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)

DC2002-0007/Rev1
April 12, 2002

NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached for information of the Members of the Development Committee is a revised Note from the President of the World Bank, James D. Wolfensohn, for the Committee's April 21, 2002 meeting to be held in Washington D.C.

PRESIDENT'S NOTE TO THE DEVELOPMENT COMMITTEE

I. Introduction

The time since we met last November in Ottawa has been a period of tremendous challenges. But it has also been a period of reaching out, of standing together, a time of commitment to shared goals. The past six months, culminating in the Monterrey conference, has seen fundamental changes in the urgency for action on the part of the international community and in the means to attain our goal of halving poverty by 2015. I have spoken before of an imaginary wall that separates the rich world from the poor. The horrifying events of September 11 demonstrated that we are living in one world, that there is no wall between us, and that we must commit ourselves to a poverty-free and inclusive world with renewed vigor.

I believe that the Monterrey conference marked an important turning point in meeting our aspirations on development as embodied in the Millennium Development Goals. The conference brought together Heads of State; foreign, development and finance ministers; civil society; and international institutions for perhaps the first time in an international meeting. And, more encouraging, there is greater consensus than ever before about what needs to be done. The challenge before us now is to translate that consensus on the global development compact into action, by scaling-up efforts on the part of developing countries and the broader international community.

As expected, the September 11 events deepened the already ongoing economic slowdown and delayed the economic recovery by about half a year. The steep drop in global demand hit developing countries hard, with growth falling to about half its 2000 level. Commodity exporting countries, many of which are among the poorest and most vulnerable countries, have been hit the hardest, because of the steep decline in commodity prices. Countries dependent on tourism have also been hit hard.

Fortunately, although risks and uncertainties remain, the worst seems to be behind us. There are clear signs of a bottoming out of the slowdown and the beginnings of a recovery particularly, in the US and in Europe. And financial markets appear to have absorbed the shocks of September 11, and the crisis in Argentina has not spread elsewhere. The seeming robustness of financial markets in low-income and middle-income countries alike is due to the improved economic and financial policies on the part of developing countries in the last several years. Although prospects vary considerably across the developing world, the outlook is favorable for a restoration of growth in 2003 to the levels reached in 2000.

As I had indicated to you last November, the World Bank Group, in close cooperation with other international financial institutions, has monitored carefully and been prepared to respond to the effects of September 11 and the global economic slowdown on our member countries. IBRD and IDA have increased or accelerated assistance to 31 countries through 38 operations. Altogether, we plan to provide incremental lending up to $1.6 billion this fiscal year and beyond in response to the difficulties encountered. And in the context of the enhanced HIPC framework, together with the IMF, we are evaluating the needs for additional debt relief where warranted by external developments.

II. The Development Challenge: a New Global Compact

Effectiveness of Development Assistance. At the Development Committee meeting last November, there was a renewed commitment to the goals set out in the Millennium Declaration and a clear recognition of the challenges and opportunities before us in achieving these goals. I called then for a deeper partnership between developing and developed countries to respond to the challenge of fighting poverty and attaining the MDGs. Many Ministers saw increased volumes of aid as a crucial part of that partnership, and the need to ensure the effectiveness of aid was highlighted. Accordingly, there were requests that the Bank examine the impact of aid on development, including the differences amongst countries. Ministers asked that the Bank prepare an assessment of the role and effectiveness of development assistance, as well as draw lessons for the future.

In response, the Bank undertook a detailed evaluation of these questions, drawing on its extensive research and the work of the Operations Evaluations Department. The results are reported in the Bank's research paper, *The Role and Effectiveness of Development Assistance,* and summarized in the separate Issues paper prepared for the Committee. As you will see, the paper finds that there has been strong progress over the past fifty years, not only on poverty reduction but also on indicators of human development including education and health. It also shows, though, that many countries and groups have been left behind, in large part because of weaknesses not only in national policies but also in institutions and governance. Bilateral and multilateral development efforts have also failed to reach poor people. For too many poor people, the Cold War years in particular were years when development stalled or even reversed due to political interests that overshadowed a focus on development effectiveness. While there have been failures as well as successes, it is clear that development assistance has overall played a vital role in supporting progress, and that over time we have learned important lessons about how to make such assistance more effective.

