International Monetary and Financial Committee

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Statement by Mr. Wolfensohn
World Bank

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Statement By James D. Wolfensohn
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Introduction

1. I would like to start by joining others in welcoming Rodrigo de Rato to the helm of the IMF. I am confident that working together, we will be able to consolidate and reinforce the strong collaboration between our two institutions that has become central to so much of our work—with both institutions working within our distinct mandates and bringing to the table our complementary expertise as we help countries address issues ranging from financial sector reform to achieving debt sustainability, and as we work closely together in supporting low-income countries within the comprehensive framework of the PRS initiative.

The Global Economy

2. World growth is projected at 4 percent for 2004, up from 2.6 percent in 2003, and compared with a likely 3.5 percent next year. The global recovery is slowing, but is becoming more evenly spread and sustainable, even as growth slows in the US, Japan and South Asia and picks up in Europe and Latin America. Growth in developing and transition countries as a whole is likely to reach an all time high of 6 percent in 2004. This reflects boom conditions in China, robust growth in the rest of East Asia, in South Asia especially India, in Europe and Central Asia including strong performance in Russia, as well as the recovery of growth in Latin America. Growth has been less strong in the Middle East and North Africa and in sub-Saharan Africa, although better than recent historical trends.

3. Looking ahead, one risk is from further upward movements in oil prices, as rising demand and limited spare global production capacity leave prices vulnerable to any temporary disruption in supplies. Another risk stems from the persistent global imbalances, which require, in particular, readjustment of monetary and fiscal policies in the US, and structural reforms to boost growth in Japan, Europe and elsewhere. Heavily indebted and oil-importing developing countries are vulnerable to the combination of rising oil prices and interest rates. Mitigating and managing these risks remain important challenges for us all.

4. The other longer-term challenge is the need to increase growth substantially in the poorest countries, particularly in Africa. On current trends, with global growth averaging 3 percent over the coming years, developing countries as a group will comprise around 60 percent of the global economy in 2030, compared to around 40 percent today (on a PPP basis); but this would still leave sub-Saharan Africa falling short of the MDG poverty target by 2015.

Bank-Fund Cooperation in supporting Low-income Member Countries

5. I welcome the continued close engagement of the Fund in the low-income country agenda. From the Bank's perspective we see this continued engagement and very close collaboration between the Bank and the Fund as a key pillar of the international development architecture. We have a strong bedrock to build upon, thanks to close collaboration in a growing number of areas including on poverty reduction strategies, on the HIPC Initiative, on poverty and social impact analysis and on public expenditure management. The agenda ahead calls for strengthening our collaboration further for a number of reasons.

6. *Accelerating progress to meet the MDGs*. We are now at an important juncture in considering how we can intensify efforts to help low-income countries accelerate progress to meet the MDGs. Clearly, actions will be needed both in countries and on the part of the international community. Strong Bank-Fund collaboration can help anchor a broad based cooperative effort.

7. *Strengthening the PRS approach.* The independent evaluation offices of the Bank and the Fund have just completed reviews of the PRS approach which contain important suggestions for the future role of the Bank and the Fund in what has become the foundation for accelerating development and enhancing support to low-income countries. The OED and IEO reviews highlighted the following: the need in many countries for more emphasis on the sources of growth and actions needed to accelerate growth; better and fuller integration of PRSs with domestic decision-making, particularly budget decisions, and greater involvement of Parliaments, local councils, and line ministries; and action to dispel the continued perception that the process is driven from Washington or by donors. We are already addressing some of these issues and must address the others.

8. *Helping strengthen country policy and institutional capacity.* As stressed in the paper on aid effectiveness and financing modalities, which we will be discussing later in the day at the Development Committee, concerted efforts are needed by the Bank and the Fund to help countries strengthen their policy and institutional capacity, both to support policies for higher investment and growth, and to increase absorptive capacity to utilize domestic resources and aid more effectively to meet the MDGs. The absorptive capacity agenda encompasses different dimensions—macroeconomic, budgetary and local service delivery—and must be tackled country by country. The Fund has an important—and often key—contribution to make on many of these issues. In addition to macroeconomic stability, this includes the macroeconomic framework for sustained growth and effective aid utilization. At the same time, the Bank brings an important complementary perspective on structural foundations and determinants of longer-term growth. Another area that is key to strengthening absorptive capacity and where Bank-Fund collaboration is critical is public expenditure management, where we now have an agreed framework for collaboration. More generally, the Bank and the Fund will need to collaborate closely in improving our understanding of the constraints on absorptive capacity, and in working country-by-country in helping authorities address these constraints.

9. *Improving aid effectiveness through alignment, harmonization and focus on results.* The Bank and the Fund have an important role in helping to accelerate implementation of the Rome agenda to deliver aid aligned with PRSs in an effective and predictable way.

There is broad international consensus on the key elements of the agenda to better harmonize and align aid and to sharpen the focus on results. One area of particular collaboration will be developing alternative scenarios for higher absorption of aid. The challenge is now primarily one of implementation. Again, a broad-based and effective partnership, in which the Fund is fully engaged in international discussions but even more importantly on the ground, will be key to producing tangible results.

10. *Achieving debt sustainability.* Effective implementation of an enhanced and forward-looking approach to debt sustainability has important implications for the work of both institutions and will require close collaboration. A related area for collaboration is helping low-income countries reduce vulnerability and cope better with shocks. I am delighted we have been able to agree a two-year extension of the HIPC sunset clause, and on the broad outlines of an approach to debt sustainability assessments. The issues of increased grants and additional debt relief are clearly also important to the discussion.

