International Monetary and Financial Committee

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Statement by Mr. Zoellick
World Bank Group

UPDATE ON KEY ISSUES AND WORLD BANK GROUP ACTIVITIES

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I am attaching an update on key issues and World Bank Group activities since the Annual Meetings, which I hope will be useful background for the International Monetary and Financial Committee members.

Robert B. Zoellick

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I. Introduction

1. The Spring Meetings of the IMFC and Development Committee come at a time of some important achievements, including the agreement on the largest ever IDA replenishment, and the agreement at Bali to develop new international agreements on climate change, but also when the global community is faced with new and continuing challenges. One challenge, to be discussed at the Development Committee meeting, is to take stock at the half way point to the MDG target year of 2015, and then take the action needed to help get the world back on track to meeting the MDGs – including by scaling up aid to meet the Gleneagles targets. Another is to follow through on the Bali commitment to agree a viable set of actions, policies and support to avert the risk and mitigate the consequences of climate change, integrating these policies and actions with those needed to secure successful growth and development. Meeting these challenges over the medium term will be made harder by the impact on developing countries over the more immediate future of financial turmoil, slower growth in high income countries, and high energy and food prices. There is also the continuing challenge of achieving a successful outcome to the Doha round.

2. This note provides an update on key issues and World Bank Group activities most relevant to the agenda of the IMFC.

II. Current Economic Environment

3. So far the impact on developing countries of financial turbulence and economic slowdown in advanced economies has been contained, thanks to strong fundamentals and macroeconomic policies. Growth in advanced economies is projected to slow quite sharply, but developing countries are expected to remain a key driver of global growth: while developing country growth will slow, it is projected to remain at nearly 7 % in 2008. Nevertheless there is a significant downside risk – and emerging market countries that are heavily dependent on capital flows or have large macroeconomic or financial imbalances could be particularly exposed. Some emerging market borrowers are already facing wider spreads and higher new issue premiums, although both remain low compared to earlier periods of financial uncertainty.

4. In addition, importing countries face energy and food prices which are expected to moderate but remain high. Poor people in developing countries spend as much as half their incomes on food, with the urban poor the most affected. Policy responses include targeted safety nets for the poor in the short run and policies to increase energy efficiency and production and to promote agricultural growth in the longer term. In helping member countries face these challenges, the Bank Group stands

ready to provide policy advice and financial support as needed, for example, in the form of extra budget support, support for social protection schemes and/or support for new agricultural investments.

III. MDGs at the Halfway Point: Overcoming Poverty and Spurring Growth

5. **Poverty.** 2008 is the midpoint between the adoption of the Millennium Development Goals and the target year of 2015 - a time to take stock ahead of the UN Meeting on Finance for Development in Doha in December. As documented in the GMR, the news is mixed. The world is on course to achieve the first MDG, halving extreme poverty by 2015. Growth in developing countries has averaged 7% in the last 5 years. Even in Sub-Saharan Africa, where most countries are likely to fall well short of halving extreme poverty, some 18 countries with better-managed economies have grown at an average of around 5.5% over the last 10 years. But 20 other countries in the region, many affected by conflict, have remained trapped in low growth, with the incidence of extreme poverty actually growing. Globally, over one billion people still live on less than $1 a day. Recovering lost ground over the next 7 years will be a major challenge – but faster progress is certainly possible.

6. **Stronger, sustainable and more inclusive economic growth will be central.** It reduces poverty directly, and expands resources for human development and environmental sustainability goals. For many of the poorly performing countries in Africa faster growth will depend above all on a mix of security enhancement, political reform and consolidation, building basic government capacity and actions to increase private sector growth. For countries that have already begun to achieve higher growth, the challenge is to consolidate stability, further improve the private sector investment climate, strengthen infrastructure and improve regional and global links. The Commission on Growth and Development, established in April 2006 with the support of a number of governments, the private sector and the World Bank, will report this spring on its findings regarding the strategies and policies most likely to generate rapid and sustained growth in developing countries.

7. **Private sector development**. A thriving and competitive private sector is key to inclusive growth, providing opportunities for better incomes, and better goods and services for poor households. Private firms and entrepreneurs provide 90 percent of jobs. They are also the main providers of the goods and services - including playing a critical role in providing basic infrastructure and social services to low-income households in many countries. Success in promoting private sector development depends on a combination of macroeconomic and country stability, a business environment characterized by sound regulation and low costs of doing business, and adequate infrastructure for both urban and rurally based businesses. In many countries, providing a sound business environment and adequate infrastructure to support agribusiness is a particular challenge - and of critical developmental importance given that an estimated 900 million of the world's poor live in rural areas. The *World Development Report, 2008: Agriculture for Development* estimates that growth originating in agriculture is around four times more effective in reducing poverty than growth originating elsewhere. The World Bank Group has strong capabilities to help governments improve the broader business environment, and is

working to exploit synergies both between the different parts of the Group and also with external partners to support private sector development.