The Lessons of the Experience of the last several decades are clear. First and foremost, to be successful, development has to be country-driven, country-owned, and country-specific. Where the primary impetus for change has come from the outside, it has not endured. Second, while any approach must be tailored to country circumstances, experience shows that there are two fundamental pillars that countries must put in place for sustained poverty reduction: creating a good investment climate—one that encourages the private sector to invest, create jobs, and increase productivity; and empowering and investing in poor people—so that they can contribute to and participate in growth.

We have learned that creating a **climate for investment** needs to be interpreted broadly to include **investment in people as w**e have also learned that while growth is the most important determinant of poverty reduction, countries need to take steps to ensure that **poor people participate in growth.** This can be achieved by providing or enabling access to health, education, and social protection, and by creating mechanisms that allow poor people to participate in decisions that shape their lives. Growth requires progress in a number of areas: in macroeconomic stability, trade openness, and domestic competition; in governance and institutions—including an effective legal and judicial system, a clear regulatory framework implemented by a professional and non-corrupt bureaucracy; a strong and well-regulated financial system; and a good education system; and an adequate infrastructure.

But country actions alone are not enough. **Trade integration and market access** have been vital ingredients behind the acceleration in developing country growth during the past two decades, and a key distinction between the most successful developing countries and those that have fallen behind. Improved access to markets is essential for poverty reduction in our low-income countries. Many poor countries are constrained in their development by their small domestic markets, and it is the poorest countries that face the greatest impediments in participating in the benefits of trade and investment flows, because of institutional and policy impediments at home and because of barriers in foreign markets.

A second key external ingredient for accelerated growth and poverty reduction, especially for the most disadvantaged countries, is **adequate and effective development assistance**. There is compelling evidence, as the Bank's research report summarizes, that well designed development assistance in support of good country driven policies accelerates growth and poverty reduction, not just through financial transfers, but by supporting and catalyzing policy reforms and institutional development. All too often in the past, aid was not allocated in a way to achieve this potential, and indeed may have undermined the will for reform and good governance.

But I do believe that we have learned from the successes and failures of the past fifty years and that development assistance has become a lot more effective over time. In 1990, countries with strong policies and institutions received $39 per capita in aid, whereas countries with weaker policies received $44 per capita in aid. By the end of the 1990s, this allocation had reversed, with better-policy countries receiving almost twice as much as the weaker-policy countries.

The Monterrey conference was an important landmark. It re-affirmed the commitment of the broader international community to meet, by 2015, the MDGs -- including: halving the proportion of people living on less than one dollar a day; ensuring that boys and girls alike complete primary schooling; eliminating gender disparity at all levels of education; reducing child mortality by two-thirds; reducing maternal mortality by three-quarters; rolling-back HIV/AIDS, malaria and other diseases; halving the proportion of people without sustainable access to safe water.

Monterrey's **outcome also marks a wider recognition** of the lessons of development experience and therefore an endorsement of the development strategy that the World Bank group has been progressively pursuing in the last five years. There is now a broad acceptance of the CDF / PRSP approach as the core of the new development paradigm by most actors and development partners. A separate paper prepared for the Committee reports the findings of a participatory review of the first two years of experience with the approach. While much remains to be done, the approach is already showing good results. It has been taken up with enthusiasm by low-income countries and development partners. Donors are also broadly committed to and several donors are taking steps to align their own assistance programs with countries' PRSP priorities. In the Bank, we are basing CASs for low-income countries on PRSPs. Looking ahead we will be focusing on ensuring that the implementation of PRSPs delivers real, measurable and monitorable results for poor people. Two factors are critical – country ownership and country capacity.

Country ownership is at the heart of the CDF/PRSP approach. I believe that ownership of the CDF / PRSP approach should and will increasingly broaden, to embrace national parliaments, civil society and the private sector. Improvement in the country-led PRSP processes would enable these clients to do an increasingly good job of setting clearly articulated priorities for policies and actions needed to deliver faster growth and poverty reduction. In each case, these priorities will need to reflect both each country's unique circumstances and needs, and the general lessons of experience of what works in development. The Bank stands ready to support key agreed priorities with targeted Poverty Reduction Support Credits (PRSCs).

Capacity building remains a critical issue, and we look forward to working with countries in this area—including through support from the recently launched Trust Fund for capacity building in countries preparing PRSPs, established thanks to an initial contribution of $20 million from the Netherlands and Japan. Several PRSP **countries are conflict-affected.** We need to be sensitive to their special circumstances with respect to PRSP preparation. Finally we need to work to ensure that countries with exceptionally weak policies, capacity and governance can develop to the point where they are able to implement this approach based on country-led strategies. Within the World Bank Group, we will be continuing our work with countries that are less able to withstand internal and external pressures. Our support for countries with these characteristics would be consolidated in partnership with other donors and collaborators.

