



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)



DC2006-0007
April 18, 2006

NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached is a Note from the President of the World Bank, Paul Wolfowitz, for the seventy-third Meeting of the Development Committee, to be held on Sunday, April 23, 2006, in Washington, D.C.

* * *

PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE

Introduction

1. I am looking forward to our discussions and to your advice and guidance at my second meeting of the Development Committee. When we met in September 2005 we were able to take stock of the commitments made during what was labeled by some “the year of development” and by others “the year of Africa”. Since then I have had the opportunity to see first hand the hopes fostered by those commitments and the challenges there will be in turning commitments into actions in Africa, but also in Asia, in Latin America and in Central and Eastern Europe. More than ever our focus must be on implementation and securing results.

Monitoring Progress

2. As is normal at the Committee's Spring meeting, we will base most of our discussion on the annual “global monitoring report” (GMR) prepared jointly by staffs of the World Bank and IMF. This year's report “Strengthening Mutual Accountability – Aid, Trade and Governance” focuses on the mutual accountability of developing countries, donor countries and the international institutions for implementing the Monterrey agenda. Last year, attention was focused on how to scale up resources available to support development and how to ensure they are used effectively. In this year's report, the focus is on governance.
3. The report examines performance in the past year and sets out some priorities for strengthening mutual accountability. Its key messages are summarized in the overview and I will not repeat them here. But I would like to emphasize three points.

First, while we should welcome renewed growth in many poor countries and the progress that has been made in reducing income poverty, we remain seriously off track if we are to meet the MDGs in many of the poorest countries.

Second, we need now to deliver on the commitments that have been made for more and better quality aid. We have to find ways to lock in and monitor how donors are meeting their commitments for aid and debt relief, and ensure debt relief does not substitute for new aid. We also need to monitor and accelerate implementation of the commitments made in Paris last year to improve aid effectiveness, and increase its results orientation. As we go forward the international community must in particular tackle three issues highlighted in the GMR: we must find ways to make aid flows less volatile and more predictable, to make them better aligned with country strategies and systems, and to improve coordination between country needs and the availability of new sources for delivering assistance, particularly in the health sector.

Third, we must continue to stress the importance of good governance and our mutual responsibility for achieving it. Governance is critical to improving and

sustaining development outcomes. Responsibility for this lies both with developing countries and with donors and IFIs through international law enforcement and support for global anti-corruption treaties, as well as strengthening national anti-corruption efforts. Better monitoring of actionable governance indicators is needed to track progress, generate greater accountability, and build demand for good governance.

4. I recognize there are some complex issues to address, and a balance needs to be struck between insisting on high standards while recognizing progress where it occurs. I intend that the World Bank Group continue to make a major contribution to all aspects of this effort, not least by requiring the highest standards of ourselves, but also by working with partner countries to strengthen institutions that produce better governance.

Clean Energy and Development: Towards an Investment Framework

5. The first item we will discuss is a progress report on Clean Energy and Sustainable Development. The decisions countries make today on energy policies and technology will have long term consequences for the sustainability of growth and for the health of our environment. The World Bank Group is working with the international community to see how all of us can tackle these issues more effectively, at a larger scale and with innovative solutions. At the Gleneagles Summit last July, the leaders of the G-8 asked the World Bank Group to take a leadership role, “in creating a new framework for clean energy and development, including investment and financing”. In September the Committee endorsed this request.

6. There are a few points I would like to emphasize from our report.

Our challenge is to provide energy that is essential for economic growth and fighting poverty, while at the same time reducing the environmental impact. Two-thirds of the increase in world primary energy demand over the next 25 years will come from developing countries where 1.6 billion people, mostly living in Africa and South Asia, still have no access to electricity.

Meeting the energy demand in developing and transition countries during this period will require investments of around \$300 billion dollars a year. It is important that these investments be directed toward more efficient and lower carbon sources of energy. Some gains can be made at little or no extra cost – but there are likely to be additional costs as well in moving to a lower carbon scenario, possibly of the order of tens of billion of dollars a year.

What we are looking for is a “double dividend” —to meet the energy needs that are essential to fuel growth and to fight poverty on the one hand while preserving the environment - globally and locally - on the other. In the long run these are not conflicting goals. The economic impacts of climate change and the costs of adapting to climate variability impact poor countries disproportionately.

