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On the  
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**POVERTY REDUCTION AND GLOBAL PUBLIC GOODS:  
A PROGRESS REPORT**

Attached for the April 30, 2001 Development Committee Meeting is a progress report entitled "Poverty Reduction and Global Public Goods" prepared by the staff of the World Bank. This subject will be considered under item II.B of the Provisional Agenda. Ministers may wish to comment on this subject in their prepared statements.

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## Acronyms and Abbreviations

CDF	Comprehensive Development Framework
CEPF	Critical Ecosystem Partnership Fund
CGIAR	Consultative Group on International Agricultural Research
DGF	Development Grant Facility
DOTS	Directly-Observed Treatments, Short-Course
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FSF	Financial Stability Forum
GDF	Global Development Finance
GEF	Global Environment Facility
GAVI	Global Alliance for Vaccines and Immunization
GFCV	Global Fund for Children's Vaccines
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAVI	International AIDS Vaccine Initiative
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IF	Integrated Framework
IMF	International Monetary Fund
NAFTA	North American Free Trade Agreement
NGO	Non-Governmental Organization
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
PCF	Prototype Carbon Fund
POPS	Persistent Organic Pollutants
PRSP	Poverty Reduction Strategy Paper
ROSC	Reports on the Observance of Standards and Codes
TB	Tuberculosis
UN	United Nations Organization
UNDP	United Nations Development Program
UNAIDS	Joint United Nations Program on HIV/AIDS
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations International Children's Emergency Fund
WHO	World Health Organization
WTO	World Trade Organization

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# Poverty Reduction and Global Public Goods: A Progress Report

## Introduction

1. In Prague in September 2000, Development Committee Ministers discussed World Bank involvement in the provision of global public goods, and endorsed criteria for Bank action. They also pointed to five broad areas as particularly important near-term priorities for Bank engagement in global collective action: communicable disease, environmental commons, economic governance and financial stability, trade integration, and the knowledge revolution.<sup>1</sup> These global public goods priorities have been reaffirmed by the Bank's Management in the recent re-examination of institutional priorities laid out in the Bank's Strategic Directions Paper for FY02 and beyond<sup>2</sup>. This note reports on progress, and then discusses further the issues of appropriate financing arrangements to ensure that global collective action is adequately resourced, and of partnership and division of labor.

## Recent Experience

2. Two of the five priority areas of Bank action for global public goods – the global environment and the knowledge revolution – are to be discussed by shareholders in the near future, in the context of forthcoming strategy papers which incorporate global public goods aspects and define the Bank's engagement. However, progress on a number of regional and global issues in these two areas is worth briefly noting at the outset, in anticipation of those fuller discussions.

## **Environment**

3. The Prototype Carbon Fund (PCF), a \$145 million public-private trust fund established by the Bank to purchase greenhouse gas emission reductions from projects in developing countries and economies in transition, has now built a \$300 million pipeline of clean-technology

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<sup>1</sup> See *Poverty Reduction and Global Public Goods: Issues for the World Bank in Supporting Global Collective Action* (DC/2000-16), September 6, 2000. That paper provided a practical definition of global public goods to guide the Bank's work, reflecting the "mixed" nature of public goods relevant for development. They provide individual, local or national benefits, but also have spillover effects that are important for other (or all) countries. For the Bank's purposes, global public goods are commodities, resources and services – and also systems of rules or policy regimes – with substantial cross-border externalities that are important for development and poverty reduction, and that can be produced in sufficient supply only through cooperation and collective action by developed and developing countries.

<sup>2</sup> See *Strategic Directions Paper for FY2002-2004: Implementing the World Bank's Strategic Framework* (SecM2001-0211), March 29, 2001

projects, which will provide insights to climate change negotiators on optimal ways to develop the market for this emerging global public good. At the same time, the Bank's GEF pipeline of climate change projects has expanded substantially to reach \$700 million. Following recent progress toward finalization of the global convention on Persistent Organic Pollutants (POPs) and the designation of GEF as an interim financing mechanism, the Bank is preparing to assist its client countries in building capacity to reduce releases of POPs.

