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)

DC2003-0005
April 4, 2003

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 sixty-seventh meeting to be held in Washington D.C. on Sunday, April 13, 2003.

* * *

PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE

I. Introduction

1. The April 2003 meeting of the Development Committee takes place against a background of considerable global economic and geopolitical uncertainty, affecting advanced and developing countries alike. The Committee may want to consider the impact of these uncertainties on developing countries; the longer-term as well as short-term implications for developing countries of current global economic and financial developments; and the continuing work of the IFIs in helping developing countries cope with a difficult external environment. But we will want to focus most of our discussion on progress in meeting the agreed Millennium Development Goals (MDGs), and the longer- term opportunity presented by the agreements at Monterrey, Doha and Johannesburg. The two items on our agenda provide the opportunity to take further important steps in ensuring that these agreements are implemented quickly and effectively as we work to meet the MDGs.

2. Together with the IMF, we have suggested a framework for monitoring policies and actions needed to implement the Monterrey consensus and achieving the MDGs (*Achieving the MDGs and Related Outcomes: a Framework for Monitoring Policies and Actions)*. There is also a separate paper on progress and critical next steps in scaling up activities in education, health, HIV/AIDS, water and sanitation (*Progress Report and Critical Next Steps in Scaling up – Education for All, Health, HIV/AIDS, Water and Sanitation*). And together with the IMF we have provided the Committee, as requested, with a background paper of options for their discussion of ways to enhance the voice of developing and transition countries in the IFIs (*Enhancing the Voice and Participation of Developing and Transition Countries)*, another important issue identified by the Monterrey Conference.

3. Since the Committee already has separate notes on these issues, I will comment on them only very briefly giving my perspective on the points raised. I am also taking the opportunity to report progress on a range of other specific issues the Committee has considered in the past, thereby removing the need for a series of longer separate progress reports.

II. Global Economic Situation

4. In the short term, slower growth in the high-income economies and continuing uncertainties raise still further the importance of the focus on the growth and trade agenda for developing countries. In addition, some current economic and financial developments

are likely to have longer-term implications. A particular feature of the current slowdown is the prevalence of debt-servicing difficulties in a world of low nominal income growth. While this is an important issue in advanced countries, it is the implications for financial flows to and debt burdens of low- and middle-income countries that are of most concern to the Development Committee and to the Bank. Handling debt and debt sustainability issues in a world that is increasingly integrated and where financial markets play a crucial, but evolving, role is a key challenge for the future.

III. Implementing the Monterrey Consensus

5. The message of the Monterrey Consensus is a powerful one, and confirms the World Bank Group's approach to supporting development. It provides a framework of agreed actions and accountabilities for all parties, developing and developed countries alike – the actions needed if we are to succeed in reducing poverty and meeting the MDGs. All are agreed that we have to focus now on implementation. When we talk about the need to scale up our efforts we mean the scaling up of efforts by all. We mean moving from individual successful projects to longer-term sustainable replication of projects to ensure that we reach all the people in the country or the region. And by efforts we do not mean commitments, but actions that can be monitored and that produce scaled up results.

6. In developing countries this requires the political will to implement not only sound macroeconomic policies, but also much more besides. Above all it requires good governance and an environment conducive to private sector development and investment. And it requires good and corruption-free public sector management so that the public as well as private sector is effective and efficient. These are the policies needed for growth, and without growth there is no chance of success. Helping countries build the institutions and capacity needed for the purpose will require increased, sustained and coordinated efforts from donors and development institutions in capacity building in areas ranging from financial sector and corporate regulation to public expenditure and budgetary management. Developed countries have a further crucial role to play in promoting growth by improving market access for developing countries.

7. We also know from our experience and research that growth alone, and the greater domestic resources it brings, will not be sufficient for many countries to reach the MDGs. They also need policies to target resources and services to assist and empower the poor. And they need more and better-targeted development assistance to support both the policies that produce growth and those that directly target poor people. Such assistance must be used for its intended purpose, with proper accountability and directed at achieving results. Such assistance too is part of the Monterrey consensus. We know that development assistance is highly effective in supporting growth and reducing poverty when countries are following good policies with good governance. The bottom line is that when countries have in place the necessary policies and institutions, then the international community needs to be ready to provide the needed external support.

8. In short economic growth, pro-poor policies, effective and accountable implementation, and more and better aid are mutually reinforcing. All four are needed if we are to achieve the MDGs. I hope the Committee in its discussions will confirm this central message.

Monitoring Framework for Policies and Actions to Achieve the MDGs

9. Turning to the two specific papers before the Committee for the first item on the agenda, the monitoring framework which we have been developing with the IMF—in cooperation with the staff of the UN, other MDBs, WTO and DAC—for policies and actions to achieve the MDGs, at present is still work in progress. I want to underscore that this monitoring effort is based on an agreed division of responsibilities with the UN—with the UN taking the lead on monitoring progress in achieving the MDG outcomes and the Bank and Fund taking the lead on monitoring of policies and actions needed to achieve the MDGs. Moreover, the monitoring framework for the Development Committee is grounded in the concept of institutional comparative advantage, with other agencies leading the monitoring work in the specific areas of their mandates and expertise. As the framework is improved and developed it should provide the Committee with a basis to track implementation of the actions needed by both developing and developed countries if we are to meet the MDGs. I hope the Committee will agree that discussion of this item could be an important feature of its future meetings, starting this coming September.

10. Meanwhile, we should discuss the key issues identified in this initial monitoring report. For *developing countries* the report highlights three key areas for attention: strengthening the regulatory, institutional and financial environment, and the rule of law, to promote private sector activity; raising the quality of governance and strengthening capacity in the public sector, including stronger budget and expenditure management; and increasing the effectiveness of the delivery of the human development and related services to poor people. For *developed countries* they highlight the importance of increased market access for developing country exports, including the reduction of domestic subsidies in agriculture. They also highlight the importance of more and better aid, including adequate support for global programs in education, HIV/AIDS, health and water, and implementation of the range of good practices and policy changes needed to improve aid effectiveness.

