resources and environment on which so many poor people depend for their livelihoods.

The key is to combine these approaches: working in partnership for improved policies and governance, together with strong country ownership of those policies, more and better aid, and a better global environment for implementing the policies.

In Monterrey, Mexico, in March 2002, we will meet at the UN conference on Financing for Development (FfD). The discussion on FfD is a milestone in the partnership between the IMF, the Bank, and the UN. It is also an important opportunity to focus the attention of the international community on poverty reduction and on the Millennium Development Goals, and to expand the constituency in support of the actions that are needed to help countries meet these goals.

### ***Meeting the Challenge: A New Development Compact***

But can we succeed in reducing poverty, given the scale of the challenge that I outlined above? Recent history tells us that we can. Consider what has happened to world poverty: after increasing steadily for 200 years, the total number of people living in poverty worldwide started to fall 15 or 20 years ago. In fact, over twenty years, the number of poor people has fallen by perhaps 200 million, even as the global population grew by 1.6 billion. This has been a direct result of the better policies that developing countries have been putting in place.

And progress extends well beyond income measures. Education and health have also improved. Since 1970, the proportion of those in the developing world who are illiterate has fallen sharply, from 47 percent to 25 percent; and since 1960, life expectancy has risen from 45 to 64 years.



Yet we must not underestimate the challenges that remain. Nearly half the developing world—some 2 billion people—live in countries that have seen little growth in the last two decades. And even in those developing countries that have been doing relatively well, hundreds of millions of people are marginal to the progress of growth. As a result, well over 1 billion people, around 20 percent of the population of this planet, live on less than \$1 a day. We have a global challenge of inclusion.

Given the scale of the challenge before us, we will succeed only if we all do our part to meet the Development Goals. We should commit ourselves to a **new development compact** that makes these roles clear. As part of that compact, the wealthier countries will need to commit to expanding and harmonizing aid, and to opening their markets more fully to developing-country exports. These policies are not only a moral imperative, but also a bulwark of national security. There is no doubt that a less inclusive world is a less stable one, and that international borders do little to stop the scourges of communicable disease and violence.

Developing countries, for their part, should continue their movement toward better managing their economies. They should work to improve the investment climate for entrepreneurship and growth for all firms, particularly small firms and farms. And at the same time, they should invest in their people, expanding the opportunities for poor people to participate in the process of growth. We have seen great progress in the last decade or two, as countries in all regions have brought their macroeconomies and fiscal situations under control and are working to improve their institutions and governance. They will need to press ahead with these reforms; the current international environment may seem to make reforms more difficult, but the reality is that it increases the costs of *not* reforming.

And international institutions must do a better job of harmonizing policies and collaborating with development partners. Together, we are working to help construct the key pillars of development: building a good investment climate and investing in people. Poor people are a great asset in the fight against poverty, not a liability. But to realize their potential, they must be equipped with education, health, and social protection, and they must live and work in an economy that is encouraging investment and creating jobs. As I will now explain, we have oriented our work in the Bank Group toward building these strategic pillars.

## **The Role of the World Bank Group**

I have already spoken of the short-term response to September 11<sup>th</sup>; we have contributed to this response by reexamining and refocusing our country programs, and we stand ready to help further with immediate needs. At the same time, the Bank Group is implementing a coherent strategy to accelerate longer-term development and poverty reduction in our client countries. We have adopted the Comprehensive Development Framework (CDF)—with its core principles of long-term development vision, partnership, results orientation, and country ownership—as the basis of our work. The CDF underlies the poverty reduction strategy (PRSP) approach, and it appears under other names in programs and approaches carried out by other organizations. We have built on this foundation to construct the key elements of the Bank Group’s strategy: assistance programs that are tailored to the circumstances of each country, whether it is low-income, middle-income, or post-conflict; support for the provision of global public goods; internal reforms aimed at maximizing our

development effectiveness; and new instruments to support effective partnerships with other development institutions.

### *Supporting Low-income Countries*

We are making good progress in implementing our new approach to providing support to **low-income countries**, based on country-owned poverty reduction strategies. So far our Board has endorsed 38 interim poverty reduction strategies (IPRSPs), and 8 full poverty reduction strategies (PRSPs) as a basis for IDA assistance. We are also making progress in introducing the new poverty reduction support credit (PRSC) for this group of countries, with 2 PRSCs already approved. Bank and IMF staffs are cooperating in a new and highly effective way in supporting these country strategies, and increasingly the strategies are being used as a basis for wider donor coordination. At the time the PRSP process was launched, staff were asked to undertake a comprehensive review of the approach after two years of implementation. That review is currently underway, and the results will be reported to you at the Spring Meetings. Our success or failure in this endeavor will depend upon African countries; successful development of low-income countries requires success in Africa.

