The World Bank Annual Report

2004

THE WORLD BANK

Volume 1
Year in Review

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Letter of Transmittal

This *Annual Report,* which covers the period from July 1, 2003, to June 30, 2004, has been prepared by the Executive Directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in accordance with the respective bylaws of the two institutions. James D. Wolfensohn, President of the IBRD and IDA and Chairman of the Board of Executive Directors, has submitted this report, together with the accompanying administrative budgets and audited financial statements, to the Board of Governors.

Annual reports for the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) are published separately.

Operational Summary, Fiscal 2004

IBRD
(millions of dollars)

	FY04	FY03	FY02	FY01	FY00
Commitments	11,045	11,231	11,452	10,487	10,919
Of which adjustment lending	4,453	4,187	7,384	3,937	4,426
Number of projects	87	99	96	91	97
Of which adjustment lending	18	21	21	15	14
Gross disbursements	10,109	11,921	11,256	11,784	13,332
Of which adjustment lending	4,348	5,484	4,673	4,393	4,924
Principal repayments (including prepayments)	18,479	19,877	12,025	9,635	10,398
Net disbursements	(8,370)	(7,956)	(769)	2,149	2,934
Loans outstanding	109,610	116,240	121,589	118,866	120,104
Undisbursed loans	32,128	33,031	36,353	37,934	44,754
Allocable net income	1,675	3,050	1,831	989	1,582
Usable capital and reserves	31,332	30,027	26,901	24,909	25,067
Equity-to-loans ratio	29.4%	26.6%	22.9%	21.5%	21.3%

IDA
(millions of dollars)

	FY04	FY03	FY02	FY01	FY00
Commitments	9,035	7,282	8,068	6,764	4,358
Of which adjustment lending	1,698	1,831	2,443	1,826	682
Number of projects	158	141	133	134	126
Of which adjustment lending	23	24	23	15	9
Gross disbursements	6,936	7,019	6,612	5,492	5,177
Of which adjustment lending	1,685	2,795	2,172	1,280	860
Principal repayments	1,398	1,369	1,063	997	920
Net disbursements	5,538	5,651	5,549	4,495	4,257
Credits outstanding	115,743	106,877	96,372	86,572	86,643
Undisbursed credits	23,998	22,429	22,510	20,442	20,833
Undisbursed grants	2,358	1,316	148	—	—
Development grant expenses	1,697	1,016	154	—	—

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About this photo: This bronze sculpture in the atrium of the World Bank headquarters in Washington, D.C., represents a once typical scene in many African nations: the adult has been blinded by a parasitic disease called onchocerciasis, or riverblindness, which is borne by blackflies that breed in flowing rivers.

While millions of people are still infected with riverblindness in a swath of Africa from Senegal to Ethiopia and from Angola to Mozambique, the number is half what it was in the early 1970s because of close collaboration among the partners in the West African Onchocerciasis Control Programme and the African Programme for Onchocerciasis Control, and the use of a drug that relieves symptoms and helps stop transmission of the disease.

The sculpture commemorates efforts that are helping to make the once commonplace image of blind adults being led from place to place by children a thing of the past.

About the cover: An estimated $60 billion is invested in water for developing countries each year. About 90 percent of investment comes from domestic sources. The World Bank accounts for about half of all external financing, or $3 billion a year, equal to about 15 percent of all World Bank lending.

The challenge of achieving the Millennium Development Goal of halving the proportion of people without sustainable access to safe drinking water by 2015 is daunting. In February 2003, the Bank endorsed a new Water Resources Strategy aimed at providing more effective assistance to countries in order to help meet the goal.

Note
This *Annual Report* is also available at **www.worldbank.org**. All dollar amounts are current U.S. dollars unless otherwise specified.

Contents

Message from the President of the World Bank and Chairman of the Board of Directors

President Wolfensohn meets with students at San Jose High Academy in California, United States.

The past year has brought with it signs of hope and progress, but it has also brought signs of concern in the fight against global poverty.

On a positive note, new data this year show that the number of poor people continues to fall. The proportion of people living on less than $1 a day decreased from 40 to 21 percent of the global population between 1981 and 2001. Development indicators are clearly improving in countries that have laid good foundations for growth. In Europe, for example, we saw Slovenia graduate from Bank borrower status and join the European Union along with nine other Bank member countries.

The progress, though, is uneven across the globe. Growth in East Asia has meant that there were 500 million fewer people living below $1 a day in 2001 than in 1981. The number of poor people has also fallen in South Asia and in the Middle East and North Africa, though less dramatically than in East Asia. However, the absolute number of poor people has risen in Africa, Latin America and the Caribbean, and Europe and Central Asia.

This year the Annual Meetings of the World Bank and the International Monetary Fund (IMF) were held in the Middle East for the first time. In Dubai, where we met in the shadow of conflict and loss, I stressed that the world I see today is a world out of balance. Of the 6 billion people in the world today, 1 billion people in the wealthy countries account for 80 percent of the world's gross domestic product while the other 5 billion have 20 percent. While rich countries spend $700 billion a year for defense and transfer $325 billion to their agriculture, they devote just $68 billion to development assistance.

These global imbalances are reflected in the daily lives of poor people around the world. Two billion people have no access to clean water, 115 million children never get the chance to go to school, and some 38 million people, more than 95 percent of them in developing countries, are HIV-positive, with little hope of receiving treatment.

It was only four years ago, in 2000, that world leaders gathered at the Millennium Summit in New York

President Wolfensohn among World Youth representatives at the Youth, Development, and Peace Conference 2003 in Paris, France.

and committed themselves to cut poverty in half by 2015. They agreed on Millennium Development Goals for health, education, women, and the environment. At our Spring Meetings this year, the Bank launched the first *Global Monitoring Report,* which highlights the policies and actions we all need to reach those goals. The report, a joint effort with the IMF, sounded an alarm bell: most of the goals will not be met in most countries by the 2015 deadline.

So the world is at a tipping point: either we in the international community recommit to delivering on the goals, or the targets we set in a fanfare of publicity will be missed, the world's poor will be left even further behind, and our children will be left to face the consequences.

During the next 25 years, about 2 billion more people will be added to the global population, but only 50 million of them will be in the richer countries. The vast majority will be born with the prospect of growing up in poverty and becoming disillusioned with a world they will inevitably view as inequitable and unjust. Terrorism is often bred in places where a fast-growing youth population has no hope.

We cannot ignore the rise of this more youthful world. In the past year, I met with youth from all over the world at places as varied as Tsinghua University in Beijing and Brandeis University in Massachusetts. These young people are not only the future—they are the now. Almost half the people of the world today are under 24 years old. Nine out of 10 of these young people live in developing countries. A billion of them will need jobs in the next decade. An ever-increasing number will leave their home countries to find work.

We need to face these realities, and we need to act on three issues in particular.

First, world trade talks—which can reduce agricultural protectionism and thus poverty in developing nations—must be pushed forward. Developing countries would gain nearly $325 billion by 2015 as a result, enough to lift 140 million people out of poverty.

Second, aid flows need to rise well above current commitments, and they need to be used more effectively. Although some increases have been made in recent years, almost a doubling of current development assistance levels will be required to meet the Millennium Development Goals. It is essential that donor countries fully replenish the International Development Association (IDA)—the fund that delivers proven results for the world's poorest nations.

Third, we must push forward in relieving the debt burdens of the poorest countries by providing a larger proportion of additional aid in the form of grants rather than loans.

For these actions to be successful, the bargain between rich and poor nations struck at the Monterrey Conference in 2002 must be more effectively implemented. The developing countries must do more to reform their economies and cut out corruption, and the developed countries must back those reforms with increased support.

In the global fight against poverty, the World Bank is—and should be—playing a central role. The Bank's strategy continues to focus on the two pillars for poverty reduction: empowering people and improving the investment climate. These pillars support the Bank's Country Assistance Strategies and are reflected in the Poverty Reduction Strategy Papers of poorer countries and the development strategies of wealthier ones. The Bank continued its client-oriented approach this year, supporting development of Poverty Reduction Strategy Papers in low-income countries that receive IDA credits, and doing more to tailor its lending instruments for middle-income countries that borrow from the International Bank for Reconstruction and Development (IBRD). We are also continuing to work with countries experiencing weak policies, institutions, and often internal conflict through a special initiative known as Low-Income Countries under Stress. Donor partnerships are critical to success.

The Heavily Indebted Poor Countries Initiative gained momentum this year, with progress toward its goal of cutting poor countries' debt to manageable levels. Twenty-seven countries—two-thirds of those eligible—are now participating and are receiving debt relief that will total more than $52 billion from all creditors over time. With our partners, we are working to move beyond debt relief to debt sustainability.

On the AIDS front, the Bank joined with the United Nations Children's Fund; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and the Clinton Foundation to provide generic drugs at a fraction of the current cost. We are also working with partners to develop HIV/AIDS prevention programs in countries with high risk.

One highlight of the year was the development conference we cohosted with the Chinese government in Shanghai, the culmination of nine months of studying development experiences. Leaders from developing countries shared their successes and failures with other leaders. We learned that feeling good about individual projects is not enough. We learned that we must "scale up" our development efforts. It is not 10 schools we are trying to help build. It is 10,000 schools. It is not 5 bridges we are trying to help construct. It is 5,000 bridges. It is not thousands of people we are trying to support. It is billions of people.

We at the World Bank believe that the disadvantaged of the world should be seen not as objects of charity but as assets in the fight against poverty. We believe overcoming poverty is a moral, social, economic, and security imperative. We will continue to state this view loud and clear as we work tirelessly to support all who seek to achieve the Millennium Development Goals.

James D. Wolfensohn

The Board of Executive Directors

From left to right: (standing) Per Kurowski, Terrence O'Brien, Otaviano Canuto, Paolo Fernando Gomes, Nuno Mota Pinto, Pierre Duquesne, Thorsteinn Ingolfsson, Tanwir Ali Agha, Tom Scholar, Kurt Richard Bayer, Eckhard Karl Deutscher, Alexey G. Kvasov, Toshio Oya, Louis A. Kasekende, Yahya A. Alyahya, Rapee Asumpinpong; (seated) Guangyao Zhu, Pietro Veglio, Carole Brookins, Mahdy Ismail Aljazzaf, Gobind Ganga, Tamara Solyanyk, and Alieto A. Guadagni.

The Executive Directors are responsible for the conduct of the World Bank's general operations, performing their duties under powers delegated by the Board of Governors. As provided in the Articles of Agreement, the member countries having the largest number of shares appoint 5 of the 24 Executive Directors; the rest are elected by the other member countries, which form constituencies in an election process conducted every two years.

Executive Directors consider and decide on IBRD loan and guarantee proposals and IDA credit, grant, and guarantee proposals made by the President, and they decide on policies that guide the Bank's general operations. They are also responsible for presenting to the Board of Governors, at the Annual Meetings, an audit of accounts, an administrative budget, and an annual report (this report) on the Bank's operations and policies as well as other matters that require submission to the Board of Governors. The Board of Executive Directors (the Board) also exercises an important role in shaping Bank policy and its evolution. It is in this role that the Board takes into account the evolving perspectives of member countries on the strategy and operations of the Bank Group. In this regard, the Operations Evaluation Department provides independent advice to the Board on the relevance, sustainability, efficiency, and effectiveness of operations. The department is directly accountable to the Board for performing evaluations as set out in its Board-approved policies, strategies, and work program.

The Executive Directors regularly meet at Bank headquarters to carry out their responsibilities, in formal Board meetings as the Committee of the Whole as well as in informal meetings. Directors also serve on one or more standing committees: Audit, Budget, Development Effectiveness (CODE), Governance and Executive Directors' Administrative Matters (COGAM), and Personnel. With the committees' help, the Board discharges its oversight responsibilities through in-depth examinations of policies and practices. Committees are not empowered to make decisions for the entire Board.

In fiscal 2004 the Audit Committee revised its terms of reference, taking into consideration emerging best practices in the areas of governance and oversight as well as the special status of the World Bank Group as a multilateral organization. The revised terms of reference are now the foundation for continued enhancements in the governance and control framework within the World Bank Group. The Budget Committee secured management's commitment to the Board's early engagement in the Bank budget process and plans to work with management toward developing an integrated multiyear framework. CODE, as part of the Bank's simplification and harmonization efforts, discussed the eligibility of expenditures in World Bank lending. COGAM approved a new code of conduct for Board members and continued its discussion of Board effectiveness and the issue of voice and participation of developing and transition countries in the Bretton Woods institutions. The Personnel Committee recommended, and the Board approved, an employment policy for a more flexible work force.

Executive Directors and Alternate Executive Directors periodically visit borrowing countries to review Bank assistance in progress. They meet a wide variety of people, including project managers, beneficiaries, and government officials, as well as representatives of civil society organizations, the business community, other development partners, financial institutions, and resident Bank staff. During fiscal 2004 Directors visited Bosnia and Herzegovina, Serbia and Montenegro, Kosovo, Vietnam, Lao People's Democratic Republic, and Samoa.

Directors also play an active role in preparing the agenda and issues papers for the semiannual meetings of the joint World Bank and International Monetary Fund (Bank-Fund) Development Committee. In fiscal 2004 the Development Committee continued to address the Bank's strategy for monitoring progress in fighting poverty and achieving the internationally agreed-upon goals of the Millennium Declaration. Toward that end the Development Committee reviewed the first progress report, known as the *Global Monitoring Report,* on achieving the Millennium Development Goals (MDGs). (See chapter 4 of this volume and the Development Committee Communiqués on the enclosed CD-ROM.)

STRATEGIC ISSUES

The Board emphasized the following areas during the fiscal year.

Strategic Framework

The Board's work during fiscal 2004 focused on the continued implementation of its Strategic Framework, last reviewed and updated in fiscal 2002. Management presented the Executive Directors with several papers on the strategic directions for the Bank Group for the fiscal 2004–06 period, including a medium-term strategy and finance paper. The Board reviewed these papers and expressed strong support for the continued focus on implementation and results toward attaining the MDGs, and on greater selectivity, trade-offs, redeployment, and efficiency gains.

The Bank's Role in Poverty Reduction

The Board's agenda continued to emphasize the Bank's role and contributions toward meeting the MDGs. This year, in addition to the first *Global Monitoring Report,* Directors also reviewed other papers including the "Progress Report on Financing Modalities toward the MDGs" and "Supporting Sound Country Policies with Adequate and Appropriate Financing: Implementing the Monterrey Consensus at the Country Level." The Board reviewed a report on poverty reduction entitled "Poverty Reduction Strategy Papers: Progress in Implementation and Detailed Analysis of Progress in Implementation." It also considered 12 Poverty Reduction Strategy Papers (PRSPs) and 20 PRSP Progress Reports.

On the related issue of debt reduction, the Board focused on the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. In fiscal 2004 it considered 6 HIPC completion point documents. (The completion point is the point at which all creditors provide, unconditionally, the remainder of their share of debt relief agreed on at the decision point, the point at which the international community agrees on the amount of debt relief a country needs and begins providing it. The completion point is tied to implementation of key reforms and policies outlined in a country's PRSP.) The Board also considered a number of joint Bank-Fund papers on the HIPC Initiative, including the annual HIPC progress report and papers on the HIPC sunset clause—the deadline for these countries to adopt programs of adjustment and reforms, supported by IDA and the International Monetary Fund and leading to the decision point—and the topping-up framework, within which additional debt relief is provided at the completion point in exceptional cases where exogenous factors have led to a fundamental change in a country's economic situation. In addition, the Board considered the new joint Bank-Fund work on long-term debt sustainability in low-income countries.

Country Programs

Country Assistance Strategies (CASs) and the principles underlying the Comprehensive Development Framework and PRSPs remained the cornerstone of Bank Group work at the country level. Directors continued their call for a closer link between the CAS and the PRSP process and for grounding CASs in a realistic, measurable, results-based framework that can be monitored. The Board reviewed 38 CASs, 6 of which are results-based, and CAS products during the fiscal year. It emphasized the need for these strategies to be more focused and selective by building on partnerships. The Board also stressed the need to pay greater attention to implementation, capacity building, and risks.

Global Programs and Partnerships

The Bank has continued to respond to demands for its involvement in and support of global partnerships and international initiatives with the International Monetary Fund, other multilateral institutions, the United Nations system, bilateral aid agencies, and civil society. The managements of both the Bank and the Fund decided to strengthen the Joint Implementation Committee, giving it a renewed mandate to address issues that affect both middle- and low-income countries. Areas of collaboration include scaling up activities in support of middle-income countries and increasing debt sustainability in low-income countries. Other areas of collaboration included supporting anti-money-laundering activities and combating the financing of terrorism, improving the international financial architecture, providing implementation updates on the PRSP and HIPC processes, and strengthening Bank-Fund country programs and conditionality. The Board also reviewed the progress of global programs and partnerships and the development of a framework for monitoring cooperation among multilateral institutions.

OVERSIGHT AND FIDUCIARY RESPONSIBILITY

The Board exercises oversight and fiduciary responsibility on behalf of its shareholders, in part through its Audit Committee. The committee advises the Board on a broad range of financial management and other governance issues with the goal of strengthening the overall control environment and Board decision making on the Bank's financial policy and direction.

ADMINISTRATIVE BUDGET

The total administrative budget for fiscal 2004 was \$1,865.2 million, net of reimbursements, and included \$178.2 million for the Development Grant Facility. The net administrative budget of \$1,438.3 million represented a 2.5 percent real increase over the fiscal 2003 budget (a 6 percent nominal increase). In June 2004 the Executive Directors approved a total administrative budget, net of reimbursements, of \$2,000.3 million for fiscal 2005.

The World Bank Group

The World Bank Group, with a mission to fight poverty and improve living standards for people in the developing world, is among the world's leading development institutions. It provides loans, policy advice, technical assistance, and knowledge-sharing services. IBRD and IDA—together, the "World Bank"—are owned by member countries that carry ultimate decision-making power. The World Bank Group today consists of five closely associated institutions.

The International Bank for Reconstruction and Development

Established 1945 ■ 184 Members
Cumulative lending: $394 billion
Fiscal 2004 lending: $11 billion for 87 new operations in 33 countries

A comprehensive program to support the reconstruction of Timor-Leste won the President's Award for Excellence in 2002.

IBRD aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, and (nonlending) analytical and advisory services. The income that IBRD has generated over the years has allowed it to fund several developmental activities and to ensure its financial strength, which enables it to borrow in capital markets at low cost and offer clients good borrowing terms. IBRD's 24-member Board is made up of 5 appointed and 19 elected Executive Directors, who represent its 184 member countries.

The International Development Association

Established 1960 ■ 165 Members
Cumulative commitments: $151 billion
Fiscal 2004 commitments: $9 billion for 158 new operations in 62 countries

A villager harvests rice on the high plains of Madagascar. Because of widespread deforestation and consequent soil erosion, the country must now supplement its rice production with Asian imports.

Contributions to IDA enable the World Bank to provide approximately $6 billion to $9 billion a year in highly concessional financing to the world's 81 poorest countries (home to 2.5 billion people). IDA's interest-free credits and grants are vital because these countries have little or no capacity to borrow on market terms. In most of these countries, the great majority of people live on less than $2 a day. IDA's resources help support country-led poverty reduction strategies in key policy areas, including raising productivity, providing accountable governance, improving the private investment climate, and improving access to education and health care for poor people.

The International Finance Corporation

Established 1956 ■ 176 Members
Committed portfolio: $23.5 billion (includes $5.5 billion in syndicated loans)
Fiscal 2004 commitments: $4.8 billion for 217 projects in 65 countries

IFC invested in Asaka Bank in Uzbekistan to make more term financing available to the private sector, including small and medium enterprises.

IFC promotes economic development through the private sector. Working with business partners, it invests in sustainable private enterprises in developing countries without accepting government guarantees. It provides equity, long-term loans, structured finance and risk management products, and advisory services to its clients. IFC seeks to reach businesses in regions and countries that have limited access to capital. It provides finance in markets deemed too risky by commercial investors in the absence of IFC participation and adds value to the projects it finances through its corporate governance, environmental, and social expertise.

The Multilateral Investment Guarantee Agency

Established 1988 ■ 164 Members
Cumulative Guarantees[1] Issued: $13.5 billion
Fiscal 2004 guarantees issued: $1.1 billion

MIGA guaranteed a coffee processing facility in Uganda, which introduced cost-effective processing techniques and buys the bulk of its coffee from small-scale farmers.

MIGA helps promote foreign direct investment in developing countries by providing guarantees to investors against noncommercial risks, such as expropriation, currency inconvertibility and transfer restrictions, war and civil disturbance, and breach of contract. MIGA's capacity to serve as an objective intermediary and to influence the resolution of potential disputes enhances investors' confidence that they will be protected against these risks. In addition, MIGA provides technical assistance and advisory services to help countries attract and retain foreign investment and to disseminate information on investment opportunities to the international business community.

1. Amounts include funds leveraged through the Cooperative Underwriting Program.

The International Centre for Settlement of Investment Disputes

Established 1966 ■ 140 Members
Total cases registered: 159
Fiscal 2004 cases registered: 30

A third of ICSID's current cases involve projects in the energy sector.

ICSID helps encourage foreign investment by providing international facilities for conciliation and arbitration of investment disputes, thereby helping foster an atmosphere of mutual confidence between states and foreign investors. Many international agreements concerning investment refer to ICSID's arbitration facilities. ICSID also issues publications on dispute settlement and foreign investment law.

First Annual Meeting of the Board of Governors of the IBRD and the IMF, September 27, 1946. President Eugene Meyer is pictured third from right.

Mr. Eugene Meyer, first World Bank President, 1946.

Mr. John J. McCloy, center, World Bank President, 1947–1949.

Eugene Meyer (1946)

1940s

1942

1944 **United Nations** Monetary and Financial Conference draws up Bank Articles of Agreement at Bretton Woods; 44 countries represented.

1945 **Twenty-nine** governments sign Articles of Agreement in Washington, D.C.

1946 **Inaugural meeting** of the Boards of Governors of the World Bank and the International Monetary Fund held in March.

1 The Development Agenda

Post-war industrial investment in France.

Mr. John J. McCloy, Chairman, at an IBRD Meeting of Executive Directors, Washington D.C., May 1949

The World Bank loan to France financed post-war reconstruction.

John J. McCloy (1947–1949)

Eugene R. Black (1949–1963)

1947 **First loan made—$250** million to France.

1948 **First development** loan made—$13.5 million to Chile.

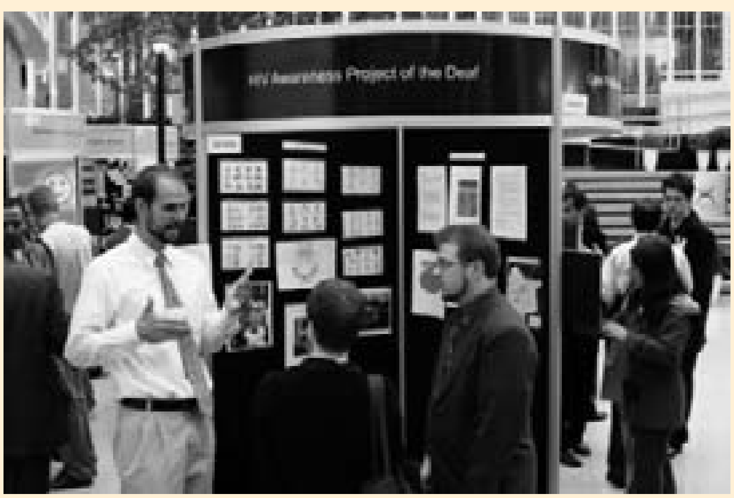
1949 **The Bank's technical** assistance program begins.

FISCAL 2004 HIGHLIGHTS

- The **Global Conference on Poverty Reduction** held in Shanghai, China, in May 2004 brought the development community together to consider concrete actions to accelerate progress on the development agenda. One hundred case studies, undertaken for the conference, helped to identify poverty solutions that work and that can be applied around the world. (See chapter 1, box 1.1, and chapter 5.)
- **IBRD approved** 87 projects for $11 billion in fiscal 2004 in 33 countries. **IDA made commitments** of $9 billion for 158 operations in 62 countries. (See chapter 5.)
- The 16th **Annual Bank Conference on Development Economics (ABCDE)** was held in Washington, D.C., and Europe in May 2004. The **Washington, D.C.,** conference, on May 3 and 4, featured keynote addresses by Nobel Laureate Vernon Smith and Bank Senior Vice President and Chief Economist François Bourguignon. The theme of the conference was "Lessons of Experience." The Bank will publish the conference proceedings in fiscal 2005. At the **ABCDE Europe** conference, on May 10 and 11, some 350 policy makers, academics, journalists, and representatives of youth organizations and civil society organizations discussed the theme "Doha, Monterrey, and Johannesburg: Are We on Track?"
- In April 2004 World Bank President James D. Wolfensohn appeared before the United Nations Security Council in New York and called for a **War on AIDS.** He cited the devastation that AIDS has caused in developing countries, most notably in Africa, and warned that AIDS is turning the clock back on development and undermining economic and social hope. AIDS in Africa has already claimed 13 million African lives and orphaned 10 million children.
- In April 2004 the Bank joined in partnership with the **Global Fund to Fight AIDS, Tuberculosis and Malaria;** the **United Nations Children's Fund;** and the **Clinton Foundation** to make generic drugs available to people infected with HIV/AIDS in more than 100 poor countries. The program will reduce the cost of drugs to about one-third to one-half the cost of the cheapest drugs available commercially; diagnostic tests will cost about one-fifth of the market price. The drugs have been endorsed by the World Health Organization. (See chapter 3.)
- **Slovenia** "graduated" on March 17, 2004, from being a recipient of Bank financial and technical assistance and expressed its intention to become an IDA donor in the 14th Replenishment. *Slovenia: From Yugoslavia to the European Union* was published by the Bank in April 2004. **Slovenia and nine other World Bank member countries**—Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, and the Slovak Republic—**joined the European Union** in May 2004. The Bank has loaned a total of $10.6 billion to these countries since 1990. (See chapter 2.)
- The first ***Global Monitoring Report*** was published in June 2004, produced jointly by Bank and IMF staff in close collaboration with partner agencies. It assesses progress on the policies and actions by developing countries, developed countries, and development agencies to achieve the Millennium Development Goals. (See chapter 4.)
- As part of its results action plan, the Bank developed and began to implement the **Statistical Capacity Building Program** to help developing countries strengthen statistical systems, institutional capacity, and planning.
- In fiscal 2004 the Bank conducted a review of its activities with **middle-income countries** and approved an action plan for enhancing services to those countries. Almost 70 percent of the world's poor people live in middle-income countries, hence the need for a strong Bank role. Action on the plan began in fiscal 2004. (See chapter 1.)
- The Bank worked to **simplify and modernize** its lending policies and procedures to make it easier for clients to borrow. It also worked with development partners to harmonize processes for the benefit of borrowing countries. (See chapter 4.)
- In cooperation with the United Nations, the Bank produced a **Joint Iraq Needs Assessment**, which identified Iraq's reconstruction and development requirements and estimated the financing needed for reconstruction. The two organizations made provisions for trust funds to help donors channel their resources and coordinate support. (See chapter 5.)
- The Bank's **Post-Conflict Fund** is now benefiting 36 countries. It provided three grants to Iraq this

year for knowledge sharing in the areas of human development, water, and power. Other countries receiving support include Côte d'Ivoire, Haiti, Liberia, and Somalia. The Fund has approved a total of more than $61 million for grants for the period 1998–2005. The Africa region is the largest beneficiary of the funds. (See chapter 3.)

- The Bank created a new $25 million trust fund for **low-income countries under stress,** which will target governance reforms and social services. (See chapter 1.)
- In February 2004 negotiations for the **14th Replenishment of IDA** were launched when donor and borrower representatives met in Paris. Commitments to IDA14 will be especially important to developing countries as they strive to reach the Millennium Development Goals by 2015. (See chapter 5.)
- At the global **Development Marketplace** held in December 2003, 183 finalists from 65 countries presented innovative proposals for solving development problems. Winning projects—groundbreaking ideas in the fight against poverty—ranged from expanding health care outreach and medical supplies in Mozambique to improving landfill management and conserving an endangered plant species in Brazil by recycling coconut husks. Since 1998 the Development Marketplace has awarded more than $24 million in grants to some 370 projects (**www.developmentmarketplace.org**).
- On the eve of the Cancún trade talks in September 2003, the Bank launched ***Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda.*** It presents a detailed overview of the world economy and an analysis of global trade issues, particularly those on the agenda for the Doha round of trade negotiations.
- At the **Youth, Development, and Peace Conference** in Paris in September 2003, President James D. Wolfensohn and Managing Director Mamphela Ramphele met with participants from youth organizations worldwide, many of whom are active in development programs in their countries. Mr. Wolfensohn assured them that the Bank is ready to engage them more substantially in its work. The conference was jointly organized by the Bank, the European Youth Forum, and the World Organization of the Scout Movement. (See chapter 3.)
- World Bank President James D. Wolfensohn's speech at the **Annual Meetings** in Dubai in September 2003 pointed to the inequity and imbalance between rich and poor, which he said was both unsustainable and a source of global instability. The speech challenged governments and organizations to scale up their efforts toward meeting the Millennium Development Goals.
- In July 2003 the Bank launched its **Infrastructure Action Plan.** The plan sets the stage for increased support for infrastructure service delivery through a balanced public sector–private sector approach and the mobilization of financing from multiple sources. (See chapter 3.)