4. In water resource management, there has been substantive progress in moving forward on the Nile Basin Initiative which supports transboundary cooperative activities among all the riparian countries. The World Commission on Dams recently issued a comprehensive report that the Bank will use to inform its future decision-making process when considering projects that involve dams. In the area of biodiversity, the new \$150 million Critical Ecosystem Partnership Fund (CEPF), will focus on biodiversity "hotspots" in highly threatened regions where some 60 percent of all terrestrial species are found on only 1.4 percent of the planet's land surface. Finally, with respect to forestry, the Bank's forest strategy is currently being revised, informed by a series of nine consultations around the world to develop a plan to preserve and manage forest strategy is currently being revised, informed by a series of nine consultations around the world to develop a plan to preserve and manage forests – a global as well as national resource. These and other actions will be pulled together in the Bank's Environment Strategy, scheduled to be discussed by Executive Directors in July 2001.

## **Knowledge**

5. Knowledge is a public good which cuts across all sectors of development activity, and in the new global economy, knowledge, learning, and information and communication technologies are critical engines for development. The capacity of poor countries to benefit, however, is sharply constrained by physical connectivity, skills and policies. While almost a third of people in developed countries have Internet access, for example, this figure is less than 2 percent for developing countries.

6. The Bank's work to help developing countries reap the benefits of the global knowledge economy has four major pillars. First, the Bank is helping countries to develop a legal and regulatory environment to deal with convergence among information technologies and exploit the potential of global connectivity. Second, the Bank's broad support for education is also a platform for programs which explicitly focus on global knowledge linkages and externalities, such as World Links for Development, Global Development Learning Network, and the Africa Virtual University. Work on the Global Development Gateway is moving strongly ahead, an initiative intended to bring together development knowledge worldwide and make it much more widely and interactively accessible for the global development community. Third, the Bank is expanding access by encouraging investment in information infrastructure. More than three quarters of Bank projects have information system components, many of which support the development of soft infrastructure such as payment and trade facilitation systems. Finally, an important component of the Bank's partnership portfolio is to support a network of global knowledge centers. The Consultative Group on International Agricultural Research (CGIAR) is the leading example, but the Bank has also recently built on this to initiate a new dialogue with private sector CEOs and civil society leaders in the area of agricultural science and technology to

help clients increase their crop yields, improve crop quality, raise their incomes and improve food security outcomes in their regions. An Information and Communication Technologies Strategy paper that links these four pillars strategically is scheduled to be discussed by Executive Directors later this year.

## Disease

7. There is near universal consensus in the international community that curtailing the spread of communicable disease is a critical global public good. Disease respects no borders, impoverishes and poses huge obstacles to development. HIV/AIDS alone has already killed 14 million people, and infected an additional 36 million. It is difficult to imagine a clearer justification for global collective action. The huge toll from HIV/AIDS, malaria and TB is a major development issue. Moreover, in too many countries childhood immunization and other public health interventions against preventable diseases are under-resourced or affected by civil conflict.

8. The Bank is playing three complementary roles in facing these challenges. First and most importantly, Bank-supported programs and projects can provide **the essential country-level framework on which effective global action must be based**. In this regard, Bank country level commitments have increased significantly, reflecting both concern about the scope of the disease burden in developing countries and greater understanding of the importance of national level action to combat the global consequences of disease transmission. The projected total of FY01 Bank commitments with a communicable disease focus is \$1.1 billion<sup>3</sup>, more than trebling FY00 commitments. The expansion over the last year of Bank lending for HIV/AIDS (see separate report prepared for these Meetings) is a prime example, helping to deepen and extend national strategies against the disease in Africa and elsewhere. Without such strong national-level commitment and capacity, global efforts at containment are certain to fail. Progress has been slower in TB control, but the Bank is the largest single source of external support for TB control in developing countries and is working alongside other international partners to expand its support. More than 25 projects are using World Bank financing for the adoption and expansion of the WHO-recommended TB control strategy known as DOTS (Directly-observed Treatment, Short-course), in countries with very high TB burdens such as in India, China, Bangladesh, Cambodia, Eritrea, Ghana, Haiti, Kenya, Kazakhstan, Morocco, Niger, Philippines, Uganda, Vietnam, and Zimbabwe. New projects are under development in countries that are facing the most rapid increases in TB incidence, including several more countries in Sub-Saharan Africa, as well as Russia, Ukraine and Belarus. The Bank supports malaria interventions with 74 operations in 46 countries, and an additional 10 operations are in preparation. Considering malaria is responsible for more than one million deaths each year, it seems clear that the global effort needs to be greatly expanded, as does the Bank's own program within it: international initiatives to scale-up country-level and international action, and to promote development of new medicines, are essential.

