



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, Robert B. Zoellick, for the seventy-sixth Meeting of the Development Committee, to be held on Sunday, October 21, 2007, in Washington, DC.

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PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE
OCTOBER 21, 2007

I. Introduction

1. I am looking forward to my first meeting with the Development Committee and to working closely with its members in the years ahead, as we address the challenge of achieving inclusive and sustainable globalization, overcoming poverty, and enhancing growth with care for the environment. The Committee's discussions and conclusions play a central role in setting this agenda, driving it forward, and guiding the work of the World Bank Group. I particularly welcome the Chairman's decision to devote much of this coming meeting to a discussion of the Bank's strategic direction.

II. Current Economic Environment

2. This past summer, financial markets were rocked by turbulence and repricing of risk. These events have affected developing countries, but the repercussions so far have been small compared with previous episodes when developing countries themselves were the focus of concern. While a moderate slowdown in the major economies and continued growth in developing countries are likely, the risks of a sharper slowdown have clearly increased, and this would have a larger impact on developing countries through export market contraction. Risks of slower growth and financial contagion remain. So there is no room for complacency.

III. The Bank's Long Term Strategic Direction: Catalyzing an Inclusive & Sustainable Globalization

3. Globalization has lifted barriers and boundaries and unleashed movements of ideas, goods, capital, and people. It has created opportunities where there were none. Yet globalization has not embraced all. Poverty, hunger, and disease remain widespread. Nearly one billion people across the globe live on just \$1 a day. Globalization has brought uneven benefits to the billions in middle-income countries who have started to climb the ladder of development since the end of the Cold War. Too many countries, especially in Africa, are likely to fail to meet most of the Millennium Development Goals (MDGs). There is much more we can do to connect the "bottom billion" to the rest of the world.
4. I believe we need to take a fresh look at the Bank's strategic direction. On October 10, I delivered a speech setting out some views on the challenges facing developing countries and how the Bank can support their efforts to rise above these challenges. Copies have been circulated to Committee members. In the speech, I highlight six strategic themes to support the goal of an inclusive and sustainable globalization: i) helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa; ii) addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state; iii) developing a competitive menu of "development solutions" for middle-income countries, involving customized services as well as finance; iv) playing a more active role with regional and global "public goods" on issues crossing national borders, including climate change, HIV/AIDS, malaria, and aid for trade; v) supporting those advancing development and opportunity in the Arab world; and vi) fostering a "knowledge and learning" agenda across the Bank Group to support its role as a "brain trust" of applied experience. I look forward to hearing the Committee's views and suggestions.

5. The *Report on the Long Term Strategic Exercise for the World Bank Group* (LTSE) prepared by Francois BOURGUIGNON and his team offers valuable analysis. I would like to thank him for this important work as well as for his contributions and commitment to the World Bank in the past four years. The LTSE has benefited from extensive discussions within the Bank and with external partners and stakeholders. Its key message is that our mission remains fundamentally on track: It is the purpose of the Bank Group to assist countries to help themselves by catalyzing the capital and policies through a mix of ideas and experience, development of private market opportunities, and support for good governance and anti-corruption—spurred by our financial resources. It is also the purpose of the Bank Group to advance ideas about international projects and agreements on trade, finance, health, poverty, education, and climate change so that they can benefit all, especially the poor seeking new opportunities.
6. In addition to the LTSE, several papers have been prepared by the staff and shared with Committee members, many in response to requests by the Committee. I hope these papers provide a useful framework for our dialogue. I would like to offer a few thoughts on some of the papers, ahead of our meeting.

IV – The Development Agenda in an Age of Globalization

7. **Scaling Up and Improving Aid Delivery.** This, together with the role of IDA, is the subject of the second item for discussion on the Committee’s agenda. The paper *Country-Based Scaling Up: Assessment of Progress and Agenda for Action* summarizes progress made and the challenges we face. There is now broad agreement that the country-based model with country-led strategies are vital for delivering development results and progress towards the MDGs.
8. Yet as the paper clearly points out, there are many countries that could absorb increased volumes of aid. Development partners have much to do if they are to meet the commitments made at Monterrey and Gleneagles to significantly scale up their levels of Official Development Assistance (ODA) and the commitments made in Paris to improve the effectiveness of their support and align it with country strategies. Even in fragile and post-conflict states where many of the world’s poorest live, there are opportunities for focused and carefully sequenced increases in aid for projects and programs to build local capacity and subsequently address development and reconstruction needs. In an increasingly complex aid architecture involving multiple donors and vertical funds, the World Bank has a key role to play in supporting the scaling-up effort, based on a strong country-based development model.
9. **IDA.** The paper on *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model* explains the pivotal role that IDA plays in this effort and the importance of securing a strong IDA15 replenishment. In fiscal 2007, IDA committed a record \$11.9 billion to support development in the world’s poorest countries. That is a 25 percent increase over 2006 and an all-time high for IDA. New IDA commitments to sub-Saharan Africa increased by \$1 billion between 2006 and 2007, reaching \$5.8 billion. A strong message from the Committee on IDA replenishment will be vital for securing financial commitments needed by low-income countries to meet the MDGs.
10. The Bank Group hopes to make an aggregate contribution of \$3.5 billion to IDA15. This is more than double the \$1.5 billion pledged to IDA14 in 2005. I would like to thank the Executive Directors for helping to reach an agreement on this package. The Bank Group can

