



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)



September 28, 2004  
**DC2004-00013**

**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 seventieth meeting to be held in Washington, D.C., on Saturday, October 2, 2004.

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# THE PRESIDENT'S NOTE FOR THE ANNUAL MEETINGS 2004

## I. INTRODUCTION

1. The 60<sup>th</sup> anniversary of the founding of the Bank is a time for reflection on how far we have come, and how much further we have to go. But there are also other reasons for such reflection. Development thinking and practice have changed greatly in the last two decades, and in ways that expand the possibilities for much more rapid and sustainable development. In many countries we are already beginning to see the benefits. But the full promise of these changes has not yet been fulfilled, in part because countries have not delivered fully on the commitments made in the new global development partnership. At the same time, the pressure to do better is growing—with modern communications people everywhere realize how much is possible, and ask why there has to continue to be such a gulf in living standards between the world's poor and rich. We have seen how dissatisfaction with the failure to address this gulf can become a source of insecurities that affect us all. We are already making good progress, but have a historic opportunity to do much better: an opportunity we can and must take.

2. This marks my tenth year as President of this remarkable institution. Together with Francois Bourguignon, I have prepared a paper on trends in development during this past decade that will be available shortly. I will have more to say about the longer-term development challenges and how we must address them at the Annual Meetings on 3<sup>rd</sup> October. We will have an opportunity to discuss some of them, and ways of accelerating progress, at our meeting on 2<sup>nd</sup> October. The first item on the Committee's agenda is "Aid Effectiveness and Financing Modalities"; as the Committee requested, we have prepared, in collaboration with the IMF, a paper addressing the role and importance of development aid, the new architecture for increasing aid effectiveness, questions of absorptive capacity, and the various proposals that have been put forward on innovative ways of supplementing aid flows, and how work on them could be taken forward. For the second item on your agenda—"Strengthening the Foundations of Growth and Private Sector Development: Investment Climate and Infrastructure Development"—we have prepared a note on the key elements underpinning growth, in particular the importance of a good investment climate and adequate infrastructure provision, and the Bank Group's approach to supporting development in these areas, with a separate report of progress in implementing the Bank's infrastructure action plan. The Committee has also received separate background notes on the other agenda items: "Debt and Debt Sustainability", and "Voice and Participation of Developing and Transition Countries". I look forward to our discussions and your guidance on all these issues.

3. In keeping with past practice, in this note I am also reporting on progress and actions on some of the other issues the Committee has considered in the past. We will have opportunities to discuss some of these issues informally at dinner.

4. I would also like to take this opportunity to welcome Rodrigo de Rato to the helm of the IMF and to his first meeting of the Development Committee. I am confident that working together, we will be able to consolidate and reinforce the strong collaboration between our two institutions that has become central to so much of our work—with both institutions working within our distinct mandates and bringing to the table our complementary expertise as we help

countries address issues ranging from financial sector reform to achieving debt sustainability, and as we work closely together in supporting low-income countries within the comprehensive framework of the PRSP initiative.

## **II. GLOBAL ECONOMY**

5. World growth is projected at 4 percent for 2004, up from 2.6 percent in 2003, and compared with a likely 3.5 percent next year. The global recovery is slowing, but is becoming more evenly spread and sustainable, even as growth slows in the US, Japan and South Asia and picks up in Europe and Latin America. Growth in developing and transition countries as a whole is likely to reach an all time high of 6 percent in 2004. This reflects boom conditions in China, robust growth in the rest of East Asia, in South Asia especially India, in Europe and Central Asia including strong performance in Russia, as well as the recovery of growth in Latin America. Growth has been less strong in the Middle East and North Africa and in sub-Saharan Africa, although better than recent historical trends.

6. Looking ahead, one risk is from further upward movements in oil prices, as rising demand and limited spare global production capacity leave prices vulnerable to any temporary disruption to supplies. Another risk stems from the persistent global imbalances, which require, in particular, readjustment of monetary and fiscal policies in the US, and structural reforms to boost growth in Japan, Europe and elsewhere. Heavily indebted and oil-importing developing countries are vulnerable to the combination of rising oil prices and interest rates. Mitigating and managing these risks remain important challenges for us all. The other longer-term challenge is the need to increase growth substantially in the poorest countries, particularly in Africa. On current trends, with global growth averaging 3 percent over the coming years, developing countries as a group will comprise around 60 percent of the global economy in 2030, compared to around 40 percent today (on a PPP basis); but this would still leave Sub-Saharan Africa falling short of the MDG poverty target by 2015.

## **III. ACCELERATING GLOBAL DEVELOPMENT AND POVERTY REDUCTION**

### **The Challenge of Scaling Up**

7. At the last Development Committee meeting we reviewed the sobering assessment of the first *Global Monitoring Report* that showed that on present trends most MDGs would not be met in most countries. The income poverty goal is likely to be met at the global level; however in sub-Saharan Africa, just eight countries representing 15 percent of the regional population are likely to meet it. There was broad agreement that—as agreed at Monterrey and Johannesburg—efforts needed to be stepped up on many fronts and with mutual accountability if the MDGs are to be met. This agenda encompasses actions by developing countries themselves to strengthen the management of public resources, enhance the effectiveness of service delivery and to strengthen governance at all levels. Equally important are efforts by developed countries to provide increased access to their markets, support for capacity building, debt relief, and substantially increased and more effective aid.