9. Second, the Bank's operational capacity and financial strength are a vital component of **international partnerships aimed at specific diseases and health interventions**. The Bank continues to be deeply involved in major alliances such as UNAIDS and GAVI, the Global

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<sup>3</sup> \$671 million from IDA and \$438 million from IBRD.

Alliance for Vaccines and Immunization. The need to galvanize action beyond the “headline” diseases is illustrated by the fact that every year three million children die because they lack access to immunizations. Measles alone – a disease all but unseen in developed countries – kills nearly one million children, while hepatitis B claims almost as many. To support these partnerships, the Bank has contributed \$13 million through the Development Grant Facility (DGF) to UNAIDS and regional AIDS initiatives since 1998, and \$1.5 million to GAVI to build country immunization proposals. In addition, the Bank, like all GAVI partners, provides an annual DGF grant of \$300,000 to support the secretariat. The Bank is also a member of the GAVI board, heads a task force on financing, and participates in task forces on advocacy and country coordination.

10. Third, the Bank is **helping to provide seed capital, often of an intellectual as well as financial kind, for new disease initiatives of a public-goods nature.** Through DGF grants so far totalling \$3.17 million<sup>4</sup> and intellectual and policy support from its AIDS Vaccine Task Force, the Bank has provided assistance to the International AIDS Vaccine Initiative, a public-private partnership focussed on providing advocacy, incentives and direct sponsorship for development of AIDS vaccines – a classic, though as yet unattained, global public good. This small financial investment and sustained policy support have helped IAVI establish a strong base and build support from other – now much bigger – public and private donors, to the point where it now has some \$200 million in potential funding, a substantial policy and communications program, and six vaccine development partnerships underway, including in developing countries such as Kenya, South Africa, Uganda and India. In other examples of catalytic partnerships to tackle disease through regional and global action, the Bank is collaborating with the Gates Foundation on the elimination of lymphatic filariasis, a debilitating disease that is a leading cause of disability and poverty in more than 80 developing countries, mainly in South Asia and Africa. There are currently 120 million people infected with this painful disease, and an additional 1.2 billion are at risk of infection. Work is also underway on an expanded Bank program to support the WHO-led campaign to wipe out poliomyelitis, by collaborating with potential philanthropic partners to focus on a limited number of polio reservoir countries, where investment in the eradication of remaining pockets of the disease would provide a global public good well in excess of the substantial benefits at the national level.

11. These approaches – country-anchored, but then building on broader partnerships and exploiting catalytic opportunities – respond appropriately to the breadth of the global disease challenge. But they also reflect the fact that the Bank’s global role on disease, though expanding rapidly, can only provide a limited contribution to the massive investment in prevention and eradication that is required. This fact, and the strong growth of international interest, including in new and sensitive areas such as pharmaceutical pricing and availability of drugs in poor countries, emphasize the importance of the Bank’s participation in broader and strongly supported partnerships, such as its founding membership in UNAIDS.