Following Monterrey, we now have the makings of a new development partnership **based on a framework of mutual responsibility and accountability** between developed and developing countries. Developing countries acknowledge that they must take responsibility for good governance and sound policies, as African Leaders are doing in NEPAD. These leaders have committed to tackling corruption, investing in their people, and establishing an investment climate that attracts private capital. In turn, the broader international community is committed to scale up and intensify their efforts to help developing countries meet the MDGs by: ensuring adequate aid resources to match progress on policy reforms on the part of developing countries; committing not only to tear down trade barriers that harm the poorest, but also to support developing countries in addressing constraints that prevent them from fully realizing the benefits from trade and investment flows; fully implementing the HIPC Initiative so that there is an enduring solution to the debt burden of low-income countries; and calling for a new partnership on capacity building, using the power of the knowledge economy and information technology.

We have many of the necessary elements in place to scale up our efforts. For the first time in more than two decades, there is now a commitment to provide additional aid resources to the poorest countries to meet the MDGs. While there is more to be done to get to the additional $50-$60 billion goal that we believe to be needed from the international donor community, we already have the necessary resources now to get underway. And we already know how to deploy these new resources, along with past commitments – both multilateral and bilateral – more effectively than in the past. We now need to make an all-out effort to implement this new partnership.

III. Implementing the Global Development Compact: A Program of Action

Looking ahead, we need to remain engaged to ensure implementation of agreements reached at Monterrey. The challenge ahead is enormous but surmountable. I see seven areas for action.

First, use the PRSP process to scale up support to countries on governance and structural reforms.
The CDF / PRSP can provide the framework for reaching a shared understanding on goals as well as on the actions needed to be taken by countries and by their development partners. Thanks to the progress made in adopting the CDF / PRSP approach, we now have a process to translate the commitments expressed by developing country leaders and the donor community into action. Countries need to implement vigorously the actions laid out in the PRSPs on policies, good governance, and institution building, and the international community needs to provide enough support to match these efforts. A key to this partnership must be a new results-based focus that can be used by countries in the implementation of their own development strategies and by the donor community in scaling up their support.

Second, translate aid commitments that have been made and could be additionally mobilized into a responsive, broad-based and effective program of support from the donor community. We have the prospect of additional annual aid of $10-$17 billion in the next three to five years. Much of this will come from bilateral sources. Ensuring that the existing pool and these new aid resources are deployed for maximum development impact will require concerted efforts in improving coherence and effectiveness of development assistance. We have now agreed that MDGs provide the frame that informs the country-owned priority-setting process and that the PRSP is the instrument to align donor support at the country level. But we can do better in targeting aid to the poorest; we can do better in aligning our aid to the priorities agreed to in the PRSPs; and we can do better in improving the quality and delivery of aid by further untying aid, improving the efficiency of aid transfers and harmonizing operational policies, procedures and practices. We can begin to improve the donor interface by taking a careful look at the programs that we are collectively implementing, using for example, information, that has been assembled through the Development Gateway. And we must go beyond the official donor community to engage the private sector and civil society.

Third, vigorously implement the enhanced HIPC initiative to get an early and enduring resolution of the long-standing debt problem of the poorest countries. As of end March 2002, 26 countries are benefiting from HIPC relief. Effort must be made to help more countries reach their decision point soon, many of which are conflict-affected and/or have exceptionally large arrears. For this initiative to reach its ultimate goal, countries that have reached their decision points will need to strive to remain on track in their economic reform and poverty reduction programs; and we need to ensure debt sustainability of those who are exiting from the program--made more difficult by the deterioration in the external environment. Hence, HIPC countries will need sustained commitment to policy improvements, and the donor community will need to continue to provide adequate and appropriate concessional financing.