8. In May 2004, the Bank and the Chinese Government, in cooperation with many partners, organized a conference on *Scaling Up Poverty Reduction: A Global Learning Process* in Shanghai. I believe that this was one of the most important development conferences in recent

history. The conference provided a unique opportunity to learn from the rich and diverse experience of developing countries, to promote South-South learning, and to explore ways in which the ingredients of success at the project, country and global levels can be built upon and adapted to scale up progress on poverty reduction in all parts of the world. The case studies, the field visits and exchange of ideas leading up to and at Shanghai have provided an important body of knowledge to build upon further. The conference also highlighted the importance of continuous and more systematic South-South learning. Accordingly, we are working with a range of partners to disseminate the lessons and replicate this form of learning in all parts of the developing world and to apply the lessons to our own operations.

9. Another important exercise that the Bank has undertaken this past year is a review of the growth experience in the 1990s.<sup>1</sup> This study finds that the growth experience amongst developing countries in the past decade was diverse and unexpected—exceeding the most optimistic forecasts in some cases, and falling well short of expectations in others. It confirms the importance of fundamental principles for growth: macro-stability, market forces in the allocation of resources, and openness. At the same time, the study underscores that these principles translate into diverse policy and institutional paths, implying that economic policies and policy advice must be country-specific if they are to be effective.

#### **Aid Effectiveness and Financing Modalities**

10. As I noted earlier, we will be discussing the role and importance of development aid, ways to increase aid effectiveness, questions of absorptive capacity, and the various proposals that have been put forward on innovative ways of supplementing aid flows, and how work on them could be taken forward. We have prepared a paper in collaboration with the IMF, which discusses these issues at greater length; as you may recall, we discussed some of the same issues at our last meeting. I hope we will all be able to agree that:

- Aid is immensely important for development and meeting the MDGs. While other forms of finance for investment in development may often be larger—flows from exports, remittances, domestic savings, inward investment—aid plays a unique and catalytic role, supporting social investments that otherwise would be difficult to finance, and supporting the policies and institutions important for growth and for attracting other financial flows.
- We have in place a set of agreements on aid alignment and harmonization and a sharper focus on results, which if implemented, offer a strong prospect of making aid flows more effective, allocating aid better where it will be most effective, aligning it better behind country priorities, giving greater certainty about future commitments, and harmonizing procedures and processes with country systems. This will not be easy, as it involves changes in practices and procedures by many individual donors—but it is too important for us to allow the effort to fail. The 2<sup>nd</sup> High Level Forum on Harmonization to be held in Paris in March 2005 will be an important opportunity to accelerate, scale up implementation and push more firmly for better aid practices.

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<sup>1</sup> *Economic Growth in the 1990s: Learning from a Decade of Reform*

- Many developing countries have the capacity to absorb productively significant increases in amounts of aid now. Absorptive capacity varies greatly between countries and sectors, however, and where it is weak, absorptive capacity can often be strengthened quickly and effectively with appropriate outside assistance. Governance, capacity building and an appropriate investment climate are essential.
- The simplest approach to mobilizing higher volumes of aid would be for donors to increase their aid expenditures as recipient countries demonstrate their capacity to implement productive changes.
- Given the political and fiscal constraints in many donor countries to rapid increases in aid expenditures, it is worth exploring further some of the innovative proposals that have been made for financing extra aid flows. The issue of increased grants and additional debt relief are clearly important to the discussion. Global taxes and new forms of voluntary giving could make a contribution. But these are proposals likely to take considerable time to mature, and so offer little prospect of significant increases in aid in the short term.
- It is worth also exploring further—as measures that could potentially be introduced much more quickly—innovative devices for frontloading aid (and aid commitments) in the context of rising aid commitments in future. Of these, the proposed IFF is the most developed proposal. It is technically feasible so long as there is support from a critical mass of donors. Although it would not work for all donors, there are several adjustments—such as use of an MDB subsidiary as a borrowing platform—that might increase its effectiveness.
- Finally, there are some important things we can do to make aid flows go further, including matching the degree of concessionality better to country needs, for example by blending donor grant aid with MDB loans in supporting MDG-related investments in middle-income countries.

### **Achieving Debt Sustainability**

11. A separate note on the HIPC Initiative and on debt sustainability has been circulated to Ministers. Implementation of the HIPC Initiative has progressed, with six additional countries—Guyana, Nicaragua, Niger, Ethiopia, Senegal and Ghana—reaching their completion points since September 2003. HIPC relief committed to the 27 countries that have reached their decision or completion points, together with other debt relief initiatives, represents a two-thirds debt reduction in the overall debt stock of these countries.

12. The Boards of the Bank and the Fund have agreed to extend the HIPC sunset clause by another two years to end-2006 for countries that are assessed to exceed the HIPC Initiative debt thresholds after application of traditional debt relief mechanisms, based on end-2004 data. This would allow these countries more time to establish the track record that would allow their consideration for HIPC relief.