## Trade

12. One of the most profound development challenges at the local, national and global level is to ensure that poor countries and poor people benefit from the growth and diversification of

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<sup>4</sup> From FY98 to FY01. DGF grants for FY02 have not yet been finalized.

opportunity that global integration can provide. Trade expansion is clearly the leading factor in this process. Most developing countries participated in the wave of trade liberalization that occurred over the past 30 years, with substantial benefit to their economies. The gains from trade have been uneven, however: low-income countries, especially in Africa, have on the whole been less able to capitalize on liberalization and world trade growth – in fact, Africa has seen its share of world trade shrink from five percent in 1980 to just over two percent today.

13. In light of this disparity, and given the clear poverty reduction benefits of trade-led growth, the Bank's agenda for trade involves assisting developing countries to make better use of the multilateral framework to promote broad and equitable development.<sup>5</sup> To achieve this objective at the **multilateral level**, the Bank is engaging on three fronts: analysis of impediments to trade integration; advocacy of better trade policies that support development; and advice to policymakers around the world, including developing countries as they prepare to join the WTO or multilateral negotiations. The Bank will give priority to five areas: market access for merchandise trade, trade in services, intellectual property, standards, and preparation for WTO accession.<sup>6</sup>

14. While the Bank's analytical and advisory role is essential – as it was in the great wave of liberalization of the last two decades – it often also needs to be reinforced at the **regional level** with Bank financial support for policy change and with financial underpinning for the development of the public good of regional market structures and regional trade institutions. One example is the Regional Trade Facilitation Project in Africa, designed to help countries in Eastern and Southern Africa with good track records and stable macroeconomic environments but that face common obstacles to attracting foreign financing for trade. The project brings together a core group of countries to establish an insurance mechanism against political risk.

15. Since activity related to regional arrangements will probably increase substantially in coming years, the Bank also intends to use regional studies to deepen its trade dialogue. This year and next the Bank is undertaking significant work with such a focus in a number of regions.

16. In **Africa**, since limited market size is a major factor affecting national trade policy options, the Africa Region appointed a program director for its regional programs to give these greater focus and priority. The region's staff are now in the process of preparing regional assistance strategy papers for the continent's major sub-regions. The **Latin American** region has launched a major study that will analyze ways the region can use globalization to promote more rapid growth of their mainly natural resource based economies. Next year the region intends to undertake a study of NAFTA. In the **Middle East and North Africa**, a regional study will focus on integration to improve growth prospects, as the region remains among the least integrated in the world economy, with relatively high protection and weak growth performance. The **East Asia** region will launch a study of competitiveness and of regional bilateral trade agreements in

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<sup>5</sup> For more information on the Bank's work on trade, see *Leveraging Trade for Development: Status Report*.

<sup>6</sup> See also the discussion of the Integrated Framework partnership for the least developed countries, para. 39 below.

FY02. In the meantime, the Bank has had a major program of helping China prepare for WTO accession.

17. At the **national level**, supporting policies to strengthen market institutions, infrastructure, and investment efficiency still holds the potential for the greatest gains from trade for most countries. Reducing border barriers, in combination with policy and institutional improvements designed to promote investment responses in sectors essential to integration and to liberalize trade, constitutes the most powerful set of instruments to improve productivity and growth. To this end, Bank support, through lending and non-lending services, of infrastructure, customs administration, investment, regulatory and legal frameworks forms the foundations of national trade capacity.<sup>7</sup>

18. To explore the connection between trade reform at the national and multilateral levels and poverty, the Bank has undertaken a new project to capture the links between trade policy instruments and prices facing households. A major conference on the project was held in Stockholm in October 2000, and has provided the basis for a research program currently underway. The implications of trade reform for poverty reduction will also be included in a World Bank Policy Research Report on Globalization due to be released early in FY02.

19. Finally, the Bank is also tackling the issues of commodity price volatility, which can have devastating terms of trade consequences for economies that are dependent on commodity exports. The adverse development impact of such volatility, particularly on the income and expenditures of poor consumers, prompted the Bank to launch an International Task Force on Commodity Risk Management in Developing Countries to find ways of extending the reach of commodity risk management markets to consumers and small businesses in developing countries. The Bank is also trying to help reduce the consequences of volatile prices on government balance sheets by integrating commodity risk management tools – for example swaps and options – directly in its lending.

