



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



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NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached is a Note from the President of the World Bank, Paul Wolfowitz, for the seventy-fourth Meeting of the Development Committee, to be held on Monday, September 18, 2006, in Singapore.

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**PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE
SEPTEMBER 18, 2006**

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Introduction

1. A year after the Gleneagles and UN Summits is a good time to take stock of progress on the development agenda. Developing countries have enjoyed a notable period of strong growth. Economic activity in low and middle-income countries is expected to grow by 6.8 percent this year, a fifth consecutive year of strong growth. Virtually every developing region, including Africa, has performed well. Yet the global environment is unlikely to be as supportive in the future as it has been in recent years. More immediately, higher oil prices have led to additional budgetary pressures in many developing countries.

2. This is no time for complacency. It is time for all, donors and partner countries, to deliver on the undertakings given or reaffirmed at the Gleneagles and UN Summits a year ago.

Monitoring progress

3. Let me first briefly report on the Bank Group position. We have made good progress on the ambitious agenda we set for ourselves at the last Annual Meetings. Both as a banking institution and a development agency, the Bank Group as a whole is in a strong position. IBRD lending is up 3.7% to \$14.2 billion, the highest in seven years. IDA has had a record year with \$9.5 billion in lending, IFC commitments were up by 25% to \$6.5 billion and MIGA provided \$1.3 billion in guarantees. Our strong financial position allowed us to turn our advantage to opportunity for our poorer clients and contribute a record level of \$950 million in support to IDA. This should be seen as setting an example of our commitment to IDA for other donors to follow, not as a substitute for other donor contributions.

4. Financial results are important, but the Bank Group also needs to be held accountable for its contribution to development results. I am confident that we have set a resolute course on policy issues that will continue to strengthen the Bank Group's performance and produce sound results. Among the highlights of the past year, we worked very hard and successfully on completing the Multilateral Debt Relief Initiative in a way that preserves IDA's financial strength, at the same time providing meaningful relief to borrowers so they are better positioned to achieve the MDGs. We made important contributions to addressing the avian flu threat. We have ramped up our infrastructure efforts particularly where we see new opportunities. For example, to address both infrastructure and employment needs we are in the final stages of developing an innovative community based, small scale rapid response effort in Liberia. We also hope to strengthen support for infrastructure, particularly through our new efforts approved this year to provide subnational lending. This IBRD-IFC partnership on subnational lending is one more way we are trying to innovate to meet new, emerging development needs. In this context, I am hopeful the work of the Commission on Growth and Development that I have appointed will contribute to our understanding of what works well and how we can better support efforts to create jobs and opportunities for our partner countries.

The Africa Action Plan: progress and challenges

5. During my visit to Africa this summer I heard first-hand from many African leaders of their commitment to fight poverty, accelerate growth and strengthen governance and accountability. A year ago you supported the Africa Action Plan. As you requested at that time, we will report more fully on the status of implementation at the next Spring meetings, but let me offer some preliminary thoughts on our progress thus far and the challenges ahead.

6. We have made significant progress The Bank has increased its infrastructure investments from \$600 million (FY00) to \$1.5 billion per year (FY06). Between FY05 and FY06, commitments for infrastructure increased by 15 percent. In all of our infrastructure work, not only in Africa, we are seeking to learn the lessons of past experience. The February study, *Infrastructure: Lessons from the Last Two Decades of World Bank Engagement*, has led to a number of key policy conclusions, in particular the importance of: (i) better defining infrastructure investment priorities; (ii) avoiding policies that lead to regressive outcomes; (iii) reevaluating the analysis of fiscal space for public sector financing; and (iv) anticipating issues of governance and corruption. Projects approved in FY06 target water supply service coverage for 1 ¾ million Africans. Yet investments in transport, power and water infrastructure are not limited by ideas or opportunity, just resources. There is a particular need for resources for regional infrastructure investments.

7. On health, in FY06 the World Bank Malaria Booster Program committed \$172 million in eight countries. This is a good start but the hard part is just beginning: working with other donors, we are on a course not just to identify how much is being spent, but to coordinate effectively to measure our collective results in the fight against a silent killer that claims the life of one African child every 30 seconds.

