



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)



**DC2003-0017**  
**September 18, 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-eighth meeting to be held in Dubai, United Arab Emirates, on Monday, September 22, 2003.

\* \* \*

## **PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE**

### **I. INTRODUCTION**

1. The September 2003 meeting of the Committee takes place against a background of continuing moderate recovery in some of the major advanced and developing countries – but a recovery that has yet to reach all regions, and which remains fragile. This adds urgency to medium term efforts to promote growth and reduce poverty throughout the developing world. There are I believe grounds for some optimism as the international community slowly begins to implement the actions that we have all agreed are needed to achieve the Millennium Development Goals. But we need to maintain and build momentum. I hope our discussions will give the process further impetus.

2. We will be focusing discussion at our meeting on three issues. We will be discussing how to accelerate progress towards the MDGs and its implications for the scale and form of external financing needed if we are to succeed, based on new work in the Bank examining a number of country case studies. We will also have a further discussion of ways to strengthen the voice of developing and transition countries at the Bretton Woods institutions. And over lunch we will have a chance to take stock of the trade agenda post-Cancun given that it remains pivotal to the success or failure of our efforts on global poverty reduction.

3. As in my note for the April meeting, I am reporting in this note also on actions by the World Bank Group on a range of specific issues that the Committee has considered in the past, removing the need for a lengthy series of separate reporting notes.

### **II. GLOBAL ECONOMY**

4. Since we met in the Spring the global recovery has gained momentum led by the rebound in the US. With the recovery in output, world trade growth has accelerated to almost 7 percent in 2003 after its weak performance over the past two years. At the same time some of the downside risks have abated. These developments together with modest gains in non-oil commodity prices, and low interest rates combined with falling spreads have boosted the short-term prospects for developing countries. On the whole developing countries were able to withstand the global downturn since 2001 better than industrial countries and are at the forefront of the recovery that is now in train. But outside Asia, growth in 2003 has been stalled in Latin America and is only in the 3 percent range in other developing regions. Looking ahead prospects are good for a recovery of growth in all developing regions in the coming year. But the global recovery remains fragile, and risks remain because of longer-term imbalances and structural problems in the rich countries, the potential for geopolitical shocks and the reduced room for maneuver in macroeconomic policies. Moreover even with the recovery that is now in prospect, growth in the poorest countries will fall far short of what is needed to make major strides towards the MDGs. It is critical therefore that all countries join forces to resist the ever-present threat of protectionism and recommit to putting the Doha Development Round back on track. It is also critical to scale up efforts across the developing world to accelerate growth and progress towards the MDGs.

### **III. SUPPORTING DEVELOPMENT AND REDUCING POVERTY: IMPLEMENTING THE MONTERREY CONSENSUS**

5. It is now some 18 months since the historic agreements reached in Monterrey setting out the actions the global community agreed to take to reduce global poverty and meet the Millennium Development Goals (MDGs). As we have discussed at previous meetings, some progress has been made since then, but a great deal remains to be done, by all parties. For those who see the urgency of tackling global poverty, progress sometimes seems agonizingly slow.

#### **Global Monitoring**

6. At its last meeting the Committee reaffirmed its commitment to regular monitoring of the policies and actions of developing and developed countries and international institutions for achieving the MDGs on the basis of an initial report prepared by Bank and Fund staff. Accordingly the plan is to present the first of what would then become annual global monitoring reports for the Committee's meeting next Spring. Work has proceeded to take forward the monitoring framework, both on the substantive agenda related to measurement and assessment of policies and actions and on establishing a broad based partnership with other key agencies to underpin this work. A progress report and implementation plan has been discussed by the Bank's Board and a summary report has been provided to Ministers. While there has been good progress, a major effort will be required to maintain the momentum and ensure consistency and coherence in our collective efforts. We must also remain focused on the ultimate goal of the monitoring exercise, which is to catalyze actions by identifying priorities and reinforcing accountabilities for achieving the MDGs and related outcomes.

#### **Supporting Sound Policies with Adequate and Appropriate Financing**

7. For this meeting I hope we can focus our discussion on one particular aspect of progress: the need for sound country policies to be supported with sufficient external financing, in the right form. The Committee has a separate paper which reports on the results of a Bank study carried out over the summer, looking at how progress toward the MDGs could be accelerated at the country level through a combination of better domestic policies and governance, higher aid levels and more effective aid modalities. The primary focus of the work is on a broadly representative sample of 18 low-income countries with relatively strong policies (supplemented with more general reviews for low-income countries under stress (LICUS) and middle income countries).