Fourth, take the necessary steps to make sure that the Doha Round truly becomes a "Development Round" so that all developing countries, and especially the poorest, can tap the benefits of trade. An important task is to open markets for, and eliminate subsidies on, products of the poorest countries. The European Union's lead on the "Everything But Arms Agreement", and US's lead on the "African Growth and Opportunities Act" demonstrate that it is possible to act now and that action does not need to wait on WTO agreements. These are positive developments that would contribute to ending the trade barriers and subsidy practices that harm the poorest workers in the poorest nations. These welcome initiatives need to be broadened and adopted by others so that the benefits are extended to all low-income countries. Poor countries will only reap the full benefits if they persevere with trade reform and if we help them build the necessary capacities and institutions—in trade infrastructure, adoption of agreed standards and rules, and a healthy investment climate.

Fifth, put in place global partnership on capacity building in the priority areas of reform and institution building. A key element for development effectiveness is the enhanced capacity of developing countries to formulate, execute and evaluate the outcomes of their own development strategies. This, in turn, requires capacity to access knowledge, drawing from multiple sources and adapting them to local conditions, and to tap opportunities offered by new information technology and new global mechanisms. For its part, the donor community needs to develop better global partnerships in critical areas of reform and institution building, move away from technical cooperation to enhancing local capacity, and replace knowledge transfer with knowledge acquisition and generation, and application.

Sixth, scale up the delivery mechanisms and financing for global public goods, especially in the fight on pandemic diseases and the sustainability of the global commons. Despite recent initiatives, such as the Global Health Trust Fund, there are major inadequacies in the delivery mechanisms and shortfalls in the financing of global public goods. Without significant progress, there is a real danger that country-based efforts will fall short of the MDGs and the sustainability of global commons would be seriously at risk. We must work towards reaching consensus on what constitutes global public goods, what are the main priorities, and how would they be financed.

Seventh, strengthen global mechanisms and governance to underpin this new global partnership. It was part of the Monterrey Consensus that we should improve coherence through better coordination of efforts amongst international institutions and agencies, the donor community, the private sector and civil society. To achieve that, we need to build on existing institutions and mechanisms to strengthen partnerships in the most cost-effective way. A complementary step would be to promote greater participation and voice of developing countries in international institutions and fora.

IV Education

I am pleased that education is a special topic of attention in the Development Committee agenda because it is so central to the development process. Education is fundamental to the construction of modern societies, to globally competitive economies, and to the empowerment of individuals because of its role in reducing poverty and inequality, in promoting sustained economic growth, and in providing the underpinnings for good governance and effective institutions. It is an indictment on the entire international community that more than one-half of the developing countries are unable to provide a minimum of five years of quality primary education for their citizens.

The Committee has a separate paper - *Action Plan to Accelerate Progress Towards Education for All (EFA).* The Action Plan identifies the main impediments that have to be addressed if we are to accelerate progress towards EFA (for example, the financing gap of $2.5-$5.0 billion that needs to be funded), and proposes a new compact between countries and their external partners. Under this compact, countries would reform their education programs to bring them in line with agreed benchmarks. The envisaged benchmarks include: national commitment backed by adequate resource allocation; focus on education quality, and improvements in efficient service delivery. In return, external partners would undertake to support those countries that implement the appropriate education policies and programs.

We ask the Development Committee to endorse our plan to proceed with an EFA "fast track" proposal, in which about 10 countries will be selected by June 2002 for increased and immediate support, to begin making concrete progress and generate an early demonstration effect. The fast tracking would be done within the PRSP/CDF framework and implemented through a multi-donor education consortium that would align the external financing needs of these countries with available financial support from donor agencies. Such support would take into account existing program designs, indicators, and financing frameworks.

V. <u>The World Bank Group's Contribution</u>

While we will focus in our discussions at the Development Committee on these global development challenges and the emerging consensus on how to tackle them, I should also report on some of the ways that we in the World Bank Group are strengthening our support for the global effort to which we are all committed.

[A] Working in Partnership

Above all, the Bank is committed to working in partnership with others as we provide support for country development. With the country-led CDF / PRSP approach, we have a new and effective focus for cooperation between all donors in supporting development. The more success we have as a global community in aligning our aid flows to support country-led and -owned development frameworks and in focusing support on countries that have the right policy environment and practice good and clean governance, the greater will be the impact of our assistance in terms of development outcomes and progress towards meeting the MDGs.

In support of this approach, we have, with our development partners, intensified our effort aimed at getting agreement on timely and credible **measures of development results.** The purpose is to identify measures that developing countries themselves and all those who provide support can use as yardsticks of success. The work should also help countries improve the focus of their development frameworks. Together with other MDB heads, we issued a joint statement in Monterrey about our collaboration in this respect. As a first step, in partnership with the MDBs, an international Roundtable on "Better Measuring, Monitoring and Managing for Development Results" is being organized in June. Our objective is to be able to report the outcome of this work when the Committee next meets in the Fall.