Sectoral Priorities

11. The Committee has a separate report on issues that we face as we seek to scale up global efforts in four priority sectors that are key to meeting some of the MDGs (*Education for All (EFA), HIV/AIDS, Water and Sanitation, Health)*. As noted above, country actions in these sectors and international support for them will only be effective when set in the context of viable overall country strategies and budgets. It is also clear that meeting the MDGs in each of these areas will require extraordinary endeavors both by developing countries and the donor community. Progress, as in all areas, will also depend on success in securing faster growth and better governance, including better

budget and expenditure management. Cross-sectoral synergies are key to sustainable outcomes on the ground. The EFA goal is perhaps closest to being within reach, but even there the global community needs to take prompt action to ensure that resources are available to support the countries that are policy-ready.

12. Experience in each of these sectors illustrates a number of principles and lessons for the future that I hope the Committee will endorse.

- First, there is the general approach we are following, most advanced in the case of EFA and embedded in the Monterrey consensus: increased support must be based on sound country driven programs both for overall policy (set out in PRSPs or otherwise) and for the sectors being supported. There is no conflict between supporting individual sectors and overall country strategies, but we do need to make sure the two are consistent.
- Second, where the right policy environment exists, the international community needs to be ready to provide the support needed to help countries meet the MDGs.
- Third, resources need to reach recipient countries in the right form and with the right modalities. While some costs will be met from domestic resources, it is clear that in education and in health, the poorest countries will need continuing support in meeting recurrent costs. They also need the assurance of disbursements to match their budget cycles, untied aid, and simplified and harmonized donor procedures. In short, experience in each of these sectors illustrates the importance of making rapid progress on all the issues discussed further below under the heading of improving aid effectiveness.

Country Strategies and Policies

13. The CDF/PRSP approach is key to implementing Monterrey principles at the country level, and is now well established in a substantial number of low-income countries. In the past six months full PRSPs have been completed in eleven countries, and although half of PRSP related documents have been prepared by African countries, progress has been made in all regions.[1] To date twenty-seven PRSPs, forty-five interim PRSPs, and seven PRSP Progress Reports have been transmitted for Board consideration. The focus is increasingly on effective implementation of PRSPs.

14. The Bank is continuing to support the knowledge base and skills for PRSP implementation. The principal challenge now for development partners, including the Bank and the Fund, is to support implementation with concrete steps to align their support better with country strategies at the country level. As noted below, the Rome Declaration from the February High Level Forum on Harmonization commits to delivery of development assistance in accordance with partner country priorities, and to adapting harmonization efforts to the country context. Increasingly Bank Country Assistance Strategies are being better aligned with national strategies. Bank and Fund staff are also

---

[1] Countries which have brought forward PRSPs in the last six months are: Ethiopia, Senegal, Mali, Benin, Ghana, Cambodia, Tajikistan, Kyrgyz Republic, Sri Lanka, Yemen, and Guyana. Burkina Faso and Nicaragua completed PRSP Progress Reports in this period.

engaging with other multilateral and bilateral partners to work out, on the ground, the scope for better alignment with PRSPs in terms of conditionalities, a common framework for budget support, and disbursements consistent with country budget processes.

15. We have also begun to better understand how CDF principles can be applied in middle-income countries, and are ready to support their implementation wherever there is clear country demand. Several middle-income countries are already using CDF principles to develop an agenda for the sometimes complex and lengthy institutional reforms needed for economic success and to address issues of poverty and equity. More broadly, we are also steadily implementing the strategy set out and endorsed by the Committee two years ago for continued Bank engagement in middle-income countries.

16. We are also making special efforts to assist the group of low-income countries that suffer from weak policies and governance, including those with long-standing conflicts, the so-called low-income countries under stress (LICUS), countries that are unable to generate coherent country strategies. Without progress in these countries, which include many of the world's poorest citizens we may reach overall global targets but will leave out important areas of the world. We are implementing a new approach, agreed last year, involving: (i) working with countries to identify catalytic entry points for reform; (ii) joining forces with donors behind these priority reforms; and (iii) instituting change within the Bank Group to improve support to 'neglected' country programs. We have selected seven countries as LICUS pilots. Country assistance strategies are focusing on increased socio-political analysis, rebuilding the knowledge base and financing entry points for reform, including a strong emphasis on improvements in social service delivery. Within the Bank our human resources and budget staff are working to bring skilled people and resources to the relevant country teams. Finally, we are working more closely with the OECD/DAC, and with UNDP and bilateral partners at the country level: experience has shown that increased engagement (including joint missions) with our partners early in the strategy development cycle is critical, and we will build on this in the coming year.

Aid Volumes and Aid Effectiveness

17. Meeting the MDGs will require more and more effective development assistance. This is true whether viewed from the perspective of country needs identified in country strategies and PRSPs or from the perspective of sectoral requirements for resources to meet the MDGs. So far, additional commitments made by donors at and since Monterrey will, if implemented, increase ODA by some $16 billion by 2006. While more will be needed, I believe that these commitments, if implemented in support of the MDGs, will allow us to increase our work in moving towards the MDGs, so long as they–along with existing commitments–are spent effectively and more wisely than in the past. A key test will be the ability of the international community to provide sufficient support for country programs wherever the policy and institutional setting is adequate and to assure the recipients that there will be certainty of future commitments.

18. Improving effectiveness of existing and new aid programs must be a central part of our agenda. Annex 1 sets out progress being made and in prospect. Recent and prospective policy and institutional reforms in many developing countries are improving the setting for aid and making it more effective. But just as important are improvements in the operational policies, procedures and practices of donors. To be most effective in reducing poverty, aid needs to be better targeted at the poorest countries, and at countries with credible reform programs. Within countries much more needs to be done to align aid better with PRSPs and country programs including sectoral programs, and to improve coordination among donors. Improvements in aid modalities also offer scope for substantial gains in effectiveness: untying all aid would produce very significant benefits for recipients, for example, so the agreements and continuing work by OECD/DAC in this area are crucial. Donors and partner countries also need to move forward in implementing the commitments made in the Rome Declaration and elsewhere to simplify and harmonize aid delivery and management.

