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I greatly appreciate the opportunity to participate in these important discussions at ECOSOC. This is my first engagement at the United Nations following my assumption of responsibilities as the World Bank's Chief Economist. I am honored to share this panel with distinguished colleagues from UNDESA, IMF, WTO, and UNCTAD. I look forward to working closely with these, and other, partner institutions in my new position.

Global Economic Outlook and Implications for Developing Countries

- We are in the midst of a period of high uncertainty and increased risks. Turmoil in financial markets, slower growth in high-income countries, and the rise of oil and food prices have all adversely affected near-term growth prospects of developing countries. Policymakers in developing and high-income countries alike face the difficult challenge of managing the short-term slowing of their economies and potential financial stress on the one hand and the risks associated with rising inflation on the other.

- Most developing countries have shown impressive resilience in this turbulent environment so far. Their resilience partly reflects the fact that, compared with past episodes of global financial turbulence, far fewer developing countries are burdened by large external imbalances or heavy short-term external financing requirements. Many countries have accumulated sizable foreign reserves and have reduced their external debt burdens significantly. And most countries have expanded and diversified their export base, a move that facilitates external adjustment. Nevertheless, as a result of the expected weaker high-income country growth and the energy and food price surges, developing countries' growth will slow. It is expected to moderate from 7.8 percent in 2007 to a still relatively strong 6.5 percent in 2008.

- As usual, world trade is expected to show a more pronounced cyclical swing than GDP. Global export growth is projected to slow to 4.7 percent in 2008, substantially lower than the 10 percent expansion of just two years ago. At the same time, there are signs that private capital flows to developing countries are slowing.

- The combination of lower export growth and capital flows may place particular stress and force significant adjustment on those developing countries with large current account deficits. In particular, the resilience of private corporate balance sheets in these countries will be tested, as the private sector was in many cases the main beneficiary of the surge in international lending in recent years. An additional challenge for the oil- and food-importing developing countries is the rise in energy and food prices, which has further increased import bills and financing requirements.

- Moreover, partly due to the higher energy and food prices and partly due to strong domestic demand, inflation has risen in a number of countries. Median consumer price inflation in developing countries is now running above 9 percent, compared with 5-6 percent in recent years. Thus, if food and oil prices surge further, the favorable factors that have underpinned developing countries' resilience may weaken and the need to control inflation may jeopardize growth prospects.
- The higher food and energy prices have also caused real incomes to decline, significantly increasing the hardships faced by the poor, particularly in urban areas. Preliminary World Bank estimates suggest that up to 105 million people could become poor due to the rising food prices. The rise in oil and related energy prices since January 2007 implies an estimated 1.8 percent of GDP reduction in real incomes on average for low-income oil-importing countries.
- In this context, governments face a daunting challenge of protecting the most vulnerable of their citizens in a fiscally responsible and sustainable manner. As much as possible, governments should use or expand social safety nets to provide targeted income support, instead of subsidizing prices generally that can be extremely expensive and ultimately unsustainable. However, they should avoid recourse to export bans, which would aggravate shortages and price surges in the global market and importing countries. They should also avoid imposition of price controls, which can jeopardize incentives to expand agricultural production to alleviate potential shortages in the future. The international community needs coordinated action to ensure countries' immediate humanitarian needs are met and to support the strengthening of their safety nets.
- Longer term, actions must be taken to facilitate a strong agricultural supply response. Achieving an African Green Revolution should be a priority for countries in the region and their development partners. At the global level, there is a need for a sensible policy toward biofuels. On the energy front, efforts to improve energy efficiency, manage energy demand, and enhance supply, especially of cleaner, renewable energy, must be stepped up.

MDGs at Halfway Point

- Recent global economic developments and associated risks add to the challenges countries face in their efforts to achieve the Millennium Development Goals (MDGs). Earlier this year, which marks the halfway point toward the MDG target year of 2015, the World Bank and the IMF in their joint *Global Monitoring Report 2008* presented a comprehensive assessment of progress on the MDGs and the agenda ahead. At the halfway point, progress toward the goals is mixed, with notable achievements on some goals but formidable challenges on others.
- The first MDG calls for reducing extreme poverty and hunger by half. The poverty goal is likely to be met at the global level, thanks to a remarkable surge in global economic growth over the past decade – though the potential rise in poverty resulting from the recent sharp rise in food prices creates new risks. However, there are serious shortfalls in fighting hunger and malnutrition. The recent rise in food prices increases the urgency of dealing with these challenges. On current trends, the human

development MDGs are unlikely to be met. Prospects are gravest for the goals of reducing child and maternal mortality, but shortfalls are also likely in the primary school completion, empowerment of women, and sanitation MDGs.

