# International Monetary and Financial Committee

Eighteenth Meeting
October 11, 2008

**Statement on behalf of the World Bank Group**

## UPDATE ON KEY ISSUES AND WORLD BANK GROUP ACTIVITIES

## INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

## OCTOBER 11, 2008

### I. Introduction

1. The global economic environment has become more challenging since the spring, with slowing growth, deepening financial turmoil, and deteriorating macro conditions. For many countries, the surge in food and energy prices—and associated rise in inflation—also present major policy challenges. The macroeconomic and distributional impacts on developing countries, initially limited, have intensified, presenting a medium-term threat to growth, poverty reduction, and progress to meeting the Millennium Development Goals (MDGs).

2. At the same time, the inability so far to reach agreement on the Doha trade round represents an important opportunity for constructive international policy action that has not been seized. And while there has been significant progress in advancing the Financing for Development agenda outlined in Monterrey, with a record IDA 15 replenishment of $41.6 billion, continued progress on debt relief, and the recent adoption of the Accra Agenda for Action, additional resources must be mobilized and effectively deployed to meet an increasingly pressing MDG timetable. Strong leadership and multilateral cooperation are needed to address short-term challenges, avoid self-defeating unilateral actions or beggar-thy-neighbor policies, and maintain focus on longer-term development objectives. The global community must also follow through on the Bali commitment to agree on a viable set of actions, policies and support to avert the risk, and mitigate the consequences of climate change, integrating these with those needed to secure successful growth and development.

### II. Impact of Current Conditions and Implications for the MDGs

3. During 2008, international commodity prices hit record highs, sparking a surge of inflation around the world. This has strained social safety nets in developing countries and led to concerns with long-term supply prospects. While the slowing of growth has contributed to a recent easing in commodity prices, they are expected to remain elevated for some time. One likely scenario involves a difficult and protracted but manageable adjustment period with tightening credit conditions, slower growth and lower but still uncomfortably high inflation. Downside risks have increased significantly and while developing country fundamentals are stronger than they were a decade ago, individual countries remain exposed and vulnerable.

4. World Bank estimates suggest that up to one hundred million people are at risk of falling into poverty because of high food prices, a setback equivalent to seven years of progress toward the poverty MDG. Higher food prices increase malnutrition even in high-growth countries, and they exacerbate inequalities within countries, with the urban poor most affected. While the *direct* effect of higher oil prices on poverty is much smaller, they indirectly raise the prices of a wide range of products, including food and transportation. The fiscal capacity to respond to these shocks is constrained in many of poor countries, and these countries have limited means to cope with inflationary pressures. Higher food and energy prices are also causing severe balance of payments problems for many countries, with small island economies and landlocked countries especially vulnerable.

5. Policymakers in developing economies face daunting challenges and a narrowing of policy options. Responding to these challenges is made easier when the international community acts in a coordinated and supportive fashion. The Bank, working alongside the Fund, has been supporting a number of initiatives to provide support at both country and global levels and efforts to enhance collaboration and policy coherence with the Fund and the OECD are underway.

6. In this context, given its role as a development institution and its mandate, the WBG stands ready to support developing countries' policies by providing the full range of its financial, analytical and technical assistance resources and policy advice, in close coordination with the Fund. The Bank is already active in several areas and plans to intensify its analytic and diagnostic work on the financial sector. Beyond near-term needs, a significant increase in the demand for assistance with medium-term reform can be expected, including in regulatory-related advisory work, including on consolidated and risk-based supervision, financial infrastructure (fair value accounting, auditing, bank corporate governance), assistance in the design of workout schemes, policies and procedures for prompt corrective action, emergency liquidity assistance, financial institution failure resolution, depositor and investor protection, and agency coordination and the restructuring of supervisory architecture.

7. On the current food crisis, the Bank's call for a ***New Deal for Global Food Policy***, endorsed by the Committee in April, has been widely supported by development partners, and there is close collaboration with the UN agencies on a common strategy. The lessons learned from the World Development Report (WDR) 2008 on Agriculture for Development underline the need for a renewed commitment across the WBG and with partners and clients to raising agricultural productivity, especially in Sub-Saharan Africa, and to ensure that the poor have timely access to adequate food for a healthy and productive life. The Bank's response to the food crisis has four main pillars.