11. *Supporting less well performing countries.* While our principal focus has been on enhancing support to good performers, the Bank and Fund need to work together to find better ways to support and encourage progress in countries where performance is weak or that are affected by or vulnerable to conflict.

12. As I noted earlier, we will have the opportunity to discuss many of these issues at greater length at the meeting of the Development Committee later in the day. To summarize, I believe that the principles and foundations that we have established for Bank-Fund collaboration can serve us well in stepping up our collective efforts to support low-income countries. In particular, it will be important for both institutions to focus on their respective mandates and areas of comparative advantage and to strengthen collaboration both on the global and thematic agenda and at the country level. This will, I believe, also enable us together to strengthen our support for the broader partnership that has come together to help low-income countries meet the MDGs.

Other Areas of Bank-Fund Cooperation

13. I should also mention briefly the many other areas of continuing close collaboration between Bank and Fund in supporting our member countries, where we will work to deepen and strengthen our close partnership between the Fund and the Bank so as to maximize our joint contribution, recognizing our complementary roles.

14. *Support for Middle Income Countries.* In our country work we are using the framework agreed upon in 2002 to guide our collaboration in middle-income countries—where in the Bank we are implementing an action plan to enhance our support, in part through stronger collaboration with development partners. We are also continuing to work together on a range of core cross cutting issues.

15. *Trade.* The agreement on frameworks reached by the WTO General Council in the early hours of August 1 was an important milestone in helping to put the Doha Development Agenda back on track. These agreements lay the groundwork for significant reform of global agricultural trade, including the future elimination of all forms of export subsidies, for additional tariff cuts and the reduction or elimination of non-tariff barriers on non-agricultural goods. WTO members have also agreed to intensify efforts toward services liberalization and to incorporate trade facilitation in the

scope of the negotiations. But the difficult stretch still lies ahead, and there are important deadlines coming up over the next twelve months that will require strong political commitment from all members. Together with the Fund we are continuing to provide our fullest support to realizing the potential of the Doha Development Agenda and helping developing countries tap this potential. At Cancun and after, we committed to enhance our support to help our clients in their trade integration strategies and to also assist them in managing the transition to the environment that would emerge from a successful Doha Round. Three areas of activity are particularly important in this context: (a) the Trade Facilitation Initiative, supporting investment and 85 technical assistance (TA) projects to help countries explore the gains from trade facilitation reforms; (b) program lending to support governments enacting reforms to adjust to the new incentives in the post-Doha world; and (c) help to countries in developing the analytical capacity and knowledge needed to anticipate, measure, and provide an adequate policy and budgetary response to special adjustment costs that result from multilateral liberalization.

16. *Supporting private sector development.* This is another key issue we will be discussing at the Development Committee meeting. Alongside macroeconomic stability, successful private sector investment and development are key to accelerating growth in developing countries; faster growth is key to meeting the MDGs. The note prepared for the Development Committee on the essential elements underpinning growth underscores that to be an effective engine of job and income creation, the private sector requires a sound investment climate, appropriate support to micro, small and medium enterprises (MSMEs), and an efficient infrastructure. Bank work in supporting country efforts in all these areas is therefore an essential complement to the Fund's support for macroeconomic stability in helping countries accelerate growth.

17. *Reports on Observance of Standards and Codes (ROSCs) and the Financial Sector Assessment Program (FSAP).* The Bank continues its extensive involvement alongside the Fund in global efforts on strengthening the international financial architecture. As of August 2004, 91 countries had participated in initial FSAP assessments. Another 21 countries have formally requested initial assessments under the FSAP, making up a total of 112 countries that either have participated or have committed to do so. As of end-June 2004, 564 ROSC modules had been completed for these 112 countries. The multi-donor Financial Sector Reform and Strengthening Initiative (FIRST), established to supplement such efforts, had approved 94 projects, a total commitment of US$15.6 million, with 11 projects were fully completed.

18. *Combating money laundering and terrorist financing.* This is another area where the Bank and the Fund are carrying forward a joint program of work in support of member countries. The Bank is undertaking several Anti-Money-Laundering and Combating Financing of Terrorism (AML/CFT) assessments this year as part of the joint Bank/Fund Financial Sector Assessment Program (FSAP). We are continuing to provide AML/CFT technical assistance to client countries through individual country TA programs, regional programs and raising awareness through Global Dialogues sponsored by the World Bank Institute. Finally, the Bank is developing a comprehensive AML/CFT e-learning course for client countries, which will be available via the Bank's mainframe using the Internet.

Conclusion

19. This note highlights the breadth of continuing and close cooperation on a wide range of issues between Bank and Fund, each working to our institutional strengths and mandates. I would like to emphasize the importance I attach to the Fund's continued engagement with low-income country members, and the contribution this makes to the wider global effort to help countries meet the MDGs and implement the Monterrey Consensus. Together with the Fund we will be reporting on progress on all elements of the Monterrey agenda through the Global Monitoring Report for the April meeting of the Development Committee. Meanwhile, we will be discussing a number of the most critical issues at greater length at the meeting of the Development Committee later in the day, including ways to deliver increased and more effective assistance to countries as they strengthen their policies and institutions, to accelerate growth and poverty reduction. I hope that Ministers at the IMFC will also help build momentum for faster progress.