- Within this overall picture, there is considerable variation across regions and countries. At the regional level, Sub-Saharan Africa lags on all MDGs, including the poverty reduction goal. South Asia lags on most human development MDGs. At the country level, on current trends, most countries are off track to meet most of the MDGs, with fragile states falling behind most seriously.

- Yet most MDGs remain achievable for most countries if stronger efforts are made both by the countries themselves and by their development partners. Progress must be accelerated and made more inclusive. International attention associated with the MDG midpoint makes 2008 a crucial year to generate the necessary momentum. The planned high-level meetings during the year—including the G8 summit next week, the UN General Assembly Special Event on the MDGs in September, and the Doha Financing for Development conference in December—provide an opportunity that must be seized to agree on priorities for action and milestones for tracking progress.

- Strong and inclusive economic growth must be at the center of the strategy to achieve the MDGs. While specific policy priorities for growth vary from country to country, looking across countries, three areas emerge as essential to robust growth: sound macroeconomic policies; a conducive private investment climate, including access to key infrastructure; and good governance.

- We must accelerate progress toward the human development goals. This will require commitment of more resources to key programs in education and health—for example, the Fast Track Initiative in education, health system strengthening, and combating malaria. More spending alone, however, is not the answer. The quality and equity of spending must also be improved.

- We must integrate environmental sustainability into core development work, maximizing synergies. Poor countries will suffer the most from climate change and are least able to adapt. For them, the best way to adapt is to develop—by diversifying their economies, strengthening infrastructure, developing health systems, and curbing climate-sensitive diseases such as malaria and diarrhea. Mitigation of carbon emissions will require financing and technology transfer to developing countries. Support to developing countries to assist with the transition to low-carbon and climate-resilient growth will need to be in the form of new financing, not a diversion of resources from other development programs.

- The international community must achieve a successful outcome of the Doha round of trade negotiations in 2008. This is one of the most important steps nations, acting collectively, can take to enhance inclusive and sustainable growth. The current high food prices provide a window of opportunity to break the impasse on agricultural trade liberalization.

Financing for Development

- Donors must do their part and scale up aid in line with their commitments. Most of the increase in aid promised at Gleneagles in 2005 is yet to be delivered. Between 2004 and 2007, annual aid flows from OECD-DAC donors increased by only one-fifth of the promised target for 2010, that is, by only $11 billion in real terms against a 2010 target of $50 billion. Delivering on the commitment to double aid to Africa over the same period has similarly been slow, with annual aid flows rising by only $5 billion in real terms between 2004 and 2007 compared with a target increase of $25 billion by 2010.
- The global aid architecture is changing with the emergence of new sources and modalities of aid—including new donors such as China and India, global/vertical funds, and an increased role of private donors. The new sources and modalities of aid promise more resources and innovation, but they also pose new challenges for aid effectiveness and coherence. The High-Level Forum on Aid Effectiveness in Accra in September this year provides a timely opportunity to address the issues of scaling up aid and ensuring its effectiveness in a changing aid environment.
- We also need to catalyze and leverage more private capital in support of development, including through innovative public-private partnerships. This will be particularly important in meeting the large financing needs associated with the climate change agenda.
- Five years ago in Monterrey, the international community agreed on a mutual accountability framework for development cooperation. Pursuant to that framework, developing countries have taken important steps to strengthen governance and improve the quality of their economic policies and institutions. Thanks to reforms, a number of developing countries today are in a position to utilize increased resources productively. To meet their side of the bargain, developed countries agreed to support developing countries' efforts by increasing the quantity and quality of aid, providing more debt relief, and opening their markets further to trade. While there has been good progress on debt relief, actions have lagged commitments in aid and trade. As we enter the final phase of the MDG calendar, the Financing for Development conference in Doha represents a unique opportunity to re-energize the mutual accountability framework, by reaffirming and building on the commitments made in Monterrey.

<u>Role of the World Bank</u>

- The World Bank is actively engaged in supporting the agenda I just outlined, working closely with countries and in partnership with bilateral agencies and multilateral institutions. We are:

- scaling up IDA programs in low-income countries, supported by a record IDA-15 replenishment;
- bolstering support to Africa in priority development areas through our Africa Action Plan;
- strengthening the framework of support to countries in fragile situations and for response to emergencies;

- working with partners on both immediate and longer-term responses to the food crisis, along the lines of the New Deal for Global Food Policy proposed by the World Bank President;
- enhancing our responsiveness to the evolving needs of middle-income countries, many of which continue to face major development challenges; and
- instituting a strategic framework and strengthening investment mechanisms to address the energy needs of developing countries and the broader climate change agenda.

- There is a lot at stake on the development front this year. We look forward to collaborating closely with partners in ensuring the success of the important discussions scheduled for the coming weeks and months.

- As part of this collaboration, we look forward to still closer partnership with ECOSOC, to make the alliance between ECOSOC's political message and the Bank's comprehensive development focus even more effective and fruitful.