8. This work shows, I believe convincingly, the great need and opportunity to accelerate progress on the MDGs at the country level. The very substantial progress on policies achieved over the past two decades provides a strong foundation for scaling up efforts across a wide spectrum of developing countries and for more effective utilization of aid. At the same time the analysis shows that without a major scaling up virtually all low income countries will fall far short of the MDG targets. The starting point for more concerted efforts on the MDG agenda must be sustained and deeper reforms in developing countries themselves, including further improvements in the investment climate, and in public sector management, governance and service delivery. But the adequate and early provision of external assistance will be key to catalyzing stronger reform efforts and

strengthening capacity to absorb aid effectively, creating a virtuous cycle and increasing the probability of meeting the MDGs.

9. The paper concludes that substantial increases in aid will be required for scaling up progress towards the MDGs. Whereas the international community has committed to an increase in aid of about \$16 billion by 2006, the paper's assessment is that an initial increment of at least \$30 billion annually will be needed. This is a conservative assessment, because although the paper uses the best assessment available at the country level, there are gaps in what is included particularly with respect to infrastructure investment needs, the costs of global programs and global public goods, and additional debt relief implied by the implementation of the HIPC Initiative. Moreover this baseline estimate of \$30 billion in additional aid is not a cost of meeting all the MDGs in all countries. Even for countries that are included in the sample significantly larger sums will be needed to meet the MDGs as policy and institutional capacity is built up. Furthermore, improvements in conditions in LICUS countries would warrant and require further additional amounts of aid which are not estimated in the paper. Finally, given the large unmet needs in many middle income countries, additional aid could give impetus to making greater headway on the MDGs in these countries. Consequently, as developing countries push ahead with policy and institutional reforms, an even larger volume of additional aid can be effectively used to further accelerate progress towards the MDGs. While it is difficult to be precise, it is clear to me that the additional sum of US\$50 billion annually suggested by Chancellor Brown in the IFF proposal, as well as by others, can be fully justified and put to effective use.

10. As important as the required further policy reform and matching increases in the volume of external assistance will be some quite substantial changes in the modalities of aid delivery. Of the \$52 billion of existing aid commitments, only about half is available to support program and project expenditures in recipient countries. The aid estimates made in the paper are for cash requirements to meet the MDGs suggesting a fundamental change in the way that the incremental aid is provided. There are four other areas where changes in aid modalities are required. First countries should have access to timely and predictable aid as they build a track record of policy performance. Second, aid should be better aligned with recipient countries' PRSPs or development strategies and their domestic processes. Third, to ensure debt sustainability in the poorest and most vulnerable countries, more aid should be provided as grants. And, fourth, where country circumstances warrant, aid should be provided in a form that allows for more financing of recurrent costs.

11. As the paper also points out, increases in aid volumes and improvements in aid modalities are not alternatives to greater trade opportunities and successful completion of the Doha round. Trade and aid are complementary – greater market access makes aid more productive. While trade provides the basis for self-sustaining growth in the long-term, aid can help developing countries equip themselves better and upgrade infrastructure facilities so as to take fuller advantage of the opportunities offered by trade.

12. Clearly the analysis of how to support policies for scaling up with adequate and effective aid at the country level in the paper for the Development Committee is a beginning, not an end. But I do believe that it provides the basis for the decisive and urgent action needed if we are to meet the development goals we have set for 2015. First,

country by country, we must collectively help countries strengthen the PRSP or its equivalent process so that there is a clearer and more systematic articulation of MDG targets, so that these goals are translated into concrete and monitorable programs of action, and that the required volumes and forms of financing are clearly identified and delivered upon. Second, we will need to ensure that we mobilize the increases in aid that will be needed. A first task is ensuring the timely delivery of aid commitments made in the lead up to and since Monterrey. The bulk of these commitments have yet to materialize. We also need urgent consideration of options to mobilize the additional financing that will be needed beyond the \$16 billion already committed given the importance of early provision of financing and the time needed to develop and implement proposals. Third, we need to make rapid progress on the agenda for improving development effectiveness, and implementing the agreements made this February in Rome on donor alignment and harmonization.

### **Enhancing Aid Effectiveness and Managing for Results**

13. As noted, success in meeting the MDGs requires not just more aid, but aid that is much more effectively deployed than in the past. In my note for the April 2003 meeting I set out the range of further measures to be taken to enhance development effectiveness. Last February in Rome, bilateral donors, partner countries, and international agencies endorsed most of these measures in the declaration issued by the High-Level Forum on Harmonization. The political support and clear directions for implementation set out in the Rome Declaration provide a unique opportunity to improve aid effectiveness and scale up development impact at the country level.