13. The Boards will also shortly consider the proposal to operationalize the debt sustainability framework jointly developed by Bank and Fund staff. This framework is expected to guide borrowing and lending decisions by matching the need for financing by low-income countries with their current and prospective debt sustainability. To ensure coherence and avoid duplication of work, the debt sustainability analysis will need to be undertaken in very close collaboration with the Fund. Based on the outcome of ongoing discussions IDA proposes to use this framework to determine the allocation of grants in IDA-14.

### **Progress And Challenges in Implementing the PRS Approach**

14. The Board has discussed an implementation progress report on the Poverty Reduction Strategy (PRS) approach that takes account of recent evaluations by the Bank's Operations Evaluation Department (OED) and the IMF's Independent Evaluation Office (IEO). The PRS approach is now seen as the country-level operational framework for progress towards the MDGs, resulting in many low-income countries paying greater attention to poverty reduction in formulating and implementing their development strategies, while also focusing attention squarely on the specific constraints to more effective development. At end-August 2004, 43 countries had completed full PRSPs, and 23 of them have prepared at least one annual progress report.

15. Implementation experience has varied with regard to process and content. Overall, countries have made progress in addressing the more straightforward challenges: poverty analysis has been enhanced, the importance of growth and macroeconomic stability is recognized, indicator lists are being rationalized and sectoral coverage is broadening. The challenges that remain are often technically difficult and institutionally complex: the analysis of sources of growth and its distributional impact remains relatively weak and countries have had difficulties in marrying aspirations for the future with resource and capacity constraints of the present. Sustained support from development partners to strengthen countries' institutional capacity to develop, implement and monitor poverty reduction strategies and to enrich the analysis that underpins them is needed.

16. The PRS approach was designed to be flexible, with scope for countries to adapt it to their own domestic processes and country circumstances. However, as the OED evaluation noted, links to domestic decision-making processes, such as budget preparation, and to representative bodies, such as Parliaments, have not always been optimal during implementation. Changes are being introduced to allow country authorities greater flexibility in articulating and implementing their strategies and to reduce the perception that the process is driven by requirements of the Bretton Woods Institutions. The nature of the Bank/Fund Joint Staff Assessment (JSA) is being modified to reflect these changes, and the JSA guidelines will be revised accordingly.

17. Although some countries have started to use the PRS for more effectively aligning donor assistance with country priorities, more effort is needed to realize the potential of the PRS as a framework for the more effective use of aid and mutual accountability. There is still substantial scope for better aligning aid, and for harmonizing and simplifying donor policies and practices. Increasing aid volumes and improving the quality of aid to low-income countries implementing sound poverty reduction strategies are critical to their efforts to achieve the MDGs.

## Trade

18. The agreement on frameworks reached by the WTO General Council in the early hours of August 1 was an important milestone in helping to put the Doha Development Agenda back on track. These agreements lay the groundwork for significant reform of global agricultural trade, including the future elimination of all forms of export subsidies, for additional tariff cuts and the reduction or elimination of non-tariff barriers on non-agricultural goods. WTO members have also agreed to intensify efforts toward services liberalization and to incorporate trade facilitation in the scope of the negotiations. But the difficult stretch still lies ahead, and there are important deadlines coming up over the next twelve months that will require strong political commitment from all members.

19. The Bank is continuing to provide its fullest support to realizing the potential of the Doha Development Agenda and helping developing countries tap this potential. At Cancun, we made a commitment to enhance our support to help our clients in their trade integration strategies and also to assist them in managing the transition to the environment that would emerge from a successful Doha Round. Three areas of activity are particularly important in this context: (a) the Trade Facilitation Initiative, supporting investment and technical assistance (TA) projects to help countries explore the gains from trade facilitation reforms; (b) program lending to support governments enacting reforms to adjust to the new incentives in the post-Doha world; and (c) help to countries in developing the analytical capacity and knowledge needed to anticipate, measure, and provide an adequate policy and budgetary response to special adjustment costs that result from multilateral liberalization.

20. The last *Trade Progress Report* that was discussed by the Board September 2, 2004, focuses on agricultural trade—its importance for developing countries and the support of the Bank related to the global agricultural trade negotiations including through research on the impact of agricultural trade on developing countries, and country level support including for capacity building.

21. An enhanced program of work is also underway to help developing countries exploit opportunities from trade. Comprehensive studies on how to improve trade policies and explore trade opportunities—in the context of the Integrated Framework for Trade Related Technical Assistance—have been launched in more than 20 low-income countries in the past two years. The World Bank Institute has also increased its training and capacity building in trade-related activities, promoting 49 learning events around the world in FY04. Assistance is also being provided to a number of countries seeking WTO accession. Actual and projected commitments for new trade operations for the period FY04-06 is estimated to reach US\$2.9 billion with trade facilitation projects accounting for \$1.2 billion of this total (just in FY04, the World Bank's Board approved 16 new projects with trade facilitation components that amounted to more than \$560 million).

22. A clear message emerging in our country dialogue is that, while there is no substitute for a vibrant multilateral process, the regional, unilateral, and multilateral approaches to trade policy can be complementary if they are handled correctly. In this context there is increasing demand for analysis and advice on how to assess the overlapping or even conflicting options and opportunities. We are undertaking extensive research on regional trade, and regional issues

have figured heavily in analysis and dialogue in the Bank's Regions in both regional flagship reports and country studies, as well as training and capacity building initiatives. The next *Global Economic Prospects (GEP05)*—to be released in November 2004—will focus on regionalism.