19. More also needs to be done to improve the results focus of aid programs. Last September, the Development Committee endorsed a conceptual framework for *Better Measuring, Monitoring and Managing for Development Results*. The framework is based on the premise that development results can be improved through increased management attention to them, as has been demonstrated through improvements in the quality of Bank instruments that followed the focus on quality since the mid-1990s. Following the September Meetings, management defined a Bank-wide *Implementation Action Plan* on managing for results. This agenda calls for action in three areas: first, actions to support countries as they try to define and monitor results; second, actions to change internal Bank incentives, instruments, and reporting to strengthen our focus on results; and third, actions to promote a global partnership on results to harmonize reporting and coordinate support for developing countries. Implementation has begun, but it is an evolutionary process that will take time. Early progress includes strengthening our support to countries in developing results-focused poverty reduction strategies and building statistical capacity to monitor results. Piloting is also under way to sharpen the results focus of the Bank's country programming and sector strategies, and to link the Bank's work program more clearly to the MDGs and other country priorities. Continuing consultations with partner agencies as well as discussions of the proposed IDA results measurement system have highlighted major challenges in introducing results-based approaches to development. These include measurement and data issues that have been brought center stage in the global development agenda, and will be addressed in a follow-up Roundtable on Results. We will provide a more detailed progress report on the results agenda for the Committee's fall meeting.

HIPC: Progress and Current Issues

20. On HIPC, let me begin by noting that an OED Review recently examined the performance of the HIPC Initiative and the Bank's role in it, concluding that the Initiative is likely to reach its original goal – to provide some of the poorest countries with much needed relief by reducing their debt stocks and debt service burdens. But the Review also recommended that we clarify the purposes and objectives of the Initiative, improve the

realism of growth forecasts, maintain standards of policy performance and increase the focus on pro-poor growth in the performance criteria. Bank management is in broad agreement with these recommendations and has begun to implement them.

21. The Initiative itself continues to make progress as indicated in a Statistical Update recently circulated to the Bank and IMF Boards. Since the 2002 Annual Meetings, another two countries have now reached completion point, making it a total of eight to have done so, and 18 are now between decision and completion points. These 26 countries are benefiting from debt relief and represent two-thirds of the total number of HIPCs as well as total estimated cost of the Initiative.

22. Twelve HIPCs are yet to reach decision point. Most of these are affected by conflict, in several instances with large arrears outstanding. Where conditions have been conducive, the Bank has maintained its engagement through the LICUS initiative and nurtured the reform process through provision of emergency financial assistance.

23. Among the 18 HIPCs between decision and completion points, many have experienced delays in reaching their completion points. Preparing high quality PRSPs reflecting broad consultation has taken longer than anticipated. PRGF programs have experienced interruptions, often because of fiscal slippages. And progress with implementation of structural reforms has generally been slower than envisaged. The staffs of the Bank and the Fund are working hard to help these countries overcome the obstacles to implementation, and in the meantime, the countries have continued to receive interim relief from IDA and most other creditors. I am personally committed to approaching each case with due flexibility within the framework of the Initiative to assist in lowering the debt burdens of these countries and thus contribute to their efforts in reaching the MDGs.

24. The framework has so far committed to the 26 decision point countries an estimated $27.3 billion of HIPC relief in 2002 NPV terms – of which the World Bank Group's contribution is $6.9 billion (equivalent to $11.3 billion in nominal terms). The total estimated cost for the 34 HIPCs for which we have data is expected to be $39.2 billion in 2002 NPV terms, little changed from earlier estimates. The costs remain broadly equally divided between bilateral and multilateral creditors and do not include the possible costs of topping up in the future.

25. I am pleased to inform you that in October the donor community came through with the necessary commitments to close the US$850 million financing gap in the HIPC Trust Fund to finance debt relief by key multilateral development banks. In the months ahead, I expect that these commitments will be translated into concrete contributions

26. Looking forward, the HIPC Initiative faces three key issues requiring careful consideration: the methodology for calculating topping up, creditor participation and debt sustainability after completion point

27. The existing methodology for calculating topping up at completion point, approved in September 2001, is based on the principle that all other forms of relief are exhausted prior to calculation of relief under the HIPC initiative. Some shareholders have asked that additional voluntary bilateral relief be excluded from topping up calculations at completion point on the grounds that this would improve equal burden sharing among creditors and increase the debt relief received by HIPCs. Such a change in methodology would raise the estimated costs of topping up from about $0.6 billion to about $2.1 billion. In response to a further request from the Bank and Fund Boards, staff are preparing a more detailed report the on the costs and benefits of such a change to facilitate further discussion.

28. Last September, the Development Committee asked that Bank and Fund staff do more work on creditor participation, including creditor litigation technical assistance and HIPC-to-HIPC debt relief. A paper covering these issues was discussed by the Boards of the two institutions in March (see Annex 2 for further details). Although participation by non-Paris Club bilateral creditors has improved (Bulgaria, India, Korea, and Libya recently agreed to participate), 23 such creditors remain outside the Initiative. Bank and Fund staff will intensify their efforts to persuade them to participate. Where HIPCs are creditors to other HIPCs, staff will continue to provide assistance to resolve data issues that prevent the HIPC creditor from participating in the Initiative. In cases where the cost of debt relief prevents a HIPC creditor from participating, we are exploring the feasibility of establishing a donor-financed HIPC-to-HIPC trust fund and comparing it with other available options. Staff are also exploring ways to help HIPCs settle outstanding commercial claims through possible expansion and more active use of the existing Debt Reduction Facility for IDA-only Countries. Finally, the Bank's current policy requires the Bank to be neutral and impartial in disputes between our members and third parties and precludes us from providing technical assistance to HIPCs engaged in litigation against creditors, or administering a donor-financed trust fund that does so. Instead, we propose to continue our efforts at moral suasion and, in addition, maintain support for improving debt management in HIPCs to help protect against spurious claims and provide an alternative source of information on the terms and conditions of contested claims.