14. The donor community is treating the commitments made in the Declaration seriously and taking measures to meet them. Close to twenty developing countries – a mix of low and middle income countries - have initiated donor harmonization and alignment processes and activities. In a significant development, a new DAC Working Party on Aid Effectiveness has been established with a broader participation and mandate than its predecessor (the Task Force on Donor Practices). This expanded mandate takes a unified approach to harmonization and alignment with country-owned strategies, systems and processes.

15. The World Bank is strongly committed to this international harmonization and alignment agenda, and has responded to calls by donors to assume additional responsibilities at the global level in support of in-country implementation. This includes taking a lead role in some key areas of the work of the DAC Working Party and facilitating via the Development Gateway use of a common data base on harmonization and sharing knowledge and experience among development practitioners. In parallel, continuing internal Bank reforms-- including strengthening Poverty Reduction Strategy Paper/Country Assistance Strategy (PRSP/CAS) linkages, reforming loan administration (including reporting requirements), facilitating pooling arrangements in SWAps, initiating modernization of environmental and social safeguard policies, and simplifying audit policy—will increase the Bank’s ability to harmonize with others around country systems.

16. At its last meeting the Committee called for swift progress in implementing the Bank’s agenda on managing for results. The implementation action plan calls for action in three areas to strengthen our focus on results: first, support for countries as they try to

define and monitor results; second, changes to Bank strategies, instruments and incentives; and third, promotion of a global partnership to harmonize reporting and coordinate support for developing countries.

17. Within the Bank, early progress includes the launch of a pilot program to increase the results focus of our country assistance strategies, providing clearer linkage between Bank programming and country priorities, including those related to the MDGs. The Board has already approved one results-based CAS with six more pilots under preparation for the year ahead. Broad agreement was also reached on the framework for an enhanced IDA results measurement system for IDA14 that will assess aggregate progress on development outcomes and IDA's contribution to these outcomes through results-based country programming. The system is now being piloted, with a review of the experience to be presented to the Spring 2004 IDA Meeting.

18. At the global level the Bank is contributing to efforts to develop a global action plan to overcome basic data gaps and clarify international reporting accountabilities, helping to organize an Inter-Agency Workshop on *Improving Statistics for Measuring Development Outcomes*, held in early June 2003. The Bank is also liaising with the newly-established DAC subsidiary group on managing for results (within the Working Party on Aid Effectiveness). At an upcoming meeting in Dubai, the Presidents of the multilateral development banks will discuss the formal establishment of a Working Group on Managing for Results. This will encourage broad participation in preparation of the Second International Roundtable on Results, to be cosponsored by the multilateral development banks in collaboration with the OECD/DAC. The Roundtable, scheduled for February 5-6, 2004 in Marrakesh, will focus on the challenges that developing countries face in managing for results and the need for agencies to harmonize results-based approaches at the country level.

19. While there is now the opportunity and political will to make a demonstrable difference to development effectiveness and the achievement of country level results, the process is only just beginning. Success will require sustained high level support and commitment from all donors and international institutions and agencies. I can assure the Committee of the Bank's continuing commitment and support.

## **Trade**

20. Action to improve trade opportunities for developing countries is a critical element of the Monterrey agreements. The collapse of the Cancun meeting underscores the urgency of the Bank's efforts to provide policy advice, analysis, and advocacy of pro-poor trade policies. The next phase of the multilateral talks will be crucial. A "good" Doha agreement could produce up to \$520 billion in income gains to the world, with both rich and poor countries gaining substantially. Such an agreement would increase growth in developing countries, and would lift some additional 140 million people out of poverty by 2015. Realizing these gains will require action from all countries.

21. At the same time, we appreciate that adjusting to a more liberal trade environment may impose temporary costs on some of our member countries, for example as a result of preference erosion, the loss of tariff revenue or other factors. The Bank, along with the IMF, stands ready to help countries that need assistance in handling such temporary

adjustment costs, working with countries to assess the nature and magnitude of any adjustment needs, to design policy and institutional reforms and investment programs to address obstacles to trade expansion and manage the impact on affected population groups, and, where needed, to provide and help mobilize appropriate financial support.