## **Financial Stability**

20. Since the emerging market financial crisis of 1997/8, there is broad agreement that a strong international financial architecture to help prevent and manage crises, is a necessary foundation for robust economies, and a public good for greater global financial stability. The Bank, jointly with the IMF, continues to participate actively in a number of fora developing the emerging international financial framework. Progress on three initiatives in particular is worth highlighting: the Financial Sector Assessment Program (FSAP), the Report on Observance of Standards and Codes (ROSC) and public debt management. A joint Bank/IMF policy paper on another key element of financial stability, combating money laundering and financial abuse, will be presented to Executive Directors in the near future. The key challenge for all of the Bank's

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<sup>7</sup> The Bank's support in countries will of necessity vary with country circumstances. In general, however, activities fall into seven broad categories: undertaking diagnoses of obstacles to trade integration in low-income countries; advising governments in middle-income countries as requested on specific trade issues; designing pro-poor trade reform strategies; assisting in improving trade-related infrastructure, institutions and trade-related services markets; pursuing capacity-building for trade-related policies and institutions as part of lending operations and country dialogue; providing advice on policies that affect the investment climate so as to ensure a supply response to trade reform; and providing advice on policies that encourage efficient trade-promoting FDI.

work to promote financial stability is that of implementation – especially in developing countries with relatively weak institutional capacity and regulatory arrangements. Implementation and capacity building at the country level are therefore the focus of the Bank’s effort in this area.

21. The FSAP program, established in 1999, is intended to alert national authorities to likely vulnerabilities within their financial sectors while helping the Bank and the Fund, and the international community more broadly, to design appropriate assistance. Because each FSAP report will identify follow-up measures for the authorities, it will also provide a foundation for financial sector technical assistance programs. In FY01, 24 countries will participate in the FSAP<sup>8</sup>, in addition to the 12 countries that participated in the program’s pilot phase. Executive Directors have approved in principle the expansion of the FSAP program to 30 additional countries in FY02.

22. The financial sector assessments undertaken under the FSAP program form the basis for the Bank/IMF work on standards under the Reports on Standards and Codes (ROSC) initiative. As of December 2000, The Bank and Fund have jointly prepared 30 ROSC<sup>9</sup> modules for 8 countries, with a further 15 modules for another 4 countries near completion. In FY01, the FSAP program will generating at least 48, and as many as 100, additional financial sector ROSC modules. Bank staff have also finalized pilot ROSC modules on corporate governance for three countries (Zimbabwe, Malaysia and Poland), with three more close to completion. They anticipate launching another 18 modules in the remainder of FY01.

23. An important issue in the standards agenda for the Bank will be how best to intensify capacity building, both to conduct diagnoses and to help countries to institutionalize the requisite skills. Early experience suggests that a more systematic, integrated approach is warranted. Under this model, the Bank could catalyze the international community to help developing countries articulate country-led action plans to provide the basis for institution building and policy reform. Armed with these plans, the next step is to strengthen instruments for the delivery of technical assistance support, and to work out more effective financing arrangements to support standards assessments, country action plans and actual implementation of capacity building.

24. Finally, Executive Directors recently approved guidelines on sovereign debt management<sup>11</sup> designed to assist policymakers in considering reforms to strengthen the quality of their public debt management and reduce vulnerability to international financial shocks. The guidelines will be presented to Ministers at the Spring Meetings.

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<sup>8</sup> For more information on FSAP, see *Financial Sector Assessment Program (FSAP): A Review-Lessons from the Pilot and Issues Going Forward* (R2000-216), November 30, 2000.

<sup>9</sup> For more information on the joint IMF/World Bank initiative on ROSCs, see *Assessing Implementation of Standards: A Review of Experience and Next Steps* (SecM2001-0031), January 17, 2001.

<sup>10</sup> For more information on FSAP, see *Financial Sector Assessment Program (FSAP): A Review-Lessons from the Pilot and Issues Going Forward* (R2000-216), November 30, 2000.

