



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)



April 15, 2004  
**DC2004-0005**

**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-ninth meeting to be held in Washington, D.C., on Sunday, April 25, 2004.

\* \* \*

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

### **I. Introduction**

1. At our meeting two years ago, shortly after the agreements reached at the Monterrey summit on actions needed to reduce global poverty and meet the Millennium Development Goals (MDGs), we decided the major challenge for all of us is to implement those agreements and turn commitments into action. The challenge is even more urgent than it was two years ago, given disappointing progress made in some respects. We also agreed that an important and continuing role for this Committee is to track progress and reinforce the mutual accountabilities of the parties to the Monterrey Consensus. I hope we can take the opportunity at our meeting to give new impetus, particularly to those actions where there has been least progress.

2. The first item we will be discussing at our meeting on April 25 is central to that task: the first of a planned annual series of reports monitoring global progress in implementing policies and actions for achieving the MDGs and related outcomes. The report and the assessment of progress by the Development Committee is timely. With a review of the goals of the Millennium Summit planned in 2005, this is a opportune time to impart urgency and resolve on the critical policy and actions needed to achieve these goals. We will also assess progress on debt reduction and discuss the ongoing Bank/Fund work on debt sustainability in low-income countries. This work is at an early stage and any broad guidance the Committee can provide about its future direction would be welcome. We will also have opportunities to discuss informally a range of other current policy issues, including some of those touched on, in this note.

3. As requested at the Development Committee's last meeting, the Bank has also provided progress reports on the Education For All Fast Track Initiative and on policy options to mobilize additional finance for scaling up progress toward the MDGs. Both are very relevant to our discussion on monitoring progress in implementing the Monterrey agreements. In this note, I am also reporting on actions and progress in the World Bank Group on a range of other issues considered by the Committee in the past.

4. I would like to take this opportunity to express my appreciation and thanks to Horst Koehler for his support over the last few years and the contributions he has made to the work of the Development Committee. It has been a real pleasure to work with Horst. Early on in his tenure, we set out a joint vision for strengthened partnership and I believe that we have been very successful in implementing that vision, thanks in no small part to his commitment. His has been a strong voice for development and poverty reduction and we will all miss having him at the helm of the IMF.

## **II. Global Economy**

5. Since we met last September, global recovery has gained momentum. Worldwide, GDP growth increased from 1.8 percent in 2002 to 2.6 percent in the past year and is forecast to rise to 3.7 percent in 2004. The medium-term global outlook remains highly uncertain given large macroeconomic imbalances in and between the major economies. Their unwinding is likely to bring about significant increases in interest rates (from their very low levels now) and possibly large fluctuations in exchange rates which could affect trade and capital flows.

6. As a group, developing countries have continued to grow more rapidly than the high income countries. Growth of GDP of developing countries this year is expected to surpass the record 5.2% growth achieved in 2000. East and South Asia have been at the forefront of the strong growth performance of developing countries. There has been a strengthening of growth in other regions as well; although growth remains subdued in many countries, particularly in Latin America. Sustaining the momentum on growth and ensuring that it extends to the poor, will be key to achieving the MDG's. Ensuring smooth adjustment of the large global imbalances is therefore an important collective challenge. Although some developing countries have improved their liquidity positions, others remain vulnerable to financial shocks and therefore setbacks. It will be important to use this period of buoyant growth and low interest rates to further reduce vulnerability. A third and key challenge is to accelerate growth in the poorest countries especially in Sub Saharan Africa. Without a substantial increase in growth rates in the region, only 8 countries representing about 15 percent of the regional population in Sub-Saharan Africa are likely to achieve the goal of halving income poverty between 1990 and 2015.

## **III. Supporting Development and Reducing Poverty: Implementing the Monterrey Consensus**

7. Two years ago, just after the Monterrey meeting, this Committee asked the Bank and Fund to report regularly on progress on policies and actions of developing and developed countries and international institutions for meeting the MDGs and related outcomes. A year ago we discussed and agreed on a framework for such reporting. We now have the first full Global Monitoring Report (GMR), prepared jointly by Bank and Fund staff in close collaboration with partner agencies – DAC/OECD, other MDBs, the UN and the WTO.

8. It is particularly encouraging that we now have such a broad based partnership underpinning this effort. I am hopeful that this first report will spur a virtuous cycle of a shared results framework on policies and actions to meet our agreed development goals. I also believe that beyond good analysis we need good communications so that we can mobilize support not just of the official community but of all stakeholders including the general public in all our countries.

9. This first monitoring report is, in my view, an important and credible step in putting in place a results framework so that Ministers can discuss where and how much progress we are making, individually and collectively and where more needs to be done. I believe that the Development Committee has an important role in reinforcing mutual accountabilities by systematically and rigorously taking stock and giving impetus to implementation the Monterrey agenda. I hope that the Global Monitoring Report will become an integral and regular feature of our work, and believe that it will complement and reinforce deliberations in other fora including the United Nations and the OECD Development Assistance Committee.

10. The findings of the report provide a sobering assessment of progress towards the MDGs and progress in meeting the commitments made at Monterrey. As the report makes clear, on current trends, most MDGs will not be met by most countries. This is not to downplay the impressive progress made in many countries, particularly large ones such as China and India. But there are just as many who are falling behind especially in sub-Saharan Africa. And we can do better even in countries where progress has been good. It will take a significant and immediate scaling up of actions on the part of all parties to avoid falling far short of meeting our aspirations on the MDGs. There has been no better time to scale up actions given the foundations laid by past successes and lessons learned from past mistakes. The report identifies where the need for action is most urgent.

11. The report also provides a range of evidence on the improvement of policies and institutional frameworks in developing countries. I have seen evidence of this improvement directly, through my own visits and interactions with people in countries in all parts of the developing world. In Africa for instance, NEPAD has asserted a new accountability, and there are now many countries which have taken credible steps to strengthen their policies and governance with a clear sense that there is now an unprecedented opportunity for accelerating progress on development results. More needs to be done in deepening and sustaining reforms, but I believe that we have the basis for scaling up in most countries.