29. While debt relief may reduce the debt overhang of HIPCs, it does not guarantee debt sustainability over the longer term. Striving to achieve the MDGs while maintaining long term debt sustainability requires multiple actions on the part of countries as well as development partners; debt relief is only one part of this broader agenda. HIPCs need to continue with appropriate macroeconomic policies, prudent borrowing, sound debt management, and export diversification. And the global community needs to remove barriers to trade, increase the volume and concessionality of external finance, raise grant funding levels, and ensure that financial and technical assistance is better coordinated and harmonized. The IDA-13 agreement to provide grants to the poorest and debt vulnerable countries is an important step forward. To improve their lending and technical assistance operations in support of debt sustainability and in order to obtain a wide range of views, the Bank and the Fund are together initiating seminars and workshops in this area with interested parties. It is my intention to ensure that debt sustainability analysis becomes

an integral part of the foundation on which our country assistance strategies and lending operations are built. It is important we do everything possible to help low income countries avoid the build-up of unsustainable debt, and that the Bank be a leading force toward achieving this objective.

Financial Architecture

30. The Boards of the Bank and the Fund have just completed reviews of the joint Financial Sector Assessment Program (FSAP) and the international standards and codes initiative. In the three years since the programs were initiated much has been accomplished. As of end-December 2002, 44 FSAPs have been completed, 21 are underway and 30 countries have committed to future participation. The pace of the ROSC (Reports on Standards and Codes) exercise has increased sharply in the last two years, with more than 340 modules now completed, covering 89 countries from all regions of the world and at different stages of development. Through the dissemination of international standards and codes and through the country assessments, the two exercises have made a valuable contribution to crisis prevention by identifying potential vulnerabilities and to helping countries strengthen their financial systems and related institutional underpinnings. Learning from the experience gained over the past three years, we are streamlining and focusing both exercises to the specific needs of individual countries and to broader systemic concerns, while maintaining a sufficiently broad coverage. Recent developments in developed and developing countries have underscored the importance of enhanced focus on corporate governance and accounting and auditing, where the Bank has stepped up its own work and partnership with other relevant bodies. The Bank is also collaborating with UNCITRAL, the IMF and other partners in finalizing its *Principles and Guidelines on Insolvency Regimes and Creditor Rights.* And together with the IMF, the Bank is helping countries assess and strengthen systems for debt management. The most important task ahead for the Bank is to continue to build on all of the diagnostic work underway to help countries develop and implement systematic programs of capacity and institution building and to mobilize technical and financial resources for this task.

31. The Financial Sector Reform and Strengthening Initiative (FIRST) was established to supplement efforts already underway on the part of the Bank and the Fund respond to this demand, and to put in place a systematic mechanism for follow-up. The Bank, IMF, Canada, the Netherlands, Sweden, Switzerland, and the United Kingdom have now pledged more than US$53 million over the initial four-year term. I would like to thank donors for these pledges and invite others to join. Although still relatively new, demand for FIRST assistance has been significant and from all regions of the world. At this point, FIRST has approved 11 projects, and 30 projects are in the pipeline. A variety of web-based systems to facilitate information-sharing among the donor community and developing country partners is also being developed, which we expect will enable timely delivery of technical assistance and capacity building while reducing duplication in financial sector assistance.

32. Combating money laundering and the financing of terrorism has become of increasing concern around the globe as the devastating effects of these criminal activities on the integrity and functioning of financial systems, good governance, financial stability and development have become more evident. Because this is a priority for our client countries the Bank and the Fund have significantly expanded our joint work in this area. Last fall the Bank and the Fund Boards formally recognized the FATF 40 Recommendations for anti-money laundering (AML) and the 8 Special Recommendations for combating the financing of terrorism (CTF) as the AML/CTF standard, and launched a 12-month pilot program to conduct AML/CFT assessments and prepare associated ROSCs. The first AML/CFT ROSCs have recently completed under this program and we will report the results of the pilot to our Boards the next year.

33. The Bank in cooperation with the Fund is conducting assessments for our client countries as well as working with our partners to focus client attention on sequenced and practical measure for building internal capacity. We have ramped up our assistance through individual country TA programs based on AML/CFT assessments conducted as part of FSAPs, and have worked with the IMF and other key partners to organize regional and sub-regional programs focusing on specific areas of concern to national authorities. We have developed a series of Global Learning Dialogues targeted at policy makers, and public and private institutions responsible for implementation of the global standards. Since September 2001, the Bank and the Fund have undertaken 51 TA programs, including 40 programs in client countries and 12 regional and sub-regional projects. In December 2002 we launched a global TA database to facilitate delivery of TA and reduce duplication of efforts by TA providers. The global TA database, which is housed on the Bank website, is being used by all international and regional groups involved in AML/CFT including the FATF, FATF-style Regional Bodies, UN Global Program on Money Laundering, the UN Security Council Counter Terrorism Committee (UNCTC) and the regional MDBs. We presented the TA database as well as the Bank-Fund program of capacity building to the UNCTC special meeting for regional organizations in March 2003. At the Spring Meetings the Bank and the Fund will launch an AML/CFT Country Reference Guide to provide in one place all the practical information needed to understand the global fight against money laundering and terrorist financing. We are also incorporating AML/CFT issues, where relevant, into Country Assistance Strategies and country technical assistance programs where weaknesses in the integrity of the AML/CFT regime pose a significant governance and development risk.

Trade

34. Monterrey underscored the central importance of trade to the attainment of the MDGs and of the need for vigorous actions on the part of both developed and developing countries. At Doha the international community made a commitment to collective action that holds the promise of truly integrating trade with development. As we approach the halfway mark of the Doha Round with the upcoming Ministerial in Cancun, the challenge of translating the commitment in Doha into concrete results looms large. Clearly agriculture is the most important and the most difficult issue on the agenda. As I have consistently argued, market restrictions and subsidies in agriculture are the single most

important external impediment to tackling poverty in developing countries. There are also contentious issues that need to be tackled on TRIPS and medicines, on Special and Differential Treatment and on the so-called Singapore issues (investment, competition, government procurement and trade facilitation).

35. These are matters on which the WTO is in the lead. The Bank is supporting the work of the WTO with analysis, advocacy and advice based on the Bank's strengths on analysis and policy research. On the basis of this work, the Bank has highlighted the key areas of action needed on the part of both developed and developing countries.[2] The Bank is also collaborating with the IMF in improving our collective understanding of the impact of market restrictions and other interventions such as subsidies on developing countries. Following a joint paper prepared last year on market access,[3] Bank and Fund staff are now carrying out a detailed assessment of the impact of market interventions in key commodities on commodity-dependent developing countries. At the regional level, the Bank is undertaking work—in Africa, Latin America and Asia—to maximize the development impact of regional agreements and to minimize their exclusionary effects by making them as complementary as possible to the multilateral process.