In addition, the FfD agenda focuses on **debt relief** as an integral part of the external assistance package. The Highly Indebted Poor Country (HIPC) initiative is providing such relief for 23 countries; we are proud of what we are achieving with HIPC and of our strong partnership in implementing it with the IMF, other MDBs and donors, and NGOs.

At the same time, we are committed to working with countries that are not on track for debt relief or other forms of large-scale aid. There is no denying that we know more about how to support countries that are making good progress toward development goals than other poorer-performing countries. To strengthen our approach to working with this latter group, we have recently established a Task Force on Poor Performing Low-Income Countries—those for which, on current trends, meeting the development goals will clearly be an uphill struggle. These countries often face a policy environment that is not conducive to sustained growth and poverty reduction; their governance is also often weak, with citizens lacking a voice or, worse, suffering from harassment; and finally, their public institutions are ineffective and unable to deliver core services to the population. These countries are typically not candidates for significant lending, but that does not mean that no assistance is possible. The Task Force will seek to identify a focused strategy, to be carried out with diverse partners, that can effect change in these countries and help them break the cycle of poverty. We must do all that we can to ensure that they are not left further behind.

One special challenge in the low-income countries is meeting the **Education for All** (EFA) goal—the goal of ensuring that all children receive primary education by 2015. Globally, the challenge is considerable, as one out of every five children in developing countries does not attend primary school, and sixty percent of these are girls. When the Development Committee met in April 2001, Ministers agreed to consider the subject at a future meeting; the Committee now has a background paper on “Education for All.” In Genoa, the G8 leaders reaffirmed their commitment to help all countries meet the Dakar goals and urged the Multilateral Development Banks to increase their efforts in supporting education as a key factor of poverty reduction and economic growth in the global knowledge economy.

The Bank is placing education, as well as health, at the core of its activities. In addition to investment lending, the World Bank will make use of other lending tools to provide flexibility in responding to the varying needs of countries. Programmatic lending based on PRSPs will provide rapid availability of financing for countries where a strong macro-economic framework and good governance mechanisms are in place. In addition, as funds become available, we will consider increased use of grant financing in certain situations, such as in conflict and post-conflict countries where past arrears make new lending impossible.

In the education sector, the World Bank will focus on improving primary school completion rates and quality, through support for both improved service delivery and targeted programs to encourage families to send their children (particularly girls) to school; successful examples of such programs include those in Brazil, Mexico, and Bangladesh. We are also putting in place mechanisms for systematically tracking resources going into education through the HIPC/PRSP process and for monitoring the effectiveness with which such resources were being utilized. Working with others, we will also help countries map out their path to achieve EFA goals.

Beyond education and health care, we know that **good governance** is one of the key preconditions for success in development. The Bank is committed to helping members strengthen governance arrangements, particularly in areas of public sector management, legal and judicial reform, financial system development, accountability, and anti-corruption measures. Using our strengthened diagnostic work, we will ensure that every future CAS contains a review of the government's public sector management and accountability arrangements. Where there are weaknesses we will work with the government to agree a program of actions to tackle them. For HIPCs, we will be presenting a joint paper with the IMF early next year on strengthening public sector management capacities.

### *Promoting Growth and Stability in Middle-income Countries*

Following discussion at the Committee's April meeting, we have been actively implementing the proposals to strengthen our support for **middle-income countries**.

- We are continuing our efforts to improve the quality of Bank Group Country Assistance Strategies, grounding them even more strongly in each country's own vision of development.
- We are setting about rebuilding our country analytic and diagnostic work, and in particular focusing on the cross-cutting analyses of country financial management and fiduciary systems, and of social, structural and sectoral policy reform priorities.
- We are working to ensure that more systematic use of development-focused adjustment lending is underpinned by strong country policies and fiduciary systems. We will be consulting widely later this year on a range of policy issues relating to Bank adjustment lending.
- The Board has approved proposals for a new "deferred draw-down option," which may be attractive to a particular category of middle-income borrower.
- At the request of the Board, we are carrying out this fall a further review of IBRD loan pricing, addressing in particular issues of selectivity and incentives.

### *Rebuilding Post-Conflict Countries*

An important subset of both sets of countries, particularly relevant in the current circumstances, is post-conflict countries. We have an important role to play in helping peace and development set down roots in societies just emerging from conflict. We have done this together with partners in Bosnia, where international support is helping communities come together at the local level on small-scale projects, creating jobs, and bridging ethnic differences. More recently, we have assisted the post-conflict societies of East Timor and Kosovo—where the international community is helping to rebuild infrastructure, reintegrate soldiers into the society and workforce, and restore the capacity of governments to manage their economies. And we have also moved quickly and creatively to try to stabilize a fragile situation in the Democratic Republic of Congo, by supporting reforms and the peace-building effort through the first IDA post-conflict grant (of \$50 million) and by working with the IMF and the African Development Bank to resolve a difficult arrears problem.