12. As the report shows, in contrast to the improving performance in developing countries, the developed countries are falling behind on two critical fronts that are vital to accelerating progress and scaling up results – trade and aid. I hope that the Committee will stress the importance and urgency of reinvigorating the Doha round, including market access for agriculture and labor intensive manufactures that are so critical to the prospects for the poorest countries. The other area for priority attention is the quantity and quality of aid. We have all agreed, and are on record as having agreed, that no country truly committed to poverty reduction and to meeting the MDGs should be denied the chance to achieve those goals due to the lack of resources. Yet that is precisely what we are now witnessing. There has been a nominal increase in ODA flows since Monterrey, but this is to a large extent accounted for by debt relief and technical cooperation grants, and there are pressures to accommodate other special new needs within the envelope, such as finance for Afghanistan and Iraq. I hope you will agree that it is of the utmost importance and urgency to increase the quantity of development assistance in support of countries implementing sound policies to accelerate progress

towards the MDGs. As I discuss below, in parallel we need political commitment on the agenda to improve the quality of aid – to align it better with country priorities, to make it more predictable and flexible, to focus it on results and to harmonize aid practices and procedures.

13. The report also highlights the need for continued attention to how international agencies can strengthen their support at the country and global levels. There is clear recognition of the importance of a strong results orientation in what we do individually and collectively. In the Bank we are acting to build our management and budget systems around a results and objectives based framework. And the action plan that the MDBs committed to in February in Marrakesh will, I believe, help ensure that we all do our part in meeting the challenge on the MDGs.

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

14. There is a clear need for more and better quality development assistance to support countries implementing sound policies, to strengthen progress towards meeting the MDGs. At our last meeting the Committee asked the Bank, working with the Fund, to examine various options to mobilize the extra resources needed to achieve development results. The background paper we have produced gives an overview of possible ways by which the needed financing can be mobilized. But I should emphasize that this is only a progress report at this stage, aimed at encouraging discussion, seeking to identify the main options that have been suggested, and making a brief assessment of their characteristics and related policy considerations. I was pleased to have been able to participate in the conference on aid hosted by Minister Sarkozy and Gordon Brown in Paris on April 8, where there was a broad commitment to move forward on the aid and aid effectiveness agenda, and to consider innovative financing mechanisms such as the International Finance Facility. We will be taking this work forward in the context of broader ongoing work on the architecture of development aid that was also requested at the Dubai meetings, and which will be reported at the Annual Meetings.

### **Enhancing Aid Effectiveness: Alignment, Harmonization and Managing for Results**

15. Harmonization and Alignment. Over the last year, attention has been focused on implementing commitments made in the February 2003 Rome Declaration. There has been some progress with harmonization and alignment activities in over 50 member countries, involving 18 bilateral donors and 16 multilateral institutions, including the formation of government/donor working groups, development of donor and member country action plans, joint assistance strategy preparation, better alignment of budget support with budget year cycles, and learning initiatives. It is encouraging that sector-wide approaches or SWAps are becoming prevalent in both low-income and middle-income countries as a means of better aligning donor support with country systems.

16. I understand and share the impatience among partner countries for swifter action. Discussions among donors, with partner countries and with others have identified specific constraints to implementation which need to be addressed – and in some measure are

being addressed – by development partners, including the Bank. A key constraint is the predictability of aid flows, and an absence of quick and efficient disbursement; combined with capacity constraints in fiduciary areas within recipient countries, the lack of predictability can lessen aid effectiveness. This can be – and to some extent is being – addressed.

17. There are also constraints in communication between donor headquarters and field staff on corporate commitments to harmonization and alignment; and discordant donor practices – on conditionality and performance indicators, for example – that can constrain country recipient capacities, but can be addressed by close coordination of policy-based lending. There is a need for greater donor transparency that will allow recipient countries to obtain timely and accurate information on actual aid flows. The Global Gateway is providing a promising basis for exchange of information. Despite efforts by a number of development partners including the Bank, practical know-how on options, experiences and lessons of other countries is still lacking. And there is a need to address incentives and encouragement for staff working for multi-lateral and bilateral donors to pursue stronger alignment and harmonization.

18. The Bank remains strongly committed to making progress on harmonization and alignment. To this end in November 2003 the Bank opened procurement to bidders from all countries, thus making our policy more ‘harmonizable’ with other agencies. In March 2004, the Bank liberalized its expenditure eligibility requirements to better align our assistance around upgraded country systems. In addition, we are aiding implementation at the country level, acting as a key facilitator in a number of countries. At the systemic level, the DAC Working Party on Aid Effectiveness and the Task Team on Harmonization and Alignment is taking forward the agenda, implementing the commitments of the Rome High Level Forum. A progress report on that work has been shared with the Board and will be discussed at the upcoming DAC High Level Meeting. The Bank is contributing to this work, and continues to lead or co-lead four of the five working groups of donors and partners. To assess progress, a Second High-Level Forum on Harmonization and Alignment for Aid Effectiveness has been scheduled for early 2005, to be hosted by the Government of France. This will be an important opportunity for the development community to learn from experience and to commit to scaling-up efforts, replicating successes and explicitly recognizing and addressing remaining challenges to implementation.

19. **Managing for Results.** We are firmly committed to implementing the agenda on managing for development results which was endorsed by the Committee at its meeting in September 2002 to improve development outcomes through strengthened country ownership and increased management attention to results, in three areas for implementation: (a) within countries, to strengthen their capacity to manage for development results; (b) in the Bank, to increase the focus on results in strategies, instruments, incentives and reporting systems, and (c) across development agencies, to foster a global partnership on managing for results.

- a. Strengthening country capacity to manage for results. Support to PRSP countries in enhancing the results focus of their PRSPs has been a priority. One area where

significant progress has been made is in support of country statistical capacity enhancement necessary for measuring and monitoring results. A new lending program, *StatCap*, has been approved based on a sector-wide approach to building statistical capacity to support implementation of poverty reduction strategies. With strong Bank engagement, the international statistical community at the February 2004 Marrakech Roundtable on Results agreed on a medium-term action plan to coordinate resources, rationalize data gathering mechanisms and strengthen international statistical systems.