36. The Bank's principal comparative strength is in the integration of trade and development at the country level. Over the past year the Bank has greatly stepped up its efforts on the country trade work. We recognize that the trade agenda facing Bank client countries today is more diverse, complex and multi-sectoral than the agenda of the past—it extends beyond the traditional "border" tariff and non-tariff issues to include "behind-the-border" impediments to trade. Accordingly the Bank is expanding and refocusing its analytical work on these issues. Twelve diagnostic studies have been completed or are underway for the least-developed countries (LDCs) and these studies have been expanded to 6 non-LDCs. The recommendations are being incorporated into the Bank's assistance strategies and lending operations, for example, in Senegal and Ethiopia. The Bank is also stepping up its analytical work and operations in trade facilitation and logistics, both at the regional and sub-regional levels, for example, in APEC and in Africa, and in a growing number of countries. The Bank is also expanding its support to strengthen public and private sector capacity in food safety and phyto-sanitary management, and has launched a Standards and Trade Development Facility in collaboration with WTO and the FAO that will build capacity in standards and regulations in food safety, animal and plant health. While there is progress to report, there is much more to be done. A more thorough review of the Bank's current operational engagement and the challenges going forward is laid out in a paper to be discussed by the Board in advance of the Spring Meetings.[4]

---

[2] For example, see *Global Economic Prospects 2002: Making Trade Work for the World's Poor,* which highlighted the crucial link between expanding trade opportunities and poverty alleviation, and *Global Economic Prospects 2003: Investing to Unlock Global Opportunities,* which emphasized the importance of growing global competition in creating opportunities for developing countries.

[3] *Market Access for Developing Country Exports-Selected Issues,* SecM2002-0456, September 27, 2002.
[4] *The World Bank's Operational Trade Agenda: Trade Progress Report,* SecM2003-0124, March 25, 2003.

Private Sector Development and Infrastructure

37. Private sector investment and productivity are key for the acceleration of growth and the attainment of MDGs. Accordingly the World Bank Group is working on two major initiatives to strengthen the investment climate in developing countries: (i) country *investment climate assessments* underpinned by a common firm-based survey instrument; and (ii) the *Doing Business project,* a global database of key investment climate indicators based on expert-surveys. We have carried out over 30 investment climate assessments to date. The work reveals that there are large variations in the investment climate across countries, and also across states or cities within countries. Where the investment climate is better, firm productivity, growth, and job creation are higher – with concomitant gains for poverty reduction. In parallel, the Doing Business project is aimed at providing an assessment of the quality of institutions and regulations across 110 countries. Areas already covered include entry regulations, access to finance, contract enforcement, labor regulations and insolvency procedures. Together, this work provides a powerful tool to strengthen Bank country assistance strategies and programs – pinpointing specific priorities for reform, encouraging public-private dialogue, spurring change in a country's business environment, and allowing countries and its partners to observe progress over time.

38. Infrastructure needs remain pressing in developing countries. Despite the public and private investments made in the 1990s, there are still huge gaps in coverage and access. It remains a critical agenda for underpinning private sector development and achieving the MDGs, and is one in which the Bank Group has to remain deeply involved. Around 1bn people have to use roads which are not all-weather, and face disruptions in transport communications in some seasons. Over 1.2 bn lack access to safe water, and nearly twice as many do not have improved sanitation. Around 2.3 bn people lack access to modern energy, and 4 bn people on the planet have never made a telephone call. Much of the investment for infrastructure will come, as before, from the public sector which funds around 75-80% of the estimated $250-300 bn of annual infrastructure investment in developing countries. Given the scale of the needs and the important role the Bank can play we will, with the support of our Board, be seeking to step up Bank Group investment in infrastructure, and at the same time - through our focus on policy reform and capacity building - leverage additional financial support from elsewhere.

39. In today's climate of hesitant private capital flows and widespread risk aversion, IFC and MIGA are playing a critical role in catalyzing private investment to emerging markets and other developing countries. Another important dimension of the Bank's catalytic role is SME development. As part of our overall efforts we are planning to initiate a new program on SME development in Africa. This initiative, which we aim to bring to the Board in six months, would combine the expertise and resources of the World Bank and IFC, working in collaboration with committed African governments and the private sector. It would involve a series of coordinated and focused programs addressing three key constraints; namely: access to capital, capacity building, and business environment.

40. I am pleased that there is growing interest and commitment in the private sector to strengthen governance, to adopt improved practices on corporate social responsibility and to contribute more directly to development efforts in host countries. The Bank Group is playing a catalytic role in supporting the efforts of the private sector. As part of this effort, IFC in collaboration with the Bank has been promoting a broad based agenda on corporate social responsibility including by strengthening and promoting the harmonization of codes, advocacy on "doing the right thing" based on economic self-interest, advice to governments, financial support to firms that adopt agreed norms and setting good practice benchmarks through IFC's own investments. The Bank is closely engaged in the discussions and is prepared to contribute to initiatives to strengthen revenue transparency and governance such as the Extractive Industries Transparency Initiative launched by Prime Minister Blair at the Johannesburg Conference on Sustainable Development.

41. As you may know the deadline for the General Capital Increase (GCI) for MIGA was March 28, 2003. I am pleased to report that all eligible Category One and 71 Category Two member countries had partly or fully subscribed to their additional shares by this date. MIGA has received US$647 million, or 76% of the US$850 million to be subscribed . In addition, 38 countries have provided instruments of contribution, which was approved by an amendment of the Council of Governors in order to reserve the shares until payment is received. If these instruments are translated into actual payments, MIGA will have received US$822 million, or 97% of the total amount. Of the 157 eligible MIGA member countries, 130 have now either paid or submitted an instrument of contribution.