- *Policy advice to, and dialogue with, member countries* on how best to address the crisis at both country and regional levels. Bank staff is currently involved in discussions in 40 countries on how best to respond to the crisis, as well as assessing the food security and trade implications at the regional level. In collaboration with other agencies and institutions, the Bank is working to address critical knowledge gaps including in the operations of global food markets, the management if humanitarian food assistance, the facilitation of an agricultural supply response; and expansion of safety nets to alleviate the social impact of the crisis.

- *Expedited financial support to address short- and medium-term needs*. In May, the World Bank Board approved the Global Food Crisis Response Program (GFRP), which is providing technical advice and $1.2 billion of financial support to countries affected by the food crisis (including $200 million of grant financing from the Bank's own income). GFRP-funded projects to date (Board approved and pipeline) amount to $851 million in Bank funds. The $1.2 billion ceiling will be reached before the GFRP's first anniversary in May 2009**.**

- *Increased financial support to ease supply bottlenecks:* The WBG is committed to increase new annual lending to food and agriculture to $6 billion over the next year, including through support to smallholder farmers on irrigation, fertilizers, and crop diversification, the development of agribusiness activities and supply chains, and safety nets and other forms of social protection for the poor. In FY08, IFC invested more than $1.3 billion along the agribusiness supply chain to boost agricultural production, increase liquidity in supply chains, improve logistics and distribution, and increase access to credit for small farmers.

- *Insurance products and risk management strategies*. Since June 2008, IBRD and IDA have offered index-based weather derivatives to help clients manage the financial risks from severe weather events. The Bank is also providing support to integrate national agricultural risk management strategies into new country operations in a number of countries, and IFC is planning to support crop and livestock insurance for small holders in developing countries.

8. Following on ideas formulated at the June 2008 Jeddah Energy Conference, the Bank has begun work on an *Energy for the Poor Initiative* (EFPI). The EFPI is intended to provide rapid support to social safety nets to alleviate the impact of higher fuel prices on the budgets of poor households to prevent an irreversible erosion of household and human capital. It would also provide co- or parallel financing, in partnership with other donors, for energy-sector projects intended to reduce countries' longer-term vulnerability to high and volatile fuel prices.

## III. Towards Stronger, Sustainable and More Inclusive Economic Growth

9. **Economic Growth and Social Progress.** Economic growth is central to achieving the MDGs: it reduces poverty, and expands resources for human development and environmental sustainability. There are now 25 countries in Africa that have achieved an average growth rate of 5.5 percent or more a year for a decade. As a result, Africa has become an attractive investment destination for foreign capital, notably in the oil, gas, and mining sectors and there has been progress in increasing primary school enrollment, raising literacy rates, and combating malaria. For many developing countries, the challenge is to maintain the good track record on macroeconomic and structural policies that have brought growth and stability in recent years. For others, it means following the example set by those achieving success. And for the development community, it means providing appropriate assistance in the form of aid, debt relief, support for capacity building and security enhancement, investment and trade opportunities. In this context, the Financing for Development conference in Doha later this year provides an opportunity to review progress and renew commitment to the mutual accountability framework anchored to a strong country-based development model.

10. **Trade.** Completing the Doha Round would send a powerful signal of confidence amidst a world of uncertainty. It would be damaging, particularly for developing countries, if the opportunity were to slip away. But agreement on Doha is not sufficient. The WBG is also expanding its Trade Facilitation programs, which help developing countries reap the benefits of global trade. Maintaining momentum on the global Aid for Trade agenda is critical if firms and farmers in developing countries are to benefit from trade opportunities.

11. **Debt.** The Board recently received a joint Bank/Fund report "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation 2008". More than three-quarters of eligible countries (33 out of 41) have passed the decision point and qualified for HIPC assistance. Of those, 23 have reached the completion point and qualified for irrevocable debt relief. Overall assistance committed to the 33 post-decision-point HIPC countries amounts to US$117 billion (in nominal terms), including US$49 billion under the MDRI. Once additional beyond-HIPC-and-MDRI relief is included, the debt burden for these post-decision point countries is expected to be reduced by

about 90 percent. Despite these achievements, challenges remain. Although the HIPC Initiative and MDRI debt relief have substantially reduced the debt burden of many HIPCs, maintaining debt sustainability remains a concern. A country's post-completion-point debt sustainability remains vulnerable to shocks and changes in financing terms, and only about 40 percent are at low risk of renewed debt distress. This highlights the need for these countries to implement sound borrowing policies and strengthen their capacity in public debt management to maintain debt sustainability in the long term, areas where the Bank and the Fund have stepped up their assistance.