- b. Enhancing the focus on results within the Bank. The pilot phase is well underway to introduce a stronger focus on results in Bank country programming. Six results-based country assistance strategies (CASs) have been discussed by the Board, and five more are under preparation, and many other country teams are seeing the benefits and beginning to apply the methodology. An evaluation of the pilot phase later this year will be the next step toward mainstreaming in FY05. The Bank has also carried out additional analysis and monitoring to support the IDA results measurement system, which will be discussed at the IDA14 meeting in Vietnam in June.
- c. Fostering a global partnership on managing for results. Significant progress has been made in developing mechanisms for international collaboration and harmonization of results-based approaches at the country level, through an MDB Working Group and a OECD-DAC Joint Venture. At the Marrakech Roundtable developing countries and their partners discussed challenges and emerging good practices in managing for—and achieving—better development outcomes. Sponsoring agencies endorsed a joint memorandum, core principles and an action plan that will serve as the basis for establishing greater awareness and broader consensus on the priorities and critical actions for this long-term agenda.

## **Trade**

20. A more open and balanced global trading system is central to the Monterrey agenda. The Committee last met just after the breakdown of the Doha negotiations in September in Cancun. Helping to get these negotiations back on track is a critical priority for the Bank. In November, Horst Koehler and I sent a joint letter to the heads of state of all WTO members stressing the importance of a concerted effort to revitalize the Doha negotiations. We have been using any and all opportunities with key participants to drive home how high the stakes are, and now there are some signs of progress. The WTO General Council has met and appointed chairs for the various negotiating groups, there are active discussions over when to hold the next WTO ministerial meeting, and there has been encouraging evidence of movement in the negotiating stances of a number of key participants. In the Bank, we will continue to do everything we can do to help the process reach a successful conclusion.

21. As highlighted in a progress report to the Board, assisting the multilateral negotiating process is not the only agenda for the Bank: there are also actions required at the country and regional level. At the regional level, members are increasingly looking

for analysis and projects with a regional dimension – from research on the regional implications of China’s accession to the WTO through support for free trade initiatives in Central America, to analysis of how to maximize the gains to the ACP countries of partnership agreements with the EU.

22. At the country level there is also a need for action to remove impediments to trade. The Bank has provided policy advice to more than a dozen countries that have recently implemented significant tariff reforms, and assistance to a substantial number of the 27 countries currently seeking WTO accession. There are a total of 73 trade-related lending operations under preparation covering 42 different countries. Roughly half of these operations focus on trade facilitation, an area that countries see as critical to improve their competitiveness. The Integrated Framework initiative continues to target the special challenges facing the least-developed countries: to date, Diagnostic Trade Integration Studies have been completed in thirteen countries, along with dissemination workshops and donor meetings in most instances.

### **Migration and Remittances**

23. International migration, and with it cross-border remittances, has emerged as a powerful new force that can be harnessed for the benefit of both receiving and sending countries. The number of people residing outside their country of birth increased by 14 percent during the 1990s, reaching an estimated 175 million. And officially recorded remittances received by developing countries reached \$90 billion in 2003, second only that year to foreign direct investment as a source of external finance for developing countries.

24. The rapid and sustained growth of migration and remittances has brought to the fore a number of important policy challenges which will require more analysis and more dialogue. Given our development focus, the Bank is stepping up its work on issues most closely related to our mandate and comparative strengths. We aim to contribute to having better information on magnitudes and patterns of migration and remittances; to help countries cope with emigration of highly skilled persons especially in the poorest countries; to contribute to the discussion of international norms and practices including on the movement of temporary workers and on the rights of migrants; and to help developing countries enhance the size and impact of remittances. In these efforts we will work closely with the Global Commission on International Migration that is being co-chaired by Managing Director Dr. Mamphela Ramphele.

25. We are supporting countries in tapping the potential of remittances, while reducing the vulnerability of remittances to abuse. In this regard, the Bank has supported the Asia Pacific Economic Cooperation (APEC) Alternative Remittance System (ARS) Initiative. Follow up work with APEC is ongoing on specific case studies and targeted recommendations which could form the basis of the discussions at the next APEC Finance Ministers’ meeting in Santiago in September 2004. We are also conducting research to improve our understanding of magnitudes and directions of remittances. We are planning to work with official and private partners to reduce the high transactions costs of remittance to many parts of the world. We will integrate migration and



remittance issues into our CAS's as appropriate, to help countries address impediments and strengthen their domestic environments to attract and better use remittances.

### **Debt Sustainability, Debt Vulnerability and Handling Shocks**

26. **HIPC Initiative.** Twenty-seven of the 38 countries potentially eligible under the HIPC Initiative have passed their decision points and have received debt relief, and of these 11 have reached completion point making their debt relief irrevocable. Niger just reached its completion point and additional countries should reach their completion points shortly. Eleven countries have not reached decision point, in part because many of them are emerging from conflict and have protracted arrears. Although the overall cost for countries that have reached the decision point is projected to be about the same as it was in last September, there has been some increase in the estimates for those countries that have yet to reach the decision point. We need to remind ourselves that these costs are not yet fully financed, especially with respect to the large reductions in debt which IDA will deliver over the coming years. Debt service savings continue to contribute to increases in expenditures directly targeted at poverty reduction within the PRS process. Participation by commercial creditors, however, remains low, although the Debt Reduction Facility for IDA-only countries has been instrumental in extinguishing commercial debt in several HIPCs, and will continue to play an important role in strengthening the effectiveness of the initiative.

27. As indicated in the separate note prepared for our meeting, there are important issues where further work is needed and planned. The first is how to address the debt overhang in HIPCs that will not be able to enter the initiative before the end of 2004 when the sunset clause becomes effective. We will put forward specific proposals for consideration at your next meeting in the Fall. Two other issues for attention are the long-term debt-sustainability of low-income countries, and how to help them preserve debt sustainability in the face of exogenous shocks.

28. **Debt Sustainability in Low-Income Countries.** The Boards of the Bank and Fund recently reviewed a joint paper on debt sustainability in low-income countries, and the Committee will have the opportunity to discuss and give guidance on the issues on the basis of a note drawing on those board discussions. The focus is on developing a framework for lending and external assistance that facilitates debt sustainability in post-HIPC and other low-income countries while helping these countries meet the MDGs at the same time. As the note for the Committee makes clear, there are policy implications for donors, creditors, and borrowers, and a number of issues still need to be resolved before the framework can become fully operational, many of which are separate from the HIPC Initiative. The new post-HIPC debt sustainability framework serves a different purpose: to provide forward-looking guidance on new financial assistance tailored to individual countries' circumstances. It would not alter the terms under which HIPCs receive debt relief.