Voice and Participation

42. The second item on the Committee's agenda is a discussion of ways to *enhance the voice and participation of developing and transition countries in the IFIs*. Together with the IMF we have, as requested, supplied the Committee with a note setting out a variety of options. These range from changes that would be relatively simple to implement, and which are indeed already being considered further by Executive Directors, to changes that would be more difficult or require agreement by Governors. My own view is that we would do well to consider seriously all possible options for strengthening participation in our institutions by the countries that have such a great stake in our success or failure. But this is a matter for shareholders to decide, and I look forward to taking this agenda forward based on the Committee's discussion.

Coherence and Partnerships

43. A final issue that has been raised, and which is also part of the Monterrey agenda, is the need to *further strengthen partnerships and "coherence" between the key multilateral economic institutions*. Strengthening our partnerships with other multilateral institutions based on our respective mandates has been a core objective of the Bank in the past few years, and one that you know I have stressed as a fundamental pillar of the Comprehensive Development Framework. Two principles have been key in our search

for better coherence and cooperation. First, in the interests of efficiency and effectiveness, the Bank has sought to work increasingly closely with all relevant partners, deferring to their work and judgments in areas where they have comparative advantage. Second, at the country-level, where the needs for coherence and cooperation are greatest, the Bank has stressed and adopted the principle that all partners must align behind country-owned strategies.

44. Since the Monterrey meeting, the Bank has placed even closer attention to ensuring coherence and better cooperation. At the request of the Board, staff undertook a detailed inventory of our key partnerships in a paper that was just discussed by Directors on *Coherence, Coordination and Cooperation among Multilateral Organizations* (SecM2003-0112). As reported in the paper, there has been progress on many fronts:

- We have been steadily building on the vision for an *enhanced partnership between the Bank and the Fund* that Horst Kohler and I set out in September 2000. We have been deepening our cooperation in supporting country programs through the PRSP and HIPC processes, and more recently using the agreed framework to guide our collaboration in middle-income countries as well. And on thematic issues, we have both further strengthened our collaboration on financial sector work, standards and codes and AML/CTF, and also extended enhanced collaboration into new areas, most recently agreeing on a new framework for working together and with member countries on public expenditure issues. [5]

- We have continued to strengthen our *partnerships with the other MDBs*. I reported on progress here at greater length in my note for the meeting of the Committee a year ago and recently we sent a joint "Update on Progress in MDB Collaboration" to all MDB Boards. Over the last year we have launched cooperation on development effectiveness issues, including a co-sponsored workshop on "Measuring, Monitoring and Managing for Results" last summer; moved forward on coordinating our CASs and corresponding regional bank strategies; and made good progress on the harmonization agenda, including at the February High-Level Forum on Harmonization in Rome, which was cosponsored by the MDBs.

- Given the crucial importance of trade for development, we have been building our *collaboration with the WTO*, and indeed have created a new Trade Department in the Bank. The Managing Director of the IMF and I will address the WTO Council next month on steps we are taking jointly with the WTO, to further strengthen coherence between our institutions, including in support of the Doha Development Agenda

- Building on the collaboration in the run up to Monterrey, we have given special emphasis to Bank *collaboration with the UN and UN agencies.* An area of focus in the wake of Monterrey has been on how we collaborate on the MDG agenda. While ensuring effective collaboration will require continuing attention on both sides, we have agreed that the UN would take the lead on country and global monitoring, and

[5] Bank/Fund Collaboration on Public Expenditure Issues (SecM 2003-0077), February 27, 2003.

the Bank and the Fund would take the lead on monitoring policies and actions necessary to reach the MDGs, and in coordinating support for the PRSPs.

- Finally, we have also been building a stronger *partnership with the OECD and OECD/DAC*. The partnership with DAC is crucial if we are to make progress in improving aid effectiveness. And the partnership with the OECD offers a substantial pay-off in terms of synergies—with the OECD acting as a center for knowledge and expertise in respect of industrial countries on so many of the structural and social issues where the Bank is engaged with developing countries.

I fully recognize that despite these positive steps, the challenge of delivering the development objectives of Monterrey can only be achieved if we deepen further our collaboration with the key multilateral institutions and in a way that assures overall coherence. Towards that end we propose to develop a more systematic tracking mechanism of progress and areas of priority attention on which we will report back to the Board and to the Development Committee prior to the next meeting.

IV. Conclusion

45. The framework of agreements, commitments and mutual accountabilities in the Monterrey consensus offers real hope in scaling up efforts in reducing global poverty and meeting the MDGs. As the Committee has agreed at its last two meetings, the task now—and it is not an easy one—is implementation.

46. I believe the Development Committee can and must play a central role in taking the process forward. Three important aspects of this role are well illustrated by the agenda for this meeting: monitoring progress in putting in place the policy commitments made at Monterrey; addressing issues of voice and governance; and ensuring coherence and strong partnerships among the Bank, the Fund and other multilateral organizations engaged in the enterprise.

Annex 1

Collaboration To Enhance Aid Effectiveness

Introduction

1. The adoption of the Millennium Development Goals, the Monterrey Conference on Financing Development, the Doha agreement on a "development round" of trade negotiations, and the Johannesburg Conference on Sustainable Development reflects the international community's deepening commitment to promoting development. From them has emerged a consensus that poverty reduction requires movement on three fronts: better country policy and performance, greater market access, and more—and more effective—aid for developing countries.

2. Donors have also committed to increasing their support for developing countries that commit to reform and good policies, and a number of OECD donors have announced significant increases in aid volumes. Coherence in trade and aid policies has been enhanced by donors' commitment to reducing trade protection. A key challenge now is for a concerted effort to improve the quality and effectiveness of aid.

3. The DAC agreement in 2001 to untie ODA to the Least Developed Countries is an important milestone. Since then, a recent OECD Ministerial Council Communiqué, the Development Assistance Committee (DAC), and the Development Committee have focused on improving aid effectiveness, with the September 2002 communiqué stressing "*better co-ordination and co-operation amongst development partners and.....effective alignment of donor support with country strategies.*" An important part of this agenda—improving harmonization of donors' operational policies, procedures, and practices—was the focus of the High-Level Forum in Rome, in February 2003.