Working in partnership with others, we are also committed to promoting **improved aid practices.** Here, too, there is much scope for making development assistance more effective and reducing costs to client countries. Together with other MDBs and bilateral donors, through the OECD DAC, we are implementing the agreed action plan to **harmonize donor operational policies, procedures, and practices**. The central objective is to reduce transaction costs both for donors and aid recipients, and to strengthen recipient capacity in ways that improve the impact of development assistance. The Development Committee has a full report on this work. We are on track on the work program agreed last year, for example, in developing good practice principles or standards in financial management, procurement and environmental assessments.

In the end, the results of this work will be measured by success in strengthening recipient country systems and procedures, using these to replace donor-specific systems and procedures. Supporting interested governments through comprehensive pilot harmonization programs, such as the one just started for Vietnam will be helpful in this process. But the focused attention and support of the Development Committee Ministers remains essential. Without such support, it will be difficult to meet the enormous challenge of adopting and implementing harmonized processes and products at the country level. The proposed high-level forum on harmonization scheduled for early 2003 will be a an important step in consolidating and advancing this agenda.

More broadly, we have made good progress in recent months in deepening our arrangements with the regional development banks on MDB collaboration and reform**.** This includes, but goes far beyond, the cooperation I have already mentioned on harmonizing operational practices and our planned cooperation on measuring results. Horst Koehler and I now have frequent videoconferences and meetings with all our colleagues from the regional development banks. We have agreed memoranda of understanding on cooperation between the World Bank Group and most of the regional development banks. We are also greatly strengthening our cooperation at the country level. An annex to this note gives further details of progress and future plans for intensified cooperation between the MDBs. We are also strengthening and deepening our special **partnership with the IMF**.

Two programs that we have been working on, especially closely with the Fund, are the ***Financial Sector Assessment Program*** **(FSAP) and the *Reports on Observance of Standards and Codes*** **(ROSCs)**. The two programs are aimed at helping countries assess vulnerabilities and take actions to strengthen their financial systems and the related foundations of corporate governance, sound accounting and auditing systems, and insolvency regimes. Now in their third year, the programs are well established: some 55 countries would have been covered by the FSAP exercise by the end of June, and more than 220 ROSC modules have been prepared spanning 73 countries. The task now is to help countries implement the follow-up agenda from the diagnostic effort by mobilizing the necessary technical and financial resources. Towards that end, I am pleased to report that in collaboration with several bilateral agencies and the IMF, we are launching an important initiative coinciding with the Spring Meeting—the Financial Sector Reform and Strengthening (FIRST) Initiative. FIRST, will provide technical assistance grants to low- and middle-income developing countries for capacity building and policy development, and will promote enhanced and more effective assistance from the public and private sectors. Further details on this program will be announced shortly.

In the aftermath of September 11, 2001, it has become increasingly clear that financial systems without adequate **safeguards against money laundering and the financing of terrorism** are vulnerable to abuse, and that those vulnerabilities hamper development to the detriment of society as a whole. In response to guidance from the Development Committee and the International Monetary and Finance Committee (IMFC), the Bank – in partnership with the Fund – has stepped up efforts to combat money laundering and the financing of terrorism, as part of our mandate to improve governance. The Action Plan was just reaffirmed by the Board, and strengthens the diagnostic tools in the joint Financial Sector Assessment Program for identifying these vulnerabilities as well as deepens the Bank's involvement in providing technical assistance and training to build the framework and institutional capacity to address them.

We are also beginning to implement the agreement we reached with the IMF last summer on **collaboration on programs and conditionality** with the aim of providing more effective support to countries and sharpening and streamlining the focus of conditionality. Such strengthened collaboration will involve even closer upstream engagement between the staffs of the two institutions. It will also involve transparent reporting in Board documents of the views of each institution on reform priorities, program conditionality, and progress in implementation of the agreed program. We will be reporting to our two Boards before the Annual Meetings on progress in implementing these arrangements.

[B] Strengthening Organizational Effectiveness

The **strategic framework** for the Bank that we put in place a year ago, with your guidance, has proven to be robust and able to respond to changing circumstances. We have reviewed progress and I am confident we have a framework that enables us to do our job over the year ahead. But there is much to be done.