29. **Addressing Vulnerability to Shocks.** In low-income countries, debt sustainability depends in large part on the ability to deal effectively with exogenous shocks. While the new debt-sustainability framework would address these shocks *ex-*

*ante*, the global community needs to develop a strategy to mitigate the impact of shocks *ex-post* in a timely and coordinated manner and on appropriately concessional terms. I believe the Bank can and should play an important role in helping implement such a strategy. In consultation with the Fund and other development partners, it can signal the need for assistance and seek to catalyze donor support for low-income countries in the aftermath of a shock. Bank staff are working on these issues, and will be consulting with the Board on an approach to position Bank support to low-income countries dealing with shocks within a broader development assistance framework.

## **Sectoral Priorities**

30. **Education.** The Committee has a separate progress report on the Education for All Fast Track Initiative (EFA FTI). While there has been some progress, we need to do much more. Our meeting coincides with EFA Week 2004, which will emphasize this message. The initiative has established a global framework, grounded at the country level, that provides a platform for resolving education-related policy, institutional and financing issues as countries scale up for results; and for tracking and comparing progress on key FTI objectives across countries. It has also begun to deliver on key results: garnering political momentum in countries, strengthening links between policies and outcomes, providing a platform for sharing lessons, and identifying disconnects between performance and financing.

31. During the past year, significant progress has been made on donor coordination and donor practices, and in particular, a shift toward budget support. The biggest challenge is to find the external financing needed to support the increasing number of countries ready to implement sound country and sectoral programs. Current levels of funding are too low: we estimate that at least \$3.7 billion in annual incremental financing would be needed to support low-income countries in achieving EFA. Such financing needs to be long-term, predictable and flexible so that countries can commit to long-term plans and adequately cover recurrent costs. Experience with the first ten FTI countries suggests that the prospects of achieving universal primary education by 2015 are remote unless there is a substantial improvement in the commitment, disbursement, predictability and flexibility of additional external finance.

32. **Health.** At the High Level Forum (HLF) on the health MDGs that the Bank and WHO hosted in Geneva in January 2004, development partners agreed that without a greater sense of urgency a large number of countries will miss the 2015 health targets. Across all developing countries, child and maternal mortality rates are falling too slowly and in Sub-Saharan Africa, trends were barely positive during the 1990s. There are many effective interventions across and within countries for malnutrition, child mortality, maternal mortality, and communicable diseases (including AIDS). The problem is that basic health services are not available or not effective for the people who can benefit from them—especially the poor.

33. Additional resources, improved policies and institutions, and better targeting of expenditures are all crucial if progress towards the health MDGs is to be accelerated. Basic health services are weak in almost all developing countries. What is needed is

systemic reform and development of capacity – the availability of an adequate number of health professionals, their effective deployment, ensuring that medicines are accessible and available to people who need them most. The Bank is helping both low and middle income countries work on creating a sustainable financing framework over the long term that underpins the reforms in this sector. We will continue to work on these and other related issues with partners, supporting actions that will help countries scale up progress towards the health MDGs.

34. Communicable diseases – HIV/AIDS, tuberculosis and malaria – have imposed huge costs on development, and an incalculable cost in human lives lost; it is not a global health problem, it is a global development problem. Tackling communicable diseases is on the top of the Bank’s agenda and a key priority for the Bank in all regions. Though resources remain insufficient, there has been progress in launching a stronger international effort against these killers. The Bank has a key role in getting HIV/AIDS on the development agenda in every country, mobilizing a multi-sectoral response, coordinating knowledge management, focusing on implementation issues and, through its country presence and technical implementation capabilities leveraging the contributions of specialized funds and agencies.

35. **Infrastructure Action Plan.** As the GMR shows, low and middle-income countries have massive needs for infrastructure spending to support growth and the MDGs. At its last meeting the Committee welcomed the Bank’s intention to re-engage in supporting infrastructure investment through a balanced approach across the public-private spectrum, helping countries mobilize financing from multiple sources, as set out in the Infrastructure Action Plan. We have reported progress to the Board in implementing this plan, and we are stepping up support to member countries through increased infrastructure lending and policy advice.

36. We are rebuilding country level diagnostic work and are investing in infrastructure sector performance data to improve results measurement and monitoring. We have created a new cross-sectoral Infrastructure Economics and Finance department. And we are strengthening the Bank’s risk mitigation instruments; exploring multi-country and sub-sovereign engagement; and enhancing collaboration across the Bank Group. Key challenges for the future include: portfolio quality; limited fiscal space for public infrastructure investments; stepping up finance for middle-income countries; Bank Group collaboration; strategically positioning relevant Global Programs; responding to external reactions to infrastructure activities; and ensuring that the commitment to infrastructure is sustained. Revitalizing the Bank Group’s infrastructure business is a medium-term--not a short-term--challenge, requiring continued effort over the years ahead.

37. **Water Supply and Sanitation** As part of its Infrastructure Action Plan, the World Bank Group has made substantial progress on following up the recommendations of the World Panel on Financing Water Infrastructure. We are working with both public and private providers and financers of water supply and sanitation services (WSS). We are building a bigger pipeline of new WSS investment projects, based on accelerated sector knowledge work. This work is guided by our recently published WSS Business Strategy. We are working to strengthen donor coordination with other MDBs and

bilaterals. And the Bank Group is aiming at increasing its use of innovative instruments - including direct sub-sovereign financing and risk mitigation instruments - in the water sector.

38. **Rural Development.** Approximately 70% of the poor in developing countries live in rural areas, most of them directly or indirectly dependent on agriculture. The most important action to help in this sector remains the reform of industrial country agriculture trade barriers and subsidies; but it is also important for the Bank and other development partners to remain engaged in development assistance in this area. Bank lending earmarked for rural development increased by nearly 50% between FY02, a low point, and FY 2003. Successful new approaches include support for local community and farm association managed investments in forestry, land management, marketing and agricultural services, small scale irrigation, micro-credit, private-public partnerships in agricultural extension, emergency preparedness, agricultural research, conservation oriented fisheries and forestry.