The Development Marketplace Global Competition was held December 3–4, 2003, in Washington, D.C.

Chapter 1

The Development Agenda

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD) AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) TOGETHER MAKE UP THE WORLD BANK, AN INTERNATIONAL FINANCIAL ORGANIZATION WHOSE MISSION IS TO FIGHT WORLD POVERTY. THE BANK HELPS CLIENT COUNTRIES ACHIEVE SUSTAINABLE DEVELOPMENT BY HARNESSING RESOURCES AND FORMING PARTNERSHIPS WITH OTHERS, INCLUDING DEVELOPMENT INSTITUTIONS AND CIVIL SOCIETY ORGANIZATIONS.

Developing countries have made much progress in recent decades. Globally, life expectancy at birth has risen by 20 years over the past 40 years, and adult illiteracy has been cut in half over the past 30 years. Poverty rates have fallen: the proportion of people living in extreme poverty fell from just under 40 percent in 1981 to 21 percent in 2001. In countries that have laid good foundations for growth, indicators of social development are improving. Strong health programs in Brazil, Thailand, and Uganda are controlling the spread of HIV/AIDS (human immunodeficiency virus/acquired immune deficiency syndrome), and Thailand has reduced the number of new infections from 140,000 a year in the early 1990s to 30,000 in 2001.

ERADICATE EXTREME POVERTY AND HUNGER

The success stories of many developing countries prove that progress is possible when countries have good policies and the support of partners. But progress has been uneven. Slow growth, low educational achievement, civil disturbances, and poor health remain obstacles for many countries. At the end of 2003, some 38 million adults and children were living with HIV/AIDS—more than 95 percent of them in developing countries and 70 percent of them in Africa. Almost a million new cases emerged in South and East Asia, where more than 7 million people now live with the disease.

To accelerate the development agenda, the global community embraced the Millennium Development Goals (MDGs), eight common goals that identify clear targets for eradicating poverty and other sources of human deprivation and for promoting sustainable development by 2015. In September 2000, 189 countries signed the Millennium Declaration.

The agenda is unfinished, and the challenge is immense. Some 2.8 billion people—more than half of the population in developing countries—still live on less than $2 a day, and 1.1 billion of these people live on less than $1 a day. The task of helping these people

ACHIEVE UNIVERSAL PRIMARY EDUCATION

move from poverty to prosperity while the world's population continues to grow is enormous. (Figure 1.1 shows poverty rates by region since 1990.)

MONITORING PROGRESS

With broad agreement on the goals, the international community forged a shared development strategy at meetings in Doha, Monterrey, and Johannesburg, where trade, financing for development, and sustainable development were discussed. In Monterrey world leaders formed a consensus on mutual responsibilities: developing countries are called upon to improve policies and governance, and developed countries are called upon to step up support by providing more and better aid and more open access to their markets.

The first *Global Monitoring Report,* published in June 2004, looks at the progress made toward the MDGs, the constraints blocking action, and how all parties are doing in delivering on their commitments. The report, produced jointly by the staffs of the World Bank and the International Monetary Fund (IMF) in close collaboration with partner agencies, assesses the policies and actions needed to attain the MDGs and related outcomes. Its findings present the sobering assessment that, while the first goal of halving poverty will likely be met globally, *given current trends, most countries will not meet most of the goals.* A significant and immediate increase in resources and concentrated effort by all parties is needed to avoid falling far short of the goals. (See "Global Monitoring of Policies and Actions toward the MDGs" in chapter 4.)

The Millennium Development Goals

1 **Eradicate extreme poverty and hunger**
Halve the number of people in extreme poverty, and the number of people who suffer from hunger, by 2015

2 **Achieve universal primary education**
Ensure by 2015 that all children will be able to complete a full course of primary schooling

3 **Promote gender equality and empower women**
Eliminate gender disparity in primary and secondary education by 2005, and in all levels of education by 2015

4 **Reduce child mortality**
Reduce by two-thirds the under-five mortality rate by 2015

5 **Improve maternal health**
Reduce by three-quarters the maternal mortality rate by 2015

6 **Combat HIV/AIDS, malaria, and other diseases**
Halt the spread of HIV/AIDS, malaria, and other major diseases, and begin to reverse the spread, by 2015

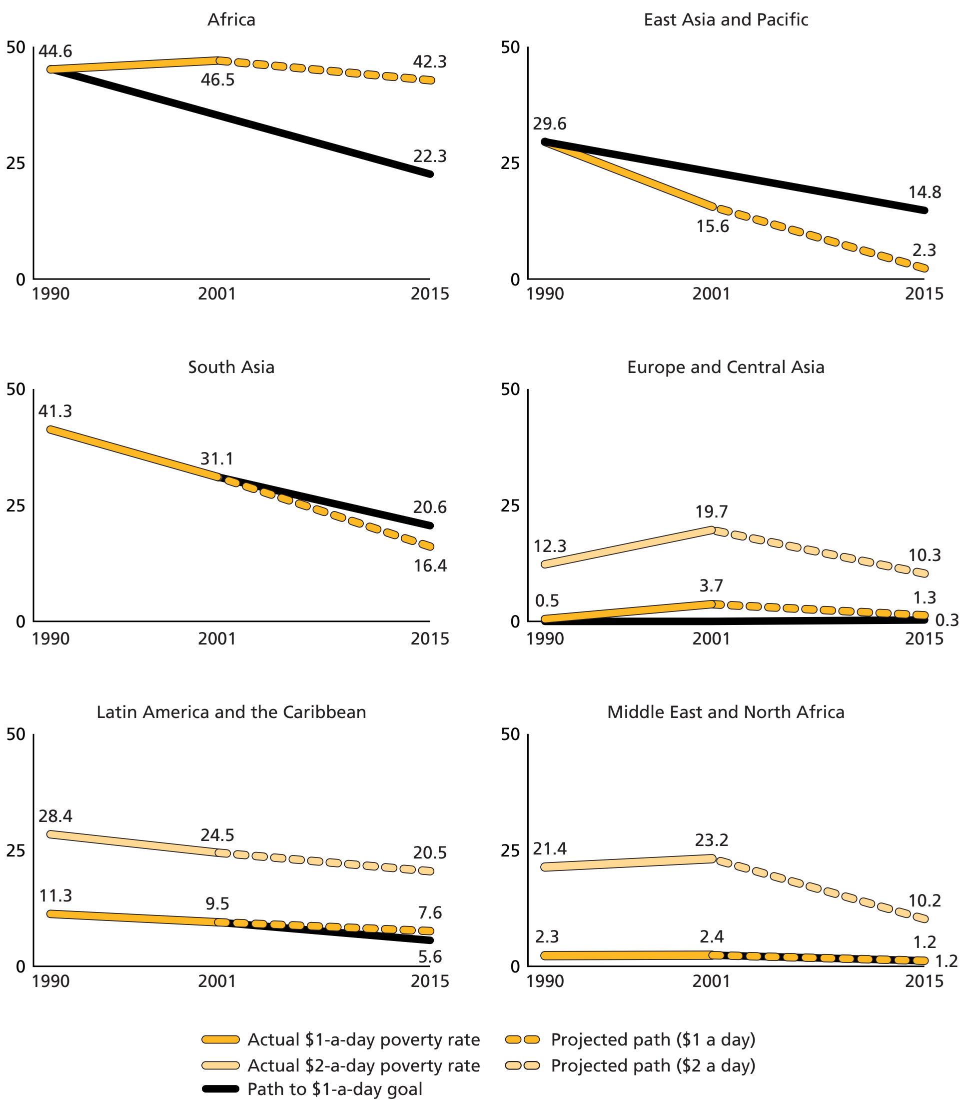
7 **Ensure environmental sustainability**
Halve the proportion of people without sustainable access to safe drinking water by 2015

8 **Develop a global partnership for development**
Further develop an open, rule-based, predictable, nondiscriminatory trading and financial system

No country truly committed to poverty reduction and to meeting the MDGs should be denied the chance of achieving these goals because of lack of resources. Yet that is what is happening. Development assistance has risen since the meeting in Monterrey, where donors pledged additional support, but the increase largely reflects debt relief and technical cooperation grants. By all estimates, there is a gap between the amounts pledged and the amount necessary to achieve the MDGs. It is critical—and urgent—to increase the quantity and quality of development assistance to countries with sound policies to help them accelerate their progress toward the MDGs. (See figure 1.2.)

It is clear that the goals remain a great challenge and that hard work lies ahead for the entire international community. The Bank is deeply committed to responding to the challenge and playing the important role expected of it in the new global architecture for development.

Figure 1.1 **Population Living below $1 and $2 a Day** | percent



Note: The graphs for Africa, East Asia and Pacific, and South Asia do not include figures for $2 a day.
Source: World Bank. 2004. *World Development Indicators 2004*. Washington, D.C.

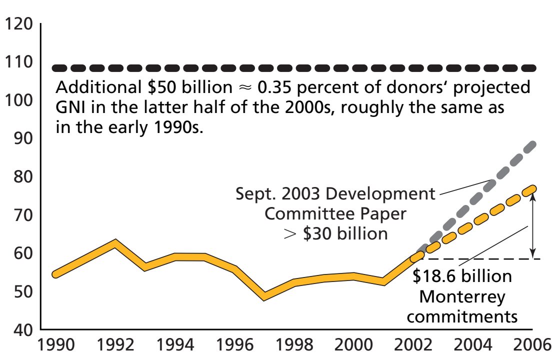
REDUCING POVERTY

The most effective development strategy is one that is country owned and country led, promotes economic growth, and ensures that poor people participate in and benefit from their country's development. Reducing poverty effectively depends on many factors. Foremost among these are a conducive development climate and the participation of all people in their country's development. (See box 1.1.) These two pillars form the basis of the Bank's strategy, set forth in the Strategic Framework in 2001.

Building the Climate for Investment, Jobs, and Sustainable Growth

Entrepreneurship, investment, and innovation by the private sector drive economic growth, but they will not occur without the right environment. A good economic climate spurs domestic economic activity and attracts domestic and foreign investment. Such a climate can be identified by its positive characteristics: sound macroeconomic policies, openness to trade, good governance and institutions, strong financial markets that channel savings to productive uses and broaden access to finance, and the availability of key physical infrastructure (transportation, power, and telecommunications). Since 1999 many countries have improved their private business environments, according to evidence from Country Policy and Institutional Assessments conducted by the Bank using a number of indicators rated on a scale of one to six. (See figure 1.3.) Average ratings for business environment are rising but are still relatively low, showing continued weakness.

Figure 1.2 **Aid Is Rising but Is Well Short of What Is Needed** | billions of dollars



Note: GNI = gross national income.

Source: Organisation for Economic Co-operation and Development. 2004. *Development Cooperation Report 2003*. Paris. Development Committee. 2003. "Supporting Sound Policies with Adequate and Appropriate Financing." DC 2003–0016. Washington, D.C.

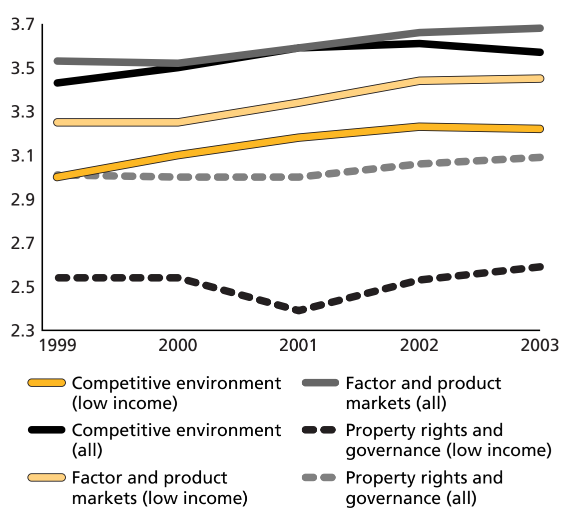
BOX 1.1 **SHARING DEVELOPMENT EXPERIENCES**

More than 1,000 people from the international community met in China in May 2004 for a unique forum on poverty reduction. The Shanghai Conference on Poverty Reduction, and the nine-month learning process that preceded it, provided an opportunity for participants to identify development successes and failures and to jointly explore ways to build on success.

Participants from developing and developed countries, including heads of state and representatives from civil society and the private sector, discussed some 100 case studies of poverty reduction projects. They identified development solutions that work, that endure, and that can be applied around the world to meet the Millennium Development Goals. The conference made it clear that the global community has the knowledge and resources to meet the goals, but that redoubled action is needed to deliver better lives for the world's poor.

As the review of the Millennium Summit in 2005 approaches, and with only a decade left until the target date of 2015, moving forward with the lessons learned in Shanghai is essential. (See also "Capacity Enhancement" in chapter 5.)

Figure 1.3 **Countries Are Improving Their Private Business Environment** | scale of 1 to 6



Source: World Bank Country Policy and Institutional Assessment ratings, 2003.

The Bank has also launched more than 50 investment climate surveys. (See "Supporting Private Sector Development" in chapter 3.)

Investing in Poor People and Empowering Them to Participate in Development

The capabilities of poor people can be increased by widening their access to key services and by fostering social inclusion. Better access to quality education and health care expands opportunities for poor people to improve their own well-being. Access to social protection is also important—well-targeted safety nets protect poor and vulnerable people from the unforeseen shocks and dislocations that accompany necessary reforms. To be effective, the strategy must also include mechanisms that foster poor people's participation in decisions that affect them. Cutting across this agenda is the empowerment of women, achieved by removing barriers to their fuller participation in the development process. Data gathered since 1993 show that citizens are increasingly participating in processes that can influence policy making and hold their leaders accountable. (See figure 1.4.)

ACTING ON COUNTRY PRIORITIES

The Country Assistance Strategy (CAS) is the business plan that guides Bank activities in a client country. The Bank tailors its strategy to the country's needs. Various approaches are developed for low-income countries, low-income countries under stress (LICUS), and middle-income countries.

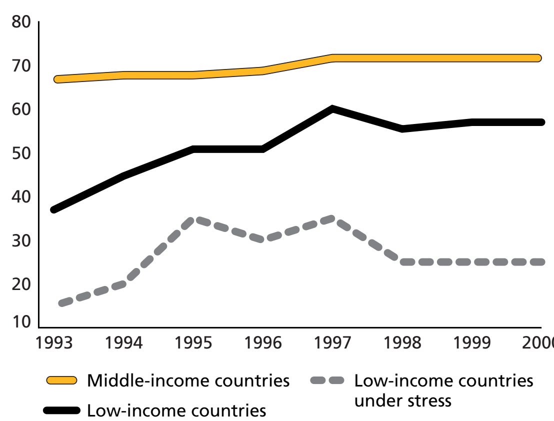
PROMOTE GENDER EQUALITY AND EMPOWER WOMEN

REDUCE CHILD MORTALITY

Country Assistance Strategies

The CAS is based on a country's own vision for development. It contains a diagnosis of proposed policies and outlines the Bank's program to support the vision. Oriented toward results, the strategy is prepared in consultation with country authorities, development partners, civil society organizations, and other stakeholders. It is the central tool used by the Bank's management and Board of Executive Directors to review

Figure 1.4 **Participatory Processes Are Improving in Developing Countries** | percent



Note: Values denote percentage of country chief executives elected in multiparty elections with less than 75 percent of the vote.

Source: Beck and others. 2000. "New Tools and New Tests in Comparative Political Economy. " Policy Research Working Paper 2283. World Bank, Washington, D.C.

IMPROVE MATERNAL HEALTH

and guide the Bank's country programs, and it is a vehicle for gauging the impact of the Bank's work.

During fiscal 2004 the Bank aligned Country Assistance Strategies and Progress Reports for IDA-borrowing members with country-owned poverty reduction strategies in Armenia, Benin, Bolivia, Cameroon, Chad, Ghana, Kenya, Madagascar, Mali, Mongolia, Mozambique, Pakistan, Vietnam, and Zambia. It also prepared Country Assistance Strategies and Progress Reports for several IBRD- and blend-borrowing countries, including Argentina, Brazil, Costa Rica, the Dominican Republic, Indonesia, the former Yugoslav Republic of Macedonia, Mexico, Nigeria, Paraguay, the Slovak Republic, Tunisia, Turkey, and Ukraine.

In fiscal 2004 the Board discussed six Transitional Support Strategies (TSS) for postconflict settings, including the Democratic Republic of Congo, the Republic of Congo, Kosovo, Serbia and Montenegro, and the West Bank and Gaza, and a TSS update for Comoros. It also prepared an Interim Strategy Note for Iraq. As part of its work to engage low-income countries under stress, the Bank prepared Country Re-engagement Notes for Liberia and Sudan. In fiscal 2004, 15 Country Assistance Strategies and CAS Progress Reports were prepared jointly with IFC. All of the 38 fiscal 2004 CAS documents have been or are in the process of being disclosed to the public.

The Bank is paying particular attention to improving the results orientation of Country Assistance Strategies. Following the first pilot CAS based on a results framework—for Sri Lanka, in fiscal 2003—the Board discussed six additional pilot strategies—for Armenia, Brazil, Cameroon, Mozambique, Ukraine, and Zambia—in fiscal 2004. Each pilot drew lessons from the completion report for the previous CAS, which evaluated the extent to which results had been achieved. (The Bank's Operations Evaluation Department reviews these completion reports. See chapter 4.)

Low-Income Countries

Reducing poverty is particularly difficult in low-income countries, where the incidence of poverty is high, the institutional constraints are severe, the investment climate may not be conducive to sustainable growth, and access to resources is limited.

A key tool in the Bank's support for low-income countries is the Poverty Reduction Strategy Paper (PRSP), introduced at the end of calendar 1999. PRSPs are country-authored, results-oriented, comprehensive plans based on broad consultation with internal and external partners and stakeholders. Intended to serve as the framework for domestic policies and cross-sectoral

COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES

ENSURE ENVIRONMENTAL SUSTAINABILITY

programs that reduce poverty, they are the basis for development aid, including IDA financing. During the process of developing the strategy papers, countries identify their special circumstances and needs. The Bank plays an active role in helping clients strengthen the role of stakeholders in this process. (See "Reducing Poverty and Improving Economic Management" in chapter 3.) The Bank also encourages countries to integrate the Millennium Development Goals into their strategy papers, considering the cross-sectoral actions needed to achieve the goals. This approach will help ensure that country strategies address the trade-offs inherent in achieving the MDGs.

The PRSP process can be complex and time consuming. To ensure that it does not prevent IDA concessional lending or Heavily Indebted Poor Countries (HIPC) debt relief from reaching low-income countries, the Bank introduced interim Poverty Reduction Strategy Papers. These PRSPs use a simpler format, and can thus be prepared more quickly, than full PRSPs.

PRSP-based IDA assistance to low-income countries includes Poverty Reduction Support Credits, which support country-owned poverty-reduction priorities. These credits focus on building government capacity and institutions, particularly capacity and institutions that serve poor people. This fiscal year the Bank's Board of Executive Directors approved nine such credits for eight countries.

A new PRSP-linked results measurement system has been proposed for use during the 14th Replenishment of IDA (IDA14, fiscal years 2006–08). It will measure results in terms of both aggregate country outcomes and IDA's contribution to country outcomes. The new measurement system is designed to reflect the priorities of national poverty reduction strategies, to be linked to the MDGs, to show aggregated results in IDA countries, and to assess IDA's contribution to development results.

The IDA14 replenishment will be a key instrument in helping low-income countries meet the MDGs. Since IDA funds typically disburse over a period of about 8 years, the IDA14 funds will be an important factor as the year 2015 approaches. (See also "IDA Resources" in chapter 5.)

Low-Income Countries under Stress

Low-income countries under stress are the world's most fragile states, characterized by weak policies, institutions, and governance and often by internal conflict. Child mortality in these countries is twice as high as in other low-income countries, and the death rate from malaria is three times as high. Some 500 million of the world's poorest people live in these countries,

DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

which often lack the capacity to use finance effectively to reduce poverty.

The LICUS Initiative is a new approach to engagement in these countries. It anchors its strategies in strong political and economic analysis, promoting domestic demand and capacity for change, supporting simple entry-level reforms, and strengthening social service delivery mechanisms.

Since the initiative was launched in 2002, the Bank's Board has discussed 7 LICUS country strategies, and 13 LICUS teams have started to develop innovative country approaches. These approaches include activities that improve transparency in the management of oil revenue in Angola, support the provision of basic public goods in Somalia, and build leadership capacity in Sudan. Analytical services to these countries increased, with in-country missions undertaken in all the countries currently in arrears on their outstanding loans. The Bank is also improving its ability to measure country performance at the bottom of the performance spectrum by revising its Country Policy and Institutional Assessment and the Post-Conflict Progress Indicators.

In fiscal 2004 the Bank increased staffing resources for work on these countries and created a $25 million trust fund. The fund, which will focus on countries that lack access to regular IDA financing, is helping these countries implement early reforms.

Donor partnerships are critical to success in low-income countries under stress. The Bank has developed a new tool—the transitional results framework—to foster an integrated approach that includes peace building and support for economic, social, and institutional recovery in postconflict situations. Joint efforts are under way with the United Nations and bilateral donors to use this approach in the Central African Republic, Haiti, Liberia, and Timor-Leste.

The Bank and other donors have also supported the establishment of a learning and advisory group within the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee. The new group is undertaking a strong program of policy research on aid allocation, delivery mechanisms, and donor coordination issues in these countries.

Middle-Income Countries

Despite numerous advances, poverty and social challenges still exist in many middle-income countries, where hundreds of millions of poor people live. These countries face many development hurdles: promoting

high and sustained growth in order to provide productive employment, reducing poverty while reducing inequality, reducing the volatility of access to private financial markets while developing safety nets to cushion the impact of volatility, and strengthening the institutional and governance structures that underpin viable market-based economies. Supporting progress in these areas enables the Bank to significantly increase its contribution to the global development agenda, particularly the MDGs.

The Bank helps middle-income countries through a combination of knowledge, lending, and financial services tailored to each country's specific needs and circumstances. The Bank is attempting to increase the value of services to middle-income countries by ensuring that its Country Assistance Strategies better respond to their diverse needs and that countries can take advantage of the increased flexibility of the Bank's financial offerings. By supporting policy and institutional reforms, the Bank also plays a catalytic role in attracting private sector investment as well as support from other development partners.

In fiscal 2004 the Bank conducted a review of its work with middle-income countries, recognizing that it may have missed significant opportunities to support their growth and poverty reduction efforts. (See "Innovations in Lending" in chapter 5.) It approved and began to implement an action plan for enhancing services to middle-income countries. The goals of the plan are to reestablish the Bank as the partner of choice in development knowledge and finance for middle-income countries, and to play a more proactive role in working with other partners to support development and reduce poverty. Implementation will continue in fiscal 2005.

Activities include strengthening partnerships with bilateral donors, improving the quality and timeliness of the Bank's knowledge services and response to clients by removing a number of internal Bank obstacles, building increased flexibility into Country Assistance Strategies that will enable staff to respond to new lending opportunities, developing and promoting new financial products such as local currency lending, and working with IFC and MIGA to better exploit potential synergies, particularly in supporting investment in infrastructure and other sectors through public-private partnerships.

WORKING WITH PARTNERS

The Bank's policy is to operate jointly with partners when addressing major development issues in both global and country program activities. It works closely with the IMF, other multilateral development banks, governments, the United Nations and its agencies, OECD's Development Assistance Committee, bilateral donors, the World Trade Organization, and civil society organizations.

As a global development institution with broad coverage of countries and issues, the Bank often plays a global strategic role in providing what more specialized agencies cannot because of their smaller size or narrower mandate. In carrying out its partnership activities, the Bank plays different roles—leader, follower, adviser, helper, and so on—depending on the need.

At the global level, the Bank is working closely with its development partners to improve aid coordination by integrating poverty reduction efforts. (See "Simplifying and Harmonizing Policies and Procedures" in chapter 4.)

In countries, the Bank is committed to strengthening its emphasis on effective development results. A new poverty report and booklet—both entitled *Partnerships in Development: Progress in the Fight against Poverty, 2004*—highlight this focus. The report aims to provide a more comprehensive assessment of how the Bank works with other organizations to help countries achieve the vision of poverty reduction embodied in the MDGs and the Monterrey Consensus. Using country examples, the publications highlight the broad range of activities the Bank pursues to promote growth and reduce poverty in its multiple dimensions.

Partnerships in Development shows how the Bank is helping clients develop broadly supported poverty reduction strategies in Egypt, Ethiopia, and Sierra Leone. It describes how the Bank is addressing specific problems related to the lack of opportunity, voice, and security in Bolivia, Columbia, India, Latvia, Uganda, and Vietnam. A spotlight on Niger shows one way in which the Bank is working more closely with its partners to achieve better development results. The booklet is available on the Bank's Web site, at **www.worldbank.org/progress**; the report is available at **www.worldbank.org/poverty**.

SHARING INFORMATION

The Bank's Public Information Centers disseminate development-related information and documentation on World Bank operations and research to the public. The goal is to encourage dialogue, to enable people to make informed decisions on matters that affect their livelihood, and to encourage them to participate in their country's development. These centers facilitate the production of documents in local languages, and they develop and maintain Web sites in local languages. Through public lectures, seminars, workshops, and Web casts, the Bank and partner institutions worldwide make information on economic and social development widely available. Public Information Centers operate in about 70 capital cities, with more than 60 satellite centers in some 80 countries. By 2005 centers will be located in every country in which the World Bank operates.

Mr. Eugene R. Black, World Bank President 1949–1963.

Annual Meetings, 1959. Pictured from left: World Bank President Eugene R. Black, IFC President Robert L. Garner, U.S. President Dwight D. Eisenhower.

World Bank President Eugene R. Black with Haile Selassie, Emperor of Ethiopia.

In 1952 the Bank made a loan to KLM Royal Dutch Airlines to replace part of its air fleet.

Eugene R. Black (1949–1963)

1950s

1950

First loan made to a national development bank—$2 million to the Ethiopian Development Bank.

Bank lending reaches the one billion dollar mark.

1951

First loan with joint placement by a private lender—$50 million in Bank loans to South Africa plus $30 million from eight U.S. commercial banks.

First loans completely repaid—$5 million by Finland and Yugoslavia.

Sweden signs IBRD Articles of Agreement as 50th member of the Bank.

1952

1953

First loan to Japan, totaling $40.2 million, approved.

A steam locomotive being serviced at Ebute Mette workshops in Lagos, part of a 1958 railway construction project in Nigeria.

World Bank President Eugene R. Black with Indian Prime Minister Jawaharlal Nehru.

The Yanhee Dam across the Ping River, part of a 1957 hydroelectric power project in Thailand.

A railway station at Tambo, in the High Sierras of the Andes, part of a 1957 railway construction project in Peru.

1954 **Bank lending** reaches the two billion dollar mark.

1955

1956 **International Finance Corporation (IFC)** is established as affiliate of Bank, with authorized capital of $100 million and 31 member countries.

First Country Office opens, in Karachi, Pakistan.