8. On gender, progress is being made in 20 countries toward achievement of the MDG of gender equality in primary education and 21 countries are seeing increases in parliamentary seats held by women, but there is a long way to go to remove obstacles to the economic empowerment of women, and not only in Africa. And in all areas we need to work to strengthen the link between increased resources and improved results.9. I have seen first-hand in my trips to African countries that profitable businesses that create jobs and help bring products to market are critical for improving the lives of the poor. I also believe that we are making a real difference in supporting private sector development in Africa, although much more needs to be done. Africa is reforming. Although most African countries still have much work to do in this area, they have started to move. This year, two thirds of African countries carried out at least one reform—up by 50% from last year. Our *Doing Business* report, which benchmarks business regulation in 175 economies, shows that Africa ranks this year 3rd among regions for the pace of its improvements, behind only Eastern Europe and Central Asia and the OECD economies. I am committed to reinforce the synergies within the World Bank Group to help governments generate reforms that create a better environment for entrepreneurship and investment. In this spirit, I am glad that IFC and IDA have forged an effective partnership to support enterprise development and lower the cost of doing business. IFC has substantially scaled up its investment and technical assistance work in Africa. Commitments increased from \$445 million in FY05 to \$700 million in FY06. Country reach has expanded over the last three years. In 2003, IFC had new investments in 8 countries. By the end of FY06, IFC had new investments in 17 countries and programs combining investment and technical assistance in 26 countries. Activities are underway in post-conflict countries such as the Democratic Republic of Congo and in Liberia to assess

opportunities and prepare action plans for future private sector involvement. In FY06, the World Bank Group increased lending for private sector development (excluding infrastructure) by \$216 million, compared to FY05. Investment climate assessments (ICAs) have been completed in 12 countries; that number is expected to double over the next 15 months. In addition, I am pleased that the Africa Catalytic Fund, which provides a mechanism for “crowding in” other development partners at the country level or for supporting regional programs, with an integrated approach to target specific results, is now up and running, with first projects under preparation.

10. But the challenges remain. Lack of capacity is a major constraint to Africa achieving the Millennium Development Goals, especially in the health sector where much more remains to be done to strengthen country health systems, which are critical in the fight against HIV-AIDS and malaria. We also need to do more to support strengthened governance and development of capacity for effective public investments. Progress in agricultural productivity also remains slow, and the Bank needs to accelerate its analytical work and lending in these areas.

11. Let me emphasize that we have identified country opportunities in Africa where early scaling up is both feasible and desirable, where we believe that significant increases in assistance can be absorbed and well used. In Burkina Faso, Ghana, Mozambique, Rwanda and Tanzania we have developed plans which show that an initially modest increase in ODA above current trends could be effectively absorbed and would result in significant improvements in development outcomes. Yet many African countries, even those performing relatively well, have as yet seen little or no increase in levels of external assistance. The DAC hosted a first “Resources and Results” meeting for Ghana in May but there has so far been little response from donors. Collective engagement and support for these “resources and results processes” at the country level will be important as countries and development partners spell out scaled up programs, including macroeconomic management, results and implementation issues. From my exchanges in the past 12 months with African policy makers, entrepreneurs, civil society leaders, and farmers, I am increasingly convinced that we have an unprecedented opportunity to make a difference in Africa, working closely with Africans. We must seize it. For this, implementation of last year’s commitments by donors and developing countries will be key.

2005 Commitments on debt, aid and trade: a mixed scorecard.

12. *Debt Relief.* I am pleased to report that full implementation of the Multilateral Debt Relief Initiative (MDRI) took effect on July 1, 2006. Under the MDRI, IDA will provide about US\$36.5 billion in debt relief over 40 years for the 40 identified HIPC countries. Thanks to the MDRI, the 20 HIPCs that have reached the completion point will receive an additional \$350 million of annual debt service relief, beginning this fiscal year.

13. We now need to ensure that MDRI debt relief is truly additional to other aid flows, in line with the commitments from donors. We also need to ensure that the re-accumulation of debt in post-MDRI countries is managed carefully and does not undermine their long term economic prospects. We will have an opportunity to discuss these issues at the Committee’s lunch.

14. *Development Assistance.* Last year, donor countries pledged to significantly increase aid to help poor countries reach the MDGs, including a doubling of aid to Africa by 2010, and committed to the principles of the Paris Declaration for better harmonized and more predictable aid flows. The follow-through is mixed. There is some progress on innovative sources of aid financing, such as the Global Air Ticket Tax endorsed by over 40 countries and expected to

generate €200-300 million annually. Serious efforts are now needed to deliver on commitments made to support scaling up, improving predictability of aid flows, harmonization and results.