### **Private Sector Development**

23. The informal meeting that Development Committee Ministers had with private entrepreneurs last Spring confirmed the broad consensus that economic growth led by the private sector is key to sustainable development and poverty reduction. The note prepared for the Committee on the key elements underpinning growth underscores that to be an effective engine of job and income creation, the private sector requires a sound investment climate, appropriate support to micro, small and medium enterprises (MSMEs), and an efficient infrastructure.

#### ***Investment Climate and Support for SMEs and Micro-Enterprises***

24. We are intensifying the World Bank group support to investment climate reforms.

- On diagnostic work, the Bank has completed 31 investment climate assessments, has launched firm-level investment surveys in 54 countries in the last three fiscal years and will launch at least another 15 surveys this fiscal year. The new edition of *Doing Business in 2005* covers 145 countries, with several new indicators (land titling and registration, inspection systems for construction activity, shareholder rights protection, corporate governance); the 2004 report captured the procedures, time and cost required to solve standard business problems for SMEs. Some 30 countries have now instituted reforms motivated in part by the 2004 report and its benchmarks have been used by IDA, the Millennium Challenge Account and the European Union.
- On reform process, the *Doing Business* project is now yielding systematic information on good practices for the design of laws and regulations. Work has progressed substantially in the area of micro-finance, where the Consultative Group to Assist the Poor (CGAP) has developed an inventory of good practice. As part of the World Development Report 2005, case studies of reform experiences will highlight options to design reforms and to structure dialogue between the public and private sector.
- Implementation support for investment climate reform is shifting more and more to field-based staff. The World Bank and the IFC are pooling staff resources to help governments in their efforts to support, in particular, business-government dialogue. MSME operations have constituted an important component of the WBG's operations over the past five years, with approximately \$8.65 billion in investments and guarantees in support of MSMEs approved by the World Bank Group. In FY04, the WBG approved over \$1.5 billion of new MSME investments. IFC, supported by international donors, will soon propose to combine and expand two existing SME technical assistance facilities into a Middle East and North Africa Private Enterprise Development Facility which will provide a mix of technical assistance and financial instruments to SMEs, besides support to countries to improve their investment climate.



25. But without a conducive environment and efficient markets, lending focused on MSMEs can only have a limited impact. The WBG continues to support legal and regulatory reforms that improve the investment climate, provides support to institutional strengthening, including with programs assisting countries in the formulation of financial sector policies that facilitate MSMEs' access to commercial banks finance, and supports the development of credit bureau capacity.

26. The World Bank Group and CGAP—a consortium housed in the World Bank and composed of 28 bilateral, multilateral and private donors to promote microfinance—have continued to facilitate access to microfinance for individuals and micro-enterprises, in particular through providing technical services to a diverse range of financial service providers, the reduction of barriers for bank lending, building the industry architecture, promoting innovative linkages between banks and micro-finance institutions, and assistance to developing countries to improve their legal and institutional frameworks. At the Sea Island Summit in June, the G8 endorsed the Key Principles of Microfinance developed by CGAP and called upon CGAP to continue to lead global initiatives to further the development of financial systems that serve poor people. In addition, CGAP is preparing a proposal for a CGAP Middle East and North Africa initiative to support policy reforms that will stimulate the expansion of microfinance and access to financial services in the region.

### ***Support for Extractive Industries***

27. Three years ago, the World Bank Group initiated a comprehensive review of the developmental impact of its extractive industry investments. Independent economic reviews found that our projects have a strong track record of positive economic impacts—tax revenue, jobs, technology transfer, and the introduction of higher environmental and social standards—but that we can also do a better job by making the process more inclusive, and by ensuring more transparent revenue management.

28. The World Bank Group is therefore establishing a higher bar for performance. To ensure shared understanding of developmental goals, we will develop more explicit ways of measuring how these projects impact poor people, agree with stakeholders on indicators before a project is approved, and use them to track progress. To ensure transparency of project proceeds, we will immediately begin requiring disclosure of revenue figures for all new major projects, and we are already working with several countries, such as Nigeria, Azerbaijan, and Kyrgyzstan, through the Extractive Industries Transparency Initiative. To ensure governments of poor nations are offered cleaner energy alternatives, we will increase our lending toward natural gas and have set a target growth rate of 20 percent annually in our energy efficiency and renewable energy investments, averaged over the next five years. To protect the interests of local people directly affected by extractive industry investments, we will only support projects where affected communities, including indigenous peoples, are engaged through meaningful consultation leading to broad community support. We believe that even though extractive industries projects comprise less than 5% of our overall lending portfolio, they will continue to be important for the economies of many desperately poor nations, at a time when 1.6 billion people in poor nations still do not have electricity, and 2.3 billion depend on traditional biomass fuels.

