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Enhancing World Bank Support to Middle Income Countries

Our Chairs strongly support the paper entitled *Enhancing World Bank Support to Middle Income Countries* as a first step towards an increased involvement of the World Bank Group with middle income countries.

We fully concur with the management about the importance of the Bank's increased involvement with middle income countries. To enhance the cooperation between the Bank and MICs would not only help fulfill the Bank's mandate for poverty reduction, given the fact that a large proportion of poor population lives in these countries, but would also help strengthen the Bank's financial position with increased net income from lending operation, which in turn would reinforce the Bank's support to poorer countries through internal transfer to HIPC and IDA. In addition, we believe that many of the Bank's "knowledge products" are originated from the Bank's engagement with MICs. Experiences and lessons learned from cooperation with MICs have enriched and will continue to enrich the Bank's development theory.

I. On the Bank's General Strategy for MICs

We took note with concern that "*the Working Group found that both staff and clients are unclear about the Bank's role in MICs, and uncertain about the importance of quality lending as part of the Bank's package of support*", as stated in the Executive Summary of the document. We are convinced that a clear definition on the Bank's strategy for MICs is long needed and that such a definition should be conveyed to both countries and staff in the field. In this regard, we believe the upcoming corporate statement should give specific guidance for staff to remove obstacles which constrain the Bank's support for MICs. Such a statement should be succinct, strong and easy to be implemented.

Given the wide diversity of MICs in poverty level, institutional capacity, development priority and so on, we support the Management proposal to adopt a flexible approach which tailors the Bank's assistance programs to the needs of each client.

We broadly support the Management proposal as outlined in the paper, including among others, introducing more flexibility into CAS implementation and the CAS process, promoting the use of existing IBRD financial products and developing new financial products, improving Bank services in knowledge/AAA, enhancing the effectiveness of the Bank's response to emergencies, and strengthening Bank Group synergies.

Having said this, we would like to comment on specific issues as follows:

II. Bank / Fund Relationship on MICs Strategy

We believe that, in formulating the MICs strategy, one fundamental issue of the Bank / Fund relationship in assisting their middle income clients should be addressed upfront. Because of some conditionalities of the Fund, the Bank is unable to scale up its activities in some of the MIC borrowers, which needs to be handled rationally in order for the Bank to fulfill its development mandates.

We underline, for example, the conflict between the fiscal constraints embedded in agreements signed by countries with the Fund on one hand, and on the other hand, the need of those countries for increased World Bank lending, especially in infrastructure. We urge the World Bank to either review its relationship with the Fund or adopt a more flexible stance within the Bank in lending to those countries. In this sense, the relaxation of requirement for counterpart funding would give the Bank greater leverage in fulfilling its mandates, and the provision of new financial products and the sector wide approach (SWAPs) would also constitute a move in the right direction.

III. On the Infrastructure Development and Public-Private Sector Partnership

We regret that the need for investments in infrastructure was not sufficiently emphasized in the document and thus we encourage Management to address this issue in the strongest manner. In drawing on the lessons of the disappointing contribution of the private sector in financing investments in infrastructure, we stress the critical role that can be played by the public sector in filling this gap. In this regard, we hope to see that the World Bank will increase its lending operations in the infrastructure sector and enhance its efforts to facilitate the public-private partnerships (PPP). We ask Management to further elaborate on the tools and policies, with increased synergy amongst World Bank Group, to achieve the above objective.

We would like to emphasize that the Bank's increased engagement with MICs will provide a unique opportunity to carry out the "high-risk / high-return" projects, given the relatively stronger institutional capacities of these countries. The past experience proves that many projects with high economic and social returns have made tremendous contribution to poverty reduction. The Bank has missed opportunities in the past few years, and therefore we strongly believe that it is time for the Bank to take prompt action in this regard. The successful implementation of the high-risk / high-return projects in some countries could be widely replicated in other countries, including the low income ones. We urge Management to recognize the huge opportunity cost in case the Bank fails to seize this opportunity.

IV. Country Exposure Limit

Another important constraint that has been brought to our attention is that a number of performing middle income countries have reached, or are about to reach, their exposure limits within the current Bank's operational rules. We suggest that creative mechanisms be examined to maximize the use of available limits, such as the allocation of idle limits between IBRD and IFC.

V. Cost of Doing Business with the Bank

The increasing cost of doing business with the Bank has long been a matter of concern to many member countries. While appreciating the findings of the MICs Working Group regarding the increasing implicit costs to clients of complying with the Bank's fiduciary guidelines and safeguard policies, we regret that the issue of increased explicit cost has not been addressed in the paper. We believe that a review of the current financial cost and the loan pricing policy is needed in the context of the new developments.

We must point out that in recent years, the volume of the Bank lending has declined sharply and the loan-loss provisioning has also dropped down. In this connection, we are convinced that both the favorable change of the international scenario and the strengthened financial position of the Bank recommend the review of the Bank's loan pricing policy. We would like to remind Management that some regional MDBs have already reduced upfront fees.

Coming back to the implicit cost of doing business with the Bank, there are three aspects regarding this issue:

- We support the Management's proposal to rely more on the national fiduciary and safeguard systems, certified by the Bank. Beside reducing the cost of doing business with Bank, this is also an important step to enhance the borrowers' institutional capacity, strengthen their ownership on the projects, and improve the effectiveness of the Bank's assistance. We encourage Management to make continued efforts along the line and to consider widening and diversifying the sample of pilot participants.

- We welcome the realistic and pragmatic approach to reduce the burden of sector policy conditions on individual projects. We also support the proposal of limiting policy lending conditionalities to two aspects, namely, the existence of an adequate macroeconomic framework, and the implementation of a development strategy aiming at poverty reduction. We agree that the previous assessment of those two aspects is needed before adjustment lending operations can be examined by the Board.

- We strongly encourage the Bank to make continued efforts to simplify its procedures and harmonize its policies with other MDBs and bilateral donors.

Finally, we strongly recommend that the Bank's strategy for MICs be firmly rooted in operational rules and procedures.