12. **Private Sector Development.**. A successful private sector requires macroeconomic stability, appropriate regulation, low costs of doing business, access to a range of financial services, and adequate infrastructure. The latest *Doing Business* Survey shows that 113 economies have implemented 239 reforms to reduce the cost of doing business, with the most numerous in the "Starting a Business" category. The WBG is helping governments improve the business environment and in FY08, more than 40 percent of IFC projects were in IDA countries.

13. **Development Assistance.** The MDG challenge remains daunting and the environment for achieving poverty reduction has become more difficult. Following its successful replenishment, IDA is now in a better position to make its contribution to these efforts. But increased assistance from bilateral donors is also needed. While contributions from new and emerging donors are welcome, it is important for all aid partners to meet the commitments they have made to double aid flows, including to Africa, by 2010. Raising aid effectiveness is also essential. The 2005 Paris Declaration set out the key principles for improving aid effectiveness, but implementation has been mixed. The Accra Agenda for Action, which was endorsed by 130 countries and 40 institutions in September 2008, should help through measures to address aid fragmentation and predictability, improve the division of labor among development agencies, strengthen ownership, align technical cooperation, and expand the use of strengthened country systems. Accra has also paved the way to work more effectively with non-DAC sources of development assistance. Attention in the coming year will need to focus on translating these commitments into actions in country programs so that Bank operations can achieve better development results.

14. **Improving Governance and the Management of Natural Resources.** The implementation plan of the WBG's strategy on Governance and Anticorruption (GAC) was reviewed by the Board in October 2007, and a One-Year Progress Report will be discussed in October 2008. Country-level GAC strategies are now in place for some 27 countries. At the project level, the WGB is enhancing upstream diagnostics and improving 'core' country systems in public management and procurement. At the global level, the Stolen Asset Recovery (StAR) initiative, jointly launched with the UN Office on Drugs and Crime (UNODC), is already showing results. In Bangladesh and Indonesia, for example, StAR has helped establish national asset recovery teams. Sixteen countries have participated in training courses to build national capacity and build the mutual trust needed for successful international asset recovery. And the Extractive Industries Transparency Initiative Plus Plus (EITI++) is rapidly expanding to develop national capability to manage the boom in commodity prices and channel the growing revenue streams to fighting poverty and hunger.

## IV. Strengthening the World Bank Group Contribution: Strategic Directions

15. **Results for 2007/08.** WBG commitments were $38.2 billion in FY08, up by $3.9 billion (11 percent) from FY07. IBRD commitments totaled $13.5 billion, up from $12.8 billion the previous year, while IDA commitments were $11.2 billion. IFC financing increased by 34 percent to $16.2 billion, including $4.8 billion mobilized through syndications and structured finance. MIGA had an exceptional year as it celebrated its 20th anniversary, issuing $2.1 billion in guarantees, a 50 percent increase over FY07.

16. **Strategic Directions for the World Bank Group.** At its last two meetings, the Development Committee discussed a vision of the WBG contributing to inclusive and sustainable globalization with strategic directions encompassing six themes:

- Helping overcome poverty and spur sustainable growth in the poorest countries, especially in Africa.
- Addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state.
- Developing a competitive menu of development solutions and customized services for middle income countries.
- Playing a more active role in regional and global public goods.
- Supporting development and opportunity in the Arab world.
- Expanding role in global knowledge management and learning.

17. ***Spurring growth and poverty reduction in the poorest countries, especially in Africa.*** In view of significant underinvestment in public goods and services for agriculture in Africa, the WBG has committed to scale up financing for agriculture investment in Sub-Saharan Africa from an annual average of $450m between 2005-07, to $800m in FY09, and $1b from FY10 onwards. The WBG is also helping African countries improve management of their natural resources and support for regional projects is on the rise to promote better trade, infrastructure, and power links.

18. ***Fragile and conflict-affected situations.*** IDA commitments to fragile and post-conflict countries in FY08 stood at more $3 billion, including assistance to Afghanistan, Cambodia, Kosovo, Timor, Togo, PNG, West Bank and Gaza and the Solomon Islands. Moreover, Afghanistan, CAR, Guinea Bissau, Liberia, Haiti, Sierra Leone, Sudan, and Tajikistan have all benefited from the GFRP. Effective and non-bureaucratic collaboration with partners is most needed in fragile states, particularly in post-conflict situations. Recent agreement with 12 UN agencies on a UN-WB Fiduciary Principles Accord was therefore an important step.