now lead the way and respond to donors' call for an ambitious replenishment. IBRD's Executive Directors are recommending to the Board of Governors that \$600 million of IBRD's fiscal 2007 net income be transferred to IDA. The IFC's Board has also authorized a \$500 million grant to be designated to IDA from its fiscal 2007 financial statement, subject to approval by the Board of Governors. In addition, IFC expects to be in a sufficiently strong financial position to make cumulative transfers of \$1.25 billion in grants to IDA, subject to annual recommendations by its Board of Directors and approval by the Board of Governors. This would bring IFC's total contributions for IDA15 to \$1.75 billion. Similarly, IBRD plans to increase its IDA contribution to about \$1.75 billion over the IDA15 period (about \$580 million per year), subject to annual recommendations by the Executive Directors and approval by the Board of Governors.

11. I hope donor countries will also commit to an ambitious increase in IDA's replenishment. South Africa has already set a good standard by pledging a 30 percent boost in its IDA funding. Now we need the G8 and other developed countries to translate their words from Summit declarations into serious numbers too.
12. **Aid for Trade.** If a breakthrough is achieved in the Doha Development Agenda, the world economy stands to gain from open markets and reduced subsidies. Failure to conclude a deal, on the other hand, will undermine efforts to help the poorest countries benefit from globalization, and it will hurt the multilateral trading system. With or without an early Doha deal, the accelerating pace of global integration has made it critical for developing countries to improve their competitiveness. As a complement to the Doha Round, we need to step up efforts to help connect poor countries to international markets, expand the scale of "aid for trade" as proposed in the joint Bank-Fund paper "*Aid for Trade - Harnessing Globalization for Economic Development*," and facilitate access to trade finance via IFC.
13. **Debt relief and debt sustainability.** The Bank-Fund *Status Report on Implementation of the Heavily Indebted Poor Country (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)* since mid-2006 is encouraging. Yet many challenges remain. Strengthening public debt management remains a priority to help prevent a re-accumulation of unsustainable debt in low income countries. And we also share a collective responsibility to ensure that re-accumulation of debt — from public and private sources — in post-MDRI countries does not undermine their long term economic prospects. The steps taken by the OECD Export Credit Agencies to develop sustainable lending guidelines are welcome. We need to reaffirm our support for the Bank-Fund debt sustainability framework as a vital guide to decision-making by debtors and creditors.
14. There are also remaining challenges in implementing debt relief initiatives. Full participation of non-Paris Club and commercial creditors has yet to be achieved, and commercial creditors' lawsuits against HIPCs present a growing challenge to the implementation of the HIPC Initiative. By helping HIPCs buy back their external debt from commercial creditors at deep discount, the Debt Reduction Facility for IDA-only countries can play an important role in reducing exposure to commercial creditors of HIPCs. Together with the Fund, we intend to encourage official bilateral creditors' participation in the HIPC Initiative by posting "scorecards" on the external web sites of the Bank and Fund identifying the debt relief granted by each bilateral creditor. We will also strengthen support to HIPCs, in the context of litigation or otherwise, by preparing factual "contextual notes" on HIPC Initiative issues at the request of country authorities.