22. Reducing barriers to trade is not enough by itself to fulfill the development promise of Doha. Trade has to be part of a larger development strategy for each country that includes attention to macroeconomic policy, infrastructure, education and health as well as accountable and responsible governance, so that countries are placed to exploit the new opportunities. One small example is reforming customs procedures for both importers and exporters. While it takes on average about 2 days for goods to transit ports and customs in rich countries, it takes goods in developing countries two-three times longer. Every day these times are reduced has nearly the same value as reducing tariffs by 1 percent. The Bank is adapting existing instruments and designing new programs that will provide resources for countries reforming their trade regimes, improving their trade-related institutions, and support provision of infrastructure necessary to get the products to markets. New lending for trade capacity building has doubled. We are providing increased training and research support. And the Integrated Framework for Trade Related Technical Assistance (IF), which the Bank supports together with other international agencies, is gradually attracting increased funding and entering the key implementation stage.

### **Sectoral Priorities**

23. At its last meeting the Committee discussed progress and prospects for scaling up global efforts in four key priority areas for the service delivery MDGs – *Education for All (EFA)*, *HIV/AIDS*, *Water and Sanitation* (discussed below as a key aspect of infrastructure activities), *Health*. In each of these areas there has been progress over the past few months. Of the 18 EFA Fast Track Initiative (FTI) countries, ten now have strategies approved for donor funding, and we expect the remaining 8 countries to be approved by December. There has also been varying degrees of progress in meeting FTI criteria by the five countries that account for more than half the total out-of-school population, with India having met all the criteria of the initiative. The FTI has successfully brought focus and political attention to primary education. Transparent benchmarking of sector policies and tracking of results with a focus on primary completion rather than enrollment has promoted in-country dialogue and accountability. For example, in Mozambique, the FTI has created new impetus for accelerating progress towards universal primary education and tackling impediments in spite of the fact that Mozambique has not yet received any FTI funding.

24. To date \$208 million in new commitments have been raised for the first seven FTI countries compared with the estimated requirements of \$325 million over three years. The FTI is therefore far from its goal of providing “sustained and predictable” financing and on the scale needed — the first seven countries only account for 3.5 million of the 115 million children currently out of school. Although some progress has been made, harmonizing donor assistance and reducing transactions costs on aid delivery remains a continuing challenge. The upcoming donor meeting in Oslo in November 2003 will provide an opportunity to take stock of progress and address these important issues. The Bank has stepped up its support for countries’ enhanced education programs, with lending for education increasing from US \$728 million in FY 2000 to US \$2.4 billion in FY 2003.

25. Commitments of Bank and IDA funds for HIV/AIDS have been expanding rapidly, mainly in the form of support for multi-country HIV/AIDS programs in Africa and the Caribbean. The total HIV/AIDS portfolio amounts to over US\$1.6 billion, with a focus on sub-Saharan Africa, the Caribbean and other areas where the epidemic is on the rise. The Bank has been working to help countries identify and address implementation constraints and ease the burden of multiple reporting systems. To gain leverage and exploit synergies, the Bank is continuing to work closely with partners such as UNAIDS, the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), bilaterals, foundations and the private sector. The Bank is trustee of GFATM, which has pledged \$1.5 billion for more than 150 programs in 92 countries. In health we will be co-hosting with the World Health Organization (WHO) a high level forum on the health MDGs; we are helping countries implement the conclusions of the latest World Development Report on reaching the poor with basic health services; and in two recent projects for polio eradication we have established a new mechanism – which may have wider application – under which grants from outside (in this case private) sources are used to buy down the interest cost to borrowers of IDA loans, effectively converting IDA loans into grants.

26. As we support investment in these priority sectors we are learning more about both the benefits and drawbacks of global initiatives and global financing mechanisms targeted at particular sectors, and about the selection of issues where such global approaches may be most appropriate. There is broad agreement that in all cases where there is a global approach support for individual countries must – as in the EFA FTI – be firmly grounded in a PRSP or similar country-owned strategy.

