Statement by

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The global economic environment has evolved substantially in recent decades with the increase in the size and sophistication of private capital markets, the growing level of official and private development assistance, and the continuing rapid expansion of international trade. Despite these positive developments, the World Bank has a large unfinished agenda in promoting economic growth and poverty reduction in the developing world. At the same time it is also being asked to devote resources toward addressing a growing list of global problems that require collective actions. Recognizing that the resources of the World Bank Group are limited while demands on them are rising, we fully support and encourage President Zoellick’s efforts to develop a long-term strategic approach to optimal deployment and leveraging of the World Bank Group’s resources in this changing environment.

Changing Development Environment

In undertaking this task we must recognize that the needs and challenges of developing countries have evolved and have become more complex. For the poorest countries there continues to be broad agreement that IDA, the World Bank’s concessional window, will remain an essential tool, and we applaud President Zoellick’s efforts that have resulted in the IBRD and IFC Boards’ recent endorsement that these institutions seek to contribute a combined $3.5 billion for IDA15. Notwithstanding this positive development, the share of IDA resources relative to other forms of development assistance is likely to continue to decline due to the rapid growth in development assistance from other sources. While this aid is welcomed, the administrative challenges for developing country governments arising from the growing number of donors and the increasing level of earmarking can diminish overall aid effectiveness. We therefore strongly support IDA as an organization that, because of its convening power, strong analytical work, and country-based approach, can play an important role in helping recipient governments align funding from multiple sources.

At the other end of the development spectrum we see that a growing number of middle-income countries are benefiting from improved access to private financial flows. For these countries, the traditional World Bank product, composed of loans combined with a package of technical and advisory services, is no longer as appropriate as in the past. We believe the World Bank can continue to help these countries but it will require that the World Bank become more focused, efficient and selective in seeking ways to provide its expertise where financing may no longer be required.
We also are increasingly aware that weak private sector activity in the poorest countries as well as in large portions of middle-income countries is due to a combination of factors including a lack of credit, investment resources and good business practices on the one hand, and institutional barriers and governance problems on the other. These impediments not only constrain domestic growth and employment, as the private sector is ultimately the main driver of both, but prevent developing countries from fully exploiting the opportunities offered by the rapidly expanding volume of global trade. We believe a more integrated approach focused on private sector-led growth is needed and applaud the Board of Directors’ recent decision to deepen the connection between IFC and IDA as part of a larger growth strategy for IFC to expand its private sector investments in developing countries.

**Long-Term Strategy**

In developing a long-term strategy to address our challenges we believe that it must first be grounded in a few guiding principles. World Bank engagement should be limited to programs that clearly meet its core mission of promoting economic growth and poverty reduction, and that the manner in which the World Bank engages in programs should reflect its comparative advantages.

Some areas where we believe the Bank enjoys clear comparative advantage include infrastructure, private sector development, the benefits of trade liberalization, donor coordination, and the development of public financial management and accountability systems for management of public resources.

The economic challenges posed by environmental threats and climate change clearly present the Bank with opportunities to exercise its comparative advantage. The global public goods nature of these challenges points to the usefulness of international approaches that can leverage the Bank's convening power as well as its financing capabilities. We look forward to working with the Bank and all the multilateral development institutions through President Bush's major economies initiative that focuses on collaborating with the world's largest producers of greenhouse gas emissions, both developed and developing nations, to establish a new international approach on energy security and climate change in 2008 that will contribute to a global agreement by 2009 under the UN Framework Convention on Climate Change. As part of that initiative President Bush has proposed the creation of a new international clean technology fund to help developing nations harness the power of clean energy technologies. This fund will help finance clean energy projects in the developing world. The President has asked me to coordinate this effort – and I will continue to reach out to the international community, including the development institution, in the coming months to discuss how best to design, finance and implement such a fund.

Exploiting the Bank's comparative advantages implies that it should seek to complement the activities of other donors including the regional development banks. In this regard, we encourage the World Bank and the regional banks to undertake more rigorous efforts to coordinate their country development strategies along the lines of their respective comparative advantages.

As the World Bank attempts to maintain its engagement with emerging economies through the provision of new innovative and customized products, it should avoid duplication of services and financing that can be provided by the private sector. Where consistent with the country-based model, the Bank should also seek to unbundle its policy advisory and technical assistance products from its lending services. In its efforts to reduce the non-financial costs of doing business with these countries it must ensure that its environmental, social and fiduciary safeguard policies are not diluted. At all times the Bank needs to weigh the costs and benefits of these new programs against expected development results.

We believe a long-term strategy must also address the issue of how to make the World Bank's public sector arms, the IBRD and IDA, and its private sector arms, the IFC and MIGA, work in a more integrated fashion to address the multiple barriers to private sector development in IDA countries and in
poorer or frontier development areas of middle-income countries. Too often these institutions operate in isolation and address separate impediments to private sector development when a more integrated approach is required. We encourage President Zoellick to develop additional incentives to encourage the staff of these institutions to work in a more integrated way to promote private sector development. Likewise, it is important to deepen relationships with other institutions, such as regional development banks and export credit agencies, which also provide financing to companies in developing countries.

As Paul Volcker has most recently reminded us in his commission’s invaluable work on the Bank’s anti-corruption activities, good governance is vital to successful economic development and the Bank must continue its vigorous efforts to investigate and combat corruption in the institution and its countries of operation. We look forward to working with President Zoellick and other shareholders as we carry this essential work forward.

It is essential that a long-term strategy focus on the need to improve the efficiency of administrative expenditures within the Bank Group, including the quality and flexibility of its human resources. Too often the Bank Group has been slow in redeploying its resources and has deployed the wrong mix of resources at the expense of poor execution on new high priority programs. Implementing more budget discipline including comparisons of the costs and benefits of existing programs compared to new initiatives, combined with the incorporation of proper staff incentives to ensure that the required human resources can be deploy quickly to where they are most needed will free up resources to support new strategic priorities as the global development environment evolves.

Lastly and most importantly, it is imperative that we continue to focus on the need to improve the achievement and reporting of concrete results from the Bank's projects and programs. It remains the central organizing principle for everything the Bank does.