19. ***Cooperation with middle-income countries.*** The WBG continues to adapt its business model for middle-income countries to be more responsive, flexible, and innovative, implementing the strategy discussed by the Committee a year ago. Progress is building on earlier policy changes in loan pricing, the structure of the Deferred Drawdown Option (DDO), and the extension of IBRD loan maturity. A new model of engagement is being tested with large middle-income countries, such as Brazil and Mexico, which provides substantial flexibility for "just in time" adjustments to rapidly changing needs. Catastrophic risk products have been approved by the Board and the pipeline of sub-national business is

expanding, including in Russia, Colombia, Morocco, the Philippines, Peru, Brazil, Uruguay, Turkey, and India. Finally, innovations originating from work with middle-income countries, such as derivative products, GEMLOC, or a new South-South Knowledge Exchange Facility, are beginning to yield benefits for low-income countries as well.

20. ***Strategic Framework on Development and Climate Change***. This year's Development Committee meeting will discuss, *Development and Climate Change: A Strategic Framework for The World Bank Group*, which will guide the WBG's work over the next three years. The launch of the Forest Carbon Partnership Facility and the Carbon Partnership Facility was endorsed by the Board of Directors and the establishment of a portfolio of climate investment funds (CIF) to finance national projects and programs with mitigation and adaptation benefits has further strengthened support for client's sustainable development strategies. These funds allow the WBG and other multilateral development banks, together with recipients and donor country partners, to support developing countries in their efforts to address climate change. The 2010 World Development Report will be on climate change.

21. ***Expanding opportunity in the Arab world.*** Over the past five years, economic growth in the Arab world has averaged over 5 percent per annum - the highest since the 1970s. Even more important than high oil revenues have been domestic-driven reforms that are creating opportunities for participation in, and benefit from, global economic activity. For example, Egypt has been ranked among the top ten reformers in three of the last four *Doing Business* Reports, and many other Arab countries are introducing wide-ranging economic reforms (Saudi Arabia, Morocco, Tunisia, Jordan) that have direct implications on growth and development. By enhancing coordination across the WBG as well as with Arab institutions and other development partners, the Arab World Initiative (AWI) aims to strengthen development and opportunity by advancing the integration of the region with the global economy, expanding opportunities for South-South cooperation, and achieving faster growth, better jobs, smaller disparities, greater social inclusion, and better management of natural resources. Building on ongoing work, total WBG commitments to Arab countries has increased from about $1 billion in FY02 to over $3 billion in FY08.

22. ***Knowledge and learning.*** The WBG's challenge is to enhance its capacity to share knowledge globally, and help build partnerships and expertise in client countries, including by compiling and disseminating best practice and policy learning wherever it resides. To strengthen South-South and South-North cooperation, more than 70 existing partnerships are being reviewed and a new South-South Experience Exchange Facility has been established. The Bank is moving towards an open data platform that will make it the first development institution to unlock its key data resources for public use.

## V. World Bank Group Governance and Key Partnerships

23. **Voice and Participation of Developing and Transition Countries.** The Spring 2008 Development Committee Communiqué encouraged "the Bank to advance work on all aspects of voice and participation, keeping in mind the distinct nature of the Bank's development mandate, and the importance of enhancing voice and participation for all developing and transition countries in the WBG…and to receiving concrete options from the Bank's Board by our next meeting with a view to reaching consensus on a comprehensive package by the 2009 Spring". Since then Bank shareholders have engaged in intensive discussions about options for voice reform, actively facilitated by Management.

24. **Strengthening Bank/Fund Cooperation.** Cooperation between the WBG and the IMF remains essential to the effectiveness of both institutions. The current economic and financial environment underscores the need for the WBG and the IMF to work closely together, cooperating and coordinating while each plays its different but important roles in the global economic architecture. The Joint Management Action Plan (JMAP) on Bank-Fund collaboration - launched one year ago - provides a useful framework for moving ahead with deeper collaboration in a complex and interconnected policy environment. JMAP implementation is underway, including through regular meetings between Bank and Fund country teams to discuss work programs and priorities as well as through the establishment of joint intranet workspaces to facilitate information sharing. A compressive assessment of implementation of JMAP recommendations will be prepared for the Boards of both institutions for next year's Annual Meeting. .