<sup>11</sup> See *Guidelines for Public Debt Management* (SecM2001-0074), February 7 2001.

## Financing

25. The Bank's role in the financing of global public goods needs to be seen in a broader context – that is, of the overall international mechanisms and magnitudes available for this purpose. What is the scale of the problem? At this point, the question cannot be answered with any precision. As an indicator on the supply side, and with all due caution about data quality, methodology and definitions, recent Bank estimates<sup>12</sup> indicate that, for all developing countries, about \$16 billion is currently being allocated annually to international resource transfers for global public goods in the areas of health, environment, knowledge creation and dissemination, and safeguarding peace and security. (The latter category does not include the cost of military operations, but does include refugee assistance, post-conflict reconstruction, and governance rebuilding measures.) Roughly \$11 billion of this total is devoted to support for the national-level infrastructure of public goods provision – basic health delivery systems, environmental management, legal and judicial development, and so forth – rather than to addressing regional or global dimensions specifically.

26. Of the remaining \$5 billion, around \$3 billion flows from official donors and private philanthropic entities, mostly through trust funds, into programs with a global/regional purpose – “core” international public goods, as it were. A further \$2 billion of concessional flows are estimated to contribute to “core” multi-country objectives directly, even though channeled through country-based programs. Overall, funding from ODA flows for global public goods purposes is estimated to have been growing – and contributions from private philanthropy have grown even faster, to account currently for an estimated 20 percent, or at least \$1 billion, of international transfers for “core” public goods.

27. There is, however, no available systematic measure of financing requirements against which to assess such numbers. In the case of HIV/AIDS, malaria and TB, for example, recent academic estimates of financing requirements for vaccine development alone have ranged from \$3 billion to \$10 billion per year – with actual current expenditure from all sources certainly far below the lower bound, and perhaps not far above it for total spending on these diseases in poor countries. The same issues of measurement also inhibit analysis of the potentially important question of additionality, discussed in the original paper for the September 2000 Development Committee meeting. There is consensus that where public goods programs produce benefits which flow substantially beyond developing countries, additional resources should be provided to ensure that scarce development assistance is not diverted to finance these (desirable) externalities. It is clear that further work will be needed in a number of areas to produce a sound empirical base for such judgements.

28. One urgent task at the international level, therefore, is to develop more realistic and analytical estimates of near- to medium-term financing requirements for each priority area of global public goods, to provide a better basis for the discussion of funding options. Since most provision is “mixed” between national and spillover benefits, assessing the mix – and therefore the additionality indicated beyond normal development assistance – should be an important component.

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<sup>12</sup> See *Global Development Finance 2001*.

29. A further feature of the global financing picture is complexity, with official bilateral donors, philanthropies, international institutions and the private sector involved to differing degrees, and with financing being channeled through a multiplicity of earmarked programs, trust funds and institutional vehicles. Diversity has merit in this field, but it needs to be weighed against the rigidities, transaction costs and information uncertainties generated. There is a growing demand in international discussions, therefore, for better “mapping” of financing resources and mechanisms, with the objective of better coordination and matching of available resources with urgent needs.

30. Within this rapidly changing context, the Bank has been taking a relatively cautious approach to the financing of global public goods.

31. First, the Bank’s comparative advantage remains that of a **lending and knowledge** institution focussed on support for **country development**. Its strongest contribution is therefore likely to lie in the financing and support of strong national programs, to provide a robust base upon which effective global approaches – in health, financial stability, or other fields – may be built. IBRD and IDA program and project lending therefore continues to be the bedrock of Bank action.

32. Second, within the lending context there is ample scope for innovation. Country-based lending is being tailored experimentally to promote regional programs, for example, for trade development in Sub-Saharan Africa. Cofinancing and other forms of financial partnership with bilaterals and foundations are being explored to finance specific “externality-rich” components of national programs on a more concessional basis, in recognition of their spillover benefits, or to increase the concessionality of such programs overall. This approach seems especially attractive in the health field.