## ***IFC***

29. IFC continued to deliver strong financial results in FY04, with \$4.75 billion in investment commitments for its own account, representing a doubling of its commitments since FY00, a 23% increase over FY03, and a better sectoral and geographical balance, led by stronger growth in commitments in Sub-Saharan African, East Asia, and some countries in Europe. These direct commercial investments were augmented by \$880 million in loan syndications and an expansion of IFC and donor-funded concessional finance to \$90 million. IFC also invested US\$171 million and mobilized a further US\$528 million through structured finance transactions. Highlights include the first securitization of non-performing assets in Latin America, and the first structured municipal bond in South Africa.

30. To further increase its flexibility and client responsiveness, IFC continues to shift staff to field-based operations and expand its business model beyond project finance. Local capital market development, through an increased emphasis on local currency financing and structured finance transactions, has become an area of growth and innovation, and is considered essential to the broader role IFC foresees in municipal finance and housing finance. IFC now provides a wider range of financial products and services such as trade finance, corporate finance, and, in select cases, acquisition finance, as well as advice on international standards in corporate governance, and environmental and social standards. This capacity has proven particularly helpful to IFC clients looking for "South-to-South" growth opportunities, i.e., from one developing region or country into another. For frontier sectors and countries, where basic capacity and expertise for smaller enterprises is often lacking, IFC has instituted a funding formula to stabilize support and planning for its growing network of more than a dozen donor-supported project development facilities. IFC's role as a conduit for expertise and global best practice is also steadily increasing in areas such as corporate governance, supply-chain linkages, HIV/AIDs prevention, energy efficiency, renewable energy, and carbon emissions trading credits. In addition, some twenty-four major commercial banks have now adopted IFC's environmental and social standards for project finance via the "Equator Principles" process; IFC is in the process of consultations to update these global standards in order to further expand its development impact.

## ***MIGA***

31. With foreign direct investment (FDI) falling for the second successive year in 2003, the operating environment for the political risk insurance industry has remained challenging. Over the past fiscal year, ended June 30<sup>th</sup> 2004, MIGA issued guarantees for 35 projects, representing \$1.1bn of new coverage; 16 of the projects supported were in conflict-affected countries and 14 were for small and medium enterprises. Demand for MIGA's technical assistance continued to increase over the fiscal year, as host countries sought to promote themselves more aggressively amid the difficult FDI environment. Over the fiscal year, MIGA engaged in 65 technical assistance activities, of which 35 were in IDA-eligible countries.

32. Recognizing the linkage between MIGA's technical assistance activities, which help governments attract and sustain FDI, and its guarantees products, in which investments are executed, the agency under the new leadership of Yukiko Omura is now organizationally structured to provide an integrated and complementary service to clients. MIGA is also

implementing a comprehensive risk management framework, which, through more efficient allocation of capital and use of risk mitigation instruments, will optimize MIGA's risk bearing capacity. Closer collaboration within the World Bank Group will also enable the agency to leverage its resources, both internally and through the Bank's network of field offices. These changes will better equip MIGA to open for business in frontier markets, adapt to market demands and increase its development impact. A recent example of MIGA's collaborative and innovative approach has been the establishment of a guarantee facility for investors in Afghanistan of up to \$60 million, in which MIGA, along with the ADB and other private insurance partners, provided the insurance capacity for the facility to provide a six-fold leverage of a \$5 million IDA credit and a \$5 million soft loan from the ADB.

## **Remittances**

33. Workers' remittances to developing countries have been identified as an important and stable source of external finance. They reached an estimated \$93 billion in 2003, from \$88 billion in 2002, and are the second-largest financial flow to developing countries after foreign direct investment. The Bank has developed an integrated work program on the links between international migration and poverty reduction as part of a wider development perspective in which remittances play a major part. To improve understanding of the determinants of remittances and to create a supportive environment to enhance their development impact, the Bank is stepping up its work in the following areas:

- Improving remittances data and knowledge management, since a large share of remittances goes unrecorded, and official statistics underestimate the actual size of remittance flows – perhaps by more than 50%;
- Reducing the of costs of transfers, by designing and implementing policies to reduce transaction costs of remittances and help recipient countries improve the efficiency of the formal financial infrastructure;
- Investigating the development impact of remittances at the macroeconomic and microeconomic levels, so as to make policy recommendations to countries that can further enhance that impact, and
- Developing a framework that enhances the integrity of money transfers in formal and informal systems.

## **Infrastructure Investment**

34. Low- and middle-income countries have massive needs for infrastructure spending to support growth and the MDGs. Current estimates point to financing needs of about 7% of GDP for all developing countries—for both new investment and maintenance expenditures—and as much as 9% of low-income countries' GDP. Comparing past actual investment and new investment and maintenance rates (on average about 3.5 % of GDP in all developing countries) to projected requirements indicates that the need is potentially double the actual current level of financing for infrastructure.

35. The update provided to the Committee on progress in implementing the Infrastructure Action Plan presents the key challenges going forward. The World Bank Group is engaging along the entire public-private spectrum for infrastructure financing and service provision. The Bank has eased some internal constraints on the use of guarantees to enable a scaling-up of their use. Other risk mitigation applications are being considered in the areas of regulatory risk (to support privatization transactions) and in the development of local currency debt instruments. The Bank is working with the IMF to help countries address the issue of easing fiscal space constraints for infrastructure investments. It will also continue to improve its product mix to stimulate infrastructure investments to increase attractiveness to middle-income countries. The Bank committed about \$6.5 billion in new infrastructure lending in FY04, an increase of \$1.1 billion over FY03. This is significantly greater than the commitments made in the Infrastructure Action Plan, and this level of additional delivery is expected to be maintained in FY05.