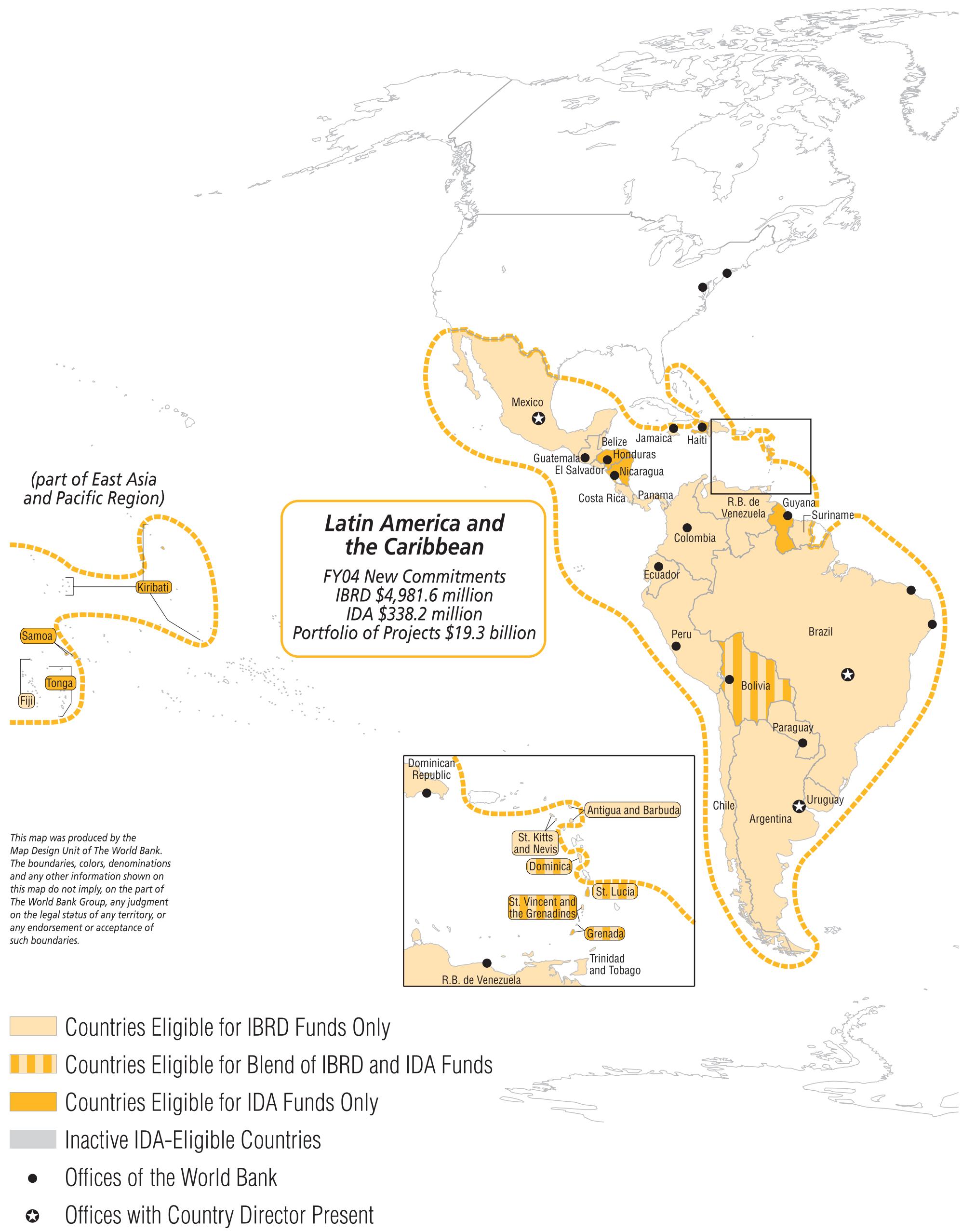
Economic Development Institute (future World Bank Institute) opens.

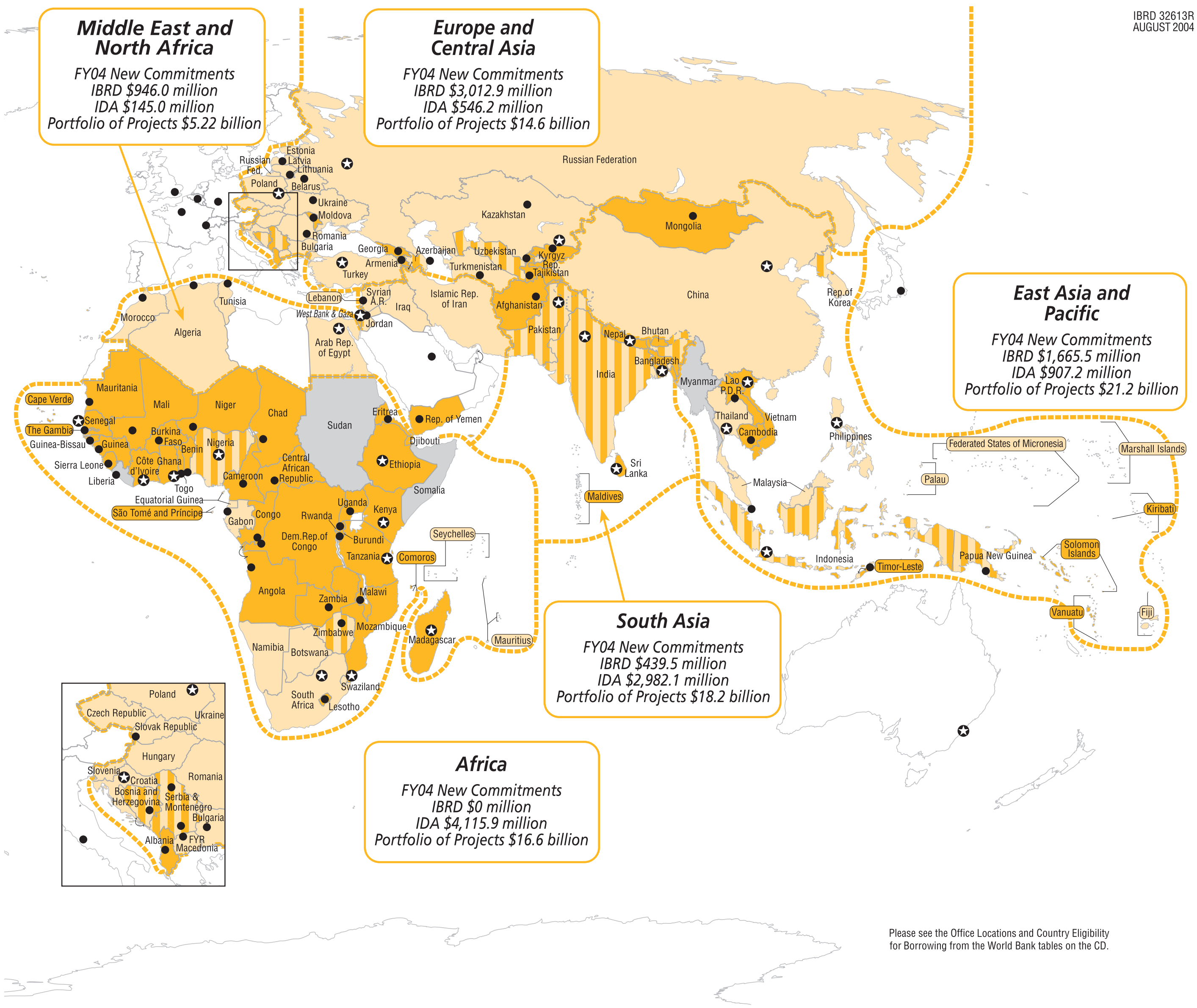
1957

1959

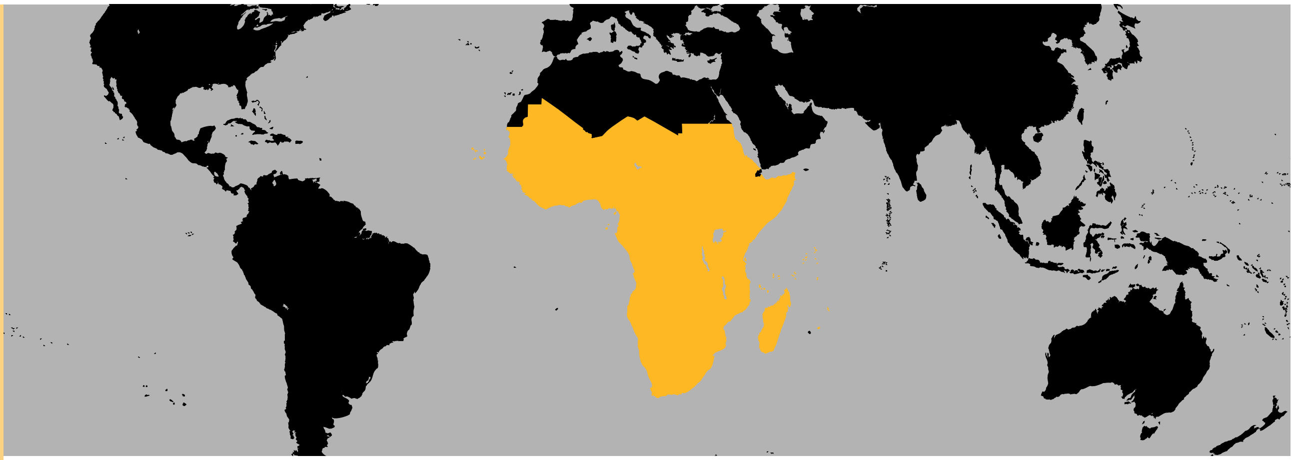
World Bank Regions, Country Offices, and Borrower Eligibility

The World Bank today operates out of more than 100 offices worldwide. Increased presence in client countries is helping the Bank to better understand, work more closely with, and provide faster service to clients. Three-fourths of outstanding loans are managed by country directors located away from the Bank's Washington, D.C., headquarters. Over thirty percent of staff are now based in country offices.





IBRD 32613R
AUGUST 2004
Middle East and North Africa
FY04 New Commitments
IBRD $946.0 million
IDA $145.0 million
Portfolio of Projects $5.22 billion
Europe and Central Asia
FY04 New Commitments
IBRD $3,012.9 million
IDA $546.2 million
Portfolio of Projects $14.6 billion
East Asia and Pacific
FY04 New Commitments
IBRD $1,665.5 million
IDA $907.2 million
Portfolio of Projects $21.2 billion
South Asia
FY04 New Commitments
IBRD $439.5 million
IDA $2,982.1 million
Portfolio of Projects $18.2 billion
Africa
FY04 New Commitments
IBRD $0 million
IDA $4,115.9 million
Portfolio of Projects $16.6 billion
Russian Federation
Estonia
Latvia
Lithuania
Russian Fed.
Poland
Belarus
Ukraine
Moldova
Romania
Bulgaria
Turkey
Georgia
Armenia
Azerbaijan
Kazakhstan
Uzbekistan
Turkmenistan
Kyrgyz Rep.
Tajikistan
Mongolia
China
Rep.of Korea
Lebanon
Syrian A.R.
West Bank & Gaza
Jordan
Iraq
Islamic Rep. of Iran
Afghanistan
Pakistan
Nepal
Bhutan
Bangladesh
India
Sri Lanka
Maldives
Myanmar
Lao P.D.R.
Thailand
Vietnam
Cambodia
Philippines
Malaysia
Indonesia
Timor-Leste
Papua New Guinea
Federated States of Micronesia
Palau
Marshall Islands
Kiribati
Solomon Islands
Vanuatu
Fiji
Morocco
Algeria
Tunisia
Arab Rep. of Egypt
Mauritania
Mali
Niger
Chad
Sudan
Eritrea
Rep. of Yemen
Djibouti
Ethiopia
Somalia
Cape Verde
Senegal
The Gambia
Guinea-Bissau
Guinea
Sierra Leone
Liberia
Burkina Faso
Benin
Côte d'Ivoire
Ghana
Togo
Nigeria
Cameroon
Central African Republic
Equatorial Guinea
São Tomé and Principe
Gabon
Congo
Dem.Rep.of Congo
Uganda
Kenya
Rwanda
Burundi
Tanzania
Seychelles
Comoros
Angola
Zambia
Malawi
Mozambique
Zimbabwe
Namibia
Botswana
Madagascar
Mauritius
Swaziland
South Africa
Lesotho
Poland
Czech Republic
Ukraine
Slovak Republic
Hungary
Slovenia
Croatia
Romania
Bosnia and Herzegovina
Serbia & Montenegro
Bulgaria
Albania
FYR Macedonia
Please see the Office Locations and Country Eligibility for Borrowing from the World Bank tables on the CD.



Countries Eligible for World Bank Borrowing:

Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Cape Verde
Central African Republic
Chad
Comoros
Congo, Democratic Republic of
Congo, Republic of
Côte d'Ivoire
Equatorial Guinea
Eritrea
Ethiopia
Gabon
The Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Madagascar
Malawi
Mali
Mauritania
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Principe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
Sudan
Swaziland
Tanzania
Togo
Uganda
Zambia
Zimbabwe

Africa

Several African countries have made remarkable progress in recent years. But the challenges the continent must address to meet the Millennium Development Goals remain immense. Africa is home to 32 of the 48 poorest countries in the world, and the proportion of poor people on the continent is growing.

In many respects Africa remains at the margins of globalization. Its share of world exports dropped from more than 3.5 percent in 1970 to about 1.4 percent by the end of 2002, a decline that represents an income loss of $160 billion *annually*. Despite being home to 11 percent of the world's population, Africa accounts for only about 1 percent of global gross domestic product (GDP), receives 0.6 percent of the world's total foreign direct investment, and accounts for just 1 percent of the world's Internet subscribers. With the African population growing at an average rate of 3 percent a year, GDP growth of 5 percent is needed just to keep the number of poor people from rising. But many factors, including the HIV/AIDS pandemic, stand in the way of achieving this level of economic growth. (See box 2.1.)

The World Bank is the largest provider of development assistance to Africa, where it supports projects that contribute to economic growth and to meeting the Millennium Development Goals. Its strategic objectives in the region are in line with priorities identified by African governments through the Poverty Reduction Strategy Paper process. The Bank's work in Africa is based on partnerships with African countries and builds on the vision of African leaders as articulated in the New Partnership for Africa's Development (NEPAD). It is anchored in the *Strategic Framework for Assistance to Africa* and the findings of the study *Can Africa Claim the 21st Century?* The Bank also chairs the Strategic Partnership for Africa. It participated as a co-organizer in the third Tokyo International Conference on African Development, held in September 2003. The landmark session marked the 10th anniversary of the conference and was aimed at ensuring that regional priorities are fully addressed in harmony with the approach of NEPAD.

As of June 2004 the Bank was funding 334 projects in Africa, with a net commitment of

BOX 2.1 **FIGHTING THE HIV/AIDS PANDEMIC IN AFRICA**

Africa remains the region most affected by the HIV/AIDS pandemic. In 2003 an estimated 25 million people in the region were living with HIV, including 3 million who became infected in 2003. AIDS killed approximately 2.2 million Africans the same year.

Since late 2000 the Bank has provided more than $1 billion to 28 countries and two subregional projects through its Multi-Country HIV/AIDS Program (MAP) for Africa. More than 27,000 subprojects from civil society organizations and communities have received grants for HIV/AIDS. Over $80 million has been allocated for various capacity enhancement activities, and about $150 million has been committed to public health agencies. In June 2004 the Bank approved a $60 million Treatment Acceleration Program. Its pilot phase will, from September 2004, provide grants for innovative public, private, and civil society partnerships in HIV/AIDS treatment in Burkina Faso, Ghana, and Mozambique.

$16.6 billion, or 41 percent of IDA commitments worldwide. The medium- to long-term objective is to direct 50 percent of all new IDA commitments to Africa. During fiscal 2004, 45 percent of new IDA commitments went to Africa.

Total population | billion:	0.7
Population growth | percent:	2.1
Life expectancy at birth | years:	46
Infant mortality per 1,000 births:	103
Female youth literacy | percent:	77
2003 GNI per capita | dollars:	490
Number of people living with HIV/AIDS | million:	**25.2**

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2002; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	**Total FY04 Disbursements**
IBRD $0 million	IBRD $42.8 million
IDA $4,115.9 million	IDA $3,292.5 million

Portfolio of projects under implementation as of June 30, 2004: $16.6 billion

c. 1960. A World Bank loan to Kenya helped settlers create individually owned small holdings to replace tribal systems of cultivation.

BUILDING THE CLIMATE FOR INVESTMENT

To sustain growth and eventually achieve economies of scale, African countries must reach regional and world markets. But growth is held back by the trade barriers and subsidies in the countries of the Organisation for Economic Co-operation and Development (OECD). Africa's greatest comparative advantage is in agriculture, but the $325 billion in annual subsidies to agriculture in OECD countries make it difficult for Africa to compete. These subsidies—equivalent to the combined GDP of all African countries—cost West African cotton producers about $250 million a year.

The Bank is promoting several initiatives that seek to sustain growth and diversify the African economy. It is supporting policy and institutional reforms to improve the investment climate and make Africa a good business destination. It has worked with regional institutions to formulate regional integration strategies that promote the liberalization of intraregional trade, the harmonization of macroeconomic policies, capacity building for regional institutions, the growth of capital markets, and the building of regional infrastructure, including transportation corridors. The demands are enormous: Africa's infrastructure needs alone are estimated at about $18 billion a year.

FOSTERING PARTICIPATION IN DEVELOPMENT

One key to reducing poverty is investing in people—by improving access to education and health services and providing other social interventions that benefit vulnerable groups.

The Bank is funding 37 education projects in Africa, totaling $1.5 million. Many of these projects support countries' efforts to attain universal primary education, for girls as well as boys, by 2015. Some of the projects seek to improve access to secondary and tertiary education. More progress must be made to raise the level of secondary school enrollment in Africa from barely 25 percent of the age group to the 60 percent level achieved in developing countries generally.

The Bank also has increased its commitment to protecting human capital by supporting the reform of pension programs and skills training for men and women in the African labor force.

IMPROVING GOVERNANCE AND RESOLVING CONFLICT

Civil wars lower per capita GDP by 2.2 percent a year, on average, and divert scarce development resources

Umm Bedda Water Supply, Omdurman, Sudan.

to defense and security spending. Reducing conflict is thus consistent with the Bank's goal of increasing growth and alleviating poverty. During fiscal 2004 the Bank increased support to African countries emerging or recovering from conflict, a group that includes 8 of the 10 poorest African countries.

The Bank is engaged in 44 projects in 7 postconflict countries. These countries received $490 million in grants from the Post-Conflict Fund. Bank-supported projects in this area address the profound political and economic development failures that trigger such conflicts. They also aim to improve the management of revenue from resources such as oil and diamonds, which often fund African conflicts. The Bank is addressing conflict prevention while tackling the challenges of postconflict reconstruction and peace consolidation.

PROVIDING DEBT RELIEF AND DEVELOPMENT ASSISTANCE

The Bank increased debt relief in fiscal 2004 and encouraged policy makers to invest the freed-up funds in poverty reduction programs, including programs to combat HIV/AIDS. One more African country reached the decision point (the point at which the amount of debt relief is determined and interim debt relief begins) in fiscal 2004, and three others reached the completion point (the point at which donor countries provide all of the remaining debt relief promised at the decision point). Through the Heavily Indebted Poor Countries Initiative, these countries will receive total debt relief with a net present value of almost $4 billion. This relief is expected to reduce the ratio of debt service to GDP in these countries from 3.4 percent in 1998 to 1.7 percent during 2004.

Table 2.1 **World Bank Lending to Borrowers in Africa, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	134.4	165.0	78.2	138.5	138.7	37.8	67.8
Environmental and Natural Resource Management	272.9	156.0	172.4	110.0	159.9	227.0	195.3
Financial and Private Sector Development	543.4	509.0	466.7	625.8	780.7	383.6	810.9
Human Development	216.6	267.7	208.5	399.4	739.0	811.4	618.2
Public Sector Governance	270.7	291.7	495.3	429.6	851.9	432.4	818.5
Rule of Law	40.1	21.0	26.7	34.0	22.5	34.5	28.3
Rural Development	189.2	393.6	151.8	296.3	329.2	384.1	360.7
Social Development, Gender, and Inclusion	153.4	167.6	210.5	491.8	347.4	420.0	374.3
Social Protection and Risk Management	77.8	117.2	140.5	376.4	98.3	543.7	209.2
Trade and Integration	152.0	120.5	53.7	261.5	46.4	37.2	371.5
Urban Development	201.1	253.8	154.9	206.1	279.6	425.5	261.2
Theme Total	**2,251.5**	**2,463.2**	**2,159.1**	**3,369.6**	**3,793.5**	**3,737.2**	**4,115.9**
SECTOR							
Agriculture, Fishing, and Forestry	157.2	170.0	111.5	212.0	210.4	303.4	268.5
Education	161.6	304.4	189.8	209.5	472.6	423.6	362.9
Energy and Mining	209.5	244.0	176.3	198.0	490.3	324.4	365.8
Finance	125.6	48.8	118.4	200.1	192.8	67.2	165.8
Health and Other Social Services	263.7	273.6	183.1	889.9	616.6	775.9	723.1
Industry and Trade	334.7	94.3	104.7	170.6	266.7	92.7	95.4
Information and Communication	6.9	36.7	17.3	21.1	33.8	41.4	52.9
Law and Justice and Public Administration	542.0	615.8	838.2	880.8	906.9	721.8	1,004.1
Transportation	266.8	533.5	263.9	229.8	491.1	690.5	716.6
Water, Sanitation, and Flood Protection	183.6	142.0	155.9	357.8	112.2	296.3	360.8
Sector Total	**2,251.5**	**2,463.2**	**2,159.1**	**3,369.6**	**3,793.5**	**3,737.2**	**4,115.9**
Of which IBRD	45.6	31.2	97.7	0.0	41.8	15.0	0.0
Of which IDA	2,206.0	2,432.0	2,061.4	3,369.6	3,751.6	3,722.2	4,115.9

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.1 **Africa: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $4.1 billion

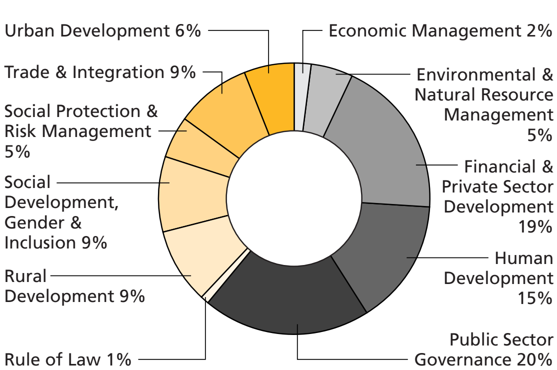
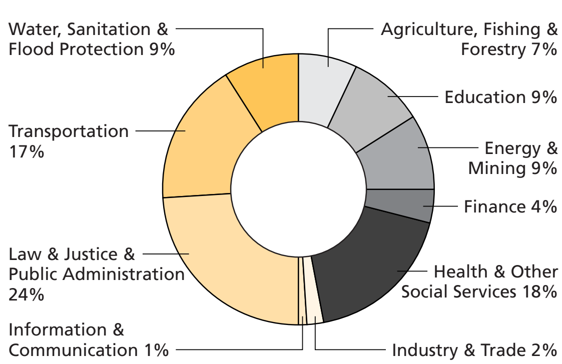
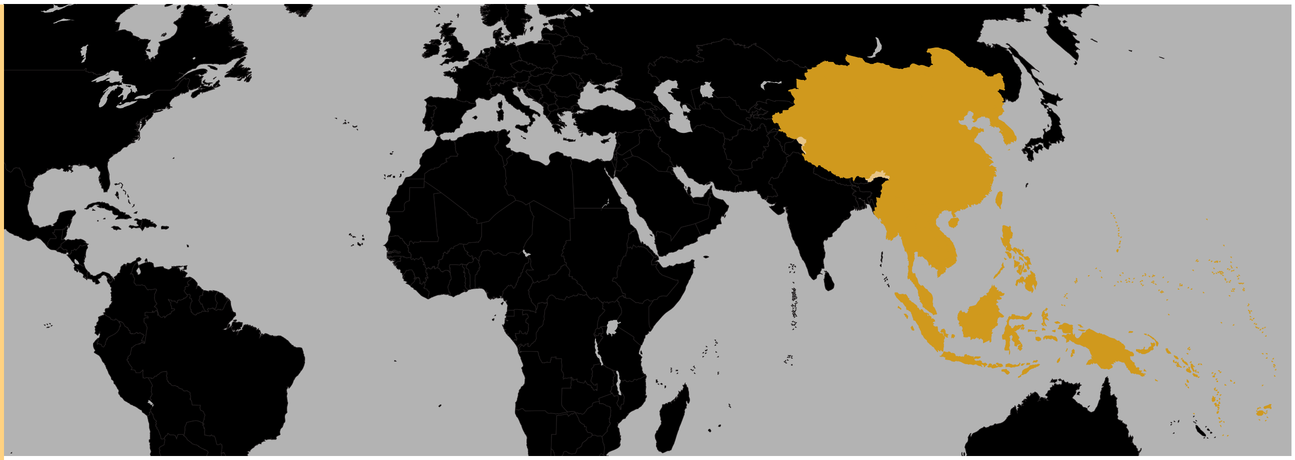


Figure 2.2 **Africa: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $4.1 billion





Countries Eligible for World Bank Borrowing:

Cambodia
China
Fiji
Indonesia
Kiribati
Korea, Republic of
Lao People's Democratic Republic
Malaysia
Marshall Islands
Micronesia, Federated States of
Mongolia
Myanmar
Palau
Papua New Guinea
Philippines
Samoa
Solomon Islands
Thailand
Timor-Leste
Tonga
Vanuatu
Vietnam

East Asia and Pacific

The increasingly integrated economies of the East Asia and Pacific region are growing at a solid pace, which is improving economic opportunities for the region's 1.9 billion people.

Fueled by growing exports, low interest rates, and high investment in China, Thailand, and Vietnam, East Asia's economy is expected to grow by more than 7 percent in 2004—the strongest growth since the beginning of the global slowdown in early 2000. This strong recovery bodes well for an estimated 49 million of the region's poor, whose incomes are projected to rise above the $2-a-day poverty line.

China has been the driver of regional growth; its imports surged 40 percent in 2003. Intraregional trade still accounts for about 70 percent of the growth in exports of East Asia's developing economies, as it has since 2002. But this trend will likely slow as current rapid growth rates in China level off.

The rest of the world is also paying more attention to East Asia's successful growth. Foreign direct investment continues to grow, and net portfolio flows to the five postcrisis economies—Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand—are also estimated to have risen to around $33 billion in calendar 2003. Net foreign exchange reserves of East Asian developing economies now stand at over $1 trillion.

The region's rapid growth, structural shifts, and demographic changes have increased demand for natural resources. Sustainable management will be a key condition for improving the quality of people's lives and enhancing the opportunities of future generations to share the benefits of economic development.

WORLD BANK ASSISTANCE

To assist this diverse region, the World Bank has tailored its approaches to country circumstances while working toward a set of five regional objectives:

- Achieving high rates of growth
- Improving global and intraregional integration
- Enhancing social stability
- Reducing poverty, improving health, and expanding education
- Reducing corruption and improving governance

Lending to support these objectives reached $2.57 billion ($907 million in IDA and $1.67 billion in IBRD) during fiscal 2004. Establishing good governance—reducing corruption, strengthening financial management, creating effective legal and judicial systems, stopping the unsustainable exploitation of natural resources, and strengthening corporate governance—continues to be a challenge. The Bank is addressing this challenge through its projects, research, and advisory services. New Country Assistance Strategies were formulated for Indonesia and Mongolia. Mongolia's was based on the country's own poverty reduction strategy. The Bank also updated its Country Assistance Strategy for Vietnam.

BUILDING THE CLIMATE FOR INVESTMENT

Indonesia's new Country Assistance Strategy demonstrates how the Bank is working to build the climate for investment in East Asia while addressing governance challenges that hamper development. The Bank is supporting Indonesia in its efforts to maintain a stable economy and create stronger financial and private sectors, build infrastructure, and create income opportunities for poor households and farmers. Because governance reforms are essential to raising investment and improving the quality of services, the Bank's program in Indonesia focuses on improving the quality, responsiveness, and accountability of public institutions, giving preference to local governments willing to adopt more transparent and more efficient practices.

Infrastructure played a central role in East Asia's development, as evidenced in Japan; Hong Kong; Korea; Singapore; Taiwan, China; and more recently, mainland China and Vietnam. Sound economic policies and investments in power, transportation, water supply, telecommunications, education, and health services accounted for East Asia's initial success in reducing poverty. In fiscal 2004 the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation launched a joint study to assess infrastructure needs in the region and examine ways to rebuild the climate for infrastructure investment, particularly by harnessing the private sector.

To engage the corporate sector, the Bank is working with the Hills Program on Governance to promote best corporate practices in the region. The program has established two Hills Centers—in Manila and Seoul—to foster good corporate governance through advocacy, research, and training. Improving the livability of cities is a key issue for both investment and development.

In response to the devastation caused by the tropical cyclone Heta, the Bank approved an emergency grant operation for Samoa to help restore and strengthen roads, bridges, and the coastline, and to help make both the natural and built environments more resilient to storms.

EMPOWERING POOR PEOPLE

Programs such as Indonesia's Kecamatan Development Project have been extremely effective in channeling funds directly to communities to build roads, schools, health clinics, and drinking-water systems. Under the program, which now covers 28,000 villages and about 35 million rural poor, communities determine their needs, design activities, seek technical help, and make informed choices about how to use limited resources. The third phase of the program, approved in fiscal 2004, aims to have local governments compete for program funding as an incentive for better local governance. In the Philippines the $100 million KALAHI Project, which adapts the Indonesian model, began as a pilot project in 6 communities and has been replicated in more than 1,300 communities across 67 municipalities. In addition to building capacity, these projects build confidence and

Total population | billion:	1.9
Population growth | percent:	0.8
Life expectancy at birth | years:	69
Infant mortality per 1,000 births:	32
Female youth literacy | percent:	98
2003 GNI per capita | dollars:	1,080
Number of people living with HIV/AIDS | million:	**2.3**

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2000; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	**Total FY04 Disbursements**
IBRD $1,665.5 million	IBRD $1,720.6 million
IDA $907.2 million	IDA $856.6 million

Portfolio of projects under implementation as of June 30, 2004: $21.2 billion

c. 1970. Loading rubber at the Port of Singapore, where a World Bank loan of $15 million assisted the construction of additional deep-water berths, a new plant yard and workshop, and cargo handling equipment.

Visitors view a booth for a project on disability access at the Country Innovation Day in the Philippines.