Success in these initiatives may take years of hard work, but the alternative is a never-ending cycle of violence. We reject this alternative, and we are now active in 35 post-conflict operations worldwide. In future months, we are prepared to expand these efforts to Afghanistan and other new post-conflict countries.

Central to conflict prevention and peace-building must be strategies for promoting social cohesion and inclusion. Inclusion means ensuring that all have opportunities for gainful employment, and that societies avoid wide income inequalities that can threaten social stability. But inclusion goes well beyond incomes. It also means seeing that poor people have access to education, health care, and basic services such as clean water, sanitation and power. And it means ensuring that poor people participate effectively in the decisions that shape their lives.

### *Providing Global Public Goods*

At the same time, we are pushing ahead strongly with global issues. Although country programs have historically been our primary mode of assistance, not all issues are best addressed at the country level. Country-owned strategies do much to set the directions of our work, but they alone are not sufficient to manage the global agenda.

As you know, the finances of our institution are such that we are constrained in the resources that we can provide for global public goods. But within these constraints, we have moved purposefully toward greater global effectiveness. The Bank is strongly increasing its commitments to fight the global scourge of HIV/AIDS, and is expanding resources for tuberculosis, malaria, and other infectious diseases. Alongside strong country programs, we are working in Africa and the Caribbean on new ways to tackle cross-border transmission and to support regional rather than purely localized efforts—we are discussing with IDA Deputies the possibility of greater use of grants in support of these efforts. And we have provided key staff and support for the launch of the Global Fund Fighting AIDS, TB, and Malaria, which was announced by the UN Secretary General and G8 leaders earlier this year.

## *Strengthening Ourselves to Meet the Challenge*

As you know, we have in recent years made major strides in our effort to reorient the Bank Group's internal organization and procedures to enhance development effectiveness. We have decentralized to move our decision-making closer to our clients; we have acted to increase the quality of our projects, and the quality has increased, as judged by the independent Operations Evaluation Department; and we have invested in the knowledge and skills necessary if we are to assist developing countries effectively.

Building on these successes, the Strategic Directions that I outlined at the Spring Meetings in April this year set out the broad agenda for the next three to five years that will direct our management and governance within the institution.

- Improvements in the Budget Process: During FY01, a number of further reforms were implemented that focused on (1) improving the linkage between the Bank's strategic priorities and the allocation of budgetary resources and (2) strengthening the monitoring and accountability arrangements governing the use of these resources.

We have also established a clearer relationship between country work programs and administrative budgets, and provided greater budget stability for units. Priorities have been clarified in several ways. At the broader level, priority was given to front-line activities, with \$48 million of the \$55 million real budget increase over FY01 allocated to the operational units. Within Regions, priority was given to poverty reduction, and consequently the largest increases were focused on Africa and South Asia.

A system of quarterly business reviews was introduced to provide Vice Presidents and senior management with an opportunity to meet at regular intervals during the year to discuss financial and operating performance, as well as to address unit-specific issues or concerns. We have also introduced a new quarterly system for reporting to the Board on key operational deliverables, resource management, and human resource issues.

- Disclosure Policy: In August 2001, the World Bank's Board of Executive Directors approved revisions to the Bank's policy on the disclosure of information, making changes that will bring greater transparency and accountability to the Bank's support for the development process. The policy changes were approved after the Bank published its draft review of the policy in September 2000, held extensive consultations to solicit the views of civil society, industry groups, and governments in 21 countries around the world, and provided opportunities for comment through the Bank's website.

The disclosure policy will now permit public access to documentation from the entire project cycle, from preparation through implementation to independent evaluation. Documents in which the Bank's independent evaluation arm—the Operations Evaluation Department—reviews Management performance in various operational processes will be disclosed, along with the Management Response to such evaluations. Similarly, reviews by Management's own Quality Assurance Group of the quality of key activities such as loan preparation, loan supervision, and economic and sector work will be available.

- Risk Management: Following the report of the Risk Management Task Force that was established last year, two actions were taken: (a) a risk management committee was set up at the senior management level, and (b) Operational Risk Management Working Group was formed to set up a framework for identifying, assessing, monitoring and managing risks in lending operations.

The top priorities for action in FY02 are to work with Regions and Networks to develop a more integrated and uniform framework for risk assessment for all lending operations, to be piloted in one or two Regions, and to undertake stocktaking of risks for Senior Management and the Board. At the same time, it is proposed that revised procedures be put in place to ensure Management focus on the most risky operations.

- Management Structure: As you know, Sven Sandstrom will soon retire as Managing Director of the World Bank. Among his many contributions, Sven played a particularly important role in working with this group on our shared mission of development and poverty reduction. I am sure you would want to join me in thanking him for his long and distinguished service to this institution and to the development community.