15. For the first time, ODA exceeded the \$100 billion level last year, increasing from \$80 billion in 2004 to \$106 billion in 2005. However, most of this increase was accounted for by debt relief for a few countries (over \$14 billion for Iraq; over \$5 billion for Nigeria) and may be hard to sustain. Looking ahead, ODA flows are expected to decline in 2006 from the 2005 peak as debt relief figures decline. Beyond that, it is looking increasingly questionable whether the international community will deliver on the commitments made last year to increase aid; according to the DAC, early indications suggest that four-fifths of the doubling of aid to Africa may not occur until 2009-2010, which is both unrealistic and problematic.

16. We can reverse this trend. At the global level, commitments must be met to make debt relief provided under the MDRI truly additional to other aid flows. Lost reflows due to the HIPC and MDRI debt relief initiatives have lowered IDA's financial capacity by more than one third. Donors need to honor their pledge to replace lost credit reflows in addition to their future core contributions to IDA. Otherwise, the poorest will be hurt. Going forward, I hope donors will commit themselves to a robust IDA15 replenishment, as this will be the final opportunity for making further progress towards the Millennium Development Goals given the implementation periods of IDA projects. In many low income countries, IDA is the cornerstone of the aid architecture. As noted in paragraph 3, IDA committed a record \$9.5 billion for new credits and grants this year and 50 percent of that went to Africa. I also noted the record transfer of \$950 million from IBRD and IFC income to further strengthen IDA. IBRD is providing to IDA a record total of \$800 million from net income in FY06, including a transfer of \$300 million from surplus. For the first time ever, the IFC is contributing \$150 million to IDA programs for private sector development. But—I can't emphasize this too strongly—the Bank Group cannot substitute for the critical role donors have.

17. Despite this level of commitments and progress that African countries are making, there are many unmet demands, especially in infrastructure, which is critical for making more progress towards the MDGs. To make the best use of scarce resources, IDA is moving forward on an ambitious results-based agenda, as defined under IDA14. All IDA operations have a focused and coherent framework for measuring the results so that all IDA country programs contribute to key development outcomes.

18. Exploiting early opportunities for success will help build momentum. It is worth repeating here that we see success stories in many regions and cases where additional resources could produce real development results.

19. Aid is most effective when it is effectively coordinated, aligned with country priorities, results-focused and predictable. The commitments of the international community to improve aid effectiveness still need to be consistently translated into action. Going forward, efforts need to focus on country-level implementation and harnessing good practices. I am looking forward to the Third Roundtable on Managing for Development Results that will take place next February in Vietnam. To address impediments to progress, we must develop clear donor commitments which serve country plans and which assign responsibilities for implementation of programs. If all donors try to do a bit of everything, it will create gaps as well as wasteful duplication. I know we all want to do better.

20. Education For All and the Fast Track Initiative (EFA-FTI) is a good example of how the international community can better address a key development challenge in a coordinated fashion. As indicated in the progress report circulated to the Committee (*Progress Report for the Education for All-Fast-Track Initiative*), the FTI model is working. Many developing countries are fulfilling their side of the compact: they are preparing credible plans, putting in place local accountability mechanisms and increasing domestic investment in education. The success in improving donor harmonization on the ground is also encouraging and several donors have announced substantial increases in investment in education. The question now is how we can mobilize the resources we will need from domestic budgets and from donors, some of whom have already signaled their positive intentions. Investment in education is key for the future of both individuals and countries, and I hope that we will be able to use discussions at the Roundtable Meeting on Education and at the Development Committee to agree on a way forward especially on longer term predictable finance and on improved quality education outcomes.

21. *Doha Development Round*. It is on the trade element of the development compact where we are perhaps now at the greatest risk of all of a serious setback. I truly hope that the suspension of the Doha talks is only a pause. If negotiations are not resumed soon we will have missed a significant opportunity to boost the global economy and in particular, to raise the growth prospects of poorer countries. Aid in the absence of real market access for developing countries cannot produce long-term sustainable development. Whatever the outcome, the international community should push forward on delivering “effective aid for trade”, and providing new exporters particularly in Africa with real market opportunities to generate growth and jobs. There is ample room for new trade opportunities in Africa. African banks and companies have been the most active (two-thirds of volumes in FY06) in using the \$500 million IFC Global Trade Finance Program launched in 2005 to support South-South and North-South trade by providing guarantees to banks and pre-export cash advances for trade transactions. More can be done on trade-related assistance. We have circulated a background report on trade (*Doha Development Agenda and Aid for Trade*) which reviews progress on this by the Bank and Fund and options to support trade-related regional projects, as well as the status of implementation of recommendations to enhance the Integrated Framework for Trade-Related Technical Assistance (IF).