7. During the past year, we have been holding consultations with the reinsurance industry, with investment banks, with cutting-edge technology companies and with the governments of some of the big new energy consumers like Brazil,

India, China, Mexico and South Africa. By the time of the Annual Meetings in September, we will make proposals to accelerate investment in clean energy so that developing countries can meet energy demand for growth and for poverty alleviation in an environmentally sustainable way. The next step will have a longer time horizon and is aimed at generating new knowledge on technology options and on the impact and economics of climate change, as well as programs of action for selected countries. A key element of our planning is to complete a detailed proposal for a new Clean Energy Financing Vehicle for the World Bank Group that would blend grants and loans. We will continue to work closely with the International Energy Agency, other IFIs, UN agencies, global partnerships and trust funds, developed and developing countries, and the private sector and Civil Society Organizations in taking this work forward.

Strategic Priorities for the Bank and Progress on Other Mandates

8. I want to take this opportunity to report to the Committee on some of the strategic priorities I see for the Bank over the period ahead, including progress on a number of issues the Committee has discussed in the past and/or indicated a wish to return to at a future meeting. On some of these there are separate background papers. The Bank's overall strategic framework – the aim of poverty reduction and the focus on the contributions the Bank can make to countries structural and social policies and programs – remains valid. Right now the overriding priority is to strengthen implementation, achieving results. This means we have to decide on trade-offs and set clear priorities in what we do.
9. Africa is a priority. The Bank has been asked to play a leading role in ensuring that resources for the region are used efficiently and effectively, and we intend to do so, through our Africa Action Plan. The focus on Africa should not come at the expense of our commitment to other countries, and we must remain engaged in middle-income countries, our IBRD clients, many of whom still face development challenges and poverty reduction needs. We must maintain and grow our knowledge base in areas fundamental to development, including education, health, infrastructure, energy and agriculture. Fighting poor governance and corruption which are so damaging to development, is another priority, and is an obligation for all of us.
10. Alongside these priorities, there are growing demands for the Bank to engage in global issues. We will discuss one of these - clean energy and development - at our meeting, but there are many others ranging from combating communicable diseases – where the Bank is currently playing a strong role in helping countries affected by the Avian Flu epidemic - to contributing to global efforts to strengthen financial stability and counter money laundering and financing for terrorism. If we are to play an effective role as global manager on such issues we must find ways to integrate this work better with our country based business model.
11. Underpinning each of these priorities are efforts to improve the ways we measure the effectiveness of our work and its impact on development results. We intend to stay the course on zero budget growth within a three year framework, so it is

essential to shift resources to where they will have most impact. Trade offs will not be easy. I am looking across the Bank group for ways to increase synergies and cost-effectiveness, and have acted to consolidate some support functions. We will continue to analyze other possibilities.

Good Governance and the Fight against Corruption

12. Corruption distorts the functioning of markets, weakens governance systems and impedes effective development. Fighting corruption is a long-term commitment which requires a long-term strategy to progressively and systematically attack the problem. We are expanding the World Bank Group's work on governance and anti-corruption at the country level, in Bank projects, and through partnerships with various stakeholders.
13. At the country level, governance and anti-corruption measures will be strengthened in all Bank instruments, including loans, grants, research and technical assistance. Bank investments in areas such as judicial reform, civil service reform, and decentralization of public service delivery will be increased, and progress will be measured through our assessments of public sector management and expenditure performance as well as monitoring and evaluation of results in the ground.
14. We are also implementing a new system for minimizing the risk of corruption in World Bank-funded projects. To protect Bank projects and strengthen public procurement systems, anti-corruption teams will be deployed in country offices to work with local government institutions, such as audit units and anti-corruption commissions. Anticorruption strategies are being developed for Bank projects and will be published on the Internet to enable stakeholders to see what steps are being taken to ensure resources are not diverted.
15. Enforcement alone will not cure corruption. How much progress we make depends on the desire of both governments and civil society to create the right setting for sustainable development. The Bank will expand partnerships with various groups that have a stake in improving governance. The Bank will work with rich countries to seek ways to prevent stolen cash from being moved to foreign bank accounts and to hold private firms accountable for exporting corruption to emerging economies. I have been working with my colleagues from multilateral development banks (MDBs) on a common approach to fighting corruption and on a common strategy for "blacklisting" firms that engage in corruption in MDBs and Bank projects. The Bank will also partner with the private sector, and we will continue to draw lessons from tools like the "Doing Business" report issued annually by the International Finance Corporation and other indicators.

Africa Action Plan

16. At our last meeting the Committee discussed and welcomed the Bank Group's Africa Action Plan. We are making progress with the plan's 25 initiatives designed to support African countries as they implement national strategies to accelerate growth and reduce poverty. The Africa Catalytic Growth Fund was established last month, with a grant from the Government of the United Kingdom, and will allow the Bank Group to increase our support in three areas: (i) tackling the remaining constraints to growth in well performing economies; (ii) supporting economies in an earlier stage of transformation where strong leadership can accelerate economic reforms and lay the basis for sustained growth; and (iii) supporting regional programs. The Action Plan forms the core of our commitment to supporting improved development outcomes in Africa. We will report more fully on progress at the annual meetings.

