



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)



DC2007-0011
April 15, 2007

NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached is a Note from the President of the World Bank, Paul Wolfowitz, for the seventy-fifth Meeting of the Development Committee, to be held on Sunday, April 15, 2007, in Washington, DC.

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**PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE
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1. It is a good time to take stock of progress made in delivering on the commitments made by all development partners in 2005 at Gleneagles and at the subsequent UN Summit, consistent with the “Monterrey Consensus” adopted in March 2002. I hope that the two reports for formal discussion on the DC agenda – the annual “Global Monitoring Report” (GMR) prepared jointly by Bank and Fund staff, and the progress report on implementation of the Bank’s Africa Action Plan (AAP) – will provide a good basis for the Committee’s discussion.
2. This is the sixth consecutive year of strong growth in developing countries, including in much of Sub-Saharan Africa. But as both reports make clear, Africa is still not growing fast enough either to reach the poverty Millennium Development Goal (MDG) or to generate sufficient fiscal resources to sustain progress toward the human development goals. Both reports emphasize the need to fully implement the 2005 commitments for more and better quality aid. I hope our discussions will lead to concrete steps to ensure that these commitments are met and help African countries further accelerate growth. I am also looking forward to discussing the three focus topics in the GMR: gender issues, fragile states and, based on a companion paper on main trends in Official Development Assistance (ODA), the evolving aid architecture.

**I - GLOBAL MONITORING REPORT 2007:
CONFRONTING THE CHALLENGES OF GENDER AND FRAGILE STATES**

3. This year’s GMR has a special emphasis on how to improve performance in fragile states and on how to mainstream gender reform.
4. **Fragile states.** Fragile states are home to one-fifth of the population of low-income countries and an estimated one-third of the extreme poor. The donor community needs to re-examine the way it does business in fragile states in light of their special needs and their importance in meeting the MDGs at the global level. At the World Bank, the Board endorsed in February a New Framework for Rapid Response to Crises and Emergencies that will strengthen the Bank's rapid response and longer-term engagement in fragile states. Along with the new framework, the Board also endorsed a set of institutional and organizational changes that will enable our staff to engage more rapidly and flexibly with partners in providing an integrated response to challenges of fragile states. And in coordination with my colleagues from Multilateral Development Banks, we agreed last month to develop strategies to work more effectively with these key partners.
5. **Gender.** This year’s GMR underscores the gains in girls’ enrollment at all levels of schooling—a result of concerted development efforts. Most low income countries made substantial progress during the 1990s and, by 2005, 83 developing countries (out of 140 with data) had achieved gender parity in primary and secondary education. Thirty-five countries are on track to achieve this target by 2015, while 22 others may not reach it. But the GMR also shows more modest progress in improving economic opportunities for girls and women throughout the developing world. We are responding to this challenge in the World Bank Group with “Gender Equality as Smart Economics”, a new Gender Action Plan. I have been encouraged by the strong donor support for the plan and hope, with your support, that we will

make progress in better using development resources to expand women's economic opportunities.