We have been carrying out our own internal reviews of the management structure of the Bank and have also listened to the constructive suggestions of governors on the subject. With Sven's retirement, we have taken steps to tighten our management structure. We believe the new arrangements are off to an excellent start.

- Analytic Work: Following a thorough review and the resource increase agreed in this year's budget, we have begun a process of rebuilding the quality and content of the Bank's analytic and diagnostic work. In carrying out this work, increasingly in collaborative partnerships, we aim to be more selective than in the past, drawing on the contribution of others wherever possible. We are also identifying core areas where the Bank's country knowledge needs to be kept systematically up to date to inform the country policy dialogue and Country Assistance Strategy (CAS). These core areas include the broad social and structural constraints to sustained growth and poverty reduction, as well as the basic fiduciary analyses of countries' public expenditure, procurement, and financial management systems.

### ***Making Partnership a Reality***

Since April we have also made good progress in **strengthening collaboration with the IMF**, putting into practice the vision for Bank and Fund roles and partnership that Horst Köhler and I set out last year. This goes beyond the increasingly close cooperation in implementing our joint approach to supporting low-income countries, using the PRSP process. Over the summer we joined with the IMF in reviewing our collaboration in better focusing the conditionality attached to our loans. We have identified a number of proposals, building on the principles that have guided our collaboration in the past, and issued a paper for wider consultation. The proposals we are pursuing together will involve substantial changes in the way staffs of both institutions approach their tasks. They will also, I believe, bring major benefits to our borrowers.

The global crisis underlines with new urgency the vital role that must be played by a **strong and coordinated framework of IFIs/MDBs**. Along with Horst Köhler and the presidents of the regional development banks, we have forged closer links, sharply increased the frequency of meetings and videoconferences of the heads of institutions and of senior managers, and are committed to coordinating still more closely on a number of key fronts. Our growing collaboration is now formalized in memoranda of understanding between the Bank and the other MDBs, but more important than the formal documents is the growing collaboration and joint work that underpins them—on coordinating country strategies, sharing economic and social assessments, building strong and clean financial systems, strengthening governance and the fight against corruption and money-laundering, harmonizing our operational policies and procedures, ensuring that our pricing is appropriate to our development objectives, and in a growing number of other important fields. There is still some way to go, and important issues remain to be worked out by all of us together with our common shareholders, but progress towards closer coordination is strong and, in my view, irreversible. That will add significantly to the strength of the international community in the days ahead.

Responding to the request of the Development Committee, we are reviewing Bank procedures to facilitate harmonization with MDBs and bilateral donors, particularly for financial management, procurement, safeguard assessments, and sector-wide approaches. Major changes underway include:

- Introducing flexible reporting requirements through the Loan Administration Change Initiative and reducing necessary demands on borrowing financial capacity.
- Reviewing audit policy for Bank-financed projects to find more cost-effective ways to obtain assurance about the use of Bank resources while contributing to the development of borrowers' audit capacity.
- Promoting greater reliance on capacity building for procurement. A framework is being proposed for the design of procurement arrangements in multi-donor sector programs.
- Clarifying the project-based environmental and social statements in its Operational Manual that form the basis for conducting safeguard assessments required under the Bank's policies. This effort will enable the Bank to participate more effectively in the harmonization work in this area.
- Examining the fiduciary components of eight sector-wide approaches in which the Bank has been involved to assess the effect of its fiduciary policies and procedures on project design, and implementation. The aim is to agree on an approach that builds country capacity, is compatible with the approach used by other partners, and provides the necessary assurances required by the Bank.

## **Conclusion**

Over the next two years, we will face enormous challenges—including promoting long-term development in low-income countries, supporting reforms and safeguarding stability in Argentina and Turkey, and confronting squarely the challenge of Africa. All of this must happen in an international environment that is less conducive to growth and development than it was two months ago. We must rise to these challenges.

I have outlined the ways in which I believe the international community can and must act effectively to respond to these challenges, by promoting better policies, institutions, and governance in developing countries, expanding market access for developing countries and promoting trade, scaling up and harmonizing aid, and providing global public goods. I have also laid out the ways in which the World Bank Group is moving, coherently and strategically, to promote more rapid development—through our country programs, our global actions, and our internal management and external partnerships.

But as a concluding note, let me step back once again from those specific policies and underline the spirit in which we must move forward. The need for scaling up our efforts cannot be overstated; nor can we afford to delay. If we are to rise to the challenge of making a better world for the 6 billion who are here and the 2 billion more who will join us in the next 30 years, we must act now. In practical terms, no one player can do this alone. Equally important, the legitimacy and effectiveness of the effort will depend on its inclusiveness and recognition of diverse values and approaches. There must be a truly global coalition to fight terrorism and overcome conflict, but we must also build a powerful and global coalition to promote inclusion and overcome poverty. The time for action is now.

November 8, 2001