### **Meeting the MDGs for Human Development**

36. **Health.** Our focus is on building sustainable country health services. The recently inaugurated High Level Forum (HLF) on the health MDGs—coordinated by the Bank and WHO—brings together donors, developing countries, international technical agencies, charitable foundations, and other partners to fight malnutrition, child mortality, maternal mortality, and communicable diseases, by addressing deficiencies in health systems. In many cases there are too few health professionals, poor access to drugs and other medicines, and poor service delivery. The next meeting of the HLF will take place in Abuja in December 2004 to review progress on this urgent agenda. Addressing these issues in countries requires resources to be made available through PRSs and budget allocations, matched by stronger efforts by donors to align and harmonize their assistance as recommended by the HLF. In middle-income countries, new impetus must be found to deal with rapidly growing health issues such as cardiovascular diseases diabetes and cancer. There is also growing awareness, underlined by the sudden, deadly appearance of SARS in 2003, that disease control and associated risk factors do not stop at borders, and require global cooperation and the attention of the international institutions.

37. **Communicable diseases.** The Bank was actively involved in the XVth International AIDS Conference in Bangkok in July 2004—*Access For All*. The conference called for much stronger commitment and involvement by political leaders and senior policy makers to widen access to national programs offering prevention, care, and treatment services. It also appealed for sustainable financing for these programs, and effective partnerships among a large global and national coalition of partners from UNAIDS to community-based organizations. The Conference also stressed the need to build robust health systems capable of fighting not only HIV/AIDS but also TB and other infectious diseases, in collaboration with the private sector (from pharmaceutical companies to private providers). The Bank strongly supports comprehensive approaches such as these, both at the operational level with commitments of over \$1 billion, and also at the global level, with contributions made for the procurement of antiretroviral treatment, economic analysis, and global monitoring. Disbursements through the Multi-country HIV/AIDS Action Plan (MAP) for Africa for example, are now running at 85-90 percent of targets, or roughly \$170 million per year. MAPs have funded over 20,000 civil society sub-projects, of which over 15,000 were to local community-based organizations,

disbursing over \$70 million in direct sub-grants and for capacity assistance. We are also stepping up our work with key partners in malaria control to curb a disease with devastating human and economic effects, particularly in Sub-Saharan Africa.

**38. Education.** The Education For All (EFA) Fast-Track Initiative (FTI) is designed to restore momentum towards the goal of universal primary education by 2015. Since its launch in 2000, EFA has promoted faster policy reforms, improved donor coordination and mobilized additional external aid, particularly among the twelve FTI endorsed countries. Ten of the twelve FTI countries received 30 percent additional funding in the first year of the Initiative. To support this effort, the World Bank has more than doubled its new lending for basic education in IDA countries over the past four years, from \$300 million in FY00 to \$800 million (total education lending has grown from \$880 million to \$2 billion). Enrolment growth has most increased in countries with the lowest coverage, particularly in Africa, and the number of countries on track to reach the Education MDG has increased by 10 percent; but that is still too few. Following a meeting in Oslo in November 2003, all partners agreed to expand FTI to all eligible low-income countries and to launch a Bank-managed catalytic Fund with total commitments of \$250 million over four years and an initial allocation of \$35 million in 2004, to support countries with good policies but insufficient donor support. However, important challenges remain, including the need for additional financing, greater donor harmonization and, most importantly, stronger public sector management capabilities and accountability within countries. It is now clear that success in primary and secondary education depends on effective investments in early childhood development and pre-school education. The Bank has accordingly stepped up its policy work and support for early childhood development (ECD). The Bank has lent \$730 million for 13 free standing ECD projects in 11 countries, and an additional \$370 million for ECD components in 38 social sector projects in 26 countries. In addition to accelerating progress toward universal primary education, the Bank is committed to helping countries acquire the advanced skills they need to compete in global markets with advisory services and lending.

#### **Combating Money Laundering and Terrorist Financing (AML/CTF).**

39. In March 2004, the Board decided that Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) should become a regular part of the Bank's work. Following this decision the Bank is undertaking several money laundering and terrorist financing assessments this year as part of the joint Bank/Fund Financial Sector Assessment Program (FSAP). We are continuing to provide AML/CFT technical assistance to client countries through individual country TA programs, regional programs and raising awareness through Global Dialogues sponsored by the World Bank Institute. Finally, the Bank is developing a comprehensive AML/CFT e-learning course for client countries, which will be available via the Bank's mainframe using the Internet:

- Following the revision of the FATF 40 + 8 Recommendations, which were endorsed by the Board in March 2004, the World Bank, IMF and Financial Action Task Force (FATF) will conduct assessor training workshops on the revised global methodology. Training began in September 2004 with Bank and Fund staff and representatives from the FATF-Style Regional Bodies (FSRBs);