We need to be ready and able to scale up our assistance where it will do most good – in support of strong policies that create the environment for poverty reduction. We need the right menu and mix of financing instruments. We need high quality analytic and diagnostic work to help countries chose the right policies and to underpin our support of them. We need to manage our risks effectively, as both a development institution and as a financial institution. We need to continue to consolidate improvements in our budget processes, and enhance operational effectiveness and transparency.

Operational Effectiveness.

We are continuing to give attention to the range of initiatives taken over the few years to tighten and enhance our management processes and to deliver our assistance more effectively, including increased attention to monitoring and demonstrating development outcomes.

Over the past six years, we have accomplished a major turnaround in operational effectiveness—with improved monitoring and review and upgrades in quality across the broad range of operational products. For a fifth year in a row, there have been significant improvements in portfolio quality and operational performance. Seventy-six percent of operations evaluated by OED in FY00 had a satisfactory rating and I expect that about 80 percent of the FY01 cohort of operations would earn a satisfactory rating. Looking to the future, projects considered "at risk" of not achieving their objectives are about half the 29 percent level in FY96 when we established the Quality Assurance Group.

Last year's improvements in the budget processes will be carried through this year, as indicated in my recent report to the Board on our 2002 Strategy Update Paper (SUP). Quarterly monitoring reviews are being produced for senior management and for the Board. The new senior management arrangements and the new structure introduced last year are working well. The World Bank Group also made progress this year to strengthen the management and control structure for trust funds and to simplify and strengthen business processes to promote greater strategic alignment. The first phase of trust fund reform is being implemented with the Board's endorsement. We have also strengthened the monitoring and management of partnerships and the Development Grant Facility with our overall resource management framework. The past year has also seen improvements in the Bank's management processes (e.g., the Management Committee), and in management-staff cohesion and communication.

The Bank recognizes that **transparency and accountability** are crucial to development effectiveness. Building on previous efforts to make more information publicly available, the Bank revised its policy on **information disclosure** last Fall and began, in January 2002, a phased implementation of these revisions. Under the revised policy, the Bank is releasing more project-related documents, including the results of independent evaluations, and is making access to Bank information more systematic, timely and user-friendly. Plans are also being made to improve access to information through Bank offices in developing countries and to adopt a framework for document translation. Through pilot programs in over 15 countries, country management units will develop and test ways to make even more information available, with the aim of facilitating consultations associated with preparing and implementing country strategies and lending operations.

Strengthening Analytic and Diagnostic Capacity.

Following last year's agreement on needed budgetary and staff resources, we have embarked on the process of rebuilding the quality and content of the Bank's **analytic and diagnostic work**. On the one hand, we are increasingly carrying out this work in collaboration with others, aiming to be selective in what we do and drawing on the work of others wherever possible. On the other hand, we are focusing our own work on two core areas needed to inform the dialogue with member countries and to underpin Bank lending and the Bank's country assistance strategy (CAS). An integrative analysis of the key structural, social and sectoral priorities can be a useful input to help countries set their agendas for sustained growth and poverty reduction. Combined with fiduciary analyses of countries' public expenditure, procurement and financial management systems are also essential tools to enhance our diagnostic capacity and to underpin our lending.

Financial Capacity and Financing Instruments.

I urge Ministers' strong support to ensure that final agreement on IDA's 13th Replenishment can be concluded in the coming weeks. IDA's role as the linchpin of the international community's assistance to the poorest countries has never been more important. In the IDA13 process, there has been an unprecedented level of transparency and public disclosure, including borrower representation and civil society participation. IDA's donors have been focusing on fundamental issues -- how best to sharpen our focus on performance, good governance and concrete development outcomes, and how best to ensure that IDA is strongly concessional, including a larger role for grants, yet disciplined in its financial support. These are difficult questions, on which there have been strong views and vigorous debate -- and I believe we now can and must move towards agreement on a generous replenishment, and I hope that the strong commitment to IDA, which all donors have shown, will enable this to happen swiftly.

Turning to our support for middle-income countries, I believe that **IBRD** has sufficient **financial capacity** for the present for us to follow through on the strategy discussed a year ago for supporting our middle-income country clients. However, the risks associated with a deteriorating credit portfolio remind us of the Bank's limited ability to meet demands for financial assistance at a time of generalized stress.

