



International Monetary and Financial Committee

Thirteenth Meeting
April 22, 2006

Statement by Mr. Paul Wolfowitz
President
On Behalf of the World Bank

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
APRIL 22, 2006

Statement by Paul Wolfowitz
President of the World Bank

Global Economy and Challenges for Developing Countries

1. World economic growth is strong and is expected to remain so, with continued low inflation and low interest rates. It is encouraging that the developing country contribution to world growth is rising and becoming broader based; and even more encouraging that Africa is expected to grow at the fastest pace in the last 30 years and that growth in Sub-Saharan Africa exceeded 5% for the third consecutive year. Even so, progress remains uneven and insufficient in many countries. Moreover, the risks we discussed last September are still there, and if anything have increased: the continued risks from high and fluctuating oil prices; the risk that interest rates and interest rate spreads will rise as the current global liquidity cycle comes to a close; the continued possibility of a disorderly adjustment to the large global economic imbalances; and the threat of protectionism, especially if imbalances are not addressed.

2. Progress on the Doha Development Agenda (DDA) is critical both to help counter the risk of protectionist pressures, which could pose an immediate threat to global growth, and to complement other actions to support countries' development strategies. In the Bank we will be working very closely with the WTO and others over the months ahead to find ways to provide more "aid for trade". But I emphasize that aid for trade is a complement not a substitute for an ambitious outcome to the trade negotiations. Both the aid for trade work and the trade negotiations are now on very tight schedules. We all know how important it is for global growth and development for these timetables to be met, and I hope that Finance Ministers will remain closely engaged in the process to ensure that they are.

Support for Low-Income Countries

3. Turning to support for development in low-income countries let me first welcome progress made on the multilateral debt initiative (MDRI) at the Fund. In the Bank, I am glad to report that we were also able to bring discussions of this initiative to a successful conclusion, with the truly historic approval of the MDRI by the International Development Association's Executive Directors on March 28. For this debt relief to be effective IDA donors must now formalize their financing pledges through Instruments of Commitment in the most expeditious manner possible.

4. In addition to this agreement on debt relief, there have been important new commitments for aid last year and total ODA is projected to increase by around \$50 billion in real terms by 2010. The Bank is helping countries manage, absorb and effectively use increased ODA inflows, increase domestic resource mobilization and create the fiscal space needed for infrastructure investment. Much of this work is focused on countries in sub-Saharan Africa, where in the Bank we are now implementing the

Bank Group's Africa Action Plan launched last September. This Plan forms the core of our commitment to supporting improved development outcomes in Africa.

5. In each country we are working to help governments improve their poverty reduction strategies and use them as the basis for scaled up assistance leading to increased results and performance on the ground in a framework of mutual accountability. None of this will be achieved without faster economic growth. This requires macroeconomic stability, but it also, critically, requires the structural policies and institutions and all the aspects of good governance that are needed to create a supportive environment for investment and private sector led growth. Recognizing that the sources of growth differ between countries and are not fully understood, I have established a commission of external experts – the Commission on Growth and Development – to provide advice and support to the Bank in our efforts to help countries achieve higher sustainable growth and foster poverty reduction going forward.

6. We will have the opportunity to discuss many of these issues in the international development agenda at greater length at tomorrow's meeting of the Development Committee, on the basis of the joint Bank-Fund Global Monitoring Report.

Bank-Fund collaboration

7. The Bank's partnership with the IMF is a key underpinning both for support for low income countries, and also for support for middle-income countries. Let me highlight some of the areas where it matters most.

- The Bank and Fund are working together to advise countries on how to successfully absorb more aid, with the Fund focusing on the macroeconomic constraints, where these exist, and the Bank on the sectoral and structural aspects. Our goal should be to enable countries to absorb the larger promised volumes of aid in ways that are sustainable. This places a burden on recipients in terms of absorptive capacity, economic management and long-term planning, as well as on donors, to provide assistance predictably and coherently.
- As HIPC and the MDRI are implemented, we will also be working together to try to prevent countries slipping back into unsustainable debt. These initiatives are intended to end unhealthy "lend and forgive" cycles, but they cannot by themselves guarantee continued debt sustainability. This will require firm action by the international community to prevent unsustainable debt accumulation in countries that are being relieved of their obligations under HIPC and MDRI. Here the Bank-Fund Debt Sustainability Framework can help guide both borrowers and lenders. For IDA, the choice between providing grants and soft-loans will be guided by debt sustainability analysis to be carried out for each country. We must also act to deter free-riding. Borrowing from non-concessional sources - after HIPC and MDRI debt relief or in conjunction with the provision of grants by IDA and other ODA sources - needs to be monitored and managed carefully. Over the next weeks we plan to bring forward proposals for dealing with such free-riding issues as they relate to the Bank, both in the context of debt relief and the provision of IDA grants.

- Bank and Fund need to work together in advising countries on the fiscal policies needed not only to secure economic stability, but also to promote the private and public investments needed to underpin faster sustainable growth.
- We will continue Bank-Fund cooperation, in the Financial Sector Assessment Program and in other ways, in providing advice and support to help countries strengthen financial systems and reduce the risk of future financial crises.