15. **Implementing the Governance and Anti-Corruption (GAC) Agenda.** The Executive Board's support for the *Implementation Plan for Strengthening World Bank Group Engagement on Governance and Anti-Corruption* is very encouraging. This plan is guided by sensible core principles which are key to successful implementation: country ownership and leadership. The World Bank Group is committed to helping countries strengthen weak governance systems, while finding ways to reach the poor who are left behind as a result of poor governance. While there is no "one-size-fits-all" approach, the Bank Group will adopt a consistent approach towards operational decisions across countries. And collective action from donors, international institutions, and other actors at the country and global levels will be critical to ensure a harmonized approach and coordination.
16. There should be no safe haven for those who steal from the poor. That is why we have made the Stolen Asset Recovery (StAR) initiative a key component of the GAC strategy. The StAR initiative was launched a month ago with the United Nations Office of Drugs and Crime to help developing countries recover assets stolen by corrupt leaders. By conservative estimates, \$20-\$40 billion is squandered each year by senior government officials — the equivalent of 20-40 percent of ODA flows. The StAR initiative will not only help developing countries recover stolen money to fund social programs, but it will also send strong signals to corrupt leaders that they cannot not escape the law.
17. The independent review of the Bank's Institutional Integrity Department (INT) led by Paul Volcker, offers valuable inputs to the overall GAC strategy. The report makes clear that serious challenges remain in overcoming the cancer of corruption in Bank-supported operations, and it offers constructive recommendations to better integrate INT's work into our operations. An internal working group from across the institution has been established to review each recommendation, and consultations with the Board and external stakeholders are underway to inform Management's final recommendations.
18. **Middle-Income Countries.** As the Committee confirmed a year ago, the Bank has a major role to support development in middle-income countries (MIC). Today, about 70 percent of the poor live in India, China and the middle-income countries served by IBRD. These countries have asked us to remain engaged in their search for how best to meet their diverse development challenges. The *Implementation Report on Strengthening the World Bank's Engagement with IBRD Partner Countries* reports considerable progress in converting the recommendations endorsed a year ago into operational proposals and decisions, and we must now continue this progress.
19. The Bank Group is committed to providing new thinking, innovative finance and advisory services to our MIC partners. In order to meet the great needs of emerging market countries, I have asked our Board to simplify and cut our prices so we could expand our lending to support development and growth. I am pleased that the Board has agreed, clarifying our fees and reducing rates back to the pre-Asian crisis level. This step can help us catalyze the expansion of our services.
20. **Private sector development.** Private sector development is key to generating productive jobs and delivering basic services, so that people can escape poverty and improve their lives. *Doing Business 2008* — the fifth in an annual report series issued by the World Bank and IFC — confirms that returns are highest in countries that are making it easier to start a business, strengthen property rights, enhance investor protections, increase access to credit, ease tax burdens, and expedite trade while reducing costs.

21. I am pleased to note that IFC has been pursuing new investment opportunities to support the private sector in Sub-Saharan Africa, a priority frontier region. In fiscal 2007, it doubled its financial commitments to the private sector in the region. This helped 166,000 small African businesses get access to finance, gave 6 million new customers access to power and created 11 million new telephone connections across the region. And IFC also substantially increased its advisory services and local currency financing capabilities in the region. Supporting investments in sub-Saharan Africa is also a priority for MIGA. Since the agency's inception in 1988, MIGA has issued \$2.3 billion in guarantees in support of projects in 27 countries in the region.
22. **World Bank Group Financial Commitments.** In fiscal 2007, the World Bank Group committed a total of \$34.3 billion in loans, grants, equity investments and guarantees to developing countries — \$2.7 billion more than in 2006. IFC committed a record \$8.2 billion for private sector development in developing countries in 2007, and MIGA provided \$1.4 billion in guarantees, of which \$387 million was for projects in low-income countries where its exposure now stands at 41% of its portfolio.
23. Reinforcing synergies within the World Bank Group is among our top corporate priorities. We will deepen the cooperation between IDA and IFC to boost the private sector in poorer economies. IFC will launch new infrastructure and microequity funds for IDA countries. And IDA and IFC will seek opportunities to jointly support public-private partnerships in infrastructure projects — especially in energy, transportation, water, agriculture and the finance sector. I have set up a high-level committee led by the IFC's Executive Vice President and the World Bank Chief Financial Officer to strengthen IFC-IDA cooperation.
24. **Agriculture for Development.** With 75 percent of the world's poor living in rural areas, improving agriculture's performance remains crucial to overcoming global poverty. The World Development Report 2008 shows that growth originating in agriculture is four times more effective at raising the incomes of the extreme poor than growth in other sectors. Exceptional opportunities are emerging for investment in agriculture. Markets for high value products — horticulture, livestock, feed, and biofuels — are expanding rapidly. Over the past 25 years, agriculture has been increasingly neglected by governments and donors, receiving only 4 percent of overseas development assistance overall and of public expenditures in Sub-Saharan Africa. We need a 21st Century Green Revolution designed for the special and diverse needs of Africa, sparked by greater investments in technological research and dissemination, sustainable land management, agricultural supply chains, irrigation, rural microcredit, and policies that strengthen market opportunities while assisting with rural vulnerabilities and insecurities. More countries need to open their markets to farm exports, too.