At the request of shareholders, we have completed a major **review of policy on pricing of IBRD loans.** While not universal, there is very broad agreement that most elements of current pricing policy effectively balance the Bank's development focus with its need to retain financial integrity. We have also begun to deliver options for blending IBRD loans with more concessional resources for supporting priorities involving significant social impact and externalities.

We are also working to strengthen and simplify our **range of lending products -** both for IBRD and IDA financing - recognizing that in practice there are two categories, which need to be customized to meet widely varying country circumstances: investment loans in support of individual investment projects; and adjustment loans in support of policies for successful development.

Supporting private sector development.

The new Private Sector Development (PSD) Strategy incorporates a number of important initiatives to strengthen further the World Bank Group's ability to support members' private sector development efforts. There is a growing recognition in our member countries that fostering private sector resources is an essential complement to public sector efforts to alleviate poverty and improve lives. While the **role of Government in education, health, social protection and broader social services remains paramount,** without the economic growth and opportunities generated from private sector initiative and investment, progress in these areas is likely to be much slower. The new Private Sector Development (PSD) Strategy incorporates a number of important initiatives to further strengthen the Bank Group's ability to support members' private sector development efforts. In this context the roles of the IFC and MIGA have become more important in recent years as private sector flows to developing countries have declines and become more volatile, and as strategic investors have withdrawn from many of these markets. The IFC's role has become more important, not only in frontier countries, but also in middle-income countries, in support of companies that previously had access to international flows, but can no longer obtain appropriate financing for their investments.

The **IFC**, much like market investors, has been affected by the economic downturn and the difficulties faced by developing countries. But only in the event of a prolonged and serious global downturn would the IFC portfolio deteriorate to the point where it constrained capacity for future growth. At the same time, there is a need and opportunity for IFC to increase its contribution to client countries, and a series of internal changes are being implemented to strengthen portfolio and development results, increase efficiency, and enable IFC to better fill that need, by catalyzing and mobilizing private sector resources in our member countries. IFC's priorities – frontier markets, the financial sector and infrastructure, SMEs and sustainable development – remain in place, and its financial capacity remains adequate.

MIGA: Following the September 11th tragedy, MIGA's Guarantees activities declined sharply, due to the delay of many large investment projects. As those investments are revived, MIGA is expected to play a proactive and counter-cyclical role in the face of contracting global political risk insurance capacity. The General Capital Increase subscription level so far achieved has strengthened the financial capacity of the Agency to move in this direction. With the extension of the subscription period for another 12 months, we urge all members that have not completed their subscriptions to do so.

VI. Conclusion.

In the past year, The World Bank Group has developed and communicated a consensus on strategy, approach and priorities, and established many of the procedures and tools needed to translate those broad directions into concrete and monitorable actions. With our strategy established, our focus will continue to be on implementation.

Within this strategic context, we will also continue our efforts to **scale up our impact** because of the enormity and urgency of the global poverty challenge. In particular, we will work with our partners to find more effective ways to help clients build their policies and institutions.

The time for action is now. The opportunity is here. We must stand firm in our fight against poverty and aim to achieve a drastic reduction of it in our lifetime, for the sake of our children.

Annex

MDB Collaboration and Reform

Collaboration at leadership level, and on broad strategy.

Collaboration among MDBs increased and deepened considerably in scope, at all levels, during last year and there was strong progress on key fronts, deepening the effectiveness of the MDB system. The Presidents, often including the Managing Director of the Fund, have interacted more intensively over the last year than at any time previously. Beyond our regular semi-annual meetings, since September 11 we have had frequent videoconferences to share information and analysis of global events and discuss responses to the global downturn and to country specific situations, from Afghanistan to Argentina. At our latest meeting we decided to start a key new policy initiative, to collaborate closely on a much stronger focus on development results, including the indicators and management structures needed for a results based approach to development. In order to take this results focus agenda forward, we plan to jointly host a roundtable in early June, to learn and discuss with a variety of partners from rich and poor countries, from academia and from among practitioners.

To inform shareholders and the development community at large of our common strategic direction, we have, over the last year or so, issued three joint statements on MDB policy: The first on the general principles of deeper collaboration among MDBs, the second on MDB/IMF responses to the events after September 11 and the third on the new collaboration on results focus. Taken together, they give a broad picture of how we see our deepening cooperation evolving, both in the longer term and in response to specific events of the day.