### **Financial Architecture**

39. The Bank has been working closely with the Fund to support global efforts in strengthening the international financial architecture. As of end-December 2003, more than 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 491 Reports on Standards and Codes (ROSC) modules have been completed for 101 countries. The Bank is also stepping up its efforts to help countries address gaps and strengthen capacity based on the findings of these assessments. The multi-donor Financial Sector Reform and Strengthening Initiative (FIRST), established to supplement these efforts with about \$55 million pledged over the initial four-year term, had approved 61 projects by end-December, of which 20 have already been completed.

40. **Combating Money Laundering and Terrorist Financing.** This is a high priority for member countries and a key priority for the work of the Bank, as part of the agenda on good governance, financial stability and economic development. Money laundering and the financing of terrorism pose threats of the highest concern: their devastating effects include damage to the economy and financial systems of developing countries, as well as collateral damage to the overall integrity and functioning of the financial system.

41. Following recognition of the FATF 40+8 Recommendations as the international standard for anti-money laundering (AML) and combating the financing of terrorism (CFT), the Bank together with the Fund has now completed a 12 month pilot program of AML/CFT assessments, and associated ROSCs. In particular, the Bank has provided technical assistance to its client countries through individual country TA programs following AML/CFT assessments, through regional programs and extensive use of Global Dialogues through the World Bank Institute. We are incorporating AML/CFT issues into Country Assistance Strategies (CAS) where weaknesses in the AML/CFT regime pose a significant governance and development risk.

42. The Board reviewed the outcomes of the pilot program on March 25, 2004, and decided to continue the Bank's collaboration with the FATF, to make AML/CFT assessments a regular part of Bank work, and to endorse the revised FATF 40 plus 8 special recommendations as the new standard for preparing ROSCs. In addition the Board decided the Bank would take responsibility in its assessments for reviewing law enforcement capacity, an area that was previously undertaken by independent assessors supplied by FATF member countries. The Bank will also step up its provision of technical and capacity building assistance to developing countries and assistance to member countries seeking to establish new FATF-style regional bodies in regions where such bodies do not exist.

43. The Bank will also continue its work with the IMF, the FATF and other key regional partners to facilitate the creation of FATF-Style Regional Bodies (FSRBs) in regions where they do not exist. Work is already underway in the Middle East North Africa region as well as Central Asia. The Bank will increase its support for building capacity in existing FSRBs, with particular focus on training assessors in the revised global methodology. We will also continue to raise awareness in the public and private sector at a regional and sub-regional levels. The Bank will update its *Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism*, to bring it in line with the new FATF 40 Recommendations adopted in 2003. This will provide an updated roadmap for countries at various stages of development to enhance their AML/CFT framework. The revised *Reference Guide* will be translated into Arabic, French, Russian and Spanish.

### **Private Sector Development**

44. **Strengthening Investment Climate and Support to SME's.** A successful private sector is the main source of growth in developing countries, and the main provider of livelihood and opportunity for poor people. Helping countries create an investment climate that encourages businesses and helps them become productive is central to the work of the World Bank Group. Ongoing efforts rest on three pillars – investment climate assessments, strengthening policy and institutional underpinnings for business and investment and direct support to micro / small and medium enterprises (MSMEs).

- a. Diagnosis of investment climates. We have carried out investment climate surveys/assessments in 55 countries in the last three years, and are planning assessments in another 30 countries in the two years ahead. These assessments have fed into 28 Bank operations supporting reforms so far. Our "Doing Business" project compiles objective, quantitative indicators of business regulation (eg cost of business start-up) for 133 countries, both developed and developing. The first annual report was released in October 2003 and second is scheduled for July 2004. Drawing on this work, during 2003 more than 20 of the poorest countries cut the time and/or cost of business start-up. Other Bank Group diagnostic work is also relevant: for example financial sector assessments,

integrated trade frameworks, governance assessments, analyses of recent infrastructure developments, MIGA's global benchmarking survey, and the work of the Foreign Investment Advisory Service program which undertakes 50 diagnostic and capacity building projects yearly. The 2005 WDR "Improving the Investment Climate for Growth and Poverty Reduction" will help consolidate understanding of this crucial agenda.

- b. Strengthening the policy and institutional underpinnings for investment and business development. A critical feature of a supportive investment climate is governance arrangements that allows firms and farms to pursue productive activity without harassment. There are approximately 600 Bank-financed projects related to legal and judicial reform and we are planning to further scale up our efforts to promote the rule of law in developing countries. Equally important is infrastructure that allows private entrepreneurs to operate effectively, including both physical infrastructure and the regulatory and other underpinnings (for example in the financial sector) of a market economy. Bank Group activities in all these areas is discussed elsewhere in this note.
- c. Helping provide direct support to the micro, small and medium enterprises that constitute the bulk of developing country firms and farms, many of them in the informal sector. In addition to helping countries improve their general business environment, the Bank Group gives extensive assistance with targeted and focused interventions in support of private initiative. The Bank and IFC together provided financing to SMEs of about US\$1.3 bn in FY03. Micro-finance support has grown quickly to an additional \$0.3 bn in FY03. We have launched a pioneering IDA-IFC pilot program of \$225 m to support SME development in seven African countries over four years.

45. **IFC.** The IFC has been working to implement a number of important strategic initiatives aimed at strengthening its contribution to private sector development. The Corporation's work on sustainability has continued, focusing increasingly now on "mainstreaming" sustainability work throughout the organization. In increasing numbers, IFC clients are beginning to explicitly recognize the value provided by IFC's environmental and social expertise. IFC is also expanding and improving its advisory and capacity-building work (including work on investment climate, SMEs, corporate governance and HIV/AIDS) These services increase the development impact of IFC projects, improve the potential for new investments and provide an important way of differentiating IFC. Forty-three percent of Corporation staff are now located in country, enhancing local knowledge and client understanding, and improving responsiveness to private sector needs.

46. IFC's new Strategic Initiative for Africa focuses on improving the business environment, building SME capacity, and becoming more involved in pro-actively developing new projects. And IFC continues to innovate its financing mechanisms, including pioneering work in private sector financing for municipal projects and public/private partnerships, providing partial credit guarantees for corporate bonds and securitizations, and expanding local currency loans.