BOX 2.2 **COUNTRY INNOVATION DAYS**

To support community-level work by civil society organizations, the Bank's Development Marketplace organized two Innovation Days in fiscal 2004, one in the Philippines and another in Vietnam. The Philippines Innovation Marketplace, called Panibagong Paraan (New Approaches), brought together 117 finalist teams in the Philippines' largest and busiest shopping mall to present their ideas and compete for more than $1.2 million in funding for innovative ways to make services work for the poor. Former President Corazon C. Aquino delivered the keynote address for the competition, which was funded by a dozen donor groups and companies. One of the winners, Recycling War Trash for Peace, aims to turn spent bullets and rocket casings into craft items symbolizing peace, such as bells and gongs. In addition to cleaning up the litter of conflict, the project will provide work for out-of-school youth.

help people influence local governance. In Cambodia the Rural Investment and Local Governance Project is working through the Seila Program to improve local services and community monitoring.

A key feature of the Bank's strategy in low-income countries is assisting governments in developing poverty reduction strategies. In fiscal 2004 the Lao People's Democratic Republic and Mongolia completed poverty reduction strategies. In Vietnam the Bank is financing its third Poverty Reduction Strategy Credit to support the government's strategy.

Empowering and giving voice to people are critical for development. In Indonesia the Justice for the Poor Initiative is working to help people understand their rights and strengthen village institutions that settle disputes. For its part, the Bank established Web sites in Chinese, Khmer, and Vietnamese and increased its offerings in Bahasa, Lao, Mongolian, Tetum, Thai, and other languages. In China the Bank is producing a Chinese-language newsletter, and in Cambodia the local press routinely draws stories from the Bank's Khmer-language newsletter. Public Information Centers now operate in 11 of the region's country offices. Sixteen provincial information centers in China, Indonesia, the Philippines, and Vietnam have been established, with more planned, and local librarians are being trained on the Bank's operations and policies.

In fiscal 2004 the Bank and the government of Japan launched a new Tokyo Global Development Learning Network Center. The Japan–World Bank

Distance Learning Partnership Project (Tokyo Project), funded by the Japanese government, aims to make a substantial intellectual contribution to the region's development by making the Tokyo learning center a resource for building capacity throughout the region. By the end of 2004, there will be 20 Global Development Learning Network centers in the East Asia and Pacific region, including at least one in each of the Bank's key countries. These centers will be able to work on regional integration and knowledge sharing with institutions such as the Association of South East Asian Nations and the Organization for Asia-Pacific Economic Cooperation. (See also box 2.2.)

ADDRESSING GLOBAL PRIORITIES

The Bank's East Asia and Pacific region is focusing activities on the following global priorities.

Combating Communicable Diseases

The Bank acted quickly to assist China and Vietnam after the recent bouts of sudden acute respiratory syndrome (SARS) and avian flu. The SARS and Infectious Disease Response Program supports the Chinese government's efforts to strengthen the capacity of the public health system to prevent infectious diseases and set up alert and response mechanisms to address public health crises. The Bank is also preparing an emergency assistance program that will help Vietnam improve its preparedness for dealing with avian flu. In China the Bank and the United Kingdom's Department for International Development are cosponsoring a second tuberculosis control project. The Bank's new HIV/AIDS strategy for the region provided input to the Fifteenth International AIDS Conference in Bangkok in July 2004.

Fostering Trade and Regional Integration

East Asia Integrates, a flagship study completed in fiscal 2004, urges policy makers to broaden their approach beyond technical trade policies to emphasize development outcomes and links to social stability. At a joint conference, the Boao Forum for Asia and the Bank agreed on a three-year program of economic studies and promotion of international networks of expertise on Asian economic cooperation and integration.

In addition to its work with China on membership in the World Trade Organization (WTO) and its implications for the financial sector, the Bank is helping Cambodia and the Lao People's Democratic Republic analyze the impact of trade integration and implement trade policies that promote growth and reduce poverty. It is advising Vietnam on WTO accession issues and is identifying reforms needed for accession. Similar work is under way for the Lao People's Democratic Republic. In Indonesia the Bank is working on a trade and integration study.

Improving the Environment

The Bank is working with city governments, companies, donors, and civil society organizations through the Clean Air Initiative for Asian Cities to promote innovative ways to improve the air quality of Asian cities, which are among the world's most polluted.

Table 2.2 **World Bank Lending to Borrowers in East Asia and Pacific, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	39.5	280.0	0.0	0.0	4.8	29.7	0.0
Environmental and Natural Resource Management	1,009.7	932.4	880.4	399.3	102.3	232.3	432.2
Financial and Private Sector Development	1,287.7	4,441.8	627.6	310.9	512.8	458.8	553.9
Human Development	433.1	406.1	81.1	52.6	226.4	152.7	164.6
Public Sector Governance	258.7	543.1	556.2	65.1	127.4	341.5	299.0
Rule of Law	70.4	19.2	9.3	3.8	20.3	7.3	67.3
Rural Development	991.7	855.6	430.3	341.6	360.9	411.7	400.9
Social Development, Gender, and Inclusion	172.8	273.5	72.1	248.0	173.0	143.7	167.2
Social Protection and Risk Management	169.6	708.4	55.2	239.4	138.7	161.5	5.5
Trade and Integration	136.5	333.2	36.2	40.0	43.3	138.0	82.9
Urban Development	757.0	900.8	230.6	433.1	63.6	233.6	399.2
Theme Total	**5,326.6**	**9,694.2**	**2,979.1**	**2,133.8**	**1,773.6**	**2,310.8**	**2,572.7**
SECTOR							
Agriculture, Fishing, and Forestry	359.0	803.8	118.4	109.7	151.2	106.7	290.4
Education	447.1	411.6	84.4	14.8	134.6	225.7	118.6
Energy and Mining	1,659.2	517.0	640.5	142.2	314.5	254.3	67.2
Finance	230.8	3,163.7	34.4	87.5	219.2	22.7	49.0
Health and Other Social Services	261.1	581.6	118.4	217.3	243.8	184.1	84.3
Industry and Trade	260.4	1,569.8	28.8	151.8	9.4	32.5	78.7
Information and Communication	117.4	51.9	20.0	12.5	11.1	6.6	0.0
Law and Justice and Public Administration	375.2	1,083.6	592.2	257.4	115.2	385.1	257.5
Transportation	1,034.2	1,133.3	584.4	729.7	540.2	684.3	1,209.9
Water, Sanitation, and Flood Protection	582.1	377.9	757.7	410.8	34.4	408.7	417.1
Sector Total	**5,326.6**	**9,694.2**	**2,979.1**	**2,133.8**	**1,773.6**	**2,310.8**	**2,572.7**
Of which IBRD	4,306.4	8,800.9	2,495.3	1,136.1	982.4	1,767.1	1,665.5
Of which IDA	1,020.2	893.3	483.8	997.7	791.2	543.7	907.2

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.3 **East Asia and Pacific: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $2.6 billion

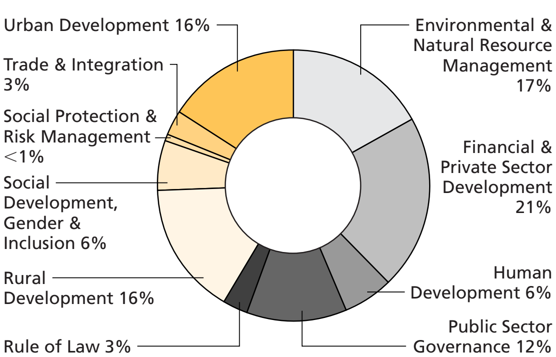
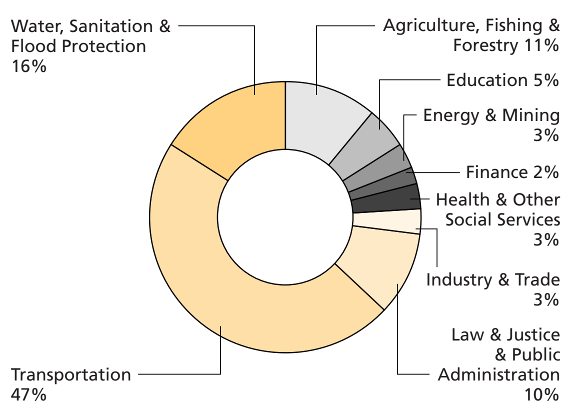
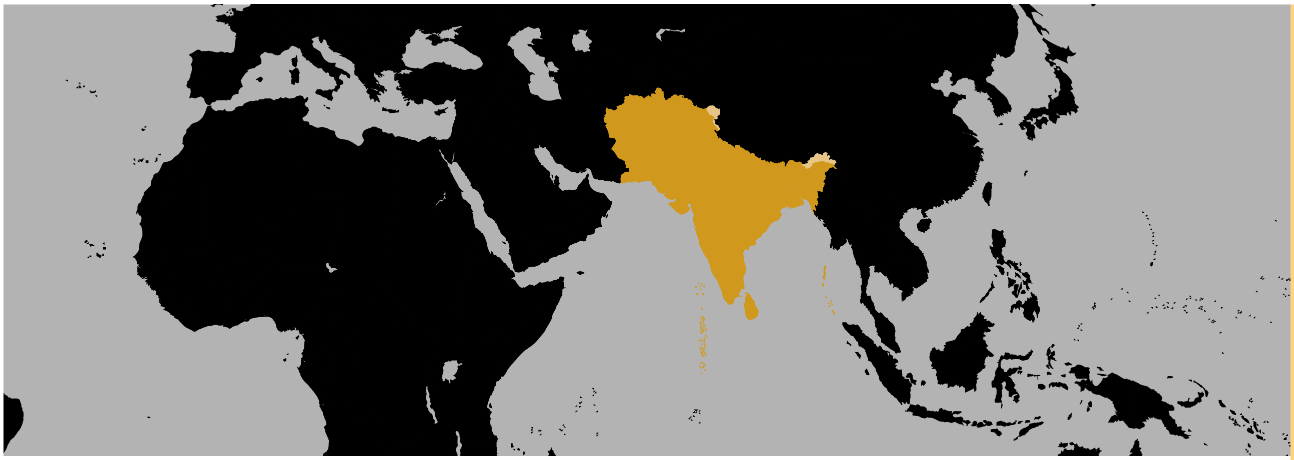


Figure 2.4 **East Asia and Pacific: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $2.6 billion





Countries Eligible for World Bank Borrowing:

Afghanistan
Bangladesh
Bhutan
India
Maldives
Nepal
Pakistan
Sri Lanka

South Asia

South Asia's development is at a critical juncture. Economic growth in the region is relatively strong, but human development is uneven, both within and across countries. South Asia has the world's highest illiteracy rate (45 percent), and the region accounts for one-third of all maternal deaths in the world. Given South Asia's size, reducing poverty and achieving the Millennium Development Goals in the region will be critical to achieving the goals worldwide.

Along with East Asia, South Asia is playing an increasingly important role in the global recovery. Gross domestic product (GDP) grew by more than 6 percent during calendar year 2003, and the outlook for continued growth remains positive. India, which accounts for 77 percent of GDP in the region, grew by 6.8 percent in 2003, with agricultural output rising and productivity—propelled by the service industry—increasing. GDP rose about 5.5 percent in Bangladesh, Pakistan, and Sri Lanka.

The signing of a free trade agreement by South Asian countries in January 2004 is providing new opportunities for economic integration. But the need to develop infrastructure within and between countries and to identify regulators and service providers is constraining the ability of the private sector to respond to the new trading environment.

The growing rapprochement between India and Pakistan has renewed hopes in the region and should positively affect economic performance. However, concerns about the possibility of violence undermining the development process remain vivid across parts of the region: for example, the security situation in Afghanistan remains volatile; and the unstable security and political situation in Nepal is stalling further development there.

WORLD BANK ASSISTANCE

The World Bank lent $3.4 billion to South Asia in fiscal 2004. To help improve the investment climate, the Bank is assisting countries with policy reforms, drawing on an extensive program of analytical work delivered in the form of studies, workshops, policy notes, and policy dialogue. The Bank is investing in infrastructure and leveraging private sector investments, as well as helping countries meet the Millennium Development Goals by supporting efforts to improve service delivery in health, education, energy, water supply, and sanitation.

The Bank discussed a new Country Assistance Strategy for Nepal, which recognizes Nepal's reform program, despite the country's continued instability, and links the level of assistance to the pace of further reforms. It also approved a $70 million Poverty Reduction Support Credit to help Nepal implement its poverty reduction strategy. The Bank's Board of Directors discussed a progress report on the Country Assistance Strategy for Pakistan, concluding that the country has remained on the ambitious path for fiscal consolidation envisioned in its initial Poverty Reduction Strategy Paper (see box 2.3).

Assistance to the region is focusing on sectorwide policy interventions. One example is the $100 million credit to help the province of Punjab in Pakistan address its educational needs. Another is a $55 million public sector capacity-building project that will support Pakistan's ongoing economic reform program.

South Asia Fast Facts

Total population | billion:	1.4
Population growth | percent:	1.7
Life expectancy at birth | years:	63
Infant mortality per 1,000 births:	68
Female youth literacy | percent:	62
2003 GNI per capita | dollars:	510
Number of people living with HIV/AIDS | million:	**5.2**

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2000; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	Total FY04 Disbursements
IBRD $439.5 million	IBRD $891.8 million
IDA $2,982.1 million	IDA $1,835.0 million

Portfolio of projects under implementation as of June 30, 2004: $18.2 billion

c. 1959. One of the world's largest railroad modernization and expansion programs was that of the Indian Railways, where new electric locomotives, bought with Bank loans, replaced older equipment.

BUILDING THE CLIMATE FOR INVESTMENT

Assessments in Bangladesh, Bhutan, India, Pakistan, and Sri Lanka suggest that inadequate infrastructure is hurting the investment climate. Bureaucracy and excessive rules and regulations also represent bottlenecks, as do the rigid labor markets and lack of access to long-term finance and credit for the private sector.

In Afghanistan two Bank loans are helping the government rebuild the country's infrastructure. A $22 million credit is revitalizing telephone lines and the postal service. A $31 million credit will help increase revenue from trade by streamlining customs and transit regulations.

Improving roads and other travel infrastructure is a critical component of the Bank's work in South Asia. These efforts have had a major impact on reducing poverty by cutting transportation costs and increasing poor people's access to markets, education, and health care. To increase trade competitiveness in Pakistan, the Bank approved a $200 million loan and credit to revitalize the national highway system. In India a $240 million loan will help reduce transportation constraints by building a bypass to divert traffic from the historic city of Allahabad in Uttar Pradesh.

In Nepal a $75.5 million financial sector reform project is expected to help modernize the country's fragile banking system. The Bank also approved the $220 million Second Andhra Pradesh Economic Reform Loan and Credit for India's fifth-largest state. That loan will help the state achieve fiscal health and sustainability, strengthen public administration, enhance service delivery, promote private sector development, and create a platform for accelerating reforms.

FOSTERING PARTICIPATION IN DEVELOPMENT

Central to the Bank's strategy in the region is the notion that South Asia's main resource is its people. Bank assistance is geared toward ensuring that the standard of living is improved across the entire spectrum of society and that obstacles that prevent people from participating in development and sharing its benefits are removed. Innovative nonlending work involves an extensive dialogue with counterparts on better ways to target welfare programs.

During fiscal 2004 the Bank expanded its support to microcredit, rural water and sanitation, irrigation, education, and health. In Pakistan it lent $238 million to the Poverty Alleviation Fund, an autonomous institution created by the government, to expand the fund's earlier efforts. A similar initiative in Nepal is expected to bring much-needed credit to poor communities in rural areas. The Bank also approved a $181 million credit to bring sustainable drinking water and sanitation to poor people in the Indian state of Maharashtra, a $64.7 million credit to improve access to basic social and economic infrastructure services to North East areas of Sri Lanka, a $40 million credit to bring safe water to rural communities in Afghanistan, and a $25.3 million credit to support rural water supply and sanitation in Nepal.

In education the Bank awarded a $500 million credit to help India attain its goals of universal

BOX 2.3 IMPORTANT BENEFITS ARE BEGINNING TO EMERGE FROM THE PRSP PROCESS

Countries in South Asia are making significant progress in developing Poverty Reduction Strategy Papers (PRSPs), where they are increasingly perceived as useful vehicles for national planning and decision making. Three countries—Nepal, Pakistan, and Sri Lanka—have completed full PRSPs that have been discussed with the Bank and the International Monetary Fund. All three countries have received Poverty Reduction Support Credits.

The shift to a programmatic approach to lending through Poverty Reduction Support Credits has made it easier for IDA and other donors to align their assistance with countries' own priorities in different sectors, as elaborated in the PRSPs. Assistance through Poverty Reduction Support Credits—which includes strengthening the capacity to monitor public expenditure—promotes a performance-based approach that benefits the countries' entire investment program. The PRSP process is also helping harmonize donor lending.

In many parts of the developing world, access to water remains a luxury few can afford. In Sri Lanka, the World Bank's work in water safety and sanitation is ensuring that communities in rural areas have access to clean and safe water.

elementary school enrollment and completion. The loan represents the Bank's first sectorwide program for India. The Bank also provided a $150 million credit to help Bangladesh develop primary education. This innovative sectorwide project is supported jointly by $504 million from the Asian Development Bank, the World Bank, and eight other donors in an attempt by the donor community to respond with one voice to a national development issue. The Bank also approved a $31 million credit to Bhutan to expand access to primary and secondary education.

In Afghanistan a $95 million credit is helping strengthen the National Solidarity Program, which supports local governance and provides communities with resources for reconstruction and development activities. In Sri Lanka a $51 million credit is helping the rural poor improve their livelihood and quality of life.

The Bank is supporting a health system project in the state of Rajasthan, in India, with an $89 million credit. In Sri Lanka a $60 million credit will help the government implement its health sector strategy.

ADDRESSING GLOBAL PRIORITIES

More than 5 million people in South Asia are currently living with HIV/AIDS. Throughout the region the prevalence of HIV/AIDS among the general population is believed to be low, but rates are much higher among subpopulations that engage in high-risk behaviors. And despite low overall prevalence rates, India has one of the largest numbers of people with HIV/AIDS in the world. The Bank has stepped up its assistance to national programs working to prevent the spread of HIV/AIDS among highly vulnerable subpopulations, young people, and the general population in South Asia. In addition, it is facilitating dialogue among countries to share lessons learned and good practices of intervention.

Recognizing that development in the region can be achieved only through inclusion and participation, the Bank is completing gender assessments in Afghanistan, Nepal, and Pakistan. Similar assessments are under way in other countries. These assessments involve substantial analytical work and dialogue aimed at better understanding what kinds of policies may lead to greater gender balance in the countries' development.

Table 2.3 **World Bank Lending to Borrowers in South Asia, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	2.5	85.3	35.2	47.4	232.5	123.5	7.7
Environmental and Natural Resource Management	454.6	266.8	80.8	587.8	295.2	94.2	94.8
Financial and Private Sector Development	614.7	639.2	265.4	865.9	381.6	689.1	689.9
Human Development	316.4	627.5	276.2	124.8	30.2	546.9	760.6
Public Sector Governance	29.7	254.9	212.7	261.0	678.0	467.3	669.8
Rule of Law	33.7	89.1	56.5	36.1	59.3	12.5	2.9
Rural Development	395.1	377.0	426.1	379.5	417.2	403.7	314.1
Social Development, Gender, and Inclusion	407.7	328.9	261.5	240.5	414.2	197.3	642.8
Social Protection and Risk Management	119.8	162.8	168.0	118.4	164.0	184.4	98.6
Trade and Integration	0.0	84.5	29.4	398.3	70.0	197.3	52.7
Urban Development	275.7	297.1	300.7	186.8	766.2	2.6	87.8
Theme Total	**2,649.9**	**3,213.2**	**2,112.4**	**3,246.6**	**3,508.4**	**2,918.7**	**3,421.6**
SECTOR							
Agriculture, Fishing, and Forestry	318.4	534.4	65.0	116.1	328.1	212.6	251.9
Education	279.3	385.1	171.4	206.4	95.9	364.6	665.8
Energy and Mining	411.8	545.9	277.8	746.2	504.8	150.6	130.8
Finance	314.0	168.2	46.0	209.7	310.0	185.8	331.4
Health and Other Social Services	447.7	589.3	393.3	188.1	278.7	369.0	334.6
Industry and Trade	10.0	68.3	85.3	34.0	443.1	144.9	46.1
Information and Communication	7.9	35.3	54.6	17.7	12.4	11.5	16.9
Law and Justice and Public Administration	277.7	436.3	407.0	377.4	632.5	372.3	925.5
Transportation	227.9	354.1	590.6	1,294.3	758.1	1,067.6	444.8
Water, Sanitation, and Flood Protection	355.4	96.4	21.4	56.8	144.9	40.0	273.7
Sector Total	**2,649.9**	**3,213.2**	**2,112.4**	**3,246.6**	**3,508.4**	**2,918.7**	**3,421.6**
Of which IBRD	1,124.3	1,034.0	934.3	2,035.0	893.0	836.0	439.5
Of which IDA	1,525.6	2,179.2	1,178.1	1,211.6	2,615.4	2,082.7	2,982.1

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.5 **South Asia: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $3.4 billion

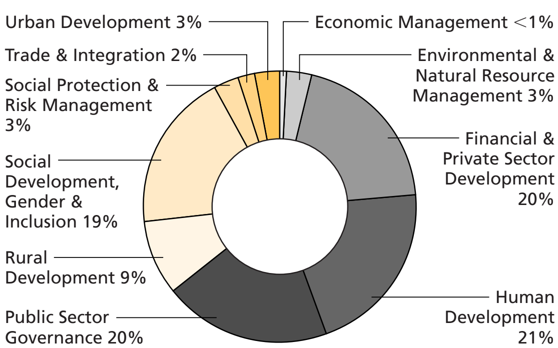
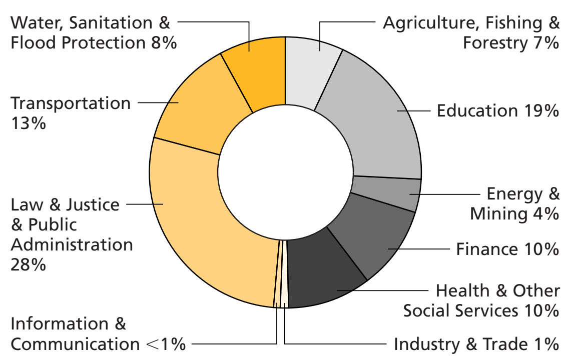
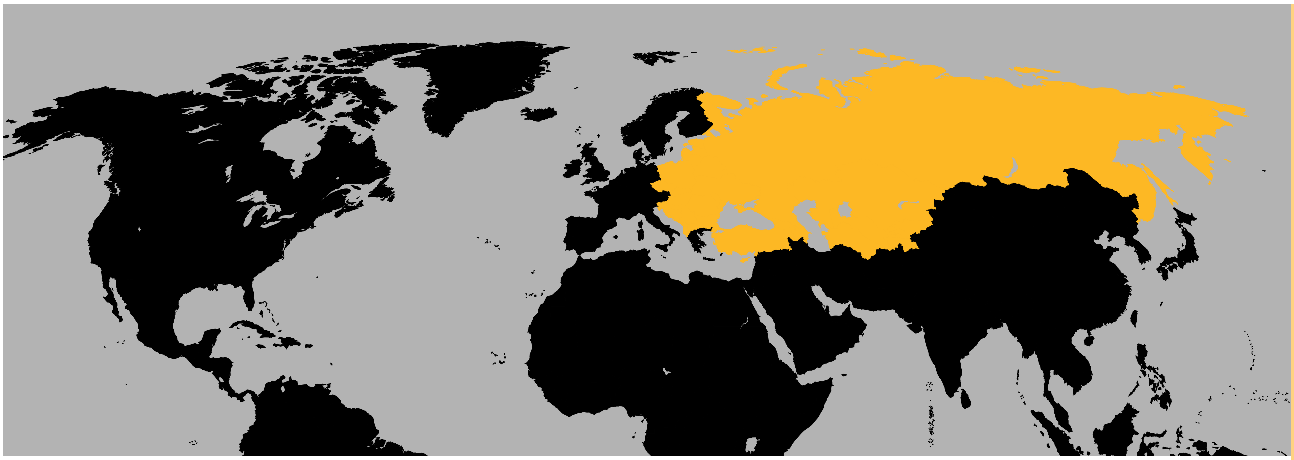


Figure 2.6 **South Asia: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $3.4 billion





Europe and Central Asia

The Europe and Central Asia region remains very diverse in terms of poverty, human development, and individual country prospects for attaining the Millennium Development Goals. At one end of the spectrum, ten Bank member countries—the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic, and Slovenia—joined the European Union (EU) May 1, 2004. Four of these EU accession countries are members of the Organisation for Economic Co-operation and Development, as is Turkey. Slovenia moved from World Bank borrower to donor status on March 17, 2004.

At the other end of the spectrum, more than half the population in some of the countries of the Commonwealth of Independent States (CIS) lives in poverty, which stems in part from geographic isolation and lack of integration into the global economy.

Growth in the region was strong in 2003, with output increasing at an average rate of 6.5 percent. Output rose 3.9 percent in the EU accession countries, 4.3 percent in South Eastern Europe, and 7.9 percent in the CIS. Twelve countries in the region grew more than 5 percent, while no country experienced a decline in output.

Further integration into Europe is likely to provide an impetus for reform in the EU accession countries and South Eastern Europe, which includes countries for which negotiations for EU accession are under way (Bulgaria and Romania), those that are candidates or whose candidacy is under consideration (Turkey and Croatia), and countries in the Western Balkans, for which accession is a longer-term prospect. The CIS countries face an unfinished agenda relating to building the institutions of a market economy and diversifying their economies. The development of natural resources and the performance of the Russian economy are likely to be key drivers of growth for these countries.

WORLD BANK ASSISTANCE

Lending during fiscal year 2004 reached $3.6 billion, ($3 billion in IBRD lending and $546 million in IDA credits). Analytical and advisory services included 186 reports and 58 technical assistance activities. Use of programmatic and cross-sectoral

BOX 2.4 **THE BANK'S PROGRAMMATIC APPROACH TO NONLENDING ACTIVITY**

The Bank is increasingly taking a programmatic approach to nonlending activity in the Europe and Central Asia region. In the Russian Federation it is engaged—with high-level Russian counterparts and in partnership with the United Kingdom's Department for International Development—in a multiyear program of analytical and capacity-building work on poverty. The program is designed to be completed in two phases and to produce a series of timely outputs to meet the needs of both the government and the Bank. Phase one, completed in December 2003, significantly increased capacity in survey methods and policy analysis. It opened up access to household survey data sets and made concrete recommendations on how to improve survey data. A collaborative Poverty Assessment Report is planned for 2004.
(See **www.worldbank.org/eca/knowledgefair**.)

Countries Eligible for World Bank Borrowing:

Albania
Armenia
Azerbaijan
Belarus
Bosnia and Herzegovina
Bulgaria
Croatia
Czech Republic
Estonia
Georgia
Hungary
Kazakhstan
Kyrgyz Republic
Latvia
Lithuania
Macedonia, former Yugoslav Republic of
Moldova
Poland
Romania
Russian Federation
Serbia and Montenegro
Slovak Republic
Tajikistan
Turkey
Turkmenistan
Ukraine
Uzbekistan

Slovenia graduated from borrower status in fiscal 2004.

This section also reports on Kosovo, Serbia and Montenegro.

Europe and Central Asia Fast Facts

Total population | billion:	0.5
Population growth | percent:	0.1
Life expectancy at birth | years:	69
Infant mortality per 1,000 births:	31
Female youth literacy | percent:	99
2003 GNI per capita | dollars:	2,570
Number of people living with HIV/AIDS | million: 1.3	

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2000; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	**Total FY04 Disbursements**
IBRD $3,012.9 million	IBRD $2,005.0 million
IDA $546.2 million	IDA $446.1 million

Portfolio of projects under implementation as of June 30, 2004: $14.6 billion

A 2003 conference supporting the integration of Roma people drew top officials as well as Roma community leaders. Two initiatives were launched: the Roma Decade of Inclusion 2005–2015 and the Roma Education Fund.

instruments—Programmatic Adjustment Loans in IBRD countries and Poverty Reduction Support Credits in IDA countries—increased in an attempt to better support reforms.

This programmatic approach also carried over into nonlending services. (See box 2.4 on page 41.) The Bank developed Country Assistance Strategies for Armenia, Lithuania, Macedonia, the Slovak Republic, Turkey, and Ukraine; and Transition Support Strategies for Kosovo and Serbia and Montenegro. The strategies for Armenia and Serbia and Montenegro were accompanied by Poverty Reduction Strategy Papers (PRSPs). PRSP Progress Reports were submitted for Albania, Azerbaijan, the Kyrgyz Republic, and Tajikistan.

Individual Country Assistance Strategies also recognize the diversified needs of the subregions. In the poor countries of the CIS, the emphasis is on supporting sound economic management and private sector–led growth, promoting human development and equity, and improving governance. In the EU accession countries, the focus is increasingly on investments to enhance the benefits of accession and knowledge services. In South Eastern Europe and the larger countries of the CIS (Kazakhstan, the Russian Federation, and Ukraine), the emphasis is on supporting growth with equity and improvements in governance—in the context of a wider EU agenda where relevant. Throughout the region, where issues go beyond the borders of a single country, as they do in the case of communicable diseases, water resources, trade and investment regimes, energy markets, and regulatory frameworks, the Bank is taking a multicountry approach.