V – Global Public Goods

25. The paper *Global Public Goods: A Framework for the Role of the World Bank* responds to the Committee's request last year to develop a framework to guide the Bank's work. It identifies five priority areas where the Bank's relative strengths can make a difference: (i) preserving the environment, which is increasingly being threatened by climate change; (ii) controlling communicable diseases; (iii) strengthening the international financial architecture; (iv) enhancing developing countries' participation in the global trading system; and (v) creating and sharing knowledge for development. The scope of global concerns is

vast and the Bank's resources are limited, so we must determine the Group's comparative advantage to focus our resources through selective approaches. Given our specialization in working on development at the national level, our most important operating challenge will be to support countries as they determine how best to integrate public goods policies — including regional and global opportunities — into national programs. These opportunities should draw on private sector entrepreneurs and energies.

26. **Climate change.** As requested at the Committee's last meeting, there is a separate progress report on the Bank's work in this area: *Clean Energy for Development Investment Framework: Progress Report on the World Bank Group Action Plan*. Since the Spring Meetings, there has been a growing recognition that climate change puts hard-won development gains at risk. The Fourth Assessment of the Intergovernmental Panel on Climate Change (IPCC) concluded that global warming is "unequivocal" and very likely due to greenhouse gas emissions. At the Heiligendamm Summit, G-8 leaders stressed the urgency of addressing climate change and pledged to engage in discussions on a post-Kyoto framework by the end of 2008. Building on this renewed impetus, the World Bank Group, working with the Global Environment Facility (GEF) and other partners, has made substantial progress in implementing the Action Plan to scale up actions that support low-carbon and climate-resilient development.
27. The World Bank Group is on track to meet and even surpass its target of increasing energy sector lending from \$7 billion in FY03-05 to over \$10 billion in FY06-09 by the second quarter of this fiscal year. Support for transition to a low carbon economy has increased, with low carbon projects now accounting for 40% of Bank-supported energy projects. We need to be innovative in making concessional finance available and developing new financing mechanisms to stimulate low-carbon growth, such as the two new carbon facilities that leverage carbon finance for climate change mitigation. And climate risk management and adaptation are emerging as an important part of Bank Group programming and country strategies, particularly in the poorest countries which are most vulnerable to the devastating impacts of climate change. We can help pioneer new market mechanisms — such as carbon trading — in ways that assist developing countries. With IFC's help, we should also help support the creation of public policy and business environments that will tap the private capital needed to address this challenge. The Bank Group can support technology advances and adoption, especially in the developing world. We can support applied research and knowledge development on climate change economics for developing countries. Based on this portfolio of support activities and the knowledge we develop, we can also help develop international policy regimes for climate change.

VI. Voice

28. Inclusive development also means greater voice for those most affected by our decisions. The ongoing efforts of the IMF to better capture the relative positions of its members in an evolving world economy are welcome. Significant progress on this issue is of great importance to both our institutions. Drawing upon extensive consultations with our Board and a series of discussions at the Development Committee, the options paper on *Voice and Representation* lays out possible actions. It details a two-stage timetable which reflects the Bank's specificities, needs and mandates, most notably IDA and focus on poverty reduction. But ultimately, it is shareholders' decisions and guidance that will determine progress.

VII. Bank-Fund collaboration

29. **Follow up to the Malan report.** To strengthen the culture of cooperation between the Bank and the Fund, the Joint Management Action Plan (JMAP) — set out in the paper *Enhancing Collaboration: Joint Management Action Plan* — aims to translate principles of cooperation into practice. It lays out a series of concrete actions that are designed to improve coordination on country issues, enhance communications between the staff of the two institutions working on common thematic issues, and improve incentives and support for cooperation on policies, reviews, and other institutional issues.
30. I would like to take the opportunity to pay tribute to Rodrigo DE RATO. I have known him from the time we worked together in our respective governments on trade and economic issues. I have deeply appreciated his insight and the strong partnership he has fostered between our respective institutions. Bank-Fund cooperation is an absolutely integral part of the international aid architecture. I look forward to carrying this partnership forward with Dominique STRAUSS-KAHN so that Bank and Fund together can continue to serve our members' needs.

VIII. Conclusion

31. This is a formidable agenda for the World Bank Group. We will need to work closely with our many partners — other multilateral agencies, including the UN agencies, partner countries and other stakeholders — and focus our efforts where we have a comparative advantage. I look forward to the Committee's continuing guidance as we take this work forward, and as we define and clarify the Bank Group's medium and long term strategic direction. And I hope I can also count on the Committee's support in the coming months, particularly in securing an IDA 15 replenishment on the scale needed for creating hope and opportunity for the world's poor.