8. **Better integration of women in the economy is also key to success in many countries.** In 2007 the Bank Group launched an action plan to promote investments to better integrate women into the economy: *Gender Equality as Smart Economics.* The Development Committee supported the plan and it has also been endorsed by the G8 Heads of State. Good progress has been made both in donor pledges and in beginning to provide support for action plan-related activities in Bank Group member countries to increase women's access to land, labor, credit and product markets.

9. **Trade**. A successful Doha round remains one of the most important steps nations, acting collectively, could take to open markets and enhance inclusive and sustainable growth. The time has now come to consolidate progress in the WTO negotiations and conclude the Doha round. The current high level of food prices provides a window of opportunity for action in the difficult area of agricultural reform. Only a WTO deal can address the global trade-distorting impacts of agricultural subsidies; reduce peak tariffs on labor-intensive goods that discriminate against the poor; reduce barriers in key emerging markets to help stimulate South-South trade; and secure a rules-based trading system. Failure to conclude Doha negotiations would undermine efforts to help the poorest countries—those that can least afford failure—benefit from globalization.

10. **Development Assistance.** Increased and more effective aid remains critical if many poor countries are to get back on track to meeting the MDGs. While developing countries must also – as many are – step up efforts to mobilize and make better use of domestic resources and private capital flows, for most low income countries aid remains the main source of development finance. The agreement reached last December by IDA donors on a record IDA 15 replenishment that will allow $41.6 billion of new commitments over the period 2009–11, a 30% increase over IDA 14 is an impressive achievement. But the overall trend in aid volumes is much less encouraging, with DAC donors recording overall declines in real official development assistance (ODA) in 2006 and 2007. There is an urgent need to put in place the large and sustained increases in ODA needed to meet the Gleneagles targets of a $50 billion increase, and a doubling of aid to Sub-Saharan Africa by 2010. Many poor countries in Africa and elsewhere are now well placed to effectively absorb increased volumes of aid. It is time for donors to deliver on their commitments.

11. **Aid architecture and effectiveness.** Countries need more effective aid as well as more aid. There are areas of progress in implementing the Paris declaration – improving harmonization, alignment and predictability. But much more must be done, and the task has become more complex with the emergence of new donors and new aid modalities such as vertical funds. The central role of clear and operational country-led strategies is more important than ever. There will be an important opportunity in September at the Accra High Level Forum, to strengthen the process of implementing the Paris agenda.

12. **Debt.** Debt reduction has made a major contribution to the development process in recent years. The challenge now is to help the few remaining eligible countries reach

the point where they qualify; and then to ensure that all low-income countries (LICs) maintain debt sustainability for the future. Twenty-three countries have now reached completion point, to gain irrevocable HIPC and MDRI debt relief, and a further ten have reached decision point. The IDA Debt Reduction Facility has also completed buybacks in two HIPC countries - Nicaragua and Mozambique - extinguishing almost US$1.5 billion of arrears on commercial debt. The remaining eight pre-decision point HIPCs and ten interim HIPCs are fragile states and, as such, face particular challenges, including arrears to IFIs and to commercial creditors, as well as the broader legacies of conflict in many cases. Efforts need to be redoubled to assist these countries.

13. Beyond debt relief, the Bank Group is working with the IMF to seek to ensure LICs maintain debt sustainability, using the joint Bank-Fund debt sustainability framework and IDA grants to mitigate debt distress risk. Outreach on this framework to other creditors has been productive: several multilateral and bilateral lenders have harmonized with IDA and the OECD Export Credit and Guarantee working party has now adopted sustainable lending principles reflecting the framework. With continued dialogue, the aim is to build similar understandings with other significant LIC creditors. To help borrowers, the Bank Group is rolling out a debt management performance assessment facility, with about 12 countries covered to date, developing a medium-term debt management strategy toolkit jointly with the IMF, and discussing with others how best to mobilize and channel increased donor resources to this area.

14. **Support for Middle-Income Country (MIC) and other client countries of IBRD clients: recent innovations**. The World Bank Group has made considerable progress in converting the recommendations for *Strengthening the World Bank's Engagement with IBRD Partner Countries,* endorsed by the Development Committee in 2006, into tangible actions. MICs are an increasingly diverse group and the strategic review found that responding to their evolving needs must involve: (i) improving client responsiveness and flexibility; (ii) expanding the range and utilization of financial products; (iii) building a dynamic organization leveraging Bank Group synergies; and (iv) building knowledge to engage on 21 st century challenges, particularly through local partnerships and enhanced South-South cooperation.

15. **Special challenges of countries in fragile situations and coming out of conflict.** With some 45 developing countries falling in this category, accounting for 19% of the population of poor countries but one third of their poor people, fragile states must be at the core of the Bank Group's development mission. The Bank Group is strengthening its approach with the goal of narrowing the gap between the fragile and conflict-affected countries and other countries by delivering effective programs, in collaboration with other partners, in support of economic and social development, peace and governance. A stronger Bank Group engagement requires better analysis, closer partnerships, and greater institutional and financial support to achieve concrete results on the ground. The Bank Group is working with others to improve its understanding of what works in these countries, linking development, security and diplomatic initiatives. One aim is to have practical examples of successful international support for peace-building transitions. For example, there is scope to build on the recently secured agreement to arrears clearance for Liberia, which can

now return to a normal relationship with IDA. For countries in fragile situations or coming out of conflict, the Bank Group will strengthen in-country partnerships with local and international actors, expand its field presence, and augment its technical and financial support. It will also exploit synergies within the World Bank Group with important contributions from MIGA and IFC as well as IDA/IBRD.