BUILDING THE CLIMATE FOR INVESTMENT

The region's strong economic performance is a testament to improvements in the business climate—improvements that are confirmed in part by firm-level survey data. The perception of corruption as an obstacle to business has declined significantly in some countries since 1999. But in seven countries, investors continue to perceive corruption as a serious problem, and in two countries that perception has worsened significantly.

Support for the investment climate depends on country needs. In Ukraine the Second Programmatic Adjustment Loan focuses on regulatory reform, creating and protecting property rights, and improving public sector accountability. In Turkey the Second Export Finance Intermediation Loan aims to provide working capital to facilitate export growth while improving quality, safety, and access to finance in the private financial sector. It follows a first loan, which successfully provided medium- and long-term funding to banks and export companies, whose exports grew 11–40 percent a year during the project period.

The Bank is also supporting the investment climate through nonlending activities. It has completed Investment Climate Assessments in the Kyrgyz Republic, Moldova, Poland, Uzbekistan, and Tajikistan. In conjunction with the International Monetary Fund, the Bank continued its Financial Sector Assessment Program in Azerbaijan, Macedonia, and Romania.

HIV/AIDS is spreading more quickly in Europe and Central Asia than in any other region of the world. In 2003 it claimed some 30,000 lives, and an estimated 230,000 people became infected, bringing the total number of people living with HIV/AIDS in the region to an estimated 1.5 million.

The Bank has also undertaken analytical work on the knowledge economy in Latvia, Poland, and Turkey.

FOSTERING PARTICIPATION IN DEVELOPMENT

Human development indicators in Europe and Central Asia are generally strong, but the quality of public services has deteriorated. As a result, many of the Millennium Development Goals will probably not be met, particularly in the region's poorer countries.

To address the problem, several Bank operations focus on improving public services. The second Poverty Reduction Strategy Credit in Albania supports improved access to and quality of education and health services. It follows the first credit, which improved the policy on textbooks and reversed the sharp decline in operations and maintenance expenditures that had contributed to a deterioration of facilities. The Kyrgyz Village Improvement Project and the Second Kosovo Community Development Fund Project empower local communities to demand improvements in service delivery and to assist in implementing changes. The Bank has also helped raise awareness of poverty and human development outcomes for the Roma, the largest and most vulnerable minority in Central and Eastern Europe. (See **www.worldbank.org/eca/ecshd**.)

ADDRESSING GLOBAL PRIORITIES

The Bank's efforts in Europe and Central Asia focus on several global priorities.

Education for All

Albania is the only country in the region eligible for the Education for All Fast-Track Initiative. The Bank has helped several other countries, including Moldova and Tajikistan, to meet the requirements for eligibility, but the availability of funding remains in question. As many as eight other countries in the region may need help meeting the Education for All goal.

HIV/AIDS

Together with its partners, the Bank has been at the forefront of raising awareness of HIV/AIDS in the region and helping countries address the problem. A regional support strategy and subregional studies were completed for Poland and the Baltics, South Eastern Europe, and Central Asia, and a policy note was written on Georgia. In collaboration with the Joint United Nations Programme on HIV/AIDS, the Bank developed a Directory of Technical and Managerial Resources to improve access to technical advice for HIV/AIDS programs in the region (**www.cee-trd.unaids.org**). Work is under way on a study of HIV/AIDS in the Western Balkans, and a multicountry project on HIV/AIDS in Central Asia, and Bank-supported projects are being implemented in Moldova, the Russian Federation, and Ukraine.

Water Supply and Sanitation

Access to water supply and sanitation in the Europe and Central Asia region is relatively good, but systems are often poorly maintained, compromising quality and reliability. The Bank program of assistance addresses the sustainability of water supply and sanitation systems. A new strategy for delivering infrastructure services addresses the different policy challenges in the subregions of Europe and Central Asia.

c. 1956. A drainage canal regulates water supplies in the Catania Plain as part of the Cassa Per Il Mezzogiorno project in Southern Italy, which included irrigation, roads, power and industry, and better housing.

Environmental Sustainability

During fiscal 2004 the Bank undertook new analytical work to help define and measure the environmental targets contained in the Millennium Development Goals. It also began implementing new projects to enhance energy efficiency in Croatia, Moldova, and Serbia and Montenegro; develop renewable energy sources in Turkey; and rehabilitate irrigation systems in Romania.

Table 2.4 **World Bank Lending to Borrowers in Europe and Central Asia, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	464.6	723.2	98.6	127.4	636.1	19.5	242.0
Environmental and Natural Resource Management	344.1	404.3	301.7	161.3	157.5	122.7	309.4
Financial and Private Sector Development	1,847.7	1,908.0	890.7	1,074.0	2,210.8	483.3	950.2
Human Development	268.8	219.3	278.9	51.1	138.3	550.4	297.1
Public Sector Governance	437.4	546.0	227.8	95.6	1,313.7	317.7	895.1
Rule of Law	44.1	80.1	160.2	77.4	106.6	289.8	132.3
Rural Development	239.2	331.5	213.4	137.6	309.9	194.9	117.4
Social Development, Gender, and Inclusion	45.5	126.9	43.6	65.1	188.8	55.9	33.9
Social Protection and Risk Management	288.6	575.6	530.1	381.2	363.9	288.5	305.3
Trade and Integration	261.5	91.6	143.5	138.4	32.5	130.6	182.6
Urban Development	352.0	248.9	153.6	383.9	65.4	216.7	93.6
Theme Total	**4,593.5**	**5,255.1**	**3,042.2**	**2,693.1**	**5,523.6**	**2,670.0**	**3,559.1**
SECTOR							
Agriculture, Fishing, and Forestry	205.9	114.5	317.8	139.0	470.4	335.4	168.6
Education	92.8	299.2	22.7	62.5	83.2	395.0	164.0
Energy and Mining	915.6	849.2	398.6	336.6	218.0	262.9	352.2
Finance	552.8	468.2	175.8	802.3	1,284.9	195.8	836.9
Health and Other Social Services	390.6	359.3	277.8	281.9	524.7	415.3	244.3
Industry and Trade	775.7	817.4	604.7	296.5	552.1	269.0	126.3
Information and Communication	1.6	4.5	151.9	8.7	9.6	1.0	7.0
Law and Justice and Public Administration	948.5	1,584.7	797.2	446.4	2,181.9	698.9	1,176.8
Transportation	576.0	533.1	207.1	118.3	67.1	30.6	321.2
Water, Sanitation, and Flood Protection	134.0	225.0	88.5	200.7	131.7	66.3	162.0
Sector Total	**4,593.5**	**5,255.1**	**3,042.2**	**2,693.1**	**5,523.6**	**2,670.0**	**3,559.1**
Of which IBRD	4,088.4	4,406.3	2,733.1	2,154.0	4,894.7	2,089.2	3,012.9
Of which IDA	505.1	848.8	309.1	539.0	628.9	580.8	546.2

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.7 **Europe and Central Asia: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $3.6 billion

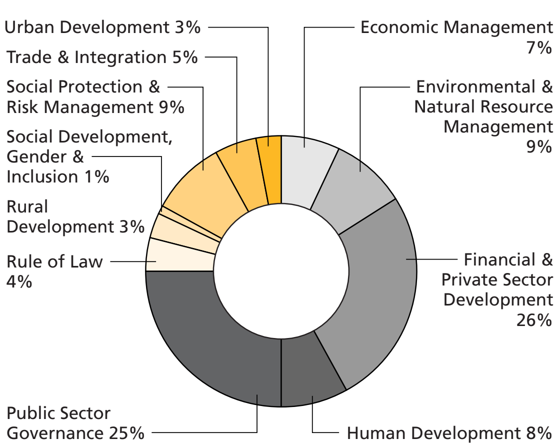
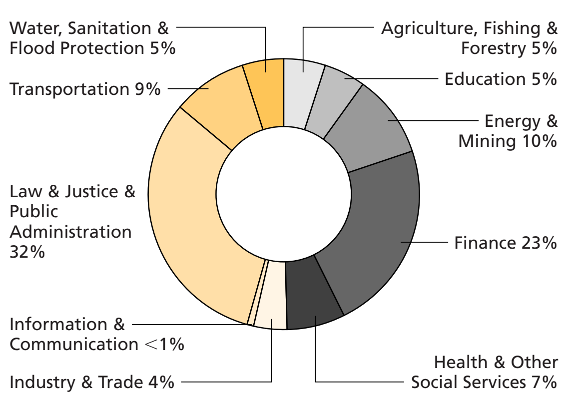


Figure 2.8 **Europe and Central Asia: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $3.6 billion



Countries Eligible for World Bank Borrowing:

Antigua and Barbuda
Argentina
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Suriname
Trinidad and Tobago
Uruguay
Venezuela, República Bolivariana de

Latin America and the Caribbean

The World Bank serves 30 countries in Latin America and the Caribbean, a region of staggering diversity. The region is home to 525 million people, who speak Spanish, Portuguese, English, French, and some 400 indigenous languages. Three-quarters of the region's people live in and around cities, making it the most urbanized region in the developing world. Natural resources and agriculture are nevertheless important to the region's economies. Despite immense resources and dynamic societies, deep poverty and gaping inequality persist in the region.

Modest growth returned to Latin America and the Caribbean in 2003, with regional gross domestic product (GDP) growing by an average of 1.3 percent, after contracting 0.8 percent in 2002. Argentina continued recovering rapidly from the acute crisis that hit the country in 2001. Brazil, Mexico, and Uruguay shared in the broadening of economic recovery. Central America grew at an average rate of 3.1 percent. The Andean countries also performed well, with growth exceeding 3 percent in Chile, Colombia, and Peru. Elsewhere performance was less encouraging. Ongoing political uncertainties caused the República Bolivariana de Venezuela's economy to deteriorate further in the first half of calendar 2003, and continued fiscal difficulties and external challenges caused the Caribbean to grow less rapidly than the region as a whole.

The external environment for Latin America and the Caribbean improved significantly in 2003. With investor confidence returning and domestic conditions improving, gross private financial inflows in 2003 increased by 40 percent over 2002. Net foreign direct investment, however, continued its decline, falling from a peak of $88 billion in 1999 to an estimated $36 billion in 2003. Exports from the region grew 9.2 percent—after rising just 2.2 percent in 2002—and the region's current account deficit fell to 0.5 percent of GDP, down from 4.5 percent in 1998. Tourism revenues and workers' remittances also improved, and commodity prices were generally strong.

Growth and investment have improved in the region, but poverty remains pervasive. Poverty rates have stagnated in the region as a whole and increased markedly in Argentina, Uruguay, and the República Bolivariana de Venezuela. A Bank study released in 2003—*Inequality in Latin America: Breaking with History?*—showed that income, assets, voice, and access to basic services, education, and opportunities are highly unequal in the region and that this inequality reduces the positive impact of growth on poverty reduction.

WORLD BANK ASSISTANCE

The World Bank addresses inequality in the region by targeting the poorest areas and supporting measures to empower excluded groups. Its support in the region uses the full range of instruments, including innovative financial instruments such as the deferred drawdown option in Chile and local currency options in Mexico. New Country Assistance Strategies for Argentina, Bolivia, Brazil, Costa Rica, Mexico, and Paraguay are breaking new ground for Bank support to the region through closer alignment with clients' needs and priorities, more flexible lending instruments, and a stronger focus on results.

Bank lending to Latin America and the Caribbean reached $5.3 billion in fiscal 2004

($5 billion in IBRD lending and $338 million in IDA credits). Major loans included $1 billion to Brazil for social protection and sustainable and equitable growth, $750 million to Argentina for maternal and child health, and $303 million to Mexico for integrated irrigation modernization.

The Bank's analytical and advisory support to the region included studies of trade-related issues, research on innovation (development of intellectual capital) in selected countries, and a range of technical assistance efforts, such as urban management training for public officials in Colombia. The Bank proposed a new development strategy for Mexico's southern states, published a report on Caribbean youth development, provided policy advice for Jamaica on achieving sustained growth, and developed a guide for Latin American mayors on how to implement urban crime and violence prevention programs.

Nicaragua and Guyana both reached the completion point (see page 6) under the enhanced Heavily Indebted Poor Countries Initiative in fiscal 2004, allowing them to benefit from debt relief with a net present value of about $3.3 billion in Nicaragua and $335 million in Guyana.

Total population | billion:	0.5
Population growth | percent:	1.7
Life expectancy at birth | years:	71
Infant mortality per 1,000 births:	28
Female youth literacy | percent:	95
2003 GNI per capita | dollars:	3,260
Number of people living with HIV/AIDS | million:	**2.1**

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2000; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	Total FY04 Disbursements
IBRD $4,981.6 million	IBRD $4,905.2 million
IDA $338.2 million	IDA $323.0 million

Portfolio of projects under implementation as of June 30, 2004: $19.3 billion

One of 400 microenterprises created under a World Bank–Inter-American Development Bank rural road project, with the participation of men and women from poor rural communities, performs routine maintenance on a rural road in the Peruvian Sierra.

BUILDING THE CLIMATE FOR INVESTMENT

The Bank is assisting countries throughout the region in their efforts to improve the investment climate and strengthen growth and competitiveness. In Brazil the Bank is supporting the new government's economic reforms with a $505 million programmatic loan. The reforms aim to reduce logistical costs; enhance the business environment; improve the efficiency, access, and soundness of the financial sector; and increase technological progress and innovation.

The Bank provided a $150 million loan to Peru to support the government's decentralization and competitiveness program. The loan will enable the authorities to modernize ports, roads, and other infrastructure, thereby promoting foreign investment and economic growth.

The Bank is supporting Nicaragua's poverty reduction strategy with a $70 million IDA credit to promote human capital, build public institutions, and strengthen growth and competitiveness.

Bank assistance is facilitating trade and enhancing productivity in Peru and Honduras, helping to increase access to water in Paraguay, and strengthening regulation in the transportation sector in Brazil. Other loans to the region are described in the Summaries of Operations Approved on the enclosed CD-ROM.

As part of its analytical and diagnostic work, the Bank is carrying out Investment Climate Assessments to help identify reform priorities in each country in the region. It has completed, or nearly completed, assessments in Brazil, Chile, Ecuador, El Salvador, Guatemala, Honduras, and Nicaragua and has

BOX 2.5 HELPING SMALL RURAL COMMUNITIES IN HONDURAS THROUGH A ROAD PROJECT

A road project in Honduras is helping small rural communities create productive employment and maintain the country's infrastructure. Under a $66.5 million IDA credit, the project has created 50 microenterprises and trained their personnel to repair potholes, clear landslides, and maintain road shoulders, signals, and bridges. The 50 firms maintain 2,300 kilometers of roads—80 percent of Honduras' paved network. The government is expected to institutionalize the program for the entire road network once IDA funding expires in 2004.

Almost 700 small entrepreneurs own the microenterprises, and some 4,160 men, women, and children benefit directly from them. Eighty-two percent of microenterprise members now own a house or are building one and, thanks to an agreement with the Ministry of Education, many of the adult members have become literate after returning to school alongside their children.

c. 1955. Workmen repair bridges, relay track, install new ties, and rebuild along the Pacific railroad in Mexico. The Bank also financed the purchase of railway stock.

launched assessments in Grenada, Jamaica, Mexico, and Paraguay.

FOSTERING PARTICIPATION IN DEVELOPMENT

Across the region the Bank is supporting efforts to improve poor people's access to basic services and increase the participation of excluded groups. In Paraguay the Bank provided $24 million for an education reform project to increase secondary enrollment among the rural poor. In Lima, Peru, a $45 million loan from the Bank is supporting efforts to make the public transportation system more efficient and reliable as well as more accessible to people with disabilities. In Peru and Honduras, Bank projects are helping create microenterprises to provide road maintenance. (See box 2.5).

In response to Argentina's efforts toward economic recovery and growth, the Bank provided $500 million to help the government address financial and utilities sector reform, government transparency, and private sector competitiveness. In Colombia the Bank provided a $200 million loan for labor reform and social development. In Brazil and Chile the Bank is supporting the governments' social protection programs including the Bolsa Familia and the Chile Solidario Initiative, which help the poorest households with a $572 million adaptable program loan for Brazil, and a $200 million adjustment loan with a deferred drawdown option and an accompanying $11 million technical assistance loan for Chile.

The Bank also funds initiatives to reach the 30 million indigenous people in the region, about 80 percent of whom are poor. In fiscal 2004 the Bank made a $25 million land administration loan to Honduras that will benefit indigenous populations and people of African descent. In Mexico it provided $21.3 million for a project to help up to 200 indigenous communities and *ejidos* (communal landholding entities) improve the management and conservation of their forest resources.

ADDRESSING GLOBAL PRIORITIES

The Latin America and the Caribbean region has the potential to achieve many of the Millennium Development Goals. The Bank is helping the region make further progress by investing in basic education in Brazil, Guatemala, Mexico, and Uruguay and in child and maternal health in Argentina, Brazil, and Paraguay.

Three boys play on the river in Riberia Azul, Salvador do Bahia, where the Bank is supporting efforts to improve the living conditions of the urban poor.

In fiscal 2004 the Bank provided a $136 million loan to Argentina to help meet the health needs of poor, uninsured mothers and children.

HIV/AIDS poses a serious challenge in the Caribbean, which has the highest adult HIV prevalence rate outside of Africa. The Bank has provided more than $550 million in funding for HIV/AIDS prevention and control programs in Latin America and the Caribbean. Under its AIDS initiative, the Bank approved grants to the Caribbean Community and to Guyana in fiscal 2004 and helped prepare projects in St. Lucia and in St. Vincent and the Grenadines.

Bank support for environmental sustainability in the region comprises 64 active projects totaling about $3.4 billion. These include the Biodiversity Protection Project in Bolivia, the Clean Air Initiative for Latin American Cities, the Mesoamerican Biological Corridor, and the Pilot Program to Conserve the Brazilian Rainforest. In fiscal 2004 the Bank provided $60 million to support sustainable regional development in the Brazilian state of Tocantins.

Table 2.5 **World Bank Lending to Borrowers in Latin America and the Caribbean, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	435.8	694.0	587.6	570.1	391.0	567.2	111.2
Environmental and Natural Resource Management	403.2	164.8	270.8	68.8	187.4	240.3	159.1
Financial and Private Sector Development	1,229.3	1,626.9	1,056.1	985.4	965.4	819.8	912.4
Human Development	569.8	786.9	157.7	471.2	560.4	1,171.7	1,046.7
Public Sector Governance	531.4	825.2	519.9	1,099.7	1,182.8	798.6	672.0
Rule of Law	63.6	94.1	111.7	202.2	15.5	138.8	270.9
Rural Development	471.4	613.3	103.0	580.8	168.3	415.9	249.6
Social Development, Gender, and Inclusion	244.8	359.1	141.5	371.7	248.9	123.1	268.9
Social Protection and Risk Management	559.3	1,002.4	901.2	530.0	310.4	1,050.3	926.9
Trade and Integration	91.9	144.6	160.7	218.3	83.9	59.6	364.6
Urban Development	419.7	576.9	53.3	202.0	251.9	435.2	337.6
Theme Total	**5,020.2**	**6,888.3**	**4,063.5**	**5,300.1**	**4,365.8**	**5,820.5**	**5,319.8**
SECTOR							
Agriculture, Fishing, and Forestry	228.4	326.4	104.1	72.3	85.0	58.4	379.6
Education	536.2	659.8	62.8	529.1	560.4	785.5	218.3
Energy and Mining	239.2	98.1	79.3	107.6	445.6	96.2	50.5
Finance	666.6	1,004.7	1,191.8	946.7	593.5	973.0	405.1
Health and Other Social Services	588.5	1,150.5	360.2	904.7	660.5	1,574.1	1,558.9
Industry and Trade	93.6	204.2	165.3	38.3	51.4	183.4	428.0
Information and Communication	16.9	17.2	28.7	97.8	16.5	52.4	14.0
Law and Justice and Public Administration	1,246.0	2,293.8	1,791.0	1,726.7	1,440.0	1,564.9	1,521.3
Transportation	927.5	875.6	11.6	650.3	463.1	146.4	675.7
Water, Sanitation, and Flood Protection	477.3	258.0	268.7	226.6	49.8	386.2	68.4
Sector Total	**5,020.2**	**6,888.3**	**4,063.5**	**5,300.1**	**4,365.8**	**5,820.5**	**5,319.8**
Of which IBRD	4,733.3	6,406.4	3,898.1	4,806.7	4,188.1	5,667.8	4,981.6
Of which IDA	286.9	481.9	165.4	493.4	177.8	152.7	338.2

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report.* For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.9 **Latin America and the Caribbean: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $5.3 billion

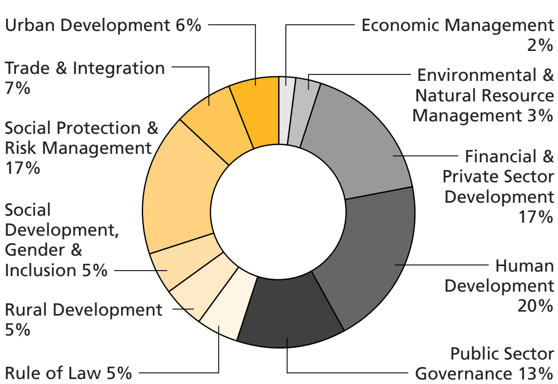
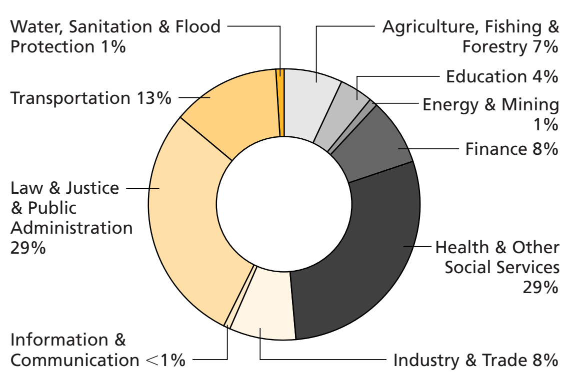
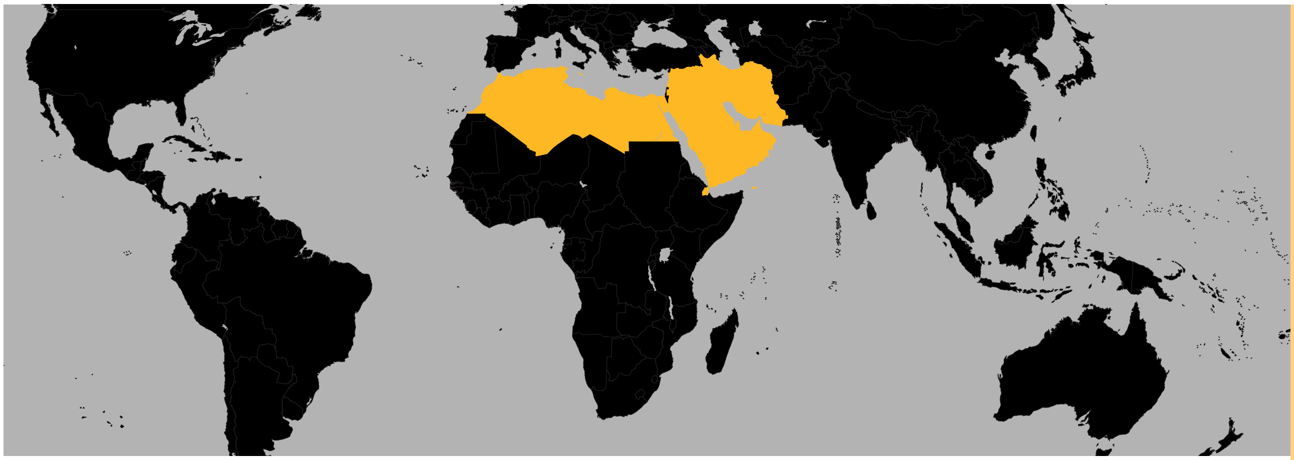


Figure 2.10 **Latin America and the Caribbean: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $5.3 billion





Middle East and North Africa

The Middle East and North Africa region is an economically diverse area whose economic fortunes over much of the past quarter century have been heavily influenced by the price of oil and by economic policies and structures dominated by the state. The region's heavy dependence on a few export markets and commodities makes it highly vulnerable to economic volatility. Sustainable and higher growth requires fundamental transformation to more open, more diversified economies in which the private sector plays a larger role.

Unemployment in the region averages more than 15 percent, and it disproportionately affects the young, the better educated, and women. Employing today's jobless workers and new entrants into the labor market requires the creation of nearly 100 million new jobs over the next two decades—more than double the current number of jobs available in the region.

WORLD BANK ASSISTANCE

In response to the region's daunting labor market challenge, the Bank has placed employment creation at the core of its strategy. In fiscal 2004 it published four flagship reports—on governance, trade, gender, and employment in the region. The reports call for a transition from public sector–dominated to private sector–led economies, from closed to more open economies, and from volatile, oil-dominated economies to more stable and diversified economies. The transition requires better governance, including greater inclusiveness and accountability, a larger role for women in the public sphere, and improvements in the quality of education.

Bank lending in fiscal 2004 totaled $1.1 billion, which supported 15 projects in 8 countries. These projects supported basic social services delivery to vulnerable groups, agricultural investments, public works enhancement, educational reform, large infrastructure development, and natural resources management.

In addition to lending, the Bank is delivering a wide range of knowledge services that serve as a catalyst for change and policy reforms. Economic and sector reports highlighted the challenges and issues in water management, education, public expenditure management, pensions, and poverty. Gender assessments are also under way in several countries. In response to increasing demand from the region for knowledge transfer, the Bank established a Knowledge Hub in Marseilles, France, to facilitate the exchange of knowledge and learning activities to and from the Middle East and North Africa.

Gulf countries whose high income makes them ineligible for Bank lending have been tapping into the Bank's knowledge services for three decades through the Reimbursable Technical Assistance Program. In Saudi Arabia the Bank is providing policy advice on public sector reforms, privatization, and small and medium-size enterprise development. Kuwait is drawing on the program for policy advice on reforming education, generating employment, increasing transparency, and fighting corruption. In Bahrain the program has expanded to include the restructuring of fiscal management to prepare the government for the Gulf states' monetary union in 2010.

In areas affected by conflict, the Bank is addressing emergency needs and helping establish the institutional foundations for long-term development. In cooperation with the United Nations, the Bank produced a Joint Iraq Needs Assessment, which identified Iraq's reconstruction and development

Countries Eligible for World Bank Borrowing:

Algeria
Djibouti
Egypt, Arab Republic of
Iran, Islamic Republic of
Iraq
Jordan
Lebanon
Morocco
Syrian Arab Republic
Tunisia
Yemen, Republic of

This section also reports on the West Bank and Gaza.

Total population | billion:	0.3
Population growth | percent:	1.9
Life expectancy at birth | years:	69
Infant mortality per 1,000 births:	44
Female youth literacy | percent:	82
2003 GNI per capita | dollars:	2,210
Number of people living with HIV/AIDS | million: 0.1	

Note: *Life expectancy at birth and infant mortality rate per 1,000 live births are for 2002; female youth literacy is for the most recent year available, 2001; other indicators are for 2003; from the World Development Indicators Database. The term gross national income (GNI) is now used instead of gross national product (GNP).*

Total FY04 Commitments	**Total FY04 Disbursements**
IBRD $946.0 million	IBRD $543.6 million
IDA $145.0 million	IDA $183.2 million

Portfolio of projects under implementation as of June 30, 2004: $5.22 billion

Access to better education expands opportunities for the poor in the region.

requirements in 14 sectors. To help donors channel their resources and coordinate their support for Iraq's reconstruction, the Bank and the United Nations designed the International Reconstruction Fund Facility, with each organization managing a trust fund. The trust fund administered by the Bank is financing projects on capacity building for Iraqi civil service, education, community-based rural infrastructure, and infrastructure reconstruction.

In the West Bank and Gaza, the Bank maintains a balance between emergency work and medium-term development projects. (See box 2.6.) Since September 2000 approximately $329 million has been disbursed to the Palestinian Authority. Disbursement levels were increased significantly during fiscal 2004 to sustain the Palestinian Authority and slow the decline of economic and social indicators. The Bank's portfolio in the West Bank and Gaza consists of 15 active projects, including an emergency services support project to sustain education, health, and social services. The Bank also contributed $20 million to the Reform Fund, a general budget support facility established in 2004 at the request of international donors.

The Bank supports countries that have been struck by natural disasters. In the aftermath of the Bam earthquake in December 2003, and at the request of the Iranian government, the Bank sent a team to assess the economic damage and prepare a reconstruction program.