33. Third, discussions have been initiated with IDA Deputies to explore a carefully limited expansion of IDA’s grant capability, including for public goods-related purposes with especially strong impact on poverty reduction. Within the basic framework and discipline of a lending relationship, the IDA13 discussions may lead to agreement on additional flexibility to deal with these issues.

34. Fourth, the Bank is moving towards restructuring its own grant-making capacity for global public goods. The Development Grant Facility is being re-cast into a two-window structure, divided between longer-term resource commitments and newer, shorter-term candidates for support. At the same time, a deliberate review of partnerships and initiatives is underway across the Bank, especially focussed on global programs, to ensure a sharper focus on development priorities.

35. Taken together, these instruments provide the Bank with a reasonable basis for broader financial engagement in the public goods agenda. As experience accumulates – and, crucially, as the special financing requirements of different global public goods become more soundly based both analytically and in terms of broad divisions of labor – the need for extending the range of instruments or the quantity of financing from Bank-managed resources should be re-assessed.

## **Partnerships**

36. Strategic partnerships with national governments, civil society, international organizations and the corporate sector are fundamental to the Bank's engagement in global programs. Global public goods are beyond the capacity of any one institution but instead require the coupling of mandates and capabilities of many organizations. In this respect, United Nations agencies are at the center of many areas in which the Bank is working, and UN agencies have a global mandate in several key global public goods areas – world health, for example, or peace and security. The fundamental partnership with the IMF, as reaffirmed recently by the heads of the two institutions, is central to the Bank's role in public goods relating to global economic governance, trade and financial stability. The third leg of multilateral partnership is with the regional development banks, with which collaboration has been rapidly growing, and which are especially important given the strongly regional nature of many public goods problems and solutions. For this to be effective, however, broad institutional partnerships are by themselves insufficient: specific, program- or problem-specific partnership arrangements and work programs have to be agreed, other critical partners – bilateral donors, foundations, NGOs and the private sector – need to be engaged, and roles and divisions of labor established. This is already occurring in some public goods fields, but much more remains to be done.

37. Vaccines are an area of global public goods action where international partnerships have grown rapidly in the last few years. The Global Alliance for Vaccines and Immunizations is a coalition of organizations founded in 1999 to address the widening disparities between life saving immunization rates in developing and industrialized countries. The Bank was a founding partner of GAVI, as were UNICEF and WHO, alongside bilaterals, foundations and research institutions.

38. On trade, the Bank is working closely with the IMF to ensure that macroeconomic policies affecting exchange rate and price incentives combine positively with sectoral policies and institutional development to produce trade reforms that bring benefits to the poor. The Bank has also partnered with bilateral donors, UNDP and regional development banks to finance trade studies and projects, and collaborates with institutions such as UNCTAD on technical assistance and analysis. Partnership with the WTO is particularly noteworthy. The WTO looks to the Bank to integrate trade policy with development programs, an important dimension of which is to strengthen developing countries' capacity within the WTO framework. In 1998, the Bank began work on the WTO 2000 program in partnership with several bilateral donors. The program has two major components: one focuses on agriculture and the other covers all other trade issues. The program has sponsored workshops on WTO-relevant papers commissioned from international experts working in developing countries. One outcome of this partnership will be a handbook for trade negotiators, to be completed in 2001. This handbook will include practical software tools that can be used to evaluate market access conditions and negotiating options. The partnership will also assist developing countries after negotiations commence, producing further studies, training workshops, and outreach activities for the press, Chambers of Commerce and relevant NGOs.