Debt Relief and Debt Sustainability

17. A key feature of our support for low-income countries in Africa and elsewhere is the continued implementation of international initiatives for debt relief and cancellation, and our joint work, with the IMF, to help countries achieve and maintain debt sustainability. As the Committee asked at its last meeting, we have reached agreement on a final list of countries eligible for the HIPC initiative. The Committee had also welcomed the new Multilateral Debt Relief Initiative (MDRI) and asked the Bank to "proceed with the steps to ensure all necessary arrangements for implementation". I am delighted to report that we have now completed all steps needed for IDA to implement this initiative, subject to ratification by Governors and provision of formal financing commitments by IDA donors, as set out more fully in the background paper we have circulated for the Committee. In this context, I would like to invite the donors of IDA to expedite their necessary budgetary approvals for the MDRI. Lastly, let me mention that we have conducted with the Fund an initial review of the debt sustainability framework for low income countries. We have also started to develop, in consultation with the IMF and other partners, policies to prevent "free riders" taking advantage of the efforts of the international community in giving debt relief - that is the possibility of non-concessional lenders taking advantage of IDA's grants and debt forgiveness thereby increasing the risk of MDRI beneficiary countries sliding back into debt distress.

The Doha Development Agenda and Aid for Trade

18. We have also circulated as background a report on progress in the Doha Development Agenda and on proposals on Aid for Trade. As the report makes clear, the Bank will be working very closely with the WTO and others over the months ahead on aid for trade. Progress on this issue will provide a useful complement to the needed ambitious outcome for the trade negotiations. But I emphasize that aid for trade is a complement not a substitute to these negotiations and that the World Bank will not be able to endorse a poor outcome that does not help developing countries. Both the aid for trade work and the trade negotiations are now on very tight schedules. We all know how important it is for global

growth and development for these timetables to be met, and I hope that Finance and Development Ministers will remain closely engaged in the process to ensure that they are.

Fiscal Policy for Growth and Development

19. As requested at your last meeting, we have provided an interim report on the design of fiscal policy to balance concerns for macroeconomic stability with the need to create “fiscal space” for expenditures necessary for growth and achievement of the MDGs. The interim report suggests that the design of fiscal policy should explicitly take account of growth as well as stabilization objectives; that composition and efficiency of expenditures is key to achievement of growth and MDG objectives; that initial fiscal conditions differ across countries and that this needs to be factored into country specific fiscal policy design; and that where institutions are weak countries should give priority in particular to improving institutions entrusted with budget management and revenue mobilization. Future work, with a final report synthesizing the results of the country studies expected in early 2007, will focus on how we can operationalize such lessons in our advice to countries including in the context of Public Expenditure Reviews, so that the Bank can contribute more effectively to the design of growth oriented fiscal policies.

Bank Group Support for Middle Income Country Clients

20. As noted above, the Bank Group must remain engaged with our IBRD clients and become more effective in supporting their development. IBRD clients are key to the achievement of the global poverty reduction goals and essential in the provision of global public goods. As you know, we are defining a revitalized Middle Income Country (MIC) management action plan. I am convinced we need to go further and faster, and to find ways to strengthen our partnerships with MICs, to improve the services we provide and integrate them better across the Bank Group. We have over the last months been consulting with shareholders (MICs themselves and their development partners), with regional development banks and others. Two years ago the Committee indicated a wish to review progress in the Bank’s efforts to enhance its support for MICs at a future meeting. I suggest, if the Committee agrees, we might aim to do this at our meeting in September in Singapore.

Bank-Fund Cooperation

21. As you know, Rodrigo de Rato and I have decided that it would be useful and timely to commission an external review of the many facets of Bank-Fund cooperation, and have asked an External Review Committee to report before the end of this year. We are delighted that Mr. Callaghan, Ms. Indrawati, Mr. Koch-Weser, Mr. Malan, Mr. McDonough and Ms. Okonjo-Iweala have agreed to work with us and with you in reviewing how the Bank and the Fund can be more efficient and can provide better and coordinated services to you, our clients.

Conclusion

22. We have made progress on a number of fronts and there are some positive signs. The challenges, as I see them, are to turn promises of increased aid into real flows, to ensure that these are not designed for the convenience of the donor but rather for the highest benefit of the recipient; also to ensure coherence not only in the harmonization of aid policies, but also in areas of trade, migration policy, and access to new technologies and new drugs to the benefit of the poor; and to work together to see that gains are not short-lived, but rather sustainable, fiscally, environmentally, in terms of broad social consensus and lasting institutions. I am committed to those goals and hope for your support.