IV. Governance and Management of Natural Resources

16. **Improving governance and anticorruption** should not be seen as a separate agenda item but as the foundation upon which the World Bank Group's work is built and at the heart of development effectiveness. With approval of the Governance and Anti-Corruption (GAC) Strategy in October 2007 the Bank Group is committed to helping countries strengthen governance systems, while finding ways to reach the poor who are left behind as a result of poor governance. While there is no "one-size-fits-all" approach, the Bank Group will adopt a consistent approach towards operational decisions across countries, looking also for collective and coordinated action by donors, international institutions, and other actors at the project, country and global levels.

17. **The Stolen Asset Recovery Initiative (StAR)**. There should be no safe haven for those who steal from the poor. A partnership between the Bank Group and the United Nations Office on Drugs and Crime (UNODC) StAR helps developing countries recover stolen money and build capacity to deter asset theft, and works with major financial centers to lower barriers to recovery. Asset recovery not only can help fund development programs, but, together with making deposits of stolen funds more difficult and their recovery easier and faster, can send strong signals to corrupt leaders that they cannot escape the law. All countries must do their part; in particular, ratify the UN Convention Against Corruption (UNCAC) and other measures to deter asset theft, make deposits of stolen assets more difficult, and facilitate their recovery.

18. The Bank Group is engaged in a number of other activities aimed at countering **illicit financial flows,** including through its continuing work in providing analysis, advice, capacity building and dissemination of good practice in anti-money laundering and counter terrorist financing; provision of advice and financial support to national customs and tax authorities to help curb tax evasion and the use of fraudulent invoicing and transfer pricing; membership of the international task force on the development impact of illicit financial flows; and support for the International Tax Dialogue, which among other things aims to reduce harmful tax practices. Further research on the issue of illicit flows will inform international discussion on the topic.

19. **Effective management of natural resource endowments.** On average, more than 40% of the wealth of low-income countries comes from natural resources. Managing these resources poses major challenges of economic management and governance, particularly at times like the present when commodity and energy prices are high. The Bank Group provides support to help countries manage their natural resources through a range of activities. In this effort it collaborates with other donors and IFIs, and is currently managing several donor-funded global programs and partnerships, including the Extractive Industries Transparency Initiatives (EITI). The EITI, with its emphasis on transparency in revenue reporting, is a key entry point for sound natural

resource management. However, the current framework of the EITI, while an important step, is not sufficient to assist countries in managing their natural resource sustainability. Therefore, the Bank Group is working with selected countries and a broad range of other partners to expand the EITI approach to an EITI++, which aims at addressing governance and transparency issues at all stages of the resource value chain--from awarding contracts to monitoring operations, to collecting taxes and royalties, to resource extraction and economic management decisions.

V. Global Public Goods, Climate Change and Sustainable Development

20. The World Bank Group will continue to develop its role in support of regional and global public goods in all four areas discussed by the Development Committee during its last meeting in October 2007: communicable diseases/public health; environmental commons; financial stability; and trade. Specifically in the area of climate change, the Bank Group will focus its efforts over the next few months on defining and developing further its role in support of the climate change agenda, building on the work initiated in the UNFCC meeting in Bali in December 2007.

VI. Strengthening the Bank Group and Key Partnerships

21. **Voice and participation of developing and transition countries.** The Fall 2007 Development Committee Communiqué "recognized that further consultations among shareholders were necessary to reach a political consensus on a comprehensive package and looked forward to a timely report on the progress achieved." These consultations are still on-going. Their outcome will be used to inform work to be undertaken before the Annual Meetings to prepare proposals on comprehensive package.

    - Enhancing voice at the Bank Group goes beyond structural issues, to include the way that business is done (country ownership, decentralization, streamlining of process) and the inclusion of developing country nationals and their experience at all levels of staff. In the last few months, four eminent developing country nationals have been appointed to the Bank Group's senior management ranks.

    - With progress towards agreement on IMF quota reform, the Bank is ready to help shareholders review the implications for the Bank and develop proposals, taking into account that the Bank's circumstances are different from the IMF.

22. Strengthening **Bank Group/Fund cooperation.** Cooperation between the Bank Group and Fund remains central, and senior management is determined to further strengthen the culture of cooperation between the two institutions. The Joint Management Action Plan (JMAP) on Bank-Fund collaboration launched before the Committee's last meeting, is being steadily implemented, aiming at translating identified good-practice approaches to collaboration into standard practices. The Bank Group and the Fund have initiated a joint intranet workspace for information sharing between Bank Group and Fund country teams, networks and functional departments.