BUILDING THE CLIMATE FOR INVESTMENT

A World Bank Group Business Road Show in Kuwait, Saudi Arabia, and the United Arab Emirates brought together people from the private sector to discuss how to boost their investments in the region and develop new business activities. The Bank also sponsored the Second Annual Knowledge for Development Conference. Held in Marseilles, the conference aimed at helping countries develop knowledge-based economies that will enhance their competitiveness and increase trade.

In one of the largest projects in the region, the Bank lent $335 million to the Arab Republic of Egypt to finance the development of airport infrastructure. The project is expected to increase foreign exchange earnings from tourism. To enhance the competitiveness of the private sector, a separate loan is promoting market-driven skills for Egypt's workers.

To improve public efficiency, the Bank is supporting an ambitious decentralization program adopted by

The Bank sponsors activities aimed at increasing private investment and creating jobs in the region.

the government of the Republic of Yemen that gives local authorities greater responsibility in revenue management. The project is expected to promote productive local investments and economic growth.

In Lebanon a Bank project is supporting good governance by improving a land registration system that was disrupted by civil war.

FOSTERING PARTICIPATION IN DEVELOPMENT

In response to the socioeconomic realities in the region, the Bank's strategy focuses on expanding opportunities for poor people through access to better education, health services, social protection, infrastructure, and other areas needed for development. As part of a regional strategy to enhance education, the second phase of an education improvement project in Tunisia is ensuring that education corresponds to the needs of the job market. In the Republic of Yemen, where half of the population lives below the poverty line, the third phase of the Social Fund for Development project is delivering basic services in education, water, health, and social protection to vulnerable groups, such as women and children.

BOX 2.6 **PARTNERING WITH CSOs TO CREATE JOBS IN THE WEST BANK AND GAZA**

In December 2000 the Bank allocated $23 million from its Emergency Response Project to finance job creation projects in the West Bank and Gaza through civil society organizations (CSOs). By 2003 the CSO Employment Generation Program had created 162,500 employment opportunities. The projects included creating embroidery production units; rehabilitating youth centers, kindergartens, soccer fields, water wells, and houses of poor families; and hiring and training psychological counselors. By 2004 the Palestinian CSO Project, managed by the Welfare Association Consortium, attracted considerable cofinancing and disbursed $5 million to projects aimed at creating jobs, especially in social service delivery.

Financed by the World Bank Trust Fund for the West Bank and Gaza, an Emergency Water Project will provide a clean, affordable, and consistent water supply by rehabilitating the water supply and distribution system in the West Bank. In response to village surveys revealing that water and access are top priorities for communities, a rural infrastructure project in Morocco is building on the success of a Bank-funded project that increased access to potable water from 18 percent to 40 percent among the rural population. The project will also link remote villages to a network of rural roads.

In Djibouti, one of the poorest countries in the region, the Bank helped the government develop its first Poverty Reduction Strategy Paper, in close consultation with civil society organizations.

ADDRESSING GLOBAL PRIORITIES

During fiscal 2004 the Bank supported activities in the region that addressed two key global priorities: HIV/AIDS, and children and youth.

The level of HIV infection remains low, at just 0.3 percent. But according to a Bank report, *HIV/AIDS in the Middle East and North Africa: The Costs of Inaction,* if the current infection rate is left unchecked, by 2025 it could cost the region one-third of today's gross domestic product. The report urges policy makers to increase surveillance while prevalence is still low. Some countries in the region have already taken action. Tunisia piloted a project for young people that provides education, counseling, and testing. The Islamic Republic of Iran established a needle-exchange program. And Morocco introduced a large-scale plan to upgrade services for treating sexually transmitted diseases.

More than half of the population in the region is under the age of 25. Conflict, an economic downturn, and urban migration have left children and young people vulnerable to dropping out of school and to using drugs. To address these problems, the Bank is integrating consideration of children and young people into all its projects. The Second Basic Education Project in the Republic of Yemen is providing learning opportunities for working children that will not compromise their income opportunities. In Egypt a Child Labor Prevention Grant will help prevent child labor by identifying children at risk and seeking ways to integrate them into schools while supporting their families.

Table 2.6 **World Bank Lending to Borrowers in Middle East and North Africa, by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	52.4	5.2	0.0	11.9	5.0	0.0	0.0
Environmental and Natural Resource Management	131.9	94.2	123.3	27.5	21.7	186.0	113.8
Financial and Private Sector Development	354.1	361.1	61.8	78.8	204.1	48.3	259.3
Human Development	83.9	179.0	187.9	35.7	61.9	140.9	192.1
Public Sector Governance	118.1	89.8	130.6	102.6	93.3	106.6	19.6
Rule of Law	22.6	59.5	9.3	56.5	49.1	48.0	1.7
Rural Development	131.8	175.3	89.2	86.4	14.5	100.6	65.1
Social Development, Gender, and Inclusion	78.6	64.5	71.6	52.5	13.4	63.1	70.7
Social Protection and Risk Management	73.8	87.4	100.0	5.6	11.0	96.1	31.6
Trade and Integration	33.0	38.8	3.0	3.4	24.8	3.6	158.3
Urban Development	84.9	125.9	143.5	46.7	55.8	262.7	178.7
Theme Total	**1,165.1**	**1,280.8**	**920.0**	**507.5**	**554.5**	**1,056.0**	**1,091.0**
SECTOR							
Agriculture, Fishing, and Forestry	126.0	147.9	120.6	46.5	2.9	196.7	27.2
Education	116.2	94.2	197.1	72.3	38.0	154.3	154.9
Energy and Mining	24.6	56.8	0.0	0.0	1.3	0.0	0.0
Finance	179.7	176.4	5.3	0.0	110.5	1.9	20.8
Health and Other Social Services	101.6	159.8	158.9	39.3	41.7	124.2	52.0
Industry and Trade	187.0	168.6	47.9	27.0	71.7	74.3	23.4
Information and Communication	1.3	33.8	1.3	59.2	69.9	2.3	0.0
Law and Justice and Public Administration	153.9	250.5	108.9	161.5	74.7	213.6	93.6
Transportation	153.7	81.7	59.6	82.8	70.9	107.9	409.6
Water, Sanitation, and Flood Protection	121.2	110.9	220.5	19.0	73.1	180.9	309.5
Sector Total	**1,165.1**	**1,280.8**	**920.0**	**507.5**	**554.5**	**1,056.0**	**1,091.0**
Of which IBRD	990.6	955.5	760.2	355.2	451.8	855.6	946.0
Of which IDA	174.5	325.3	159.8	152.3	102.7	200.4	145.0

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

Figure 2.11 **Middle East and North Africa: IBRD and IDA Lending by Theme, Fiscal 2004** | share of total of $1.1 billion

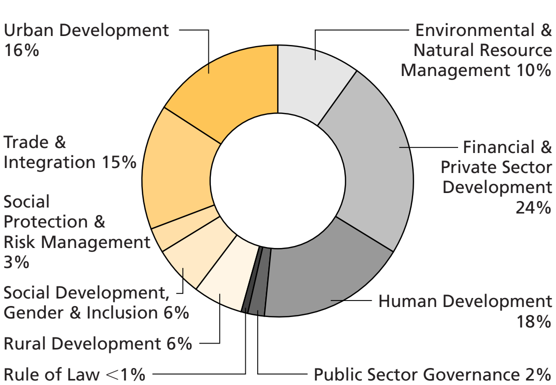
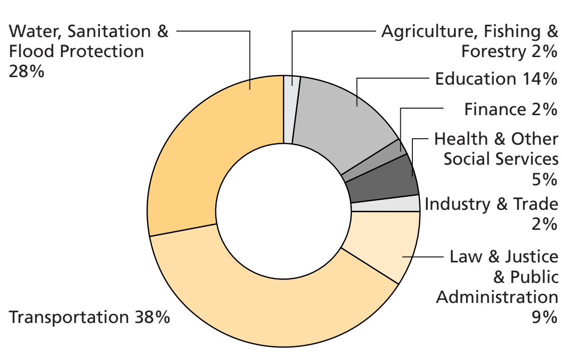


Figure 2.12 **Middle East and North Africa: IBRD and IDA Lending by Sector, Fiscal 2004** | share of total of $1.1 billion



World Bank Presidents Eugene R. Black and George D. Woods sit below portraits of World Bank Presidents Eugene Meyer and John J. McCloy.

IDA extends the first development credit—a $9 million loan to Honduras for highway development—in 1961.

The first education loan—$5 million from IDA to Tunisia for school construction—was made in 1962.

In 1961 the Bank lent $80 million to Japan to help finance the "bullet train."

Eugene R. Black (1949–1963)

George D. Woods (1963–1968)

1960s

1960

International Development Association (IDA) established as affiliate of the Bank, with initial subscriptions of $1,390 million.

Indus Waters Treaty is signed by Pakistan, India, and the Bank.

1961

First IDA credit is made, to Honduras for highway development.

First credit to China, for a harbor dredging project.

1962

The first education loan is made, to Tunisia.

1963

First group arrives for the Junior Professional recruitment and training program (now the Young Professionals program).

Guinea signs IBRD articles of agreement as 100th member of the Bank.

1964

First IDA replenishment, providing $976 million.

A microwave relay station atop Mt. Chingal (elevation 9,000 feet) near Lae, Papua New Guinea, part of a 1968 telecommunications project.

U.S. President John F. Kennedy addresses the Annual Meetings in autumn 1963.

Telephone operators at a PABX board in Singapore, part of a 1967 telecommunications project.

Robert S. McNamara (1968–1981)

1965 **Bank commitments** exceed $1 billion for the first time.

1966 **International** Centre for Settlement of Investment Disputes (ICSID) established.

1967 **France, Germany,** Japan, the United Kingdom, and the United States form the Group of 5 to convene meetings of finance ministers and governors of central banks. The group became the G7 in 1976, with the addition of Italy and Canada. With the inclusion of the Russian Federation, the group is now known as the G8.

1968

1969 **The second** replenishment of IDA, providing $1.4 billion.

Reducing Poverty and Improving Economic Management

The Poverty Reduction and Economic Management Network seeks to expand the knowledge needed to design policies that foster an enabling international environment for economic growth that benefits poor people.

POVERTY REDUCTION STRATEGY PAPERS AND RELATED ACTIVITIES

About 1.1 billion people—one-fifth of the world's population—live on less than $1 a day. The Bank's strategy for fighting poverty in low-income countries is based on the Poverty Reduction Strategy Paper (PRSP) approach (**www.worldbank.org/prsp**). This approach has resulted in broader country ownership of the poverty reduction agenda as well as improved participation. During fiscal 2004 the Executive Directors considered 12 country-owned full PRSPs and 2 interim PRSPs (I-PRSPs), bringing the total to 42 PRSPs. An additional 14 countries have I-PRSPs. Twenty-three countries have produced at least one Progress Report. (See **www.povertynet.org**.)

The PRSP process has led to dialogue and openness. It also appears to have spurred spending that aims to benefit poor people. Challenges remain, however, in several areas, including establishing stable participatory processes, developing focused strategies with clear priorities, and better aligning donor support with country priorities.

The Bank's work on poverty reduction is guided by an emphasis on economic growth that benefits the poor, poverty and social impact analysis, and empowerment. Substantial progress was achieved in all three areas in fiscal 2004.

Growth is essential for poverty reduction, but sustained, successful poverty reduction also requires that poor people participate in and benefit from growth. In fiscal 2004 the Bank did much to foster such growth. (See **www.worldbank.org/poverty/inequal**.) Bank staff prepared framework papers on defining and measuring pro-poor growth and on the extent to which pro-poor and pro-growth policies involve trade-offs.

The Bank also helped 50 countries evaluate the potential impact of policy reforms on the welfare of poor and vulnerable people, initiating more than 40 Poverty and Social Impact Analyses (PSIAs) in fiscal 2004. The Bank increased the number of training events for staff and clients and developed new guidelines on conducting PSIAs. It also strengthened its coordination with other donors to facilitate collaboration with them on PSIAs, and it expanded the PSIA Web site (**www.worldbank.org/poverty/psia**).

c. 1966. A modern harvester shown reaping sorghum in an irrigated field reclaimed from desert land in Iran. The project raised living standards for 12,000 villagers who formerly lived under primitive conditions.

GOVERNANCE AND PUBLIC SECTOR REFORM

Bank lending for governance, public sector reform, and rule of law—all key to poverty reduction—totaled $3.9 billion in fiscal 2004. The Bank also increased its learning and outreach programs on governance issues, hosting nearly 50 seminars and training sessions on topics such as governance and accountability in a decentralized social sector, reinventing government, values and ethics, and judicial reform.

The Bank and the International Monetary Fund (IMF) continue to work closely on public financial management through the Heavily Indebted Poor Countries expenditure-tracking initiative. Working closely with client countries, Bank and IMF staff are reassessing public finance systems, updating action plan progress, and developing new action plans. The Bank has also increased its diagnostic and advisory work in public financial management. It has collaborated with partners to develop a performance measurement framework for assessing public finance systems, as well as an analytical approach that supports government-led capacity building.

During fiscal 2004 the Bank supported implementation of the Financing for Development Consensus, which reinforces the importance of domestic resource mobilization and aims to enhance relations between international organizations and national authorities on tax reform issues. The Bank, the IMF, and the Organisation for Economic Co-operation and Development signed a memorandum of understanding on establishing an international tax dialogue. (See **www.worldbank.org/publicsector**.)

GENDER AND DEVELOPMENT

Gender equality issues are now integrated into most Country Assistance Strategies, and Poverty Reduction Strategy Papers are increasingly gender sensitive. Gender issues are also important in Bank-financed projects, particularly in education, health, and social protection.

Numerous Bank-supported operations are promoting gender equality, including education projects in Chad, Eritrea, Kenya, and Sierra Leone; an Early Childhood Development Project in Brazil; an HIV/AIDS, Malaria, and Tuberculosis Control Project in Djibouti; a Rural Women's Development and Empowerment Project in India; and a Land Titling Project in the Lao People's Democratic Republic.

The Trust Fund for Gender Mainstreaming in the World Bank, financed by the governments of the Netherlands and Norway, is supporting capacity building among women in indigenous communities in Honduras, entrepreneurial opportunities for women in Tajikistan, and gender- and HIV/AIDS-related activities in Africa. An economic policy initiative is developing a body of analytical work on such areas as trade, competitiveness, and public sector downsizing.

The Bank also participates in partnerships to promote gender equality and empower women at the municipal, regional, and country levels. Its November 2003 workshop on Gender Equality and the Millennium Development Goals—organized jointly with United Nations agencies, multilateral development banks, and bilateral donors—conveyed the message that gender equality is critical to achieving all of the goals and identified strategies for ensuring gender-sensitive actions. (See **www.worldbank.org/gender**.)

The outcome of the Doha Development Round of Trade Negotiations matters a great deal to the world's poor. An agreement that slashed trade barriers, particularly in agriculture, would, in the long term, stimulate trade and raise incomes around the world, leading to a substantial reduction in global poverty.

TRADE

Research shows that trade boosts productivity, which in turn enhances growth. The Bank's work on international trade promotes a world trading system that is more conducive to economic development and helps developing countries capture the benefits of global opportunities. (See box 3.1.) Established nearly two years ago, the Bank's International Trade Group supports the successful conclusion of the Doha Development Round and strengthens partnerships with international organizations to enhance coherence and coordination in support of trade reforms.

During fiscal 2004 Bank researchers investigated the impact of trade liberalization on poverty, the ways in which multilateral and regional trade agreements can support the development process, the effect of international product standards on trade volumes and patterns, and the impact of liberalizing trade in infrastructure services such as telecommunications, port

BOX 3.1 **TRADE: WORKING TOWARD RESULTS AT THE COUNTRY LEVEL**

The Bank's regional trade work is being complemented with country work. The **Integrated Framework (IF) Initiative** to help the less-developed countries integrate into the world economy is an important part of this program. Trade diagnostic studies have been completed for Burundi, Cambodia, Djibouti, Ethiopia, Guinea, Lesotho, Madagascar, Malawi, Mali (near completion), Mauritania, Nepal, Senegal, and the Republic of Yemen. Integrated Framework dissemination workshops have been organized in these countries. Donor meetings have been held in Mauritania (November 2002), Senegal (June 2003), Nepal (November 2003), and Madagascar (January 2004). Several major studies on the impacts of Russia's accession to the World Trade Organization have also recently been completed.

The Bank's CIS-7 trade initiative, which covers the poorest countries in the Commonwealth of Independent States, focuses on trade, integration, and competitiveness, and provides technical assistance for export and investment facilitation. Other important diagnostic studies are under way for Central America (in the context of the Central America Free Trade Agreement), the Caribbean region, the Dominican Republic, Kenya, Nigeria, Pakistan, Tajikistan, and Ukraine, with many more in advanced planning stages.

facilities, and international transportation. In fiscal 2004 the Bank published several books on trade topics, including *Agriculture and the WTO, Poor People's Knowledge: Promoting Intellectual Property in Developing Countries,* and other titles that examine regional and cross-cutting trade issues.

Capacity-building efforts through the World Bank Institute included new courses on standards, trade facilitation, and services. The Bank also supported Vietnam's accession to the World Trade Organization, the Doha negotiations, and national trade policies in Africa, and it continued its regional program in support of African researchers.

Bank lending operations reflect the growing importance of trade in country development agendas. Through the Trade Facilitation Initiative, the Bank is involved in more than 130 trade-related operations in more than 60 countries. In September 2003, at the World Trade Organization Ministerial Conference in Cancún, Mexico, the Bank announced a new program to help countries seize opportunities offered by the current round of trade talks by reforming trade-related institutions and addressing barriers to trade stemming from inadequate ports, roads, and customs procedures.

The Bank also works through the Global Trade Facilitation Partnership for Transportation and Trade—a collaboration of more than 150 international partners—to create a worldwide constituency for the reform of trade logistics and trade facilitation. (See **www.worldbank.org/research/trade**.)

ECONOMIC POLICY

The Bank's economic policy work focused on several key areas in fiscal 2004—all involving growth. These included economic growth and employment strategies; economic growth through technological change; the role of fiscal policy in promoting growth and employment; debt and volatility issues affecting the sustainability of growth; fiscal, growth, and employment issues at the subnational level; and integrative policy analysis and tools for macroeconomic analysis.

The Bank's Economic Policy Group produced handbooks on fiscal sustainability, tax expenditures, management of volatility and crises, and subnational fiscal reform, as well as papers on government–private sector interaction and technological change; wages, employment, and growth; export-promotion zones and growth; competitiveness and growth; and fiscal policy and growth. (See **www.worldbank.org/poverty**.)

The Bank continues to support country development efforts through diagnostic reports, such as the Development Policy Review and country economic memoranda, which provide integrated views of a country's development priorities and cross-sectoral links to poverty reduction. In fiscal 2004 it conducted development policy reviews of Cape Verde, Ecuador, Indonesia, Malaysia, Nepal, the Philippines, the Seychelles, Sri Lanka, Tunisia, and Uganda.

Investing in People

Education projects in Indonesia enable poor children in rural areas to attend school.

Investing in services that enable poor people to break the cycle of poverty has never been more important. Bank support to country clients to expand and deepen the impact of their spending on health, education, and other key services is stronger than ever. The Bank also aims to strengthen the services that protect vulnerable people, including children and youth, people with disabilities, and people in crisis. From international partnerships geared at scaling up the effort to meet the Millennium Development Goals (MDGs) to country-based programs at the local and household level, putting people first is at the heart of the Bank's commitment.

EDUCATION

Helping countries build education systems that can respond to the poverty and knowledge challenges of the 21st century is a fundamental objective of the World Bank. Restoring momentum toward the goal of universal primary school completion by 2015 has been the objective of the Education for All Fast-Track Initiative. In its first 20 months, the initiative promoted faster policy reform, improved donor coordination, and mobilized additional resources, doubling funds to the first seven participating countries. Most significantly, the initiative created a global framework for resolving issues arising along the Education for All path. At a landmark meeting in Oslo in November 2003, attended by representatives of the Bank, donors, and client countries, participants agreed to expand the Fast-Track Initiative to all eligible low-income countries and to launch a Bank-managed Catalytic Fund with initial commitments of $250 million to provide start-up funding to countries implementing good policies but lacking sufficient donor support.

In addition to accelerating progress toward universal primary education—including support to help educational systems respond to the impact of HIV/AIDS—the Bank is committed to helping countries build the advanced skills they need to compete in global markets.

COMBATING HIV/AIDS

Since the HIV/AIDS epidemic began, more than 60 million people have been infected with HIV and more than 20 million people have died of AIDS. Around the world, an estimated 5 million people became infected with HIV in 2003 alone, bringing the total number of adults and children living with HIV/AIDS to 38 million. More than 95 percent of people living with HIV/AIDS are in developing countries, and about half of all new adult infections occur among young people ages 15 to 24.

AIDS threatens human welfare, socioeconomic advances, social cohesion, and even national security. In many countries AIDS is erasing decades of progress in development and is orphaning millions of children. Given the impact of the epidemic on development, the World Bank has placed HIV/AIDS at the center of its development agenda.

The World Bank is one of the largest sources of financial support for the prevention, care, treatment, and mitigation of HIV/AIDS through national, regional, and subregional programs. Since 1990 the Bank has committed more than $2.4 billion for HIV/AIDS-related programs in grants, loans, and credits in every region to fight the disease. For the poorest countries, HIV/AIDS projects supported by IDA can be financed wholly by grants rather than loans. In fiscal 2004 12 stand-alone HIV/AIDS projects or projects with HIV/AIDS and related components were approved for nine countries, one region, and two subregions for total commitments of $381 million. Of these, 12 projects were IDA grants. In Africa and the Caribbean, nearly $1.2 billion has been made available since 2001 to support the implementation of national HIV/AIDS strategies and subregional HIV/AIDS activities through the Multicountry HIV/AIDS Programs (MAPs). Every eligible country in Africa is now receiving MAP support or preparing for MAP funding, and by the end of fiscal 2004, the Caribbean MAP was supporting seven national projects and one regional program.

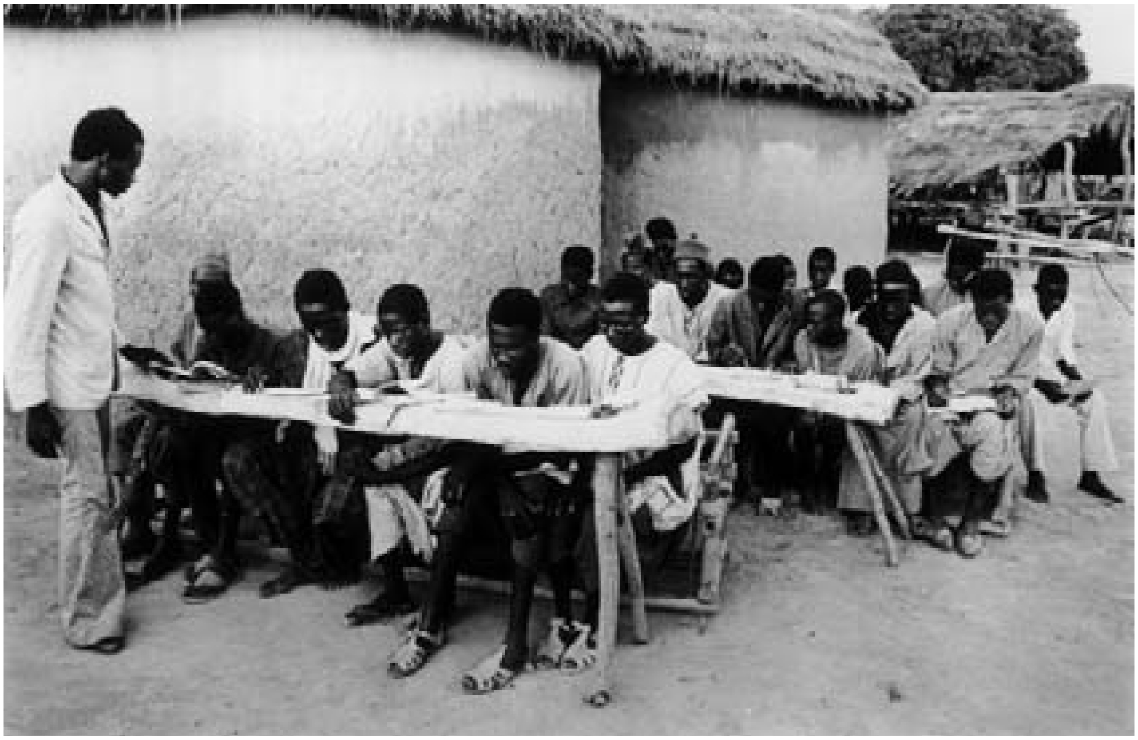
In addition to financial assistance, the Bank is also a major provider of project support, through direct provision of expertise (especially in fiduciary matters), the sharing of good practices and lessons learned, and sponsorship of intercountry learning. As a founding cosponsor of the Joint United Nations Programme on HIV/AIDS (UNAIDS), the Bank works closely with other U.N. agencies to strengthen HIV/AIDS work at country, regional, and global levels. At the country level, the Bank is actively engaged in policy dialogue and in helping countries to use the Poverty Reduction Strategy Paper process and the Heavily Indebted Poor Countries Initiative to release funds from debt relief for fighting HIV/AIDS.

The Bank's Global HIV/AIDS Program supports the World Bank's efforts to address the HIV/AIDS pandemic from a cross-sectoral perspective and leads the monitoring and evaluation efforts of UNAIDS partners through the Global HIV/AIDS Monitoring and Evaluation Support Team. This team works with countries and diverse donors to strengthen monitoring and evaluation capacity at the country level and coordinates with donors to relieve countries from having multiple reporting systems.

The World Bank is working with all major stakeholders in scaling up antiretroviral therapy; its recently completed technical guide, "Battling HIV/AIDS: A Decision Maker's Guide to the Procurement of Medicines and Related Supplies," has been endorsed by U.N. agencies. The $60 million grant for the Treatment Acceleration Project will pilot innovative public sector, private sector, and civil society partnerships for scaling up comprehensive treatment in Burkina Faso, Ghana, and Mozambique.

The Bank has entered into a partnership with the United Nations Children's Fund; the Global Fund to Fight AIDS, Tuberculosis and Malaria; and the Clinton Foundation to make it possible for developing countries to purchase high-quality AIDS medications at low prices. The drug agreements could save $150–$400 per patient per year, allowing more people to be treated. Agreements on diagnostic tests will result in savings of up to 80 percent.

Today more than ever before, the Bank's efforts on HIV/AIDS are beginning to pay off. Within the Bank, HIV/AIDS has been placed squarely on the development agenda and AIDS work is reflected in health projects as well as projects in many other sectors, including education, infrastructure, transportation, and water and sanitation. Internationally the Bank plays an important role as a major contributor to the fight against HIV/AIDS and as a trendsetter in new ways of dealing with the pandemic. (See **www.worldbank.org/aids**.)



c. 1974. An outdoor literacy class in a village near the Kita area in Mali was part of an Integrated Rural Development Project.

This assistance is provided through analytical and advisory activities, which increased 25 percent in fiscal 2004, and lending, which reached $1.68 billion in fiscal 2004, including $515 million of education components in 50 noneducation projects. Steady growth in integrated support reflects a strategy of nesting education firmly in national poverty reduction programs and other efforts that address vulnerability, health, private sector development, and public sector governance.

The India Elementary Education Project offers a good example of Bank efforts to support a highly committed government: accelerated project processing of a $500 million IDA credit in just nine months, and use of a sectorwide approach permitting pooled funding, joint supervision, and common reporting and monitoring with other donors. (See **www.worldbank.org/education**.)

HEALTH, NUTRITION, AND POPULATION

Protecting people from the impoverishing effects of illness, malnutrition, and high fertility is at the core of the Bank's focus on health, nutrition, and population. Good policies and effective health services are critical links in the chain of events that allow countries to break out of the vicious cycle of poverty, and they are central to the achievement of several MDGs. Better health and nutrition lead to greater productivity, higher incomes, and economic growth.

Health systems performance remained a dominant theme in fiscal 2004, representing $546 million in new lending. Support to child health, nutrition, and population programs and to reproductive health programs totaled more than $630 million, while support to the fight against communicable diseases, including HIV/AIDS, reached $379 million. The Bank's commitment to addressing the health and economic impact of injury and noncommunicable disease was reflected in $315 million in new lending.

At a high level forum convened by the Bank and the World Health Organization in Geneva in January 2004, donor and country partners met to develop a consensus on ways to accelerate progress toward the health MDGs, such as making Poverty Reduction Strategy Papers more responsive to these goals. For example, the Second Tanzania Health Sector Project tracks the same indicators for health under both national and sector programs. The project also addresses other critical constraints, such as the crisis of human resources in health caused by both HIV/AIDS and emigration, and the challenge of deploying health workers to underserved areas.

To better understand what works in delivering health services to poor people, the Bank assessed dozens of interventions in Africa, Eastern Europe, and Latin America. Although many initiatives undertaken with the objective of benefiting poor people—such as improvements in primary health care and efforts to ensure attended births—are falling short of their goals, others are performing well. Measles immunization campaigns have had good results in Ghana and

BOX 3.2 **DISABILITY AS A FUNDAMENTAL ISSUE**

Roughly 400 million people with disabilities live in developing countries. Poor nutrition, dangerous working and living conditions, limited access to adequate health care, poor hygiene, inadequate information about the causes of impairments, war, conflict, and natural disasters all help explain why the number is so high. Disability exacerbates poverty by reducing access to education and public services and the opportunity to earn a living. This vicious cycle affects not only the individual but often the entire family and community.