4. This Annex describes key initiatives and progress on the global aid effectiveness agenda, within the common framework for aid effectiveness agreed by development agencies. This framework considers aid effectiveness at three levels: (a) the strategic level of donor actions ("doing the right things"), (b) at the level of implementation *tools and processes* ("doing things right"), and (c) also seeking to strengthen actual practice on the ground.

A. Action at the Strategic Level:

5. ***Further Improving Aid Allocations:*** There is now general agreement that substantial aid should go only to countries with a good performance track record and a commitment to reform. Since the cold war, aid allocations have improved substantially—aid is increasingly going to the "right" countries—and the poverty-

reducing impact has tripled as a result[1]. However, all donors still have the potential to channel their aid more tightly to countries with good policies and institutions.

6. ***Aligning Donor Assistance behind Country-owned Poverty Reduction Strategies***[2] requires that each donor project or program fits within the country's own strategy, linking in turn to identified poverty alleviation outcomes and the MDGs. A recent World Bank survey found that elements of alignment exist in many countries, but that donor action has been taken in very few[3][i]. Nowhere is alignment behind the PRSP "substantially" complete. At the sector level, alignment implies agreement between government and donors on sector strategy, policy frameworks, investment and budget requirements, geographic scope of programs, desired outcomes and progress benchmarks, with donors providing the resources to expand the scope of the program. Going forward, the DAC plans to review bilateral assistance in the context of country-owned Poverty Reduction Strategies, surveying what is being done and through what instruments and modalities, to identify emerging good practice.

7. ***Supporting Country Budgets.*** Where countries' spending priorities are appropriate and budget execution judged adequate, some donors have chosen to provide support to the countries' overall development program through the national or sector budget. For many others, however, individual projects are likely to remain important for transferring knowledge and best practice. In this context, "supporting the budget" means that all donor-financed projects should be reflected in the fiscal accounts and accounted for as recurrent or capital budget items. When donors support projects outside of the national budget, countries' fiscal management is undermined.

B. Implementation Tools and Processes

8. ***Quality of Aid: Predictability, Sustainability, and Flexibility of donor financing.*** Sustained support for development programs over an appropriate time frame—as distinct from episodic, one-off project-oriented interventions—gives coherence as well as predictability and sustainability to donor programs. More flexible donor financing tools are also needed to support "results-based" approaches (e.g., financing local costs, recurrent costs, or providing budget support), as laid out in Annex I. Improving our financing tools remains a challenge. The *Education for All* initiative still

---

1. Ian Goldin, Halsey Rogers, and Nicholas Stern, *The Role and Effectiveness of Development Assistance: Lessons from World Bank Experience*, Development Economics, World Bank, 2002; and David Dollar and Lant Pritchett, *Assessing Aid: What Works, What Doesn't and Why,* World Bank Policy Research Report (New York: Oxford University Press, 1998).
2. Following current usages, "alignment" addresses the fragmentation of aid that results from individual donors undertaking their own programs and projects, and means donors working with each other, and within country-owned and led strategies. "Harmonization" addresses the efficiency of aid, and refers to consistency in institutional requirements and operational tools and practices across the donor community (tying in another aspect of efficiency.)
3. *Comprehensive Development Framework: Meeting the Promise? Early Experience and Emerging Issues"* (SecM2001-0529/1) September 27, 2001; *Comprehensive Development Framework: Roundtables on Latin American Middle-Income Country Experience Lessons and Implications* (OM2002-0094), September 11,2002; and International Partners: Aligning their Work with the PRSP, A Preliminary Assessment," World Bank, OPCS, CDF Secretariat, May 7, 2002. The same survey also examines and reports harmonization of operational procedures and country-level collaboration.

has many donors reluctant to provide recurrent financing or budget support. A World Bank review of policy relating to eligible expenditures is expected later this year.

9. ***Untying of Aid.*** To promote aid effectiveness and strengthen governance, the 2001 DAC High Level Meeting agreed to untie ODA to the Least Developed Countries (LDCs). Since then, all DAC Members have taken the steps, and many have gone beyond the requirements, with three-quarters of all bilateral ODA to the LDCs untied as of January 2002. Strengthened recipient country capacity to manage aid-related procurement is an important additional benefit of untying aid—there are significant savings to be reaped from improved procurement efficiency. The joint DAC-World Bank Procurement Roundtable process (begun in January 2003) aims to help countries build such stronger procurement systems around which, in turn, donor requirements can be harmonized.

10. ***Harmonizing Operational Policies, Procedures, and Practices.*** The time-bound action plan on harmonization requested by the Development Committee in April 2001, and undertaken collaboratively by the OECD-DAC Task Force and the MDB technical groups, was largely completed by the end of last year. The work resulted in the development of a body of good practice standards and practices in aid delivery and management. These tools and products for harmonization covered donor assistance alignment with country poverty reduction strategies, country analytic work, financial management, procurement, environment assessment, reporting and monitoring, related to budget, sector, project operations as well as technical assistance. Vietnam, Ethiopia, and Jamaica came forward to test a number of these elements through an organized piloting process initiated by the World Bank, and supported by regional development bank and bilateral partners. The good practice work, the pilot experience, ongoing experience in other countries, and three regional workshops on harmonization held in Hanoi, Addis Ababa, and Kingston in January together with two synthesis papers on harmonization prepared the ground for a substantive outcome at the High Level Forum in Rome on February 24-25, 2003.

11. Heads of multilateral and bilateral development institutions and representatives of the IMF, other multilateral financial institutions, and 28 partner countries, made substantive commitments, some of which are considered path-breaking, in the Final Concluding Statement of the Forum--the Rome Declaration--.that focused on taking action based on the technical work completed to improve aid delivery and management at the institution as well as at the country level. The Declaration also states that existing mechanisms to maintain peer pressure for implementing the commitments made, including through partner country participation, will be strengthened. To maintain political momentum on the harmonization implementation agenda, a second High-Level Forum is envisaged for early 2005.