- The Bank has supported two initiatives to create new FATF-Style Regional Bodies (FSRBs) in the Middle East and North Africa (MENA) region and in the Central Asia (CA) region. The MENA FSRB will be officially launched at a Ministerial meeting in November. We anticipate that the CA FSRB, which has been spearheaded by the Russian Federation to support AML/CFT efforts of Russian-speaking FSU countries, will also be launched later this year;
- The Bank and the United Nations are partnering to provide an AML/CFT expert to work directly with national authorities in Central Asia for two years to help develop and establish AML/CFT regimes;
- The Bank has revised its *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, to incorporate the new FATF recommendations and methodology for assessments and will publish versions in Arabic, Chinese, French, Russian, Spanish, and English. There has been for the *Reference Guide* from our client countries. The IMF together with the Bank has also recently published a handbook entitled *Financial Intelligence Units – An Overview*.

#### **IV. STRENGTHENING THE BANK’S EFFECTIVENESS, EFFICIENCY AND GOVERNANCE**

40. With your help and support, we will continue to work to ensure the World Bank Group is a major and effective participant in global efforts to accelerate development and poverty reduction and meet the MDGs. To this end we will:

- Continue our efforts to work closely with other multinational and national development partners. Since Marrakech, inter-agency mechanisms such as an MDB Working Group and the OECD/DAC Joint Venture on Managing for Development Results have been established to foster an effective global partnership. In particular, there is strong collaboration and momentum on all aspects of this work between the MDBs. We know that by working together we can achieve so much more than we can by working in separate boxes, and I believe that there is now much broader acceptance of this than there was even a few years ago;
- Continue to be ready to respond to new development challenges when they arise—as we are doing, for example, in supporting global efforts to assist reconstruction in Afghanistan and Iraq. We must also be ready to respond to the challenges of harnessing the contribution of young people to development and incorporating their aspirations into development priorities; to address the concerns of the 400 million disabled people in developing countries; and to continue to contribute to the progressive realization of human rights through our poverty alleviation efforts;
- Strengthen our support for low-income countries, through a more effective and well-funded IDA and strengthen our support for middle-income countries by implementing our agreed action plan and strengthening our collaboration with development partners;

- Continue, with the support of member countries and the Board, to seek to strengthen the governance of our own institution; and
- Above all, continue in our efforts to make the Bank a more effective and efficient organization, operating with a clear link between budget plans and performance and results, so that we can meet all these challenges within budget constraints

## **IDA**

41. After the rest of us have finished our work at these Annual Meetings, IDA Deputies will meet in Washington to continue their discussions on the 14th replenishment of IDA resources. They met in Hanoi in early July to consider an ambitious package to further strengthen IDA's performance-based, country-driven support for development. In particular, in IDA14, IDA will further develop its ability to target and track key development outcome indicators. It will systematically deal with the issue of debt sustainability in IDA countries, building on joint Bank/Fund work, and provide an analytical basis for its extension of grant financing. We also expect to move forward with public disclosure of the performance judgments on which IDA bases its resource allocations.

42. But the most important challenge we all face in this IDA replenishment directly reflects the challenge facing the world as a whole—whether we can increase effective development assistance to meet the Millennium Development Goals. We have proposed a significantly increased replenishment in IDA14, carefully built up using country-by-country assessments of development needs, performance and absorptive capacity. I was heartened to hear that there was widespread agreement among the Deputies in Hanoi that our proposal is a good reflection both of needs and capacity in low-income countries. I know that it will be difficult for some donors to finance their share of what is needed, which includes the pay-as-you-go HIPC-related costs of IDA's debt relief during the IDA14 period. But I hope, for the sake of the poorest countries, that it is a challenge we can successfully meet together. There is nothing more important on the development agenda than a successful IDA14 replenishment.

## **Support for MICs**

43. At the same time we are acting to enhance the Bank's support for development in middle-income countries (MICs, defined as IBRD-eligible countries). Faster and more sustained growth and poverty reduction in these countries, which are home to over 70 percent of the developing world's poor people, is essential for achieving global development goals. Following discussions with the Executive Directors in March, we have revised and started implementing the Management Action Plan for Enhancing Bank Support to MICs. The plan focuses on increasing the Bank's responsiveness to clients' demand for high quality lending, risk management products, and knowledge services—based on our unique combination of global expertise, range of products and services, attractive financial terms, and ability to catalyze the support of partners and the private sector. We have made progress on a number of initiatives:

- We have taken steps to strengthen our ability to respond flexibly and effectively to the needs of MICs. This includes developing for eventual approval by Executive Directors

a program of 8-12 pilot operations that will rely on countries' own safeguard systems where they are considered equivalent to the Bank's safeguard policies, i.e., where the countries' relevant rules and procedures are designed to achieve the objectives and adhere to the operational principles of these policies.