A Bank-supported operation in India is training disabled people in development work so that they can help empower other disabled people and their families. It strives to reduce stigma and raise the social and economic status of people with disabilities by building institutions that support the provision of accessible services and promote disability prevention activities. The Bank has made it a priority to ensure that all activities it finances, including procurement and project design criteria, consider the needs of people with disabilities. (See **www.worldbank.org/disability**.)

Zambia, and government contracts with civil society organizations to operate district health systems have produced a patient mix in Cambodia that is more beneficial to the poor.

The Argentina Maternal and Child Health Insurance Program responds to the urgent needs of poor mothers and children. The loan uses an innovative matching grant mechanism from the federal budget to target indigenous people in the nine poorest provinces. Other innovations include reducing the cost of borrowing for polio prevention in Nigeria and Pakistan and for tuberculosis prevention and treatment programs in China, in partnership with foundations and bilateral donors. (See **www.worldbank.org/hnp**.)

PROTECTING VULNERABLE PEOPLE

Crises, natural or otherwise, have devastating effects on poor households, robbing them of security, assets, and incomes. Social protection measures that help individuals, households, and communities better manage risks and that provide support for the chronically poor are essential for reducing household vulnerability. Adequate and sustainable social protection policies help improve the investment climate, and they positively affect economic growth, incomes, and poverty. Social safety nets reduce the severity of poverty and help promote health and education. Bank-supported social funds and public works programs have improved roads, schools, and health facilities. Interventions also have targeted vulnerable groups, such as the elderly, the disabled, orphans, and children affected by harmful child labor. (See box 3.2.) In fiscal 2004, 77 percent of the $1.6 billion in new social protection lending went to risk prevention and mitigation activities (pensions, unemployment insurance, and social funds), with the remaining 23 percent spent enhancing the ability of households to cope with welfare downturns (social safety net operations).

More countries undertook assessments of risk, vulnerability, and social safety nets, and more poverty assessments included a vulnerability focus in fiscal 2004. By comparing the main risks countries face with the policy instruments used to manage those risks, these analyses identified programs with insufficient coverage or inadequate emphasis on preventing or mitigating recurrent shocks, helping policy makers improve the effectiveness of their interventions. For example, with assistance from development partners, including the Bank, the Ethiopian government is shifting away from a system dominated by emergency humanitarian aid toward a productive and protective safety net aimed at reducing vulnerability. (See **www.worldbank.org/sp**.)

ENGAGING WITH CHILDREN AND YOUTH

A priority for the Bank in fiscal 2004 was to bring children and youth into the policy dialogue on global development issues and have them inform national and local decision making. The objective is to give young people a voice at the table where discussions on the Country Assistance Strategy, Poverty Reduction Strategy Paper, and other projects take place. To do so, the Bank launched the New Voices Initiative, an effort at the country level to engage young adults directly in development activities. At the Youth, Development, and Peace Conference that took place in Paris in September 2003, the Bank and young leaders identified five themes for future youth involvement: education, employment, risky behavior and HIV/AIDS, conflict and peace, and participation and empowerment.

Addressing the Challenges of Sustainable Development

Sustainable development is central to poverty reduction. The Bank bases its policies on an environmentally and socially integrated approach, including a focus on agriculture and rural areas, where 70 percent of the poor now live.

Responsible Growth for the New Millennium: Integrating Society, Ecology, and the Economy describes the Bank's long-term strategy for addressing the future challenges of technology change, natural resource management, and social balance. To further this strategy the Bank is encouraging countries to address global concerns with appropriate solutions, customizing country approaches that can address challenges ranging from water scarcity and climate change to rural growth and social development. (See **www.worldbank.org/sustainabledevelopment**.)

AGRICULTURE AND RURAL DEVELOPMENT

Some 45 percent of rural development lending in fiscal 2004 went to South Asia and Africa; the former is home to some 490 million of the world's poor. Lending to agriculture rose in fiscal 2004, and is projected to increase significantly over the next two years, along with forest and rural water lending.

Implementation of the Bank's rural development strategy, *Reaching the Rural Poor,* has already had a significant impact on many of the Bank's activities in rural areas. The strategy has made rural development a multisector activity, enhancing cooperation among the many Bank units active in rural areas. (See **www.worldbank.org/ruralstrategy**.)

Rural poor people are increasingly involved in planning national rural-development strategies. Eleven countries have used participatory processes to develop people-centered national rural-development strategies. With Bank support, another 10 countries—including Bangladesh, Ethiopia, India, Kenya, and the Philippines—are preparing water resource assistance strategies.

Lending for rural infrastructure now represents a third of all rural lending. Infrastructure is key to

A Sri Lankan village shop is lit by solar lamps.

c. 1965. Tea is picked in Ragati, in Kenya. Two Bank loans and three IDA credits helped the development of agriculture and the improvement of roads in the tea-growing areas.

revitalizing the agricultural sector, and increasing agricultural productivity is, in turn, critical to promoting economic growth in rural areas. The Bank has strengthened its partnership with the Consultative Group on International Agricultural Research to ensure the supply of new and adapted technologies for enhancing agricultural productivity. (See **www.cgiar.org**.) It is continuing its efforts to convince governments in industrial and developing countries to allow a more open agricultural trade regime and to reduce trade-distorting agricultural subsidies. (See **www.worldbank.org/rural**.)

ENVIRONMENT

The Bank is in the third year of implementing its environment strategy. It continues to make progress toward achieving the key objectives of improving the quality of life, improving the quality of growth, and protecting regional and global commons. At the same time, it is committed to the Millennium Development Goal of ensuring environmental sustainability and endorses the global commitments made at the 2002 World Summit on Sustainable Development. (See **www.worldbank.org/environmentstrategy**.)

Poverty and the Environment

New programmatic lending instruments that provide loans for long-term change are helping the Bank support policy and institutional reforms that address links between poverty reduction and the environment. One example is the Third Poverty Reduction Support Project in Uganda, which improved the quality of water and sanitation services and increased access for the poor. Poverty Reduction Strategy Papers and Country Assistance Strategies are also incorporating environmental objectives, recognizing and strengthening the environmental impacts of development assistance and country actions.

Analytical and Cross-Sector Work

To further enhance its environmental dialogue with client governments, the Bank, during fiscal 2004, conducted Country Environmental Analyses (such as in Bangladesh, Colombia, and Ethiopia); Strategic Environmental Assessments (such as the Assessment of Macroeconomic Impact of Climate in Mali); Environment Monitors (in, for example, Cambodia and Thailand); and Energy-Environment Reviews (in, for example, Rwanda and Turkey). Cross-sector work, increasingly owned by client countries, also strengthens the links with the water and sanitation, transportation, urban, energy, and rural development sectors.

Environment Lending

The Bank approved 67 new projects with environmental content in fiscal 2004, for a total of $1.3 billion in new lending for such projects. The loans represent about 6.5 percent of total new lending by the Bank, an increase from 4.7 percent in 2002 and 6 percent in 2003. Examples of loans that support the environment include the First Programmatic Reform Loan for Environmental Sustainability in Brazil and the Water Supply and Sanitation Project in Iran.

Environmental Benefits

The Bank is building synergies between local and global environmental benefits. In partnership with the Global Environment Facility (**www.gefweb.org**), the

Montreal Protocol, and the Bank's carbon finance business (see box 3.3), the Bank is addressing global environmental issues. As an implementing agency of the Global Environment Facility, the Bank is preparing projects in two new areas—land degradation and persistent organic pollutants. Along with other participants at the September 2003 World Parks Congress, and as one of the largest financiers of biodiversity projects, the Bank highlighted the importance of integrating local livelihoods into protected area management and of complying with the Convention on Biological Diversity. (See **www.worldbank.org/montrealprotocol**.)

Greening the Bank

Internally, the Bank launched the Environmental and Social Sustainability Initiative, its own approach to corporate social responsibility. The initiative seeks to improve the environmental impacts of its physical facilities as well as its corporate and operational procurement (See **www.worldbank.org/ess; www.worldbank.org/environment**.)

SOCIAL DEVELOPMENT

Social development is fundamental to the Millennium Development Goals. Evidence presented in the *OED Review of Social Development in Bank Operations* shows that projects that take social dimensions into account have better development outcomes, are more sustainable, and are more likely to develop effective institutions. Incorporating recommendations from this review, the Bank drafted a strategic priorities paper, *Social Development in World Bank Operations: Results and Way Forward.* The paper, which is currently undergoing global consultations, proposes ways in which Bank-financed projects and programs can better integrate the operational principles of social sustainability: inclusion, cohesion, and accountability.

A key area for Bank support in fiscal 2004 was the scaling up of community-driven development. Efforts to better integrate this approach into country programs intensified, with analytical work on program design and implications in all regions. Efforts are increasingly moving toward strengthening local governance, particularly the links between local governments and community-based organizations.

The Bank has developed a Conflict Analysis Framework to enhance conflict sensitivity in Bank-financed projects. It is also developing tools for engaging with civil society in conflict-affected areas, exploring the links between conflict and natural resource management, adapting community-driven development approaches to conflict settings, developing guidelines for assessing postconflict needs, and applying conflict analysis to the poverty reduction strategy process to ensure more effective poverty reduction in conflict-affected countries. (See **www.worldbank.org/caf**.)

During fiscal 2004 the Bank's Post-Conflict Fund approved more than $8.5 million in grants to support conflict-affected countries. (See **www.worldbank.org/conflict**.)

BOX 3.3 CARBON FINANCE AS A POWERFUL DEVELOPMENT TOOL

Carbon finance is proving to be a powerful tool for improving the viability of clean technology investments that address climate change. Bank client countries provide high-quality carbon emission reductions in exchange for development dollars, technological know-how, and clean technologies for sustainable development. Through "learning by doing" and targeted technical assistance, the Bank is helping to build developing countries' capacity to participate in this emerging market. (See **www.carbonfinance.org**.)

The carbon finance business has substantial private sector involvement. It catalyzes investment in renewable energy and provides a source of revenues after most Bank financing ceases, thus sustaining project activities long after a project is completed.

With more than $420 million under management and approximately $350 million in projects approved or under preparation, funds supporting carbon finance include the Prototype Carbon Fund, a public-private partnership; the Community Development Carbon Fund, which extends carbon finance to smaller poorer countries; the BioCarbon Fund, which applies carbon finance to forestry and land use projects; and industrial country funds such as those of the Netherlands or Italy, which expand carbon market development to involve the private sector.

In collaboration with partners, the Bank provided operational and cofinancing support for Poverty and Social Impact Assessments. Country-level social indicators are being tracked through a new online database, and a framework for country-level social analysis is being tested.

Fiscal 2004 also saw the launching of the Community of Practice on Social Accountability, with a series of workshops and lectures aimed at enhancing knowledge sharing, networking, and the mainstreaming of social accountability in Bank operations.

To integrate the safeguard review and clearance process into the Bank's work, the Bank's Quality Assurance and Compliance Unit updated procedures for regional review of projects with moderate or low environment and social impacts and risks. It conducted an extensive program of capacity-building activities on safeguards for staff and clients and continued to support harmonization processes with the Bank's development partners.

Fiscal 2004 also saw the approval of the Global Fund for Indigenous Peoples (**www.worldbank.org/indigenous**), which finances a grant facility that provides small grants directly to indigenous peoples' organizations for development-related activities. The Bank also conducted a capacity-building program for leaders of indigenous peoples in the Andean region and worked to strengthen the United Nations Permanent Forum on Indigenous Issues. (See **www.worldbank.org/socialdevelopment**.)

Revitalizing Infrastructure

Infrastructure is a key factor in reducing poverty, supporting growth, and reaching the Millennium Development Goals in developing countries. But existing infrastructure is often poor, access limited, and funds to improve it inadequate.

The World Bank supports a wide range of infrastructure services in transportation; water supply and sanitation; urban services; telecommunications; and energy, including electricity and extractive industries such as oil, gas, and mining (see also "External Evaluation" in chapter 4). It supports infrastructure service delivery, reform, and institution building through policy dialogue and physical investments. It also acts as a catalyst to leverage financial and other assistance from development partners and the private sector to support technical assistance. The Bank made a new commitment in fiscal 2004 to infrastructure with the launch of the Infrastructure Action Plan.

Solar energy lights a village shop in Sri Lanka.

POVERTY ALLEVIATION, THE MDGs, AND GROWTH

Estimates show that in the late 1990s infrastructure investments reduced poverty by as much as 2.1 percent in low-income countries and 1.4 percent in middle-income countries. Improving infrastructure services such as water supply and sanitation is an explicit target in the Millennium Development Goals, and improving services such as housing and information and communication technologies is at least implicit in the goals. Infrastructure services also have an impact on the goals relating to health, education, and gender. Increasing access to clean water, for example, has reduced the probability of child mortality by 55 percent overall. Paved roads have significantly increased—and in one case doubled—the attendance of girls at school.

Infrastructure also has important links to economic growth. Infrastructure investment is particularly important to growth during the early stages of a country's development, when infrastructure is scarce and basic networks have not been completed. One study found that if the stocks of telecommunications and power-generation infrastructure in Africa had been comparable to those in East Asia, the continent's annual growth rate would have been about 1 percentage point higher during the 1980s and 1990s. A recent study of Latin America estimated that the lack of investment in infrastructure during the 1990s reduced long-term growth by 1 to 3 percentage points, depending on the country. At the project level, World Bank infrastructure projects have had an average economic rate of return of 2 percent, and in recent years the return has averaged 3 percent. Infrastructure is also a critical element in building the investment climate: the private sector consistently ranks lack of infrastructure as one of the key impediments to investment.

ACCESS, QUALITY, AND FINANCING NEEDS

The unmet access, quality, and financing needs for infrastructure services in developing countries remain staggering. In rural areas in low-income countries, only 2 percent of the population has access to electricity, and less than 2 percent has access to a mainline telephone. Infrastructure needs are sizable in most middle-income countries and in urban areas as well.

Lack of access is compounded by the low quality of infrastructure services. Relative to OECD (Organisation for Economic Co-operation and Development) countries adopting best practices, energy losses are twice as large, water losses four times as high, and faulty telephone lines ten times more common in low-income countries. Eighty percent of roads are paved in OECD countries, compared with just 29 percent in low-income countries. A recent study of seven Latin American countries suggests that the poor quality of public infrastructure renders it only about 74 percent as effective as infrastructure in industrial countries. This translates into a long-run cost that is equivalent to about 40 percent of real per capita income.

Meeting the challenge of increasing access to good-quality infrastructure services will require sizable investments over the medium term. Current estimates point to financing needs of about 7 percent of gross domestic product (GDP) for all developing countries—for both new investment and operations and maintenance expenditures. Financing needs in low-income countries could be as high as 9 percent of GDP. These figures suggest that investment and operations and maintenance allocations for infrastructure, which average about 3.5 percent of GDP in developing countries, may have to double.

THE INFRASTRUCTURE ACTION PLAN

In July 2003 the Bank launched its Infrastructure Action Plan. The plan sets the stage for increased support for infrastructure service delivery through a balanced public sector–private sector approach and the mobilization of financing from multiple sources. It commits the Bank to responding to increased client demand for infrastructure, to analyzing the effectiveness of and need for infrastructure in developing countries, and to strengthening its own instruments and approaches. (See box 3.4.)

c. 1955. The Anchicaya dam and power station serve the fast-growing city of Cali and were financed by loans from the World Bank totaling $8.03 million.

The Bank has made significant progress in implementing the recommendations of the Infrastructure Action Plan and in reengaging in infrastructure development. It has signaled a more flexible approach to supporting infrastructure service delivery and providing guidance on the roles of the public and private sectors. It is developing guidance notes on specific types of infrastructure services. A note on public and private sector roles in the supply of electricity services addresses the range of options, from purely private to purely public, that most Bank client countries will face as they work with Bank staff to reform their power sectors and improve efficiency and growth. (See **www.worldbank.org/infrastructure**.)

The Bank also increased infrastructure lending, provided more policy advice, and strengthened donor coordination in fiscal 2004. It began rebuilding its country knowledge base by introducing the Recent Economic Developments in Infrastructure, a new standardized infrastructure diagnostic. It invested in infrastructure sector performance data to improve results measurement and monitoring. Together with other multilateral development banks and bilateral organizations, it built common analytical and policy platforms. The Bank also strengthened its instruments

BOX 3.4 **INNOVATIVE APPROACHES TO INFRASTRUCTURE SERVICE DELIVERY**

The Bank is taking an innovative approach to delivering infrastructure in several new operations launched in fiscal 2004. The South Africa Regional Gas Project (SASOL) will mobilize private sector investment to generate revenues by developing and exporting natural gas from Mozambique to South Africa. A World Bank Group project, SASOL involves an IBRD partial risk guarantee, MIGA guarantees (which help private sponsors raise commercial debt on reasonable terms), and IFC equity. It is also the first IBRD enclave guarantee—in which IBRD resources are being used for an IDA-only country—as well as the first IBRD local currency guarantee, denominated in rand.

The Cambodia Provincial and Peri-Urban Water and Sanitation Project uses an output-based aid approach to finance water connections for poor households. Under the project, the government (supported by IDA grants) will make fixed subsidy payments for each connection made by private sector operators to households identified as being below the poverty line. Payments will be made only after successful connection and proof of reliable service.

The Trade and Transport Facilitation in South East Europe Program is a regional initiative that fosters trade and integration across eight countries by working to reduce nontariff costs to trade and transportation, reduce smuggling and corruption at border crossings, and strengthen and modernize customs administrations and other border control agencies.

and approaches by creating a cross-sectoral Infrastructure Economics and Finance Department. The department acts as a focal point for infrastructure finance, strengthens risk mitigation instruments, and explores engagement not just at the national level but also at the state and municipal levels. As it revitalizes its infrastructure business, the Bank will continue to apply its social and environmental safeguards, which are critical to ensuring high-quality infrastructure projects.

Supporting Private Sector Development

The Private Sector Development Network identifies the regulatory reforms, policies, and institutional capacities needed to create a vibrant investment climate. Building such a climate is crucial to promoting growth where poor people live. Research and practice show that such growth is key to reducing poverty.

Growth has not taken hold in many countries, despite the important reforms of the 1980s and 1990s. Those reforms focused largely on macroeconomic stabilization, neglecting important microeconomic reforms, including streamlining the rules governing the establishment and operation of a business. Such reforms are crucial, as many microeconomic factors—including laws and regulations, public institutions, and civic habits that make it difficult for entrepreneurs to start formal businesses, borrow money, and hire workers—limit the potential for economic growth.

The Bank's strategy is to develop a second generation of reforms focused on improving microeconomic conditions for private sector investment and growth. The network is providing better data through new survey tools that can be used to analyze the elements of a good investment climate and to translate that knowledge into Bank lending and advisory services that support actual reforms in developing countries. The strategy includes promoting responsible business practices and corporate governance; targeting support for micro-, small, and medium-size enterprises, and advancing privatization policies that work in suitable, competitive contexts so that the private sector can successfully offer goods and services.

Private sector development work spans many parts of the Bank. This cross-cutting theme, found in both lending instruments and economic and sector work, is organizationally linked with the International Finance Corporation, providing coordination for private sector programs throughout the World Bank Group. The Private Sector Development Network is implementing the Bank Group's private sector strategy by combining better research on business environment constraints with country programs that strengthen policies and institutions. It also facilitates important dialogue between government and the private sector about reform.

Vendors sell a variety of produce at the Xai Xai Market.

RESEARCH AND ASSESSMENT

A Bank-IFC report, *Doing Business in 2004: Understanding Regulation,* released this year, provides microeconomic data from 133 countries on five key indicators: starting a company, hiring and firing workers, enforcing a contract, obtaining credit, and going bankrupt. (See box 3.5.) *Doing Business* generated global media coverage and a new interest in reform in many countries. Research showed that cumbersome regulation is associated with lower productivity. (See figure 3.1.)

Doing Business complements investment climate surveys launched in 52 countries in the past three years, with some 20 more planned in fiscal 2005. To help identify priority areas for reform, these standardized firm surveys identify policy, regulatory, and institutional factors that constrain private investment and link these constraints to firm-level performance. Together with other sources, the surveys underpin Investment Climate Assessments, key country reports on the business environment. Some 26 Investment Climate Assessments have been completed. These assessments have influenced 11 Country Assistance Strategies and helped shape some 30 new Bank lending operations in Africa, East Asia and Pacific, Latin America and the Caribbean, and South Asia. Investment Climate Assessment findings and *Doing Business* indicators are also being incorporated into Poverty Reduction Strategy Papers.

In several poor countries, *Doing Business* and Investment Climate Assessments have helped spur governments to cut red tape. Many national and international agencies, including the Dutch Department of Economic Development, the U.S. government's Millennium Challenge Account, the Summit of the Americas, and the European Bank for Reconstruction and Development, are using *Doing Business* indicators to help determine how to allocate aid or monitor country progress. IDA has adopted policy reform targets that are based on *Doing Business* indicators. In response, a dozen countries have carried out promising reforms. The spotlight on regulatory reforms will intensify with the *World Development Report 2005: A Better Investment Climate for Everyone.*

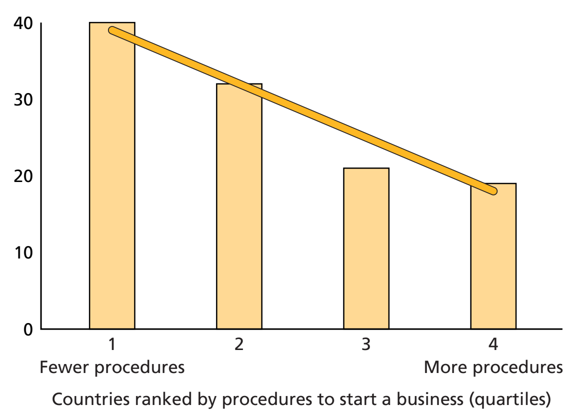
The Foreign Investment Advisory Service (FIAS), a joint service of the Bank and IFC, provides governments with analyses and recommendations for increasing foreign direct investment. (Figure 3.2 identifies resource flows to developing countries.) The service completed about 60 advisory projects on policy reforms or capacity building in fiscal 2004. Almost 70 percent of FIAS policy recommendations have been fully or partially implemented within three years of submission. An example is Albania, which began implementing recommendations to remove red tape and root out corruption, such as streamlining its customs procedures. (See **www.fias.net**.)

BOX 3.5 ***DOING BUSINESS IN 2004***

Doing Business in 2004: Understanding Regulation is an example of groundbreaking World Bank–IFC research that makes a complex issue accessible to the general public. The report, which includes data on the business climate in 133 countries, has raised important questions about the red tape affecting business. Why, for instance, does it take 152 days in Brazil, 168 in Indonesia, and 210 in Angola to start a business and only 2 in Australia, 4 in Puerto Rico, and 8 in Singapore? Why does this process cost five times per capita income in Cambodia and less than 1 percent in Canada? *Doing Business* concludes that poor countries regulate business in ways that are associated with bad outcomes (greater government inefficiency, more corruption, higher unemployment, and less investment). It also maintains that best practices are transferable from one country to another. What works in industrial countries can work in developing countries, and innovations from developing countries can be broadly replicated.

Planned as an annual report, *Doing Business* will examine three new indicators (property titling, corporate governance, and business licenses) in 2005 and another three (taxes, trade, and law and order) in 2006. (See **http://rru.worldbank.org/doingbusiness**.)

Figure 3.1 **Cumbersome Regulation Is Associated with Lower Productivity** | labor productivity, $1,000 per worker

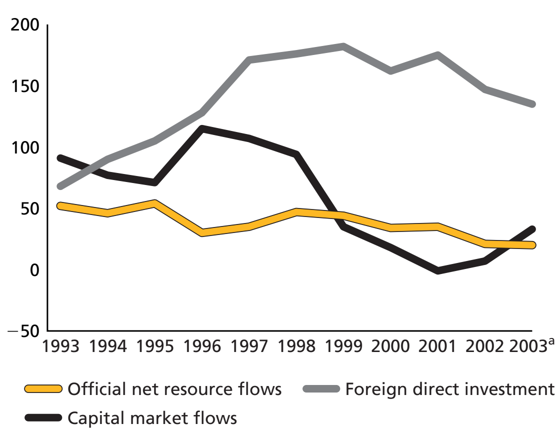


Sources: World Bank Doing Business Database. Washington, D.C.
World Bank. 2003. *World Development Indicators 2003*. Washington, D.C.

c. 1961. The World Bank has supported the development of many private industries. Cement stacks are shown being loaded onto a customer's truck at the Pacasmayo Cement Plant in Peru.

In fiscal 2004 the Bank's Corporate Governance Unit completed 10 country assessments analyzing how well securities laws, corporate laws, and business practices comply with principles of corporate governance developed by the Organisation for Economic Co-operation and Development. The 28 assessments completed to date are serving as the basis for policy dialogue, legal reforms, and new capacity-building projects in many countries. The Arab Republic of Egypt, for example, has adopted several corporate governance recommendations, including establishing listing rules for its stock exchange and creating an institute to train directors on corporate boards.

Figure 3.2 **Net Long-Term Resource Flows to Developing Countries, 1993–2003** | billions of dollars



a. Estimate. Net long-term resource flows are defined as net liability transactions or original maturity of greater than one year.

Source: World Bank. 2004. *Global Development Finance 2004*. Washington, D.C.

LENDING, TECHNICAL ASSISTANCE, AND ADVISORY SERVICES

The Bank made commitments for 95 new projects with private sector development components in fiscal 2004, which will amount to over $4 billion of its portfolio. These figures underscore the Bank's commitment to new and innovative lending for investment climate reforms. The Bank's total portfolio now includes 488 projects with private sector development components, amounting to more than $16 billion of lending.

IDA and IFC launched a pioneering $225 million pilot project in several African countries to address the main roadblocks to the growth of small and medium-size companies. In Brazil the Bank provided a $505 million adjustment loan, based partly on Investment Climate Assessment findings, to help make firms more competitive by reducing logistics costs caused by bottlenecks in customs and transportation. *Doing Business* indicators will be used to assess progress. In Nigeria the Bank is helping design a small and medium-size enterprise development project that uses

Doing Business indicators and Investment Climate Assessments for monitoring performance.

Private sector research also influences advisory services and technical assistance. The network coordinates closely with many of the 10 IFC donor-supported funds, called Project Development Facilities. These facilities provide technical assistance to small firms and business organizations for work on improving difficult business environments. In Chengdu, China, to expand credit to small businesses, the *Doing Business* team provided the municipal government with information on global best-practice credit bureaus. With the support of the *Doing Business* team and the facility, FIAS is working with the People's Bank of China on crafting recommendations for reforming the country's collateral laws and improving creditor rights protections.

The Private Sector Development Rapid Response Unit launched a new version of its highly rated knowledge-management Web site, which allows Bank staff, policy makers, and reformers to hold policy discussions and access the leading research, databases, and privatization tool kits. The site is on target to reach 1 million visits a year. (See **http://rru.worldbank.org**.)

PRIVATE SECTOR DIALOGUE

An important element of most successful investment climate reforms has been dialogue between business and government. The Bank is actively facilitating such dialogue around the world and working to create open environments that allow business and government to put difficult issues on the table for candid discussion. Business-government dialogues regularly accompany the dissemination of *Doing Business,* Investment Climate Assessments, FIAS reports, and corporate governance reports. In Brazil the *Doing Business* forum led to the formation of a private sector group to propose reforms to the government. As part of a new gender initiative, consultations on the impact of regulation on women were held with women's business associations from 13 countries. In Nigeria the Investment Climate Assessment provided the basis for launching the Better Business Initiative, which has spurred a dialogue between the private sector and the government on key investment climate policies. In India the private sector has taken the lead in launching follow-up investment climate surveys to monitor progress in policy reforms. In Ghana, Senegal, Tanzania, and Uganda, investor councils composed of leading government and business officials have begun operating, and an investor council was formed in Turkey in 2004 with FIAS assistance. The Global Corporate Governance Forum, a multidonor trust fund founded by the Organisation for Economic Co-operation and Development and the Bank, supports private-public roundtables at which participants discuss policies and identify areas for urgent improvement.

Building Strong Financial Systems

The World Bank has long recognized that poverty reduction and economic growth depend on effective and strong national financial systems. Financial systems that develop unevenly and lack transparency and proper regulation are more vulnerable to financial shocks. Extensive Bank research shows that these shocks and crises disproportionately affect poor people. Weak financial systems in developing countries contribute to poverty by providing inadequate access to financial services to individuals and to the small and medium-size enterprises that are key to economic growth and empowerment. The Bank contributes to strengthening the financial sector in three ways: by generating and disseminating knowledge, by providing country diagnostic services, and through lending and technical assistance.