### **Infrastructure Action Plan**

27. At its last meeting the Committee welcomed the Bank's renewed commitment to increase its support for infrastructure activities. This comes after a decade of decline, especially in IBRD infrastructure lending. Management has now proposed a concrete action plan for turning this commitment into action (details are given in a separate note for the Committee). The plan includes the following elements:

- *Responding to country demand* by offering a broad menu of options for public and private sector infrastructure provision, developing new infrastructure business by investing in our project pipeline, and better integrating infrastructure into Country Assistance Strategies (CASs) and Poverty Reduction Strategy Papers (PRSPs).
- *Rebuilding sector knowledge bases* by improving and expanding regional/anchor infrastructure diagnostic work, better linking infrastructure diagnostic work to other Bank diagnostics, increasing impact of analytical work done by Global Programs, and developing infrastructure sector databases to improve results measurement.
- *Maximizing leverage via new and existing instruments* by creating new lines of business and instruments to meet emerging client demands, especially at the sub-sovereign and regional/multi-country levels, expanding the use of risk mitigation instruments (including foreign exchange rate risk), and facilitating and promoting the joint use of Bank Group instruments.



28. *Water.* At its last meeting the Committee also asked the Bank to consider how to implement the relevant recommendations of the March 2003 Report of the World Panel on Financing Water Infrastructure. In May I sent a reply to the chairman of the panel, endorsing the overall message of the report and its general conclusions. As an integral part of the Infrastructure Action Plan, we are following up to the recommendations directed to the World Bank Group by offering options for public and private sector infrastructure provision, investing in project development, strengthening donor coordination, improving and expanding sector knowledge, increasing the Bank Group's role in financing sub-sovereign entities, and increasing the deployment of risk mitigation instruments. More details are given in the note for the Committee on the Infrastructure Action Plan.

### **Helping Countries Handle Commodity Shocks**

29. Recent experience has demonstrated again just how vulnerable are many developing countries, including many of the poorest countries, to commodity price shocks. The Bank has long recognized this, and has responded at the global, country, and smallholder levels. At the global level, the impact that trade and domestic support policies have on world commodity markets has been an important aspect of Bank analytical studies and advocacy work aimed at influencing policies in individual countries and helping ensure that developing countries benefit fully from ongoing global trade negotiations. At the country macroeconomic level, the Bank several years ago introduced risk management products linked to IBRD loans. In addition, to assist low-income highly indebted countries cope with commodity-related macroeconomic shocks, we are continuing to assess ways to ensure that debt service does not become an unsustainable burden in periods of adverse price movements.

30. At a micro level, the Bank has adopted a multi-pronged approach. First, we have been engaged in a pioneering effort to allow small-scale producers to access international risk management instruments to protect themselves against short-term price declines, under the auspices of the International Task Force on Commodity Price Risk Management. This project is now being implemented, with the conclusion of actual transactions involving the purchase of price hedges by producer groups and rural financial institutions in some countries on a relatively small scale, but with intensive efforts to scale it up and make the benefits more widely available. Second, the Bank has also been engaged in some projects to develop weather risk management products in developing countries. Several of these are also now under implementation, with producer groups and rural financial institutions purchasing insurance to protect their exposure to weather shocks. As with the price risk management project, this is now on a small scale, but with good potential for expansion. In both price and weather risk management, the role of the Bank is the provision of targeted technical assistance and capacity building to local producer organizations and rural financial institutions. The technical assistance is either stand alone or within the framework of a World Bank lending project. Third, we have supported the development of financial instruments to be used in commodity markets, such as warehouse receipts through lending projects and technical assistance. Fourth, our operations have helped countries develop safety nets and give transitional assistance to cushion the most vulnerable households from the adverse impacts of commodity shocks. And finally, through our general support for rural development, we aim to help create alternative sources of employment when growers wish to diversify out of commodity production. We

are currently taking stock of the Bank's strategy for helping countries deal with commodity shocks, with a view to delivering more effective assistance.

### **Financial architecture**

31. The Bank continues its extensive involvement in global efforts on crisis prevention and resolution. As of end June, about 100 countries had participated or agreed to participate in the near future in a financial sector assessment under the joint Bank/Fund Financial Sector Assessment Program (FSAP), and 432 ROSC (Reports on Standards and Codes) modules have been completed for 93 countries. Following up on the reviews completed last Spring by the Boards of the Bank and the Fund of FSAP and the international standards and codes initiative, work is underway to continue to align work program priorities, ensure systematic follow-up and expand support for capacity building to clients. The Multi-donor Financial Sector Reform and Strengthening Initiative (FIRST), established to supplement such efforts, has pledged more than \$55 million over the initial four-year term, and has already completed 12 projects. The Bank is also engaged in the ongoing global discussions about Collective Action Clauses (CACs) and the idea of a voluntary Code of Conduct between sovereign borrowers and providers of emerging markets finance. Finally, together with the IMF, we are strengthening capacity to advise on public debt management and enhancing the analytical framework for assessing external debt sustainability. This work is relevant to crisis prevention and resolution in middle income countries, as well as to low-income countries and in the context of the HIPC initiative.