C. Implementation Practices on the Ground

12. ***Better Coordination of Country Programs on the Ground.*** Donors' high-level commitment to strategic alignment and harmonization has been difficult to materialize on

the ground. In some cases, incentives are lacking to affect donor behavior in the field, so that attempts to streamline programs have resulted in an increased number of donor conditions as individual donors *add* their own specific conditions to what has already been agreed. In others, changes will be needed in donors' "HQ" reporting requirements and policies to allow harmonization in actual projects on the ground, as shown in the *SPA Review of Experience.*

13. ***Country-Based Coordination: An Unfinished Agenda.*** This suggests the need for further thought about how best to step up coordination on the ground. Donor consortia and aid group meetings have been effective tools for providing coherence at the macro level and addressing overall financing gaps. At the sector level of investment and project priorities and sector policy, coordination is more limited. The growing experience in the ten countries, where harmonization is being piloted and implemented, will provide important lessons for on-the-ground coordination that can be shared more broadly. Country-based coordination is a standing issue in DAC Peer Reviews.

Next Steps

14. Aid effectiveness constitutes an important and challenging global agenda that offers the prospect of greatly enhancing the impact of donor assistance. Although much will need to take place at the country level, continued global dialog on strategic alignment, harmonization and tools to improve the quality of aid is needed to support on-the-ground progress. We should continue to set targets and seek results that improve our collective and individual performance. Major milestones in the next months and key work program elements are shown below:

- Ministers' discussion of global progress in implementing the Monterrey agenda at the April 13 meeting of the Development Committee

- Discussion at the 22-23 April High-Level DAC meeting

- DAC's work to develop terms of reference for aligning aid with country strategies, processes and capacities and improving aid delivery

- Inter-agency working groups' ongoing knowledge-sharing to ensure greater consistency on results-based approaches

- Further work on aid untying in the DAC and, via the DAC-World Bank Procurement Roundtable process, to strengthen procurement systems around which donors can harmonize their procedures.

- Disseminate the Rome Declaration widely to staff in donor institutions, country offices, and to other development partners in partner countries.

- The OECD-DAC and the MDBs will begin implementing the good practice standards and principles, agree on the qualitative and quantitative indicators to measure progress, and reach common understanding on appropriate monitoring mechanisms.

- World Bank management and country teams will be discussing concrete steps to encourage country partners to design country-based action plans for harmonization, identify and provide support in areas where the Bank has comparative advantage.

Annex 2
HIPC: Issues of Creditor Participation

1. In September, the Development Committee requested that the Bank and Fund staff further evaluate creditor participation issues, including creditor litigation and HIPC-to-HIPC debt relief. A paper covering these issues was discussed by the Boards of the two institutions in March. The principal conclusions of the report are indicated below.

2. **Creditor Participation.** Creditor participation in the HIPC Initiative has been very strong by multilateral creditors (over 99 percent) and Paris Club official bilateral creditors (100 percent). Participation by non-Paris Club official bilateral creditors has improved but 23 countries remain outside the Initiative. Finally, participation by commercial creditors continues to be a challenge for the successful implementation of the Initiative. Moral suasion is the principal means available to facilitate participation by reluctant creditors because the framework of the HIPC Initiative is not legally binding.

3. **Creditor Litigation.** Some non-participating creditors, all but one of them commercial, have launched litigation proceedings against HIPC debtors to recover their outstanding claims. In some instances, HIPCs have paid these commercial creditors in full (and forgone debt relief) either because of litigation or the threat of it, a desire to avoid disrupting a commercial relationship, or the fear of losing productive assets where the debt was secured by collateral. In some instances, non-participating creditors sold their claims on the secondary market at a discount to entities such as distressed debt funds that then sought to recover these claims through the courts. So far, the number of such lawsuits and the amounts involved have been relatively small, but such proceedings can be burdensome to the debtors concerned.

4. Staff considered the proposal to establish and administer a donor-financed trust fund to assist HIPCs faced with litigation to hire legal counsel. While the idea of using a technical assistance trust fund has potential appeal to some HIPC authorities and some donors, it is unclear whether by itself this would be effective in discouraging litigation or in affecting the outcome of such litigation. Staff concluded that establishing or administering such a fund would be inconsistent with the principle followed by both institutions of neutrality and impartiality in disputes between members and third parties. Staff did propose additional technical assistance to improve the management of public debt data, a side benefit of which would be to help protect countries from spurious claims and provide an alternative source of information on the terms and conditions of contested claims.

5. An alternative approach staff would be to amend relevant laws in creditor countries and limit creditors from receiving more than what is prescribed under the HIPC Initiative. For instance, legislative changes could be introduced in member countries that provide HIPCs protection from lawsuits or from asset attachments in cases where creditors attempt to recover claims in excess of the amount required under the HIPC Initiative. Staff concluded that there may not be adequate support for such legal changes especially when such changes may have ramifications for creditor-debtor relations more

broadly within a country's legal framework and the amounts involved for HIPCs are relatively small.

6. Another means of resolving outstanding claims by commercial creditors and thus discouraging creditor litigation could be the expansion and more active use of the existing Debt Reduction Facility for IDA-only Countries. Staff will explore ways to expand and modify the Debt Reduction Facility so it might be better utilized in the HIPC context without increasing the risk of moral hazard.

7. In the short term, the international community will have to continue to rely on moral suasion to deal with this issue. This could include publicizing the names of creditors that seek recovery through litigation, continuing to give prominent coverage on creditor litigation issues in periodic progress reports, and encouraging governments of countries where such creditors reside to do likewise. Continued attention by the international community could potentially dissuade these creditors from taking legal actions against HIPCs.

8. **Resolving HIPC-to-HIPC Claims.** The cost of providing relief under the Initiative for HIPC creditors to the 26 HIPCs that have reached decision point amounts to US$143.3 million in 2001 NPV terms. These costs are heavily concentrated in a few cases: debt relief from Honduras to Nicaragua; from Angola to other HIPCs; from Côte d'Ivoire to Burkina Faso; and from Tanzania to Uganda. In many cases, disputes over technical matters have delayed settlement. At the request of the parties involved, staff can provide technical assistance to help creditors and debtors resolve these outstanding technical disputes among themselves. In cases where providing HIPC relief is difficult owing to a HIPC creditor's financial constraints, a donor-financed trust fund could be a means of improving participation. The Bank has agreed to explore the feasibility of establishing such a fund and compare it with other available options.