47. **MIGA** has continued to make progress toward completing its \$850 million capital increase. Nearly 80% has now been subscribed - but 37 Category II and two Category I countries have yet to complete their payments, and I urge them to do so as quickly as possible. There are three other issues I want to bring to the Committee's attention relating to MIGA.

48. First, we hope to present a proposal to the Board shortly to achieve voting parity between Category I and Category II member countries, which if approved, will be forwarded to the Council of Governors. Achieving parity is a unique feature of MIGA, required under its Convention. Second, under MIGA's Convention, the agency must receive host country approvals for pending guarantees before it can issue those guarantees. MIGA is currently facing delays in a number of countries where the authorities are neither issuing nor rejecting the host country approval requests, thus delaying potential investments. I urge all host governments to make expeditious decisions when considering MIGA host country approval requests. Third, MIGA is also required by its Convention to undertake a periodic "comprehensive review" of its activities; the next review should be completed in FY 2005. We will be discussing this with members of the Board and stakeholders over the coming months; as a first step in the review would welcome views on the agency's results, objectives and instruments.

### **Emerging Issues**

49. **Youth.** Today, 2.8 billion people in the world are under the age of 25, of which one and a half billion are under the age of 15. Half the population of the developing world is under the age of 21. We see them as the future, but they see themselves as the now. Young people must be at the heart of the action if the global development agenda is to succeed. In the Bank we are in the process of formulating a Children and Youth (C&Y) strategy, engaging in dialogue with young people round the world, moving to mainstream youth issues and concerns into Bank advice and lending operations, and strengthening partnerships for example on the Youth Employment Network (YEN), with ILO and UN, and in supporting other youth-focused operations, with the UN, UNICEF, bilateral donors, international youth networks and NGOs. This is a challenge for the international community as a whole: to harness the contribution of the young to development and to successfully embed children and youth concerns and priorities into national development strategies, policies and investments.

50. **Disability.** Roughly 400 million people in the developing world have a disability and many of them are the poorest of the poor. Addressing their concerns is a necessary part of any strategy to eliminate poverty and achieve the MDG's. Empowering them to be full participants in the economic and social life of their communities is an important part of the Bank's mission. We are developing disability strategies to guide the Bank's operations in each region. And we are working with other developmental agencies, as well as with NGOs, Disabled People Organizations, the UN family and the donor community to make this goal a reality.

51. **Human Rights.** Human rights have become a more central component in the social and institutional agenda of many developing countries; and human rights principles and practices are being increasingly embedded in the formulation and implementation of development strategies. Human rights encompass many dimensions—civil and political; economic, social and cultural, and rights to development—many of them outside the direct remit of the Bank. But we recognize that our mission of poverty reduction overlaps in important ways with the objectives of human rights that are being articulated by the UN. We are already supporting our member countries in the pursuit of their human rights objectives in our areas of mandate and comparative strength, through projects and programs that are aimed at empowering and investing in the poor - in education, health, food and nutrition, water housing, gender equality, justice system reform and governance. We are also providing support to the PRSP process, which holds the promise for increasing voice, accountability and participation. We aim to build on these foundations to see how we can contribute even more to the human rights agenda by adding value in areas that fall within the Bank’s mandate.

#### **IV. Matching Support to Country Needs**

##### **Low-Income Countries**

52. **PRSP Approach.** It has been five years since the PRSP approach was first initiated. It has become the central model for engagement with low-income countries by the IFIs, other multilateral institutions, and most bilateral donors. By end-March 2004, 37 countries had completed full PRSPs, and another 16 had launched the process with Interim PRSPs. Twelve countries have completed at least one annual progress report. There is evidence of improvement in both participatory processes and content as more recent PRSPs build on the experience of earlier ones, but important challenges remain before the full benefits of the PRSP approach can be realized.

53. The challenges to be addressed as implementation proceeds included integrating PRS process with existing decision making processes, particularly the budget, and expanding the involvement of sectoral ministries and representative bodies such as parliaments; deepening the links to the MDGs in country strategies, identifying the financial, policy and institutional constraints that need to be addressed to accelerate progress towards these development goals; speeding the pace of progress in aligning donor support with country strategies and harmonizing donor processes and procedures.

54. **IDA.** In February this year, IDA Deputies and representatives of borrowing countries began the important task of negotiating the 14th replenishment of IDA resources. That first meeting made solid progress across a range of complex issues. The outcome of these discussions, which will continue in Vietnam in July and hopefully be concluded before the end of the year, will be a critical test of our resolve to meet the MDGs. The meeting identified three policy areas where additional discussions and work are needed in the course of the replenishment negotiations: (a) growth, especially how IDA can enhance support for private sector development; (b) IDA financing terms, which need to be reviewed in conjunction with ongoing work on vulnerability to debt and external shocks and (c) development effectiveness and the results agenda, which would



also include a review of the role of IDA in relation to other development partners, particularly at the country level. Within this ambitious framework, IDA will require strong donor support, especially since it will also be moving forward with delivery of major debt relief under the HIPC initiative, entailing the forgiveness annually by IDA of poor countries' debt service in excess of half a billion dollars.

55. These issues are at the heart of what we are trying to accomplish together and IDA itself is the keystone of international concessional finance and of the international community's collective capacity to help the poorest countries. And we should keep in mind that the IDA14 agreement now being negotiated will cover the period from 2005 to 2008. Since the average development project takes about 8 years to deliver its full impact, the period IDA14 will cover is the time to invest in achieving the MDGs. The size and focus of the IDA14 replenishment must demonstrate our commitment to concerted, international action to reach these goals and provide a message of hope for those who live in poverty.

### **Low-Income CIS 7 Countries**

56. We have just completed a review of the CIS-7 Initiative, carried out jointly with the IMF, and consulting with the ADB and EBRD. The Initiative, launched two years ago, has achieved its main aim of revitalizing the partnership between the seven low-income CIS countries and the international community. Donor awareness and coordination for the benefit of the countries are demonstrably stronger now than they were before the Initiative was launched, and donors have responded where appropriate with debt relief and more concessional assistance. Knowledge creation, cross-country dissemination and enhanced capacity building are supported by a growing range of donor-assisted activities. The PRSP process in virtually all of the countries is an effective instrument for the dissemination of good reform practices. PRSP-anchored development cooperation vehicles have helped the countries consolidate their recent income recovery, arrest the erosion of their social protection systems, and - in some cases - regain some of the development ground lost in the crises of the 1990s.