32. ***Combating Money Laundering and Terrorist Financing (AML/CTF)***. Combating money laundering and the financing of terrorism continues to be a matter of grave concern to Bank member countries and an area of enhanced action by the Bank. We will report next year on the results of the joint Bank/Fund pilot program of AML/CFT assessments using the comprehensive methodology endorsed by the Bank and Fund Boards, and adopted by the FATF, for assessing compliance with the FATF 40+8 recommendations. Thus far in the 12-months pilot program, the Bank has undertaken 11 AML/CFT assessments of client countries using the comprehensive methodology in the context of FSAP missions and/or ROSC stand alone requests, and 2 more are planned for the next two months. We are using these assessments to help identify sequenced and practical measures for building internal capacity, providing targeted technical assistance and incorporating AML/CFT issues, where relevant, into Country Assistance Strategies (CAS) and country lending programs. Since September 2001, the Bank and the Fund have undertaken TA programs involving over 75 client countries, utilizing regional and sub-regional workshops and seminars. Working with the IMF and other partners, including the UN Global Program on Money Laundering, the UN Security Council Counter Terrorism Committee and the regional development banks, we have focused on capacity-building for financial supervisors and financial intelligence units (FIUs), as well as training mutual evaluators for the FATF-style Regional Bodies (FSRBs). The Bank/Fund *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, published in April 2003, contains in one source all the basic information about the inter-related components of an effective AML/CFT regime. It provides a roadmap for countries at various stages of development to enhance their AML/CFT framework. The *Reference Guide* has already been translated into Arabic, French, Russian and Spanish. The Bank has also implemented

for each region AML/CFT Global Learning Dialogues targeted to policy makers and institutions responsible for implementation of the international standards. In addition, the Bank has continued its ground breaking research on informal funds transfer (IFT) systems: their relationship to development and potential for financial sector abuse. We published a joint report with the IMF analyzing the Informal Hawala System and prepared a country framework study for discussion at the APEC Finance Ministers and Deputies meeting in September. We are also sponsoring in October in partnership with the UK a global conference on the developmental aspects of formal and informal remittance systems. We continue to update the Bank's global TA database, a compendium of country TA requests and donor responses which continues to be housed on the Bank website.

### **Private sector development**

33. As was recognized at Monterrey, mobilizing private investment – domestic and foreign – to create productive jobs and generate sustainable income is key to successful development and meeting the MDGs. Helping countries improve their investment climate is thus central to the World Bank Group's agenda. As part of this work we have launched in-depth *investment climate assessments* in close to 40 countries to give voice to private sector concerns and identify the most important obstacles to productive investment. We have also developed a new global database to assess the cost of *Doing Business* across 130 countries, benchmarking the quality of institutions and regulations for firm entry, operations and insolvency. And our *Foreign Investment Advisory Services* have provided support to over 100 countries. This work has been met with great interest by our partners, and is also now being incorporated into PRSPs, Bank CASs and, most importantly, has in some cases already led to reforms with concrete, measurable outcomes.

34. **Corporate Social Responsibility.** The Bank Group, with IFC playing a leading role, is continuing to support and encourage a variety of ongoing efforts by private sector investors to improve governance and practices on corporate social responsibility in a way that furthers the convergence between the pursuit of economic growth and broader developmental objectives. A landmark achievement in this respect has been the adoption by now 14 of the largest international banks of the "Equator Principles", whereby they agree to observe the Bank Group's Environmental and social policies in their project finance. We also stand ready to contribute as needed to initiatives to strengthen revenue transparency and governance such as the Extractive Industries Transparency Initiative (EITI) launched by the UK at the August 2002 Johannesburg Conference on Sustainable Development, and to the commitments made by the G8 at the June 2003 Evian Summit, set out in the G8 Action Plan on Fighting Corruption and Improving Transparency. An important finding emerging from the Bank's Extractive Industries Review, due to be completed at the end of this year, is that good governance is a key requirement for translating natural resource revenues into sustainable benefits for host countries.