6. In addition to these two themes, the GMR and the report on Aid Architecture provide an important opportunity to review broader progress on the commitments made in 2005 on debt, aid and trade. As I see it, the scorecard is mixed.
7. **Debt relief.** Under the Multilateral Debt Relief Initiative (MDRI), IDA will provide about US\$36 billion in debt relief over 40 years for the 40 identified HIPC countries. We have two challenges before us. The first one is to ensure that new borrowing by post-MDRI countries is managed carefully and does not undermine their long term economic prospects by causing a quick re-accumulation of their external debt. Your leadership will help ensure collective implementation of the joint Bank-Fund debt sustainability framework, which was reviewed by our Boards last fall. I will be looking forward to discussing in the next few weeks with the Board a joint Bank-Fund proposal to intensify debt management capacity building efforts and domestic debt market development in low income countries, with focus on post-MDRI countries.
8. A second challenge is to ensure that MDRI assistance is truly additional to other aid flows, in line with donors' commitments at Gleneagles and at the Development Committee. The replenishment discussions for IDA are now underway. It is worthwhile recalling that for IDA to merely sustain its funding level to poorest countries, significant increases in donor contributions will be required. Past IDA credits have been granted based in part on credit reflows that have now been forgiven under the MDRI and HIPC Initiative. This shortfall needs to be filled if we are to live up to our commitment to our clients. Without such additional financing, poor countries would be left to "finance their own debt relief", by way of lower future allocations from the revolving soft loan windows that provided the debt cancellation.
9. **Doha and aid for trade.** The decision by WTO members in February to resume negotiations is welcome. But flexibility from all sides is needed for a deal to be reached. A deal matters to bring developing countries concrete benefits in terms of new market access, fairer competition in world markets, and greater domestic economic efficiency – all of which are critical in generating the growth needed to achieve the MDGs. On aid for trade, some advances have been made on monitoring and on the enhanced Integrated Framework, but more remains to be done to build stronger and more effective programs with genuine country ownership in this area. To this end, the Bank is continuing its active engagement on aid for trade, both with other partners and in our country programs. We are also stepping up our collaboration with the WTO with a view to further fostering the development impact of increased aid for trade.
10. **Increases in the quantity and quality of aid.** Two years ago, 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. Since then there has been some progress: ODA from DAC countries reached a record in 2005 of USD 106.7 billion, and there has been progress in implementing the Paris Declaration on aid effectiveness as well as on innovative financing mechanisms for development. However in 2006 ODA from DAC members fell by 5.1% in constant 2005 dollars to USD 103.9 billion. In real terms this is the first fall in ODA since 1997. Aid to sub-Saharan Africa, excluding debt relief, increased by only 2% in 2006, leaving a challenge to meet the commitment to double aid to Africa by 2010. Moreover,

increases so far have been concentrated in a small number of countries: the majority of Sub-Saharan countries that are well placed to make good use of extra aid are not yet benefiting.

11. We know that there are opportunities to scale up aid to the poorest countries. There are many countries with sufficiently sound national strategies, capacity and institutions to prepare and support absorbing increased budget, sectoral and project support. Yet despite good intentions and wide support for the country based model for scaling up, progress has been far too slow. This must change.
12. We also need to work harder to improve the quality of aid. We must find ways to address fragmentation issues and to increase the predictability of aid flows.
 - While new donors are welcome, increased fragmentation of aid is causing major difficulties. Increased numbers of donors, vertical funds and other agencies can lead to duplication, inefficiency, and distortion of national priorities. As underlined in the report on Aid Architecture, the average number of donors per country has risen from around 12 in the 1960s to over 30 today, with over 230 international organizations, funds and programs, and over 100 major organizations involved in the health sector alone. This and the compliance costs imposed by individual donors pose large transactions costs, which countries with the lowest capacity find hardest to handle. This underscores the need to make faster and more effective progress in implementing the Paris Declaration.
 - Increasing aid predictability also remains a serious challenge. Three years from 2010, it is necessary for donor countries to set out more clearly their individual timeframes for increasing aid to recipient countries so that African countries can better plan the scaling up of investment and capacity at the country level. While there are a few positive indications that some donor agencies are moving towards multi-year budgeting and planning with partner countries on forward aid levels, these efforts need to be accelerated and good practices encouraged.
13. We are at a moment when the international community needs to make extra efforts as we get closer to the 2015 MDGs deadline. Given the implementation cycle of development projects, IDA 15 will be the last opportunity to engage MDGs programs that can bear fruit before 2015. A special \$150 million contribution by IFC to IDA was signed six weeks ago, supplementing the \$800 million IBRD income transfer for FY 2007. This is clear testimony of the Bank Group's commitment to the poorest. But this is no substitute for the donors' role. I hope donors will commit themselves to a robust IDA15 replenishment.
14. As discussed in last year's GMR on mutual accountability, the other side of the equation is that more and better quality aid will only have its full impact in countries with credible strategies and functioning frameworks for financial management and implementation, including adequate capacity and fiduciary safeguards, and with commitment from leadership. Countries will need to continue to strengthen public financial management which is critical to effective use of assistance. The Bank in partnership with donors and international agencies is supporting many countries in this regard. Less than two years after the Public Expenditure and Financial Accountability (PEFA) initiative was launched, 41 countries have been assessed (draft report stage), 18 are in progress and a further 19 are planned. For Africa only, the numbers are 15 countries assessed, 5 underway, and 12 planned. On a separate track, the Extractive Industries Transparency Initiative, a voluntary global initiative launched in 2002 between implementing countries, donor countries, international and national oil, gas and mining companies and civil society, to enhance accountability and transparency in resource-

rich countries, has already been endorsed by 25 countries globally, 16 of which are in Sub-Saharan Africa.