39. Another trade partnership, the Integrated Framework (IF) demonstrates how partnerships can evolve to reflect changing circumstances. Established in 1996 by the WTO, the IMF, the International Trade Center, UNDP, UNCTAD and the World Bank to increase the effectiveness of trade-related technical assistance to the least developed countries, the IF had a difficult time mobilizing donor support. An independent review of the IF, completed in June 2000, highlighted program weaknesses and set up a steering committee to redefine the IF, ensure better integration of trade with national development strategies, and establish a trust fund for IF activities, together with a stronger secretariat. In early 2001, a pilot program was agreed upon, and a number of bilateral donors decided to support the program by contributing \$4.5 million to the trust fund. It was further decided that a series of diagnostic “trade integration studies” be carried out to analyze trade obstacles and prioritize technical assistance requirements. These studies could become important building blocks for governments to consider as they formulate their poverty reduction strategies. The Bank agreed to take the leadership in this process, working closely with other agencies.

40. In the area of international financial architecture, the Bank participates actively in the Financial Stability Forum (FSF), convened in April 1999, which promotes financial stability through information exchange and international cooperation in financial supervision and surveillance. The FSF brings together on a regular basis national authorities responsible for financial stability in significant international financial centers, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSF seeks to coordinate the efforts of these various bodies in order to promote international financial stability, improve the functioning of markets, and reduce systemic risk. At their March 2001 meeting, the FSF welcomed recent Bank/IMF work on public debt management, noting that the work would help countries address issues arising from volatile capital flows. FSF members were also encouraged by the significant demand for the FSAP as a means of assessing financial vulnerabilities.

41. The future goals of the joint ROSC and FSAP program – scaling up the number of assessments and ensuring concerted support for capacity building efforts – also place a premium on strong partnerships, particularly with the regional development banks and the private sector. Already the Bank and Fund have through the FSAP program engaged more than 60 national supervisory bodies and institutions. In the area of corporate governance, the Bank has enjoyed an active and broad based partnership with the OECD. The Bank and Fund have adopted an approach in their collaboration on ROSCs and FSAPs in which each institution is accountable for reporting its assessment of standards on areas consistent with their respective mandates. For the Bank, this division of labor means a concentration on accounting, auditing and insolvency regimes, and corporate governance, whereas data dissemination and fiscal transparency are the responsibility of the Fund. In the financial sector, where there is significant overlap and complementarity in Bank and Fund mandates, the two institutions partner to produce the FSAP. While these efforts are still at an early stage, initial private and official feedback is encouraging.

42. As these examples indicate, the growing significance of global public goods has prompted considerable partnership activity across relevant parts of the international system. The strengths of this response include the fact that the new alliances or linkages are, increasingly, specific and operationally focussed; that they are gaining more explicit political attention and

support – and therefore both legitimacy and a measure of discipline – from their authorizing environment; and that substantial resources are beginning to be mobilized to fund their activities.

43. At the same time, some significant risks and challenges must be recognized and managed. There is potential for confusion and dissipation of effort if too many special-purpose vehicles are formed in response to each global public goods problem, and the linkage of each issue to the development reality on the ground can become tenuous. There are, obviously, transaction costs and institutional tensions involved in assigning and agreeing roles. There is also potential for over-earmarking of scarce resources for development, if each potential public goods initiative seeks to become endowed, as it were, with a specific institutional structure and pool of funds. Striking the right balance, in terms of both the general approach to institutional partnerships and case by case, will require continued oversight by shareholders and members of international institutions and proactive engagement by their managements, on the basis of a businesslike approach to the expertise, finance and operational capacity required for effective action in each area. Carefully managed, the presence of the Bank in a number of the sectors relevant to global public goods provision, and the flexibility of its financing instruments through IBRD, IDA and the DGF, can play a helpful role in achieving this balance.

### **Conclusion**

44. As this Progress Report indicates, the Bank is proceeding consistently with guidance Ministers provided at the September 2000 Development Committee meeting. It is increasingly important for the Bank to be active in the provision of global public goods vital to developing countries' interests. But it is also important for the Bank to be carefully selective in its criteria and priorities, collaborative in its approach to public goods problems, and measured in its deployment of resources for these purposes. These are not easy challenges. The pragmatic approach outlined here, however, anchoring innovative global public goods action in the Bank's core business and in its country work, provides a strong basis to move forward with key partners, and to achieve the concrete development benefits which are the purpose of the Bank's engagement.