35. **IFC.** The IFC has achieved much over the last year in a very difficult environment. In spite of declining FDI and bank lending flows, IFC's new commitments rose 24% to a record \$3.85 billion, and profitability rebounded strongly after last year's results which were affected by the crisis in Argentina. These strong results reflect first the sharp rise in investments in Russia and Eastern Europe, which is a very positive sign for that region, and second the IFC's ability to respond with new approaches to very difficult conditions for its clients and our member countries. I would especially draw attention to a series of

innovations in the priority area of infrastructure, where the declining level of "traditional" private investments in infrastructure is being offset by efforts such as combinations of IFC and IDA financing, of pilot municipal infrastructure financing, and of introducing carbon credits into financing plans - - with the first instance of each of these three in IFC projects over the past twelve months. The priority of supporting increased growth in Africa remains a particular challenge for the Corporation, and IFC has recently put forward a new strategic initiative for Africa, which should enhance its ability to help our African members, especially in the area of SMEs.

36. **MIGA.** I would like to thank the 133 countries which took part in MIGA's capital increase. This is vote of confidence in MIGA and will increase the agency's capacity to support projects in IDA-eligible countries, in Africa, in conflict-affected states, as well as projects involving SMEs and between developing countries. I urge all countries that have not yet done so to make good on the pledges they have made as soon as possible.

#### IV. MATCHING SUPPORT TO COUNTRY NEEDS

37. As we take forward this agenda we have to match our support from the Bank Group closely to the needs and programs of individual countries. There is no one size fits all in development. In low income countries we are basing our support increasingly on the PRSP approach, and there is solid progress on the HIPC initiative, on both of which there are separate progress reports to the Committee. We are cooperating closely with the IMF as they review and discuss an evolving medium term strategy for the Fund's engagement with low-income country members. We are also implementing and building upon our new approach to assistance to low income countries under stress (LICUS). In middle income countries we are taking forward and building upon the approach discussed and endorsed by the Committee in April 2001.

##### Low Income Countries

38. **PRSP Approach.** The annual Bank/Fund review of implementation reports both good progress in implementation and a number of important issues that need attention as we develop and deepen the PRSP process. 32 countries now have PRSPs, with 14 completed over the past year. 7 countries have already completed at least one annual progress report. Another 21 countries have embarked on the process having finalized Interim-PRSPs. There is evidence of improvement and progress as more recent PRSPs build on the experience of earlier ones, and countries more advanced in the process gain experience of implementation. But the review also identifies a number of emerging tensions that present challenges for the future.

39. Particular challenges to be addressed as we develop and implement the approach include:

- Striking the right balance between ambition and realism in setting PRSP targets, and to link poverty reduction strategies more explicitly to longer-term MDG targets;
- Ensuring Government commitment extends to all relevant parts of the Government, and beyond the team responsible for PRSP preparation;

- Increasing capacity for Public Expenditure Management and linking PRSPs to budgets;
- Better prioritization;
- The urgent need to improve donor alignment and harmonization behind PRSPs to achieve successful implementation.

40. **HIPC Initiative.** 27 of the 38 countries potentially eligible under the HIPC initiative have passed their decision points and are now receiving debt relief, and of these 8 have reached completion point. Of the remaining 11 countries many are emerging from conflict and several have protracted arrears. The overall cost of the initiative is projected to be about the same as estimated a year ago. Debt service savings to participating countries together with the parallel PRSP process have contributed to a significant increase in poverty reducing expenditures, and overall the figures suggest that as intended debt relief has been additional to other aid flows. Participation in the initiative by non-Paris Club bilateral creditors has improved over the past year, with important commitments by Libya and India. Participation by commercial creditors remains low, although their share of debt is less than 5% of the total. For the future we are giving new attention to efforts needed to help countries maintain debt sustainability as they emerge from the HIPC process, and staffs of the Bank and Fund will produce a paper on the relevant issues to be discussed by the Boards by the end of the year.

41. **Low Income Countries Under Stress (LICUS).** We are continuing with our special efforts to help this group of low-income countries suffering from exceptionally weak policies and governance, many of which have long-standing conflicts, implementing the approach set out a year ago. Country strategies for five such countries have been discussed by the Board, and we hope to bring a further 6 strategies for discussion over the year ahead. We are making progress in improving the allocation of internal staff and financial resources for work on these countries, and in providing support early efforts at capacity building. And we have greatly stepped up collaboration with development partners, including bilaterals, UNDP, OECD/DAC and the IMF, both globally and at the country level.