Institutional Common Action

To better underpin the operational aspects of the strategic convergence between MDBs, and to address issues that are specific to particular regions, as of last year we have formalized our collaboration with most of the Regional Development Banks through a **Memorandum of Understanding**. Together with joint MDB/IMF Protocol on support for countries in the PRSP process, these MOUs address country, sectoral and thematic priorities for cooperation as well as interaction between staff. To strengthen and sharpen our collaboration and operational selectivity, we intend to update the work programs that constitute a part of the MOUs, at least every two years.

In our operational work at the country and regional level, we have already made very good progress in improving coordination and collaboration, in line with the MOUs. The Bank's regional VPs and their management teams now meet regularly with their RDB counterparts for discussions on operational and strategic issues. The emphasis on the CDF/PRSP process in country work has brought us closer together in support to strategy formulation and will increasingly do so in implementing recent and coming PRSPs.

A successful implementation of the CDF/PRSP approach calls for all external partners to align their assistance to the client country's own strategy, and all MDBs have now committed to that approach. In addition, we are committed to a better **alignment of MDB country assistance**

strategies with each other, country by country, both in terms of substance and timing. As part of this alignment, future MDB country assistance strategies will include enhanced treatment of governance issues and financial sector issues, in particular those identified through FSAP work. Moving toward an outcomes based focus of country work, which we announced jointly in Monterrey, will also guide work on alignment of country business plans. In all of this, PRSP countries will be our primary focus in the short- to medium-term, and we plan to be able to show concrete results over the next two to three years.

Similarly, we have created a framework for **harmonization** of operational policies and procedures, originally among MDBs only, but recently also collaborating closely with an OECD/DAC task force. This work now follows an action plan, endorsed by both the MDB Presidents and the Development Committee, with a focus on procurement, financial management and environmental assessments, where joint working groups are actively engaged. A fourth working group, harmonizing approaches in evaluations, has also made good progress.

Complementing the collaboration among the Presidents, other senior managers have established their own **informal fora for collaboration** with their MDB counterparts, among them Chief Financial Officers, Chief Legal Counsels, Treasurers, Controllers, Corporate Secretaries, External Relations' Heads and Chief Information Officers. Similarly, beyond the more narrowly defined harmonization work, several MDB working groups are active in information sharing, promoting common approaches and seeking opportunities for joint action. These groups include gender, financial sector, poverty issues, private infrastructure, governance, and corruption.

Increasingly, we are also articulating early, joint approaches to policy and operational issues at the country and global level. Examples include:

- Close collaboration among MDB staff on policy issues for concessional resources, including the system for performance monitoring and measuring, such as the Bank's CPIA, has resulted in good harmonization of methodology and application for performance based allocation of concessional resources.

- The financial sector-working group has prepared a joint MDB/IMF report on supporting implementation of standards and codes in the financial sector, for distribution to all MDB Boards.

- A joint MDB report on the role of MDBs in the provision of Global Public Goods, has been prepared for circulation to all MDB Boards,

- The MDB working group on poverty is, for the third year in a row, preparing a joint global poverty report.

- The recent pricing review for IBRD was done in close consultation with the regional development banks.

Overall, MDB staff now regularly does joint work. We aim to make such joint work an even more regular part of our collaboration, particularly through increased joint analytical work at the country level.

Beyond the issues above, which call for direct collaboration between MDBs, we maintain good dialogue on a number of MDB reform issues that are institution specific and for each to address separately. Among these are strengthening project and program preparations, compliance mechanisms and information disclosure policies.

Going forward

Going forward from Monterrey, our focus must be even more strongly on increased development effectiveness, particularly maximizing the effectiveness of our work *and working with others to minimize transaction costs for borrowers*. We see the upcoming joint roundtable on measuring and managing for results as the start of an important new chapter in MDB collaboration, a chapter that will strengthen not only the collaboration among MDBs but also our collaboration with the development community at large.

The Bank is a central actor in the efforts to strengthen the focus of development partners on results on the ground. The initiative currently under discussion in the context of the IDA 13 replenishment, for an even stronger results focus and linking resources more directly to results, will have an impact well beyond IDA's own lending, not least on the concessional windows of the RDBs.

The stronger calls for aid effectiveness coming out of Monterrey must strengthen our own resolve to move forward faster on alignment of the country assistance strategies of all MDBs and on harmonization of operational policies and procedures. We in the Bank are fully committed to play our part in this work. We will report more fully on these and other aspects of MDB collaboration to the Fall meetings.