57. However, with donor and cross-country cooperation increasingly being focused at the sub-regional level and the growing divergence in policies and performance across the CIS-7, several of the countries would like to move beyond the Initiative. The Bank will continue to work with all these countries and their development partners to define new modalities of cooperation on specific issues and involving sub-regional vehicles where necessary. There is considerable potential for enhancing the development prospects of the CIS-7 through the PRS process, with priorities defined more clearly and linked more closely with budgets, supported with enhanced donor assistance, much of which needs to be grant-based.

### **Low-Income Countries under Stress (LICUS)**

58. We cannot simply ignore the 420 million people who live in low-income countries with little early prospect of developing the policies and institutions necessary to a PRS approach. These are the world's most fragile countries - some emerging from

conflict, others caught in a cycle of weak policies and institutions, falling incomes and rising poverty. They are home to some of the poorest citizens of the world: their population suffers over twice the child mortality rates and three times the malaria death rates of other low-income countries. And their problems can have serious implications for other countries: in the form of exports of diseases, crime, narcotics and arms. A recent example is the re-emergence of polio epidemics in West Africa. While aid allocations are increasingly, and rightly, associated with performance, work now underway shows that LICUS receive lower per capita aid flows than expected even after talking their poor policy environments into account. Aid to LICUS is more volatile from year to year than aid to other countries, compounding the problem further.

59. One of the reasons these countries receive low aid flows is that donors are unsure how to deliver aid effectively in poor governance environments. We know that part of the answer is that such assistance needs to be highly focused and coordinated, and there are several examples where the international community has recognized the need to join forces and operate more cohesively to support recovery and reform efforts in fragile countries. Highly coordinated international efforts in post conflict transitions in Afghanistan and Timor Leste have had some success.

60. Late last year the Bank joined with the UN and bilateral donors to develop a results-based transitional framework for Liberia that constitutes both a strategy for the government, and a partnership agreement with its donor partners. Similar efforts are underway in countries such as Sudan and the Central African Republic. More work is needed to identify the key characteristics of programs which work in these circumstances. But we know that even in environments with the most intractable problems of conflict and poor governance, aid programs can work when the design is right. In several post-conflict countries, community driven reconstruction programs have successfully assisted in rebuilding basic social and economic infrastructure in war-torn communities, and critical health programs such as the river-blindness campaign and HIV-AIDS efforts have produced results in countries where institutions are weak and governance fragile.

61. The Bank is committed to meeting this challenge, but we cannot do it alone. The new LICUS implementation trust fund enables us to work cooperatively with other donors even when countries are in arrears to the Bank. Together with our partners in OECD/DAC, we are undertaking joint research on aid allocations and donor coordination models in fragile states. We will continue to work with all development partners to strengthen our joint engagement in these most fragile and disadvantaged countries of our world.

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

62. Countries eligible to borrow from the IBRD (including blend countries) are home to 70 percent of the developing world's poor. Scaling up our support to their development efforts, and making it more effective, is an essential part of our contribution to the post-Monterrey global development agenda and attainment of the MDGs. The business model for Bank Group engagement in middle-income countries (MICs), which was discussed and endorsed by Ministers at the April 2001 meeting of the Development Committee,

provides a sound framework for that contribution. However, a recent Bank-wide review, with feedback from clients, has shown that stronger and more effective engagement through quality lending, analytical and advisory activities (AAA), and risk management support also requires us to overcome a number of Bank-internal hindrances. The Action Plan we have adopted on the basis of the review and its discussion at the Strategic Forum in January 2004 and subsequently by the Board in March 2004 sets out short-term and medium-term actions to address these issues. Short-term actions include measures to clarify our role in MICs, remove obstacles to timely quality lending, encourage staff to use CASs as a strategic compass for responding to new lending opportunities with significant development impact, make better use of the range of IBRD's financial products and develop a stronger Bank Group approach to supporting investment in infrastructure and other sectors across the public-private sector spectrum through the coordination of IBRD, IFC and MIGA instruments. We look forward to working with all our development partners in shaping an effective international framework in support of development in middle income countries.

63. We are also preparing medium-term actions to further enhance our support for the development efforts of MICs, including a more effective response to emergencies, improved knowledge services, a rebalancing of staff incentives and skills to underpin high quality lending and advice, the development of new financial products, a better exploitation of Bank Group synergies in countries and enhanced collaboration on MIC issues with development partners.

### **Strengthening and Simplifying Bank's Operational Practices and Instruments**

64. The Bank is implementing a substantial program to simplify and modernize the operational policy framework for Bank lending. The aim is to create a more efficient and user-friendly operational policy framework, replacing and reforming the Bank's current operational policy framework that has become fragmented, difficult to use, and, in some cases, outdated. The objective is to provide staff and clients with a clear, coherent, and comprehensive policy framework for investment lending and adjustment (policy-based) lending. We are looking at modernized lending instruments that can more flexibly respond to today's client demands and varying country circumstances. To enable faster processing of projects/operations, we are introducing simplified procedures, clearer guidelines, and better documentation which will help reduce unnecessary delay without compromising quality or compliance with the Bank's policy standards. Greater emphasis is being placed on country systems and country capacity to recognize and codify the progress made in recent years in complementing the traditional project-specific approach to the application of fiduciary and safeguard policies with recognition of the benefits of a country- and sector-wide perspective and a capacity-building approach. And finally, there is increased emphasis on more effective implementation and results on the ground.

65. In our review of adjustment lending policy we are developing proposals for reform reflecting a range of discussions and policy developments that have taken place in recent years, that have benefited from an extensive period of consultation with stakeholders, and that will be designed to align Bank policy better with the PRSP/CDF approach to supporting country development. They must also reflect our continuing

efforts to make conditionality more focused and selective and the ongoing work to strengthen the collaboration of World Bank and IMF staff on country programs and conditionality. The key elements of the proposed policy update are to create a unified and updated policy framework for adjustment lending; replace different adjustment lending variations with one single instrument under the name of “Development Policy Lending”; give greater focus to participation, enhanced implementation and results; and provide for uniform fiduciary/safeguard policy applications based on upstream analytical work at the country and sector level.