- The Bank is also giving enhanced attention to particularly disadvantaged groups in MICs. One example is the steps we are taking with regard to the Roma people in Central Europe. In the Czech Republic it is estimated that more than 70 percent of Roma children do not complete basic education. Life expectancy of the Roma people is 10-15 years less than the majority population. The Bank has been engaged in raising the profile of these issues and helping governments to take concrete steps to close the gaps.
- The Bank already offers MICs a number of risk management products—such as interest and currency hedges and a deferred drawdown option for development policy lending—that enable clients to use their IBRD portfolio to manage risk associated with foreign debt. We have piloted and are now mainstreaming a systematic effort to promote the use of such products. The recent Board approval of two local currency loans to Mexico has led other countries to express strong interest in local currency direct lending from the Bank.
- We have begun discussions with bilateral donors and other development partners on ways to strengthen our collaboration in supporting MICs. Areas of potential cooperation include collaboration in meeting country needs for advice and other forms of technical assistance, and combining donor grant resources with IBRD loans in support of social and MDG related investments in MICs.

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

44. Discussions continue between shareholders on how to make progress on the interlinked set of issues involved in strengthening the voice of developing and transition countries in the governance of the Bretton Woods Institutions. You have received reports from the two Boards. These and related issues are important, and I hope that in time the Board will reach agreement and it will be possible to agree on a satisfactory package of measures that will help strengthen the governance of the Bank.

### **Bank's Operational Budget, Organizational Effectiveness and Strategic Directions**

45. Meanwhile, at Management level we are taking steps to improve the Bank's organizational effectiveness. Even with a clear sense of purpose and a robust strategy, we face an implementation challenge. We have to make the most—get the maximum development impact—out of the limited resources at our disposal. We have had a series of very productive discussions with our Board during the course of this year and are now in the midst of an effort to improve the way in which we manage our budget: enhancing the link between budget planning and the setting of strategic priorities, making explicit trade-offs and measuring performance. A key element of the package we have discussed with the Board is moving to a multi-year budget framework to manage the use of resources in a flexible, disciplined way



while providing the medium-term continuity that many of our activities requires. Another key element is the pursuit of efficiencies: the demands on the Bank continue to grow at a much more rapid pace than our budget. Meeting these demands while maintaining budget discipline will require performance management tools that support a strong, dynamic sense of priorities and the willingness to face the required trade-offs and improve cost-effectiveness in all our activities. Success in this difficult effort will depend crucially on our ability to make efficiency gains throughout the institution so that more resources can be devoted to delivering client services. To get the maximum impact on countries and on global issues from the resources at our disposal, I have established a Bank-wide Task Force on Enhancing Organizational Effectiveness. The Task Force will produce—in the next few weeks—a set of proposals for Management consideration designed to shift staff and other resources towards direct client services and to improve our responsiveness to country clients and in addressing priority global issues.

## V. CONCLUSION

46. We continue to make progress on many fronts. With what we now know about the ingredients for successful development, and the commitments we have all made and the partnership we launched at Monterrey, there is a unique opportunity to make much more rapid progress toward poverty reduction and the MDGs, perhaps better than at any time in the past. I think we can now identify a quite concrete program on the basis of the papers prepared for the Committee and work and progress in other areas.

- First, we have to sustain and further broaden the foundations for growth if we are to meet the MDGs. This encompasses many elements, but two areas that are key and where the Bank has stepped up its efforts enormously are the investment climate and infrastructure. I hope that the Committee will support the action plans laid out on both fronts.
- Second, although not explicitly on the agenda, we can welcome the agreement reached by the WTO General Council on the frameworks for negotiations on the Doha Round and strongly reaffirm our support and commitment for translating the frameworks into real results.
- Third, I hope we will give political impetus to translating the agreed framework for improving aid effectiveness through harmonization and alignment, and focus on results, into concrete actions on the ground, using the Paris Forum next Spring as a milestone.
- Fourth, the Bank and the donor community need to increase and make more effective their efforts to help developing countries build capacity and address specific constraints to absorptive capacity. This can only be done country by country, but the PRS process provides a way to make our effort more ambitious and more coherent.
- Fifth, I hope that the delivery of aid commitments will remain on track, and that more countries will increase their future commitments, and that this will translate in 2005 and 2006 into large and measurable increases in real resources for poor countries with sound policies and large requirements to meet the MDGs.
- Sixth, I hope that the Committee will agree that even though the international finance facility is not an appropriate instrument for all donors, there is merit in exploring how to develop a frontloading proposal on the lines of an IFF concretely, as a complement

to increasing aid commitments. In this I believe that there is much merit in ensuring close alignment and synergy between such a facility and the Bank's instruments, especially IDA.

- Seventh, I hope that the Committee will similarly will also welcome the proposal to explore the potential for increasing leverage though blending aid with other flows including MDB lending.
- Eighth, I hope that we can also agree that the Bank should stay engaged in the discussions on global taxes and voluntary contributions.
- Ninth, I hope that we will conclude on an agreed and implementable approach on debt sustainability and on grants, and that we will be able to implement this approach in the context of IDA14.
- Finally, there are also challenges of moving forward on specific priorities on the MDG agenda—on EFA, on health, on HIV/AIDS, on water—where in addition to financing, a major challenge is strengthening country capacity for service delivery.

47. The review next September of the Millennium Summit goals will be an important opportunity to take stock of progress, as will the Committee's own review in the Spring on the basis of the next Global Monitoring Report. We have a formidable but achievable agenda. I hope at our meeting we can have a frank discussion of the challenges we face and practical steps we have to take to meet them.