42. **IDA.** IDA remains the Bank Group's main vehicle for financial support to low-income countries. We are already finding the expanded use of IDA grants, authorized in IDA13, very useful in complementing IDA's mainstay concessional lending operations. IDA Deputies will be meeting for the mid-term review of IDA13 in November to consider some important emerging issues, including the search for a consensus on financing the cost of grants. I am pleased that IDA meetings also now include borrower representatives -- as a way of strengthening developing country voice formulating development policies -- and we are working to further strengthen their role in the IDA process. We expect to begin the IDA14 negotiations in early 2004, and look forward to working with member governments to ensure that IDA continues to be at the forefront of supporting development in the poorest countries.

### **Middle Income Countries and IBRD Borrowers.**

43. Supporting and sustaining the successful development of middle income countries, which account for IBRD's lending business, is a central part of the Bank's mission. It is also crucial to global poverty reduction and attaining the MDGs, given that these countries

are home to over 70 percent of the developing world's poor (i.e. less than a dollar a day). We are continuing to implement and build on the Bank Group strategy for supporting middle-income countries, discussed and endorsed by the Committee at their April 2001 meeting. New issues that the strategy must address include: reducing non-financial costs and improving response-times on investment lending, demand from clients for re-engagement in infrastructure lending and for additional complementary help with crisis prevention, and meeting the needs of non-borrowing countries for knowledge services. Our new initiatives to expand investment lending will be particularly relevant to these countries, as will our continuing efforts to modernize, simplify and streamline Bank procedures to reduce the costs of doing business with the Bank. A successful Doha trade round will also be particularly important for middle-income countries, many of which are well placed to exploit new export opportunities.

### **Developments in Instruments for Bank and IDA Financial Support.**

44. As noted already, we are engaged in a major program to simplify Bank practices and requirements on investment lending, which should help reduce the costs to borrowers of doing business with the Bank. We are continuing with our agenda of modernizing Bank operational guidelines for policy based lending. We have also reviewed experience to date with programmatic adjustment lending, which was first introduced in 1999 and is intended to foster country ownership, to provide reliable financial support for successful programs, and to be flexible in accommodating the uncertainties in medium-term reform programs. We are still in the early days of using this approach, but based on experience of the first 42 operations, it appears we are meeting these objectives. The available indicators of quality and cost have been favorable, and borrowers and staff have given overall positive feedback: it appears to be a form of lending well suited to borrower-driven programs that feature capacity building and cross-cutting institutional improvements.

## **V. THE INTERNATIONAL INSTITUTIONS**

### **Coherence, Coordination and Cooperation among Multilateral Organizations**

45. As is evident from the content of this note, the Bank is pursuing an active program of increasingly close cooperation with other multilateral institutions. The nature of the development challenge requires this. Such cooperation extends beyond the traditionally close, and deepening, collaboration between the Bank and the IMF, and the other multilateral development banks. It now includes close working with the WTO, with the UN and UN agencies, with the OECD Development Assistance Committee, and with the OECD itself, which shares a common focus with the Bank on a range of sectoral and structural economic and social policy issues. We are instituting new arrangements with the board for keeping overall track of these coordination efforts, and will report regularly, including as part of future global monitoring reports.

### **Voice and Participation of Developing and Transition Countries**

46. As requested at the Committee's last meeting there is a report from the Bank— and a separate report from IMF executive directors — setting out progress made on these issues since April. At the institutional level, important progress has been made over recent years in increasing the involvement of developing and transition countries in the formulation of

Country Assistance Strategies and Poverty Reduction Strategies. As well, significant progress has been made in increasing transparency of our operations, strengthening diversity in our staff, and in decentralizing our operations to be closer to our clients. These all contribute to enhancing the voice of developing and transition members. The report of the Board focuses on a narrower range of issues. While some of the most difficult issues remain unresolved, I am pleased that the two Boards have been able to make significant progress on a range of ways to strengthen the capacity of those representing developing and transition countries at the two institutions. I also note that there are some changes that would affect voting shares that require no further decisions by Governors – such as decisions by developing countries that have not done so to subscribe the full amounts allocated to them in IDA. As I said at the Committee’s last meeting, while these are matters for shareholders to decide, my own view is that we should be ready to consider seriously all the options for strengthening participation in our institutions by those countries that have such a great stake in our success.

## **VI. CONCLUSION**

47. As we work to implement the Monterrey consensus and achieve the Millennium Development Goals I believe we have reached a point of sufficient agreement to give us a unique opportunity of success. There is an increasing degree of consensus not only on the broad framework but also on what has to be done on the ground – by developing countries, by developed countries, and by the international institutions. We now have to put these agreements into practice. I hope our discussions in Dubai can help build momentum and give substantial further impetus to the process of global poverty reduction.