66. The program to modernize and streamline investment lending, has already resulted in a number of initiatives: the introduction of faster processes for simple and repeater projects, the launch of new project processing procedures and documentation, simplification of the Bank’s project audit requirements, and the issuance of new guidance for streamlining fiduciary and safeguard reviews. We have also launched a proposal to expand the eligibility of expenditures under investment lending; initiated work on reform of project supervision reporting, and on ways to make project restructuring easier and more rewarding; and are acting to meet increased demand from countries and Bank teams for the use of sectorwide approaches.

67. Future work aims to update and streamline the Operational Manual for investment lending; modernize the Bank’s disbursement policies and practices for more effective resource transfer and more efficient fiduciary assurance under investment lending; put in place more agile procedures for emergency lending; facilitate project restructuring and streamline the investment lending instruments, to replace the current multiplicity of rigid, specialized types of investment lending with a more flexible, client-responsive product.

## **V. Global Partnerships and Governance**

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

68. Progress in meeting the MDGs depends on a high degree of cooperation and coherence between the actions and policies of a wide range of institutions, agencies and governments. Such cooperation extends beyond the traditionally close collaboration between the Bank and the IMF and the other multilateral development banks, to include other key players in the MDG agenda – including the WTO, OECD DAC, UN and UN agencies and other trans-national bodies such as the EU institutions. The scope and depth of the Bank’s engagement with partner multilateral organizations has been steadily growing, and is now the subject of regular reports to the Board. This increasingly strong collaboration among multilateral organizations is based on a shared agreement on common objectives and principles (the Monterrey compact and the MDGs), a coherent framework for collaboration at the country level (the PRSP/CDF approach) and intensified cooperation on the global development agenda.

69. **Bank/Fund Cooperation.** We continue to deepen and strengthen the close partnership between the Fund and the Bank, both in our support for member countries and our cross-cutting work. We are using the framework agreed in 2002 to guide our collaboration in middle-income countries, alongside our deepening cooperation in

support of low-income countries through the PRSP and HIPC processes. On sectoral and cross-cutting issues, as reported elsewhere in this note, we have further strengthened our collaboration on financial sector work, standards and codes, AML/CTF, trade and debt sustainability; and extended enhanced collaboration into new areas, most recently on the monitoring of the MDGs. Joint efforts on supporting improved public expenditure and financial management, poverty and social impact analysis and drawing on each institution's areas of expertise, are also underway. Managements have decided to strengthen the Joint Implementation Committee (JIC), giving it a renewed mandate to address cross-cutting issues on Bank-Fund collaboration and issues that arise in the context of middle-income as well low-income countries. I remain committed to collaborating closely with the IMF in all these areas so that our two institutions can maximize their joint contribution, while respecting our complementary and linked mandates and capitalizing on areas of comparative advantage.

70. **MDB cooperation.** In the last few years we have put in place a strong structure for cooperation between the Multilateral Development Banks (MDBs). This operates at the highest level, with regular meetings and videoconferences between MDB Presidents; at the sectoral and thematic level; and in country and regional operations. There is still much to be done to turn strategic decisions into actions on the ground. We are working together, for example, to improve coordination of our support for country strategies and PRSPs, and better aligning our capacity building efforts to support PRSP formulation and progress towards the MDGs.

71. **Cooperation with OECD/DAC.** There is increasingly close cooperation between the Bank and the Development Assistance Committee of (OECD/DAC), focused on the agenda for improving development effectiveness, including donor support for and alignment behind CDF/PRSPs, sharpening the focus on results, and improvements in harmonization and donor practices. More generally, close working with the DAC provides a means of strengthening the Bank's partnership with bilateral donors across a spectrum of development issues that are critical to implementing the Monterrey consensus

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

72. A variety of ideas are under discussion on how to carry forward the structural issues and I welcome early indications from shareholders on how we make progress on this important agenda. Executive directors have also been making progress in their work on measures to enhance relevant capacity in EDs' offices and capitals. They have endorsed the proposal for a secondment program from capitals and approved financing for a pilot, and steps are being taken to start implementation immediately.

73. In IDA, deputies have been strengthening the role of Borrower Representatives in IDA replenishment discussions. In the IDA14 discussions, the number of Borrower Representatives has been increased to nine in an effort to ensure adequate representation both by region and from IDA's largest borrowers. Their participation in the IDA replenishment process is enriching the policy debate and should help to shape recommendations made by Deputies to IDA management, making these

recommendations more relevant to country realities and more reflective of borrowers' needs.

## **VI. Conclusion**

74. Much remains to be done as we implement the Monterrey consensus, and there is not much time if we are to succeed in meeting the MDGs. While there has been good progress in some areas, we are falling seriously short of the Monterrey ambition in two key aspects of the agenda – trade and aid. The agenda for our meeting in April gives us the opportunity to review progress in the spirit of mutual accountability. I hope that our discussion will help identify and address issues that face each of the parties as we put the Monterrey agreements into practice. I also hope that we can give new impetus to global actions especially in these two key areas – making progress in the Doha round, and providing more and better development assistance – as we seek to accelerate progress in reducing global poverty.

75. Following the Spring Meetings, we are organizing a conference on Global Poverty Reduction that the Government of China will host on May 26-27 in Shanghai. This conference will be both an important learning event and an opportunity to consider concrete actions to accelerate progress on Development Agenda. Finding poverty solutions that work, that endure and that can be applied across the world, is imperative to meet the MDGs. For the conference we have therefore undertaken seventy case studies and numerous field visits on what has worked and why, and what can be learned from past mistakes? I believe that the Shanghai Conference will be a unique learning experience, on different ways of doing things; on demonstrating the power of empowerment and involvement of the poor in producing results on the ground; on the importance of management and leadership in replicating successes in one part and in one community in all part and a thousand communities; and on how partnerships and supports from the global community can help accelerate poverty reduction. I hope many of you will be able to join us at the Shanghai Conference.