II. ACCELERATING DEVELOPMENT OUTCOME IN AFRICA: PROGRESS AND CHANGE IN THE AFRICA ACTION PLAN

15. The second item on the Committee's agenda is a progress report on implementing the Bank's Africa Action Plan, a report that also sets out some significant proposed changes in the plan for the future.
16. The progress report notes that recent economic and social progress is a basis for optimism. However, as I indicated above, promises of scaled up aid have not yet been delivered for most countries. The report also notes that nontraditional development partners are becoming more important and are changing the face of development finance in Africa. As the report also makes clear, there has been progress in all four pillars of the action plan, though more in some than in others. Progress is satisfactory in four areas (private sector development, infrastructure, HIV/AIDS, and malaria). Significant changes to the plan are nevertheless needed in light of the evolving development picture in Africa, results achieved during early implementation, the World Bank Group's evolving role in the development partnership, and global priorities needing collective action. Over the next three years, the Bank will concentrate its efforts more selectively on areas that promise strong results and reflect the Bank's evolving role, while retaining the country based model that guides all IDA support.
17. My visits to African countries in the last few weeks have reinforced my conviction that the Bank can and must make an even stronger contribution in catalyzing and supporting development in Africa, and that the revised AAP is a good basis for our future efforts. But as I have already noted, more and better coordinated support from all donors will be needed if we are to succeed.

III. PROGRESS ON OTHER MANDATES

18. I would like to take the opportunity to report to the Committee briefly on other strategic priorities for the Bank, including progress on a number of issues we have discussed in the past and/or indicated a wish to return to at a future meeting. On some of these we have circulated separate background papers.
19. **Strengthening Bank Group Engagement on Governance and Anticorruption.** The paper circulated after endorsement from the Board is an updated version of the paper that was presented to the Committee last September. Following your guidance, the Bank undertook an extensive round of international consultations in 35 developing countries, 12 donor countries and four global events, reaching over 3200 stakeholders, to explore their views as to how the World Bank Group's work on governance and anticorruption (GAC) can be strengthened to reduce poverty. The strategy is anchored around a set of key guiding principles, including the following: (i) the primary purpose of the Bank's GAC work is to support poverty reduction; the Bank is committed to remaining engaged even in poorly-governed countries; (ii) the Bank will maintain a consistent, transparent and predictable approach towards operational decisions across countries; (iii) the Bank will work with governments as its principal counterpart and engage more with civil society and the private sector; and (iv) the Bank will support harmonized approaches at the country and global levels. An outline of the implementation plan has been discussed by the Board.

20. **Fiscal Policy for Growth and Development.** The background paper circulated to the Committee confirms that design of fiscal policy should explicitly take account of growth as well as stabilization objectives; that composition and efficiency of expenditures are key to achievement of growth and MDG objectives; and that where institutions are weak countries should give priority to improving institutions entrusted with budget management and revenue mobilization. The report, based on country studies, focuses on how we can implement such lessons in our country advice in the context of Public Expenditure Reviews, so the Bank can contribute more effectively to the design of growth oriented fiscal policies. I hope you will support us in this approach.
21. **Strengthening the Bank's Engagement with IBRD Partner Countries.** Our new strategy that you endorsed in Singapore illustrates we are now rising to meet emerging challenges in a very diverse group of 79 IBRD-eligible countries. Since Singapore and based on your guidance, we have launched an implementation plan and organized work in five areas (strategy and coordination; financial services; knowledge; WBG synergies; international cooperation and partnerships). In the past year alone, we have launched a new joint IFC-Bank sub-national lending program, established the Caribbean Catastrophic Risk Insurance Facility to address natural disasters and are ramping up efforts to invest in clean and renewable energy to meet rising demands. Beyond these specific initiatives, we are strengthening access to local currency products, reducing the time and costs associated with projects, simplifying the process for investment lending, improving our pricing structure, and boosting research and expert services. We will report on progress before the next Annual meetings.
22. **Clean Energy Investment Framework.** In Singapore, you broadly endorsed the key findings of our progress report on the Investment Framework for Clean Energy and Development. Since then we have presented to the Board an action plan, which provides for a strong WBG energy program, leveraging Bank Group support by encouraging private sector participation; supports the Africa Energy Scale Up Action Plan which, with partners, aims to increase the number of households with access to modern energy to 35% by 2015 and 47% by 2030; supports the transition to a low carbon economy by scaling up analytical, knowledge and investment support and exploring options for enhanced financial products; and reports on progress on adaptation, with the objective of assisting countries reduce vulnerability to climate variability by developing tools and methodologies to "climate-proof" investments. We will have an opportunity to discuss over lunch how we can collectively take forward this agenda and I am looking forward to your guidance.