KNOWLEDGE GENERATION AND DISSEMINATION

In collaboration with outside groups, the Bank produces cutting-edge contributions on financial sector topics to help practitioners and governments make better policy decisions. The vast majority of this research, both publications and data, can be downloaded from the Bank's Web site (**www.worldbank.org/finance**). In fiscal 2004 the Bank was at the forefront of analysis on several issues that are critical to mitigating risk and developing sound financial markets, such as financial sector governance, risk management, corporate restructuring, and electronic finance and security. (See box 3.6.)

In many countries, people lack access to financial services. The Bank has developed analytic frameworks for assessing poor people's access to services and identifying the impediments to expanding it. Simultaneous studies in several Latin American countries, including Brazil, Colombia, and Mexico, surveyed access to financial services by individuals and examined the actual and potential role of different types of financial institutions—private and public banks, microfinance institutions, informal arrangements—in providing access. Results on individual countries have been widely disseminated, cross-country comparisons are now under way, and studies are being conducted in other countries, including India and South Africa. These efforts should help policy makers understand what factors limit access to financial services.

The Financial Sector Learning Program complements ongoing research by offering financial sector policy makers, regulators, private sector practitioners, World Bank staff, and academics cutting-edge policy advice and forums in which they can share multidisciplinary perspectives. A number of programs were conducted this year, including a collaboration with RiskWaters, a private firm specializing in providing information on financial services (including risk management). It addressed the development of sound frameworks to implement the new Basel Accord, which highlights improved risk management, enhanced supervisory authority, and disclosure and transparency for banking systems.

In addition, the World Bank stepped up efforts to assist countries at risk of crisis. A conference on dealing with systemic financial distress brought together policy makers and academics to develop a handbook for authorities based on lessons learned. The Bank also took the lead in several regional seminars on bank insolvency, including events held in Malaysia, South Africa, and Tunisia. The seminars were targeted to reach senior

c. 1976. A skilled worker in a Bangalore watch factory tends a modern machine purchased with foreign exchange made available by the Industrial Development Bank of India, which received a Bank loan and an IDA credit.

legal officials in central banks and drew on the findings of the Global Seminar on Regulatory Aspects of Financial Stability, held in Basel, Switzerland. Last, the Bank launched a new Corporate Restructuring Initiative in fiscal 2004, which was followed by a global seminar on international best practices in corporate restructuring. In the wake of the financial crises of the late 1990s, the link between corporate restructuring and bank restructuring is widely recognized. For more information about the Financial Sector Learning Program, including the calendar of events, visit **www.financelearning.org**.

This past year, the World Bank put increased focus on the role of global remittances, acknowledging that they are an important source of capital for developing economies. Inadequate financial infrastructure, however, and impediments to cross-border financial transactions, hamper their flow through formal channels. People who send money home often pay high fees or use informal financial channels. Transaction costs amount to billions of dollars each year and could be reduced substantially by promoting greater competition and better outreach and payments infrastructure in the formal financial system. Besides lowering costs, these practices would also ensure greater transparency by channeling remittance flows through appropriately regulated formal channels. Addressing these issues will also help develop the financial sectors in recipient countries, provide greater access to financial services, and support the Bank's efforts to prevent money laundering and to block the financing of terrorism, both increasing global concerns.

The relative impact of natural disasters on developing countries is greater and more disruptive than it is on developed ones, largely because the infrastructure in developing countries is less resilient, the building standards are lower, and the coping resources and mechanisms are fewer. Yet because domestic insurance markets are less developed in these countries, little of the risk is transferred to international reinsurance markets, leaving developing countries to retain most of the risk of natural disaster. In response to such a problem, the World Bank worked together with the Turkish government, domestic insurers, and international reinsurers to develop the Turkish Catastrophe Insurance Pool, a state-mandated pool that, by arranging sources of risk financing before a natural catastrophe occurs, can add to the availability of funds and access to liquidity in the event of a disaster and thus can contribute to better risk management. The World Bank is working with other developing countries to develop similar schemes for better managing the risks of natural disasters. In India the Bank delivered a comprehensive report on disaster risk management to the government. The heart of the report consists of an estimate of the potential loss from earthquakes, floods, and cyclones in four states that have suffered major disasters in the past two decades. Key recommendations included establishing a central disaster risk-management facility to further

BOX 3.6 **MEETING THE CHALLENGE OF ELECTRONIC FINANCE**

Electronic finance provides great opportunities to reduce the costs of financial and commercial transactions, but it also poses new security risks. The Financial Sector publication *Electronic Safety and Soundness: Securing Finance in a New Age* offers practical information on how to mitigate risks so that emerging economies can enjoy the benefits of these new technologies. The paper was disseminated at events such as the Asia Pacific Regional Conference on Electronic Safety and Soundness for Financial Services, held in Singapore May 17–18, 2004. The conference provided policy makers with advice on crafting safe and sound platforms for electronic financial services and increasing cross-border collaboration to help regulatory authorities and policy makers improve their capacity for mitigating electronic security risk.

A money exchange market in Somalia, 2002.

develop country and state disaster response and mitigation capacity and linking such an initiative to the development of a formal contingency-funding capacity, including, where appropriate, contingent debt and modern risk-transfer technologies. The Indian government recently established the core of a formal risk management unit in the Ministry of Home Affairs, where senior staff are using the Bank report to further the debate in India.

COUNTRY DIAGNOSTIC WORK

The World Bank joins the international community that has embarked on a range of initiatives to strengthen the international financial architecture. International financial architecture refers broadly to the framework and institutional context that can help manage crises and even prevent them from occurring. The joint World Bank–International Monetary Fund Financial Sector Assessment Program, established in 1999, helps identify financial system strengths and vulnerabilities and helps reduce the potential for crisis. As of June 2004, 86 countries have had an initial assessment. Of these, 66 assessments have been completed. An additional 20 countries have formally requested an initial assessment.

Many systemically important countries—where an internal financial crisis could spill over to other countries—have been assessed, including, for instance, more than half of the G-20 group of developing countries. The mix of countries now entering the program includes an increasing share of poorer and smaller developing and transition countries. Although the program will provide initial assessments to some 17 countries, the number of reassessments and updates is expected to increase in the future. A new multidonor partnership, the Financial Sector Reform and Strengthening Initiative, has been established as a mechanism to support technical assistance follow-up to the Financial Sector Assessment Program and others. To date, the partnership has funded $15 million for 89 projects globally.

To help build secure investment climates, the Bank intensified its technical assistance to countries and regional organizations to strengthen anti-money-laundering efforts and combat the financing of terrorism (AML/CFT). These efforts followed the completion of a pilot program, undertaken jointly with the International Monetary Fund, of 33 country assessments measuring compliance with international AML/CFT standards. Assistance has involved providing advice on drafting laws and regulations, implementing preventive measures in the financial system, and training evaluators. The Bank has also launched an external AML/CFT Web site, which is available at the Bank's main Web site at **www.worldbank.org**.

LENDING, POLICY ADVICE, AND TECHNICAL ASSISTANCE

The Bank provides loans, advice, and technical assistance to client countries interested in reforming or restructuring their financial sectors. Lending for financial sector reform amounted to $1.3 billion in fiscal 2004 and covered topics ranging from payment systems and capital markets to financial sector restructuring. For example, in West Africa the Bank financed a project to build institutional capacity in the regional financial market. With technical assistance and an IDA credit, the project helped to strengthen the regulatory framework and build the capacity of regional institutions for capital market operations. The credit provided medium- and long-term financing for projects that will promote regional integration among the West Africa Economic and Monetary Union countries. It also developed political risk mitigation instruments that can catalyze longer-term commercial financing in support of small and medium-size infrastructure projects in West African countries.

Promoting the Modernization of Legal and Judicial Systems

Effective legal frameworks and institutions are critical to alleviating poverty. For this reason, strengthening the rule of law is a high-priority goal for the Bank, client countries, other international financial institutions, bilateral donors, and civil society organizations.

The Bank's Legal Vice Presidency works closely with all other Bank units to increase assistance to borrower countries in modernizing their legal systems. To strengthen these efforts, Bank plans call for a future Legal Reform Trust Fund as a multidonor grant facility. This fund will promote knowledge sharing and development, research, capacity building, legal education, and civil society activities in the field of legal modernization. One of the priority areas for Institutional Development Fund grants is legal and judicial reform that supports the rule of law.

As part of this process, the Bank is now elaborating on a sector strategy for legal modernization in light of experience. The strategy aims to measurably improve the development benefits delivered by legal systems.

ENHANCING THE INVESTMENT CLIMATE BY STRENGTHENING LAWS

As part of its effort to build the climate for investment, the Bank is helping strengthen the international financial architecture. It recently finalized its *Principles for Effective Insolvency and Creditor Rights Systems* and has assessed some 25 countries against these principles under a joint International Monetary Fund–World Bank program to develop Reports on Observance of Standards and Codes. These assessments have led to Bank-provided technical assistance in 8 countries. The online Global Insolvency Law Database, which covers more than 75 countries, has expanded knowledge outreach. So, too, have regional conferences such as the Forum on Insolvency in Latin America, organized in collaboration with the Organisation for Economic Co-operation and Development and other partners, and the Third Forum on Asian Insolvency Reform in the Republic of Korea. The Bank, the International Monetary Fund, and the United Nations Commission on International Trade Law are also exploring ways to promote unified standards on insolvency and creditor rights. (See **www.worldbank.org/gild**.)

The Bank continued to promote the improvement of investment climates and to strengthen the rule of law in a series of legal and judicial sector reform assessments and projects in numerous countries. (See box 3.7.) These assessments identify issues and offer recommendations that encourage dialogue between the Bank and borrowing countries and help coordinate the work of the donor community in this sector. Typically, they also lead the Bank and donors to support legal and judicial reform as necessary to promote sound investment climates. A Bank-supported legal and judicial development project in Morocco, for example, has contributed to strengthening commercial courts and registries, prompting wide interest from other countries in the region. (See **www.worldbank.org/ljr**.)

POVERTY ALLEVIATION AND THE LAW

The Bank has also focused on how the justice sector serves poor people. The Indonesian Justice for the Poor Program, supported by the Bank, led to the development of a community-driven strategy for legal reform. The strategy is based on extensive case studies demonstrating that informal village institutions are widely perceived as quicker, cheaper, and easier to deal with than formal courts in resolving the most pressing disputes. Many disputes involve allegations of corruption.

By consulting the Internet in Mauritania's eastern village of Aioun Al Atrous, two residents learn of the right of the indigenous local population to defend their remaining trees against tree-cutters from Nouakchott, the capital.

BOX 3.7 **IMPROVING THE LEGAL ENVIRONMENT IN IRAQ**

Helping create positive climates for investment and finance is particularly difficult in countries in the midst or aftermath of a military conflict. In fiscal 2004 the Bank provided legal support on operational issues, international law, and institutional issues in postconflict situations around the world. In collaboration with the International Monetary Fund and the United Nations, the Bank worked within the framework of United Nations Security Council resolutions, existing Iraqi law, and the measures adopted by the Coalition Provisional Authority to identify the possible contribution of the Bank to the reconstruction and development of Iraq. As part of this effort, the Bank is supporting a project to build public and private capacity by training Iraqi lawyers to draft and negotiate construction, commercial, and financial contracts.

A tribal court near Ulundi, South Africa, deals with food shortage issues.

While village institutions succeed in resolving some cases, most fail because of the large power imbalance between villagers and the perpetrators of corruption. Successful cases are those in which community leaders mobilize at the grassroots, have links to civil society, and have the backing of strong outside institutions. These lessons are now shaping Bank assistance to the sector in other countries, including Cambodia.

Cambodia's Land Management and Administration Project (II)—funded by the Bank and the German Society for Technical Cooperation—ensures that disadvantaged parties in land disputes receive legal assistance and that systematic titling of land occurs. The project supports a system of land mediation boards under the Ministry of Lands. The system, through which a national committee renders final decisions on conflicting claims, is proving to be a more user-friendly mechanism for land dispute resolution than local courts.

Many poor people in rural areas cannot obtain relevant legal information in a form they can understand. To address the problem, an Institutional Development Fund grant is financing a pilot project in Mauritania that puts the official texts of statutes, such as the country's recently enacted Code Pastoral, on the Internet in Arabic and French. The code devolves ownership of natural resources, such as grazing land and trees, back to the people living in outlying areas. Those able to access laws on the Internet in turn make the essence of such laws available to illiterate people using poems and pictograms. Through these sorts of innovative presentations, access to relevant laws is empowering local villagers.

ADDRESSING GENDER EQUALITY

In fiscal 2004 the Bank launched a program to provide advisory and technical support to promote gender equality and justice. In Guatemala, Honduras, Peru, and República Bolivariana de Venezuela, the Bank examined the extent to which international standards, as established under international conventions on gender equality, are applied. Through distance dialogues via videoconferences with Costa Rica, Guatemala, Honduras, Mexico, and República Bolivariana de Venezuela, the Bank proposed strategies for promoting equal access to justice by women, particularly in cases of gender-based violence, a priority issue voiced by local stakeholders. The Bank has also strengthened ongoing partnerships with other international organizations—including the Office of the United

Nations High Commissioner for Human Rights, the United Nations Development Fund for Women, the International Labour Organization, the Organization of American States, the Economic Commission for Latin America and the Caribbean, and the Pan American Health Organization—in the area of women's human rights, developing subregional initiatives to improve the implementation and monitoring of relevant conventions. In addition, the Bank has provided Institutional Development Fund grants in various countries, including Chile, Ghana, Kenya, and Nigeria, to empower women to enforce their rights through legal literacy and training.

COUNTERING FRAUD AND CORRUPTION

The Bank helps countries combat corruption, assesses corruption in its country analyses and lending decisions, and contributes to international efforts to fight corruption. Through its Department of Institutional Integrity, it investigates allegations of fraud and corruption in World Bank Group operations. Based on these investigations, the Bank's Sanctions Committee determines whether there is sufficient evidence that a firm has engaged in any fraudulent or corrupt practice in connection with a Bank-financed contract. Where it finds evidence of fraud or corruption, the committee identifies an appropriate sanction, such as debarment for a specified period. The Bank is considering developing a first-of-its-kind program for an international organization that will encourage firms to come forward voluntarily with information about fraud and corruption in Bank-financed projects. (See **www.worldbank.org/integrity**.)

Visit to Zambia, November 15–18, 1972, by World Bank President Robert S. McNamara.

Women who have given birth are given a family planning lecture at the Victoria Jubilee Hospital in Kingston, Jamaica, before going home, as part of the Bank's first family planning project, financed in 1970.

Robert S. McNamara, World Bank President 1968–1981.

World Bank President Robert S. McNamara on a visit to Tunisia in 1973.

Robert S. McNamara (1968–1981)

1970s

1970 **Bank Group** commitments exceed $2 billion for the first time.

1971 **Japan becomes one** of the Bank's five largest shareholders.

The Consultative Group on International Agricultural Research (CGIAR) is founded.

1972 **Third replenishment** of IDA, providing $2.9 billion.

Bank commitments exceed $3 billion for the first time.

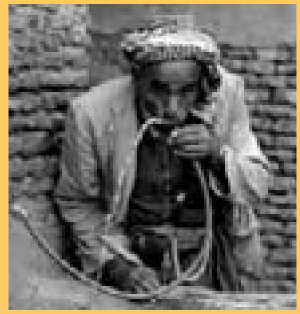
World Bank Staff Association is established.

1973 **President Robert** S. McNamara delivers the Nairobi Annual Meeting speech, in which, for the first time, poverty is placed at the top of the Bank's agenda.

4

Improving Development Effectiveness

Workers remove soil from the banks of the Suez Canal as part of the 1974 Suez Canal Rehabilitation Project to widen and deepen the canal.



The 1977 Sanaa Water Supply and Sewerage Project, in Yemen, built wells and a reservoir and provided pumps and pipelines.

A doctor provides medical services in Calcutta, part of the 1973 Calcutta Urban Development Project.

The 1974 Tarbela Dam Project in Pakistan, financed by a $500 million dollar international agreement signed by Canada, France, Italy, Pakistan, the United Kingdom, the United States, and the World Bank.

1975

IBRD and IDA commit nearly $1 billion in one fiscal year for rural development projects.

First environment loan is made, to Finland for water pollution control.

Fourth IDA replenishment, providing $4.5 billion.

1976

First nutrition loan is made, for $19 million to Brazil.

1977

Fifth IDA replenishment, providing $7.7 billion.

1978

First *World Development Report: Review of Development Experience, 1950–75* is published.

1979

Bank commitments exceed $10 billion for the first time.

Bank begins lending for health projects.

Chapter 4

Improving Development Effectiveness

Concern for global stability and prosperity requires development efforts that achieve measurable results. Desirable outcomes can include raising greater numbers of people out of poverty, achieving higher levels of education for more people, and lowering infant mortality rates. Countries need to focus on such results so that they can make better policy decisions and design better strategies for their own development. The new partnership for development calls for countries to measure their achievement toward the Millennium Development Goals (MDGs). In fiscal 2004 the Bank began to implement its own results agenda—an action plan to enhance its effectiveness as a development agency. With its development partners, it also produced the first *Global Monitoring Report,* which provided an assessment of progress on the policies and actions needed to attain the MDGs.

MANAGING FOR DEVELOPMENT RESULTS

Managing for development results—using information to improve decision making and to steer country-led development processes toward well-defined goals—is at the forefront of the global development agenda and a core element of the Bank's strategic objectives. It builds on the Bank's efforts to increase aid effectiveness by improving the quality of lending and nonlending activities. A conceptual framework and Bank-wide action plan on managing for results were developed in fiscal 2003. During fiscal 2004 the Bank began to implement the action plan.

The framework recognizes that the Bank needs to focus on results throughout the project cycle: early on, for strategic planning and program design; during implementation, for day-to-day management and corrections to program design; and toward the end, for evaluation and feedback that can inform future work. The plan emphasizes action in three areas:

- In countries—where results are achieved, to strengthen the planning, statistical, monitoring, and evaluation capacity needed to manage for results, and to build public demand for greater accountability for results.
- In the Bank—to be a more relevant and effective partner by strengthening the focus on results in strategies, instruments, incentives, and reporting systems.
- Across development agencies—to foster a global partnership that manages for results by encouraging common approaches and better coordinated support to strengthen country capacity.

Progress was made in all three areas in fiscal 2004.

Strengthening Capacity in Countries

The motivation and capacity of developing countries to manage for results are fundamental for success. Progress requires the political will to demand information on results as well as the institutions and expertise to produce the information and use it to make informed policy and management decisions. But many countries lack basic data on development outcomes, monitoring and evaluation systems, and institutional mechanisms for providing information on results to managers and policy makers.

The Bank contributes to countries' efforts to meet these challenges by supporting a focus on results in their national poverty reduction strategies, by assessing the readiness of their institutions to manage for results, and by helping them employ results-based approaches in government institutions through sharpened analytical work, public sector reform, and better fiscal management. An important advance in fiscal 2004 was

the development and initial implementation of an umbrella lending program—the Statistical Capacity Building Program—to strengthen statistical systems, institutional capacity, and planning in developing countries. The Bank's knowledge-sharing activities—in which it distills and disseminates experience on activities that achieve results under various country circumstances—are another vehicle the Bank uses to help countries achieve development results. (See also "Knowledge Sharing and Advisory Services" in chapter 5.)

Increasing the Bank's Contribution to Development Results

The Bank's purpose has always been to achieve development results. Historically, however, it gauged its success mainly by measuring the volume and, more recently, the quality of its individual lending operations. In recent years the widening array of Bank products and services—including analytical work, capacity-building initiatives, and global programs—and a shift in focus from individual operations to the country level created a need for a broader understanding of results.

The Bank is responding to this demand by increasing the focus on measurable results in its Country Assistance Strategies and sector strategies, lending instruments, reporting systems, and internal incentives. In fiscal 2004 the Bank introduced a pilot for the results-based Country Assistance Strategy to better link the

BOX 4.1 **RESULTS-BASED COUNTRY ASSISTANCE STRATEGIES**

Results-based Country Assistance Strategies help Bank staff select the most relevant and effective mix of Bank support for developing countries. These strategies have the following key features:

- Explicit statements of the results that Bank-supported activities aim to achieve and of the links between Bank support and those results
- Better monitoring and evaluation to help the Bank and countries steer toward agreed results
- Greater emphasis on strengthening country capacity to manage for results
- Learning from experience through a systematic assessment of the previous Country Assistance Strategy to inform the strategy and Bank activities of the next one

Six pilot results-based Country Assistance Strategies were approved in fiscal 2003 and fiscal 2004. Initial feedback suggests that they lead to a better selection of Bank activities by encouraging discussions across sectors. They also strengthen the dialogue between countries and the Bank. The pilot phase will be formally evaluated in fiscal 2005 as the next step toward general adoption of results-based Country Assistance Strategies.

Bank's products and services with country-level results (see box 4.1 on page 85). The Bank's Sector Boards have strengthened the results frameworks and outcome monitoring of their sector and thematic strategies. Basic documents and procedures have been revised to strengthen the articulation of outcome-oriented objectives and the monitoring and evaluation of Bank operations. The Bank is also developing a long-term learning strategy to help staff and management meet the growing demand for skills in results-based approaches. These approaches are becoming an increasingly important and accepted part of the Bank's culture.

The Bank also developed an enhanced results measurement system for the 14th Replenishment of IDA (IDA14, covering fiscal 2006–08). The system will reflect the priorities of national poverty reduction strategies and will be linked with the Millennium Development Goals. It will provide aggregated information on countries' progress toward achieving development results and on IDA's contribution to their progress.

Development of a more comprehensive results-reporting system across the Bank—integrating country, sector, and global results information—is an important goal of the results agenda. Because such a system will be based on information from results-based Country Assistance Strategies and from operations and programs with a stronger focus on results, it will achieve its full potential only after these approaches are adopted throughout the Bank's work.

Coordinating with Other Development Agencies

Achieving better results requires greater collaboration between countries and development agencies and better coordination among development agencies themselves. Development agencies need to align their requirements for results reporting with countries' national monitoring and evaluation systems. At the same time, these agencies need to coordinate their support for countries' efforts to strengthen capacity to manage for results.

In fiscal 2004 the Bank promoted these aims by helping establish and actively participating in two formal partnerships on managing for results—one among multilateral development agencies, the other between multilateral and bilateral development agencies. The Bank also cosponsored international events on managing for results, including the Second International Roundtable on Managing for Development Results, held in Morocco in February 2004. These partnerships and events enable agencies and countries to raise the profile of managing for results, share good practices, and learn from one another.

The cosponsors of the Second Roundtable endorsed core principles, a joint memorandum, and an action plan on managing for development results, providing a basis for a broad consensus on what managing for results means and how to go about achieving it. At the same roundtable, the international statistical community reached agreement on a medium-term global action plan to strengthen international statistical systems, including collaborative mechanisms. Through these initiatives, the Bank and other development agencies are building the foundations for harmonized results-based approaches and reporting.

SIMPLIFYING AND HARMONIZING POLICIES AND PROCEDURES

To modernize and simplify its assistance to borrowers, the Bank is streamlining and updating its policies for investment and adjustment lending. This effort includes expanding the items eligible for financing under investment lending; modernizing mechanisms for disbursement, financial management, and procurement; streamlining procedures for fiduciary and safeguard reviews of projects; and harmonizing the Bank's policies with those of other development organizations.

The international community has recognized that the quantity and variety of donor requirements attached to development financing generate additional transaction costs for developing countries. As a result, multilateral and bilateral development institutions are working to better coordinate their policies, procedures, and practices. Donor institutions are working to improve development effectiveness by eliminating duplicative programs and aid requirements and by providing assistance in line with their comparative advantage.

The Bank is working with the Organisation for Economic Co-operation and Development to develop a harmonization toolkit in areas such as financial management, procurement, environmental and social safeguards, and analytical work. It is also developing a Web site that will bring together information about harmonization for practitioners and a country-level tracking tool for sharing experiences and best practices.

To ensure that laws adequately and consistently reflect Bank safeguard policies, the Bank is assisting Mexico, Poland, Sri Lanka, and other client countries by reviewing their national laws and helping them design adequate national environmental and social management frameworks.

GLOBAL MONITORING OF PROGRESS TOWARD THE MDGs

The first *Global Monitoring Report*, issued in April 2004, reviewed global prospects for reaching the MDGs. It identified reasons for optimism, as well as reasons for grave concern. At the global level, the first goal—of halving income poverty between 1990 and 2015—will most likely be met, because of stronger economic growth spurred by improvements in policies.

East Asia has already met the goal. Africa, however, is seriously off track, with just eight countries, representing about 15 percent of Africa's population, likely to achieve the goal. In other regions that will probably meet the goal at the aggregate level, a number of countries will not. Low-income countries under stress, about half of which are in Africa, are especially at risk of falling far short.

Progress on the human development goals, in particular education and health, depends on the scale and effectiveness of interventions directed toward them. At the same time, the multiple factors that determine success in meeting these goals cut across sectors. Prospects for achieving the goals are brighter in education than in health. Given current trends, several regions will achieve or approach the goal of providing universal primary education. But shortfalls are likely in Africa and are possible in South Asia and the Middle East and North Africa. Gender gaps are the most serious in these three regions as well. Although the MDG target date for gender equality in primary and secondary education is 2005, it appears that, globally, about a third of developing countries will not achieve this goal even by 2015.

The first *Global Monitoring Report* was the main agenda item for the spring 2004 meeting of the Development Committee, a forum of the World Bank and the International Monetary Fund (IMF) that works to build consensus on development issues. The report was prepared by Bank and IMF staff, collaborating closely with partner agencies, including other multilateral development banks, the Organisation for Economic Co-operation and Development, the United Nations, and the World Trade Organization. The report will underpin the Development Committee's regular monitoring of progress on the policy agenda for achieving the Millennium Development Goals and related developments and reinforce the accountabilities of the key actors—developed and developing countries, as well as multilateral agencies.

Middle-income countries are much better positioned to achieve the MDGs than low-income countries, and many of them have already met the goals or are well on the way to achieving them. Yet, even in those countries, hundreds of millions of people live in poverty.

Urgent Action Is Needed

The implication is clear. To achieve the MDGs, countries must substantially accelerate the pace of development—and do so swiftly. In line with the principles and partnership established at Monterrey, in March 2002, all parties—developing and developed countries, as well as multilateral agencies—must scale up their action. The policy agenda for achieving the MDGs has three essential elements:

- Accelerate and deepen reforms to achieve stronger economic growth, which directly reduces income poverty and expands resources for use toward the other goals.
- Empower and invest in poor people, and improve the delivery of human development and related key services. Deliver better education and health services, as well as related infrastructure services such as water and sanitation and rural roads.
- Speed up action on the Monterrey partnership, matching stronger reform efforts by developing countries with stronger support from developed countries and international agencies. Developing countries need expanded access to markets in developed countries to increase exports and spur growth, and they need more aid to finance development programs.

The *Global Monitoring Report* provides an integrated assessment of the policies and actions of all development partners. It is an accountability framework for monitoring how the various parties are living up to the commitments made at the Monterrey summit and for focusing attention on the priorities for action.

The framework for monitoring developing-country policies classifies the policy agenda into four areas: economic and financial policies, public sector

In health, the prospects are grave. Just 15–20 percent of countries are currently on track to achieve the goals of reducing child and maternal mortality. If current trends continue, most regions will not attain either goal. The incidence of HIV/AIDS, malaria, and tuberculosis is rising, making the goal of halting and reversing their spread daunting. The spread of these diseases exacerbates conditions that increase child and maternal mortality rates—and it has grim economic and social consequences. The risks of failure to halt HIV/AIDS are especially high in Africa but are substantial in many countries in other regions as well.

Large gaps in access to safe drinking water and basic sanitation make achieving the health goals more difficult. The gaps are largest in Africa for water and in South Asia for sanitation. To halve the proportion of people without access to safe water and sanitation by 2015, another 1.5 billion people will need safe water, and 2 billion will need sanitation. Since current rates of progress are about half what is needed, most regions will fall far short: only about 20 percent of countries will achieve the target on access. Among low-income countries, just 1 in 10 is expected to do so.

Global and regional trends hide considerable variation within regions—and often within countries. East Asia provides a good example. The region's middle-income countries have already met or will soon meet several of the MDGs. But its low-income countries are unlikely to meet them, as are many poor countries in Africa. There is also diversity within countries, especially large ones.

governance, human development, and environmental management (figure 4.1).

The Monterrey Consensus envisaged increased support by developed countries in two key areas that directly affect outcomes in the developing world: trade and aid. Policies in developed countries also greatly affect the outcomes of global collective action, such as the preservation of the global environmental commons. The monitoring framework focuses on four key aspects of developed-country policies: macrofinancial policies, trade policies, aid, and global public goods (figure 4.2).

The international financial institutions have an important role to play in helping countries achieve the MDGs. The monitoring framework for assessing their contribution focuses on four key dimensions: country programs, global programs, partnership, and results (figure 4.3).

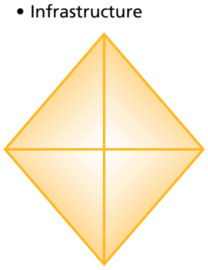
The Cost of Achieving the MDGs

Developed countries and financial institutions