International Monetary and Financial Committee

Fifteenth Meeting
April 14, 2007

Statement by Paul Wolfowitz
President, World Bank
On behalf of the World Bank

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
APRIL 14, 2007

Statement by Paul WOLFOWITZ
President of the World Bank

Global Economy and Challenges for Developing Countries

1. This is the sixth consecutive year of growth in developing countries, including strong growth in much of Sub-Saharan Africa. This performance is heartening both because of its implications for poverty reduction and because it has occurred in the context of high oil prices. This strong growth owes much to the substantial reforms that developing countries have put in place over the past decade, including trade reform, improved macro-economic and structural policies aimed at improving growth potential and the investment climate.

2. Looking forward, however, there is no room for complacency. All developing regions are off track on the child mortality goal and some regions are off track on at least some of the other Millennium Development Goals (MDGs). And as both the "Global Monitoring Report" (GMR) and the Bank's Africa Action Plan (AAP) reports to be discussed at the Development Committee make clear, Africa, unlike other regions, is still not growing fast enough either to reach the poverty MDG or to generate sufficient fiscal resources to sustain progress toward the human development goals.

3. Moreover there are always risks that the global environment may be less benign in future than it has been in recent years. It is more important than ever that all donors and partner countries deliver on the undertakings given in 2005.

4. A key part of these undertakings is to deliver on promises for a good outcome to the Doha round. The decision by WTO members in February to resume negotiations is welcome. But flexibility from all sides is needed for a deal to be reached. A deal matters; it would bring developing countries concrete benefits in terms of new market access, fairer competition in world markets, and greater domestic economic efficiency – all of which are critical in generating the growth needed to achieve the MDGs. Failure to reach a deal would have negative implications for the future of the rules-based multilateral system and the predictability in trade rules and policies it affords. It could strengthen protectionist sentiment in developed and developing countries. And it would increase the risk of exclusion of some developing countries from key markets as preferential trade agreements proliferate.

Development Assistance

5. Two years ago, donor countries pledged to significantly increase aid to help poor countries reach the MDGs, including a doubling of aid to Africa by 2010, and committed to the principles of the Paris Declaration for better harmonized and more predictable aid flows. Since then there has been some progress: ODA from DAC countries reached a

record in 2005 of USD 106.7 billion, and there has been progress in implementing the Paris Declaration on aid effectiveness as well as on innovative financing mechanisms for development. However in 2006 ODA from DAC members fell by 5.1% in constant 2005 dollars to USD 103.9 billion. In real terms this is the first fall in ODA since 1997. Aid to sub-Saharan Africa, excluding debt relief, increased by only 2% in 2006, leaving a challenge to meet the commitment to double aid to Africa by 2010. Moreover, increases so far have been concentrated in a small number of countries: the majority of Sub-Saharan countries that are well placed to make good use of extra aid are not yet benefiting.

6. We know that there are opportunities to scale up aid to the poorest countries. There are many countries with sufficiently sound national strategies, capacity and institutions to absorb increased budget, sectoral and project support. Yet despite good intentions and wide support for the country based model for scaling up, progress has been far too slow. This must change.

7. We also need to work harder to improve the quality of aid. We must find ways to address fragmentation issues and to increase the predictability of aid flows.

- While new donors are welcome, increased fragmentation of aid is causing major difficulties. As underlined in the report on Aid Architecture that will be discussed tomorrow at the Development Committee, the average number of donors per country has risen from around 12 in the 1960s to over 30 today, with over 230 international organizations, funds and programs, and over 100 major organizations involved in the health sector alone. This and the compliance costs imposed by individual donors pose large transactions costs, which countries with the lowest capacity find hardest to handle. This underscores the need to make faster and more effective progress in implementing the Paris Declaration.
- Increasing aid predictability also remains a serious challenge. Three years from 2010, it is necessary for donor countries to set out more clearly their individual timeframes for increasing aid to recipient countries so that African countries can better plan the scaling up of investment and capacity at the country level. While there are a few positive indications that some donor agencies are moving towards multi-year budgeting and planning with partner countries on forward aid levels, these efforts need to be accelerated and good practices replicated by others.

8. We are at a moment when the international community needs to make extra efforts as we get closer to the 2015 MDGs deadline. At Gleneagles, donors committed that good performance would be rewarded. We are seeing developing countries fulfill their side of the bargain. We must now close the gap between the promises of Gleneagles and the results.

9. I hope therefore that the IMFC and the DC meetings this week-end will provide an opportunity for the international community to reaffirm the framework for mutual accountability agreed upon in Monterrey and confirmed in 2005 at Gleneagles and at the

subsequent UN Summit. I will in particular be looking forward to hearing views from Ministers on the following three points that I believe are core to the development agenda going forward: (1) Africa is making significant progress but resource shortages constrain opportunity and growth; (2) fulfilling donors' pledges to scale up support is essential to solving this problem and grasping what could be an historic opportunity; and (3) while the emergence of new donors is a welcome development, the complexity of the new Aid Architecture makes IDA even more important to support the country systems that are needed for the contributions from vertical funds to be effective and to provide the budget flexibility needed to balance the growth in earmarking.

Bank-Fund Collaboration

10. Strong Bank-Fund collaboration is essential both in supporting countries' efforts to further strengthen their policies and institutions for good economic management and in helping to anchor the support given by the wider international community. We have key mechanisms in place already to guide this collaboration, but as the report of the External Review Committee on Bank-Fund collaboration points out, we can take collaboration to a higher level to the benefit to our membership. The "MALAN report" makes a number of important recommendations on ways to improve collaboration at management and staff levels, and I look forward to working with Rodrigo DE RATO to develop an implementation plan for our Boards to review before the Annual meetings.