IV. STRENGTHENING THE BANK'S EFFECTIVENESS

23. In all the Bank Group's work, our efficiency and effectiveness depends on how we organize ourselves, how we address the challenge of voice and participation and how well we partner with others.
24. **The Results agenda.** I have asked an internal taskforce to mine the many success stories that IDA has produced in the recent past so we can draw on results achieved and lessons learned. The taskforce reviewed 19 country case studies and 17 sector stories including country, sector and project analyses. From this work, it is clear that results are about more than the number of schools we build, the depth of the wells we dig, or the miles of road we construct. It is about the outcome of our activities: giving the tools to young people to break free from poverty, creating jobs and economic opportunities for those who do not have them, and providing access to the basic necessities of life so that the poor can focus on succeeding. The third International Roundtable on Results held in Hanoi (February 5-8) strongly reaffirmed

that all partner countries, donors and agencies must redouble efforts to achieve better and verifiable development results. I hope that this sense of urgency to improve results in the field will help us collectively achieve further progress in the run-up to the Third High Level Forum on Aid Effectiveness, to be convened in Accra in September 2008. For its part, IDA will continue to provide a unique platform for development built upon long term, flexible support, effective integration of policy advice with lending, global experience matched with a vibrant local presence, and strong emphasis on country leadership, monitoring, accountability and, above all, results in the field.

25. **Budget and organizational effectiveness reforms.** In IBRD and IDA we have been working within a flat administrative budget in real terms. We are looking for gradual reallocation over a three-year period to move more resources into high-priority areas. With a flat real budget this means we have to decide on trade-offs and set clear priorities in what we do. The Bank's twin pillars for supporting development – investing in human development and improving the business climate – have been since 2001 steady guideposts but we need to develop a strategy that will transform the Bank Group to fully and successfully respond to the challenges of the 21st century. I have asked our chief economist Francois BOURGUIGNON to help develop a medium to long term strategic framework to guide these choices and assure we stay on a path that delivers opportunity and results for our partners.
26. **Voice and participation.** This is a crucial issue for an institution that represents the views and interests of 185 different countries. We have circulated an options note setting out a variety of options for adjusting the Bank governance structure. They range from changes that would depend on decisions by management and/or the Executive Directors to those that would require agreement by the Governors, and others that would require an amendment to the Articles. The note also suggests a phased reform program. As I said in Singapore, my view is that we would do well to consider seriously all options for strengthening participation in our institutions by the countries that have such a great stake in our success. But this is a matter for shareholders to decide, and I look forward to taking this agenda forward based on the Committee's views.
27. **Bank-Fund Collaboration.** I will be looking forward to hearing your views on the recommendations of the External Review Committee on Bank-Fund collaboration. This report reviews how the Bank and the Fund can provide better coordinated services to member/client countries. While the Committee notes that the starting point is one of already quite good collaboration, it also underlines, and Rodrigo DE RATO and I fully agree with this view, that we can take collaboration to a higher level to the benefit of our membership. The report makes a number of important recommendations on elements of governance that are for shareholders to consider, and we will be looking for your guidance for follow up. The report also makes specific proposals to improve collaboration at management and staff levels. An implementation plan will be provided to the Boards by the Annual meetings.

V. CONCLUSION

28. We stand half way to the 2010 goalpost for doubling aid to Africa compared with 2004. As I mentioned earlier, aid dropped in 2006 for the first time since 1997. Aid is expected to fall back slightly again in 2007 as debt relief for Nigeria and Iraq tapers off. At Gleneagles, donors committed that good performance would be rewarded. We are seeing borrowers fulfill their side of the bargain. Our collective challenge is to turn donors' promises into real aid flows. It is also to ensure these flows take a form designed not for the convenience of donors but to provide the greatest benefits for recipients, with an increased focus on core development programs. I am committed to these goals and to ensuring the Bank plays its full

part in helping to achieve them. I urge all donors to meet their 2005 pledges including the commitment to fully compensate for the impact of the MDRI and as an important part of the overall effort to agree significant increases in contributions to the upcoming replenishment of IDA.