Strengthening the Bank’s Engagement with IBRD Partner Countries

22. I am delighted we will have the opportunity to discuss the Bank Group’s evolving role as a provider of financial services, knowledge, strategic thinking and a convening facility for its middle-income and emerging market partners. These countries are home to most of the world’s poor, and the role of the Bank Group is to strongly support their continued efforts to achieve sustainable growth and poverty reduction. They share with all our members, moreover, responsibility for choices that will also be critical to success in addressing important regional and global issues. Finally, they are themselves a repository of extensive experience in what works and doesn’t in development, and there are major gains to be achieved from channeling this experience for the benefit of countries that are at an earlier stage in tackling obstacles to growth and participation.

23. Many middle income countries have made dramatic improvements in economic management and governance over the past two decades, making them better equipped to take

advantage of the strategic, intellectual and financial resources the Group has to offer. The question facing the Group is how it can manage and deliver its resources to best meet their needs.

24. The paper we have circulated as a basis for our discussion (*Strengthening the World Bank's Engagement with IBRD Partner Countries*) reflects extensive consultations over the past year, with IBRD partner countries, with other MDBs, and with other bilateral and multilateral development partners. The message from these consultations was clear: partner countries value the IBRD's products and services, but they want improved services – greater customization, flexibility, and timeliness; reduced costs of doing business; and ability in some cases to access unbundled services. They want the Bank's global expertise flexibly applied to their evolving development priorities. In addition, there is a shared sense that the Bank should increasingly act for its membership as a whole in helping to address emerging issues of global concern.

25. The paper contains a range of proposals, which I hope the Committee will endorse, designed to improve the IBRD's effectiveness in meeting these goals. These include proposals to agree on better and more flexible country partnership strategies; to reduce the cost of doing business with the Bank by streamlining internal Bank procedures; wherever possible helping partner countries upgrade their procurement standards to levels comparable to Bank standards, and selectively increasing the use of country systems where mutually agreed and verifiable standards are in place to ensure effective execution; simplifying loan pricing; developing forms of financing that are more easily accessible and new ways to help countries facing external shocks; mainstreaming IBRD participation in originating and administering public-sector lending at the sub-national level; providing fee based expert services, unbundled from lending, on a larger scale where the Bank has comparative advantage; and better exploiting synergies between the different arms of the Bank Group. Over the course of the next year and with the help of the Board we will be turning these proposals into a series of specific actions. I also hope that members of the Committee and the countries you represent will give more direct support, where needed, for example to the proposals to enhance cooperation among development partners in this group of countries; to develop a menu of options for the blending of concessional donor support with MDB loans in sectors characterized by important public good or affordability issues; and to develop financing options for high priority global actions.

Governance and anti-corruption

26. At the Spring Meetings, you asked the Bank to lay out a broad strategy on governance and anti-corruption. Because poor governance and corruption undermine development, strengthening governance and reducing corruption are key parts of the Bank's mission of poverty reduction. The strategy set out in the paper we have circulated (*Strengthening Bank Group Engagement on Governance and Anticorruption*) builds on a decade of global experience and evidence, including work carried out by many members of the Development Committee. It also builds on a preliminary round of consultations with external stakeholders, other multilateral development banks and civil society organizations. The objective is to have capable, accountable and responsive states who will deliver sustainable services to the poor, promote private sector led growth and tackle corruption effectively. This strategy is designed to ensure equal treatment across partner countries based on a more objective, systematic and consistent approach. It also reflects a progressive approach: we are not expecting every country to meet a standard of perfection starting tomorrow, but we are seeking engagement to make steady, forward progress.

27. The proposed approach is based on a mutually reinforcing three-pronged strategy - at the country level, at the project level and at the global level. Our strategy aims to proactively establish a broader and deeper engagement with our partner countries and bilateral donors on governance and anti-corruption issues through a systematic approach in all CASs. We will intensify our work on the supply-side of building state capacity, including public financial management, procurement and civil service reform. But corruption and governance challenges often have deep-seated societal roots, and supply-side approaches alone often are inadequate for improving governance. So, within its mandate, the World Bank Group will expand its work on demand-side initiatives to strengthen transparency, participation and oversight – through initiatives which involve parliament, civil society, nongovernmental organizations, the media, local communities, and the private sector. At the project level, our goal is to assure that good governance considerations are integrated up front into the preparation of our project work; we will also intensify corruption-related supervision, detection and enforcement, especially for activities where the risks are high. And at the global level, our strategy aims to strengthen our bilateral and multilateral partnerships—and to intensify our engagement with the private sector in the fight against corruption—with a view to promoting coordinated donor action especially in higher risk environments.