8. The Bank and Fund currently collaborate in a variety of ways and in a number of areas, including prominently in low-income countries, on trade and the financial sector, on public expenditure and medium-term growth, and on debt work, to name just a few. In each of these areas, and others, while Bank-Fund cooperation is working well, I am confident it could work even better. That is why Rodrigo de Rato and I have established a high level External Review Committee to reassess the issue. The Fund's policy advice and financial assistance to help developing countries achieve the macroeconomic stability they need for longer term growth is important for their development. Thus, better Bank-Fund coordination cannot mean disengagement of the Fund from development. What it should mean is greater clarity of the comparative advantages of the two institutions, and perhaps greater consistency of advice on trade-offs and goals.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
APRIL 22, 2006

Statement by Paul Wolfowitz
President of the World Bank

Global Economy and Challenges for Developing Countries

1. World economic growth is strong and is expected to remain so, with continued low inflation and low interest rates. It is encouraging that the developing country contribution to world growth is rising and becoming broader based; and even more encouraging that Africa is expected to grow at the fastest pace in the last 30 years and that growth in Sub-Saharan Africa exceeded 5% for the third consecutive year. Even so, progress remains uneven and insufficient in many countries. Moreover, the risks we discussed last September are still there, and if anything have increased: the continued risks from high and fluctuating oil prices; the risk that interest rates and interest rate spreads will rise as the current global liquidity cycle comes to a close; the continued possibility of a disorderly adjustment to the large global economic imbalances; and the threat of protectionism, especially if imbalances are not addressed.

2. Progress on the Doha Development Agenda (DDA) is critical both to help counter the risk of protectionist pressures, which could pose an immediate threat to global growth, and to complement other actions to support countries' development strategies. In the Bank we will be working very closely with the WTO and others over the months ahead to find ways to provide more "aid for trade". But I emphasize that aid for trade is a complement not a substitute for an ambitious outcome to the trade negotiations. Both the aid for trade work and the trade negotiations are now on very tight schedules. We all know how important it is for global growth and development for these timetables to be met, and I hope that Finance Ministers will remain closely engaged in the process to ensure that they are.

Support for Low-Income Countries

3. Turning to support for development in low-income countries let me first welcome progress made on the multilateral debt initiative (MDRI) at the Fund. In the Bank, I am glad to report that we were also able to bring discussions of this initiative to a successful conclusion, with the truly historic approval of the MDRI by the International Development Association's Executive Directors on March 28. For this debt relief to be effective IDA donors must now formalize their financing pledges through Instruments of Commitment in the most expeditious manner possible.

4. In addition to this agreement on debt relief, there have been important new commitments for aid last year and total ODA is projected to increase by around \$50 billion in real terms by 2010. The Bank is helping countries manage, absorb and effectively use increased ODA inflows, increase domestic resource mobilization and create the fiscal space needed for infrastructure investment. Much of this work is focused on countries in sub-Saharan Africa, where in the Bank we are now implementing the

Bank Group's Africa Action Plan launched last September. This Plan forms the core of our commitment to supporting improved development outcomes in Africa.

5. In each country we are working to help governments improve their poverty reduction strategies and use them as the basis for scaled up assistance leading to increased results and performance on the ground in a framework of mutual accountability. None of this will be achieved without faster economic growth. This requires macroeconomic stability, but it also, critically, requires the structural policies and institutions and all the aspects of good governance that are needed to create a supportive environment for investment and private sector led growth. Recognizing that the sources of growth differ between countries and are not fully understood, I have established a commission of external experts – the Commission on Growth and Development – to provide advice and support to the Bank in our efforts to help countries achieve higher sustainable growth and foster poverty reduction going forward.

6. We will have the opportunity to discuss many of these issues in the international development agenda at greater length at tomorrow's meeting of the Development Committee, on the basis of the joint Bank-Fund Global Monitoring Report.

Bank-Fund collaboration

7. The Bank's partnership with the IMF is a key underpinning both for support for low income countries, and also for support for middle-income countries. Let me highlight some of the areas where it matters most.

- The Bank and Fund are working together to advise countries on how to successfully absorb more aid, with the Fund focusing on the macroeconomic constraints, where these exist, and the Bank on the sectoral and structural aspects. Our goal should be to enable countries to absorb the larger promised volumes of aid in ways that are sustainable. This places a burden on recipients in terms of absorptive capacity, economic management and long-term planning, as well as on donors, to provide assistance predictably and coherently.
- As HIPC and the MDRI are implemented, we will also be working together to try to prevent countries slipping back into unsustainable debt. These initiatives are intended to end unhealthy "lend and forgive" cycles, but they cannot by themselves guarantee continued debt sustainability. This will require firm action by the international community to prevent unsustainable debt accumulation in countries that are being relieved of their obligations under HIPC and MDRI. Here the Bank-Fund Debt Sustainability Framework can help guide both borrowers and lenders. For IDA, the choice between providing grants and soft-loans will be guided by debt sustainability analysis to be carried out for each country. We must also act to deter free-riding. Borrowing from non-concessional sources - after HIPC and MDRI debt relief or in conjunction with the provision of grants by IDA and other ODA sources - needs to be monitored and managed carefully. Over the next weeks we plan to bring forward proposals for dealing with such free-riding issues as they relate to the Bank, both in the context of debt relief and the provision of IDA grants.

- Bank and Fund need to work together in advising countries on the fiscal policies needed not only to secure economic stability, but also to promote the private and public investments needed to underpin faster sustainable growth.
- We will continue Bank-Fund cooperation, in the Financial Sector Assessment Program and in other ways, in providing advice and support to help countries strengthen financial systems and reduce the risk of future financial crises.

8. The Bank and Fund currently collaborate in a variety of ways and in a number of areas, including prominently in low-income countries, on trade and the financial sector, on public expenditure and medium-term growth, and on debt work, to name just a few. In each of these areas, and others, while Bank-Fund cooperation is working well, I am confident it could work even better. That is why Rodrigo de Rato and I have established a high level External Review Committee to reassess the issue. The Fund's policy advice and financial assistance to help developing countries achieve the macroeconomic stability they need for longer term growth is important for their development. Thus, better Bank-Fund coordination cannot mean disengagement of the Fund from development. What it should mean is greater clarity of the comparative advantages of the two institutions, and perhaps greater consistency of advice on trade-offs and goals.