28. I believe that this strategy represents an important step forward for the Bank, building on the work of the last ten years. I hope that the Committee will support this coherent, balanced and forward-looking approach. Based on Ministerial agreement and feedback, and further consultations with external stakeholders, we will prepare clear guidelines for operations.

Investment Framework For Clean Energy for Development

29. The Bank has been asked to play a role in cooperation with our members in developing an Investment Framework For Clean Energy for Development. We have circulated a background paper (*An Investment Framework for Clean Energy and Development: A Progress Report*) responding to the Committee's request at our last meeting to review, in close coordination with other partners, existing financial instruments, taking into account the role of the private sector, and explore the potential value of new financial instruments to accelerate investment in clean energy. This work builds on the report that was presented to the Development Committee at the April 2006 Spring Meetings. Our review of currently available IFIs, public and private sector resources and instruments indicates that existing ones like the GEF can be strengthened and scaled-up for greater impact in the development of markets for energy efficiency investments and some renewable energy technologies, but this will not be sufficient to lead to a meaningful transition to a low carbon economy. A long-term stable global regulatory framework, with differentiated responsibilities, is needed to stimulate private investments and provide predictability for a viable carbon market. Based on this diagnosis, the paper proposes the development of a number of options to improve access to clean energy. I believe these proposals all deserve serious consideration.

30. Access to energy is also critical to economic growth and development. The report offers new policy options to provide financing in developing countries and to meet the demand for clean energy, particularly in sub-Saharan Africa. Looking forward, biofuels such as ethanol may represent a growing share of the energy mix in developing countries. We will be looking at ways that we can strengthen cooperation among developing countries and between them and industrialized countries on biofuels. The report also discusses the issue of adaptation to a more variable climate. Analytical work, capacity building, GEF grants and limited lending will be used

to develop innovative adaptation approaches to assess the development risks of current and future climate conditions and internalize them in development planning and investments.

31. With your advice and support, we suggest that follow-up work should be carried out in cooperation with other MDBs and include (i) further development of the financing options to support the transition to a low-carbon economy; (ii) mobilization of donor assistance for the Africa Energy Access Action Plan; and (iii) development of strategies, tools and finance to meet the challenge of adaptation. The second Ministerial Meeting of the Gleneagles Dialogue scheduled for October 3-4, 2006 in Mexico will be another milestone where these activities can be discussed.

Partnerships

32. In all of these activities, the Bank is not acting alone. We act together with our member countries, and with other multilateral and bilateral agencies. Acting together, we are more effective than acting separately. I look forward to the conclusions of the External Review Committee Rodrigo de Rato and I established to examine Bank-Fund collaboration. We seek to strengthen our already excellent coordination and cooperation with the Fund, while maintaining the principle of a partnership based on leadership that reflects expertise and comparative advantage, not on any rigid division of areas of concern or between countries. Indeed our shareholders look to both institutions to complement one another's efforts. And as we look for improvements in our modalities of cooperation between the Bank and Fund, we intend to do the same for our partnerships with other MDBs, the OECD and others in pursuit of our overall objective of poverty reduction.

Voice and participation

32. Fair weight and voice to all member countries is crucial to the credibility and effectiveness of our two institutions. You had supported in the recent past measures that have been fully implemented to enhance staff resources and relevant capacity in EDs' offices, as well as in capitals - through a secondment program in which 43 officials from developing and transition countries have already participated. We can and must do more. My view is that we should continue to consider seriously all the options for strengthening participation in our institutions by those countries that have such a great stake in our success. I am very supportive of efforts to secure reforms in IMF quotas to give better voice and representation to low income countries as well as to emerging market countries that are playing an increasing role in the global economy. We are also working to improve diversity in Bank staffing. I look forward to working with the Bank's shareholders to ensure that we secure proper voice and participation in the governance of the Bank.

Conclusion

33. Our meeting comes at a time when there has been significant progress in the global development agenda, led by the spectacular growth in Asia, and with promise of further progress in some of the poorest countries in the world. But the challenges are still enormous and they can only be addressed successfully if we all work together, developed and developing countries, donors and recipients, governments and multilateral institutions and civil society. I was impressed by the work of the Development Committee last year in taking the G-8 proposal on debt relief and turning it into what our then-Chairman Trevor Manuel termed a G-184

agreement. I have been impressed over the course of the last year, working with the Board, which represents all 184 shareholders, by the ability of this institution to draw people together for the common purpose of giving the poorest citizens of the world the opportunities they need for a better life. I am sure that our meetings here in Singapore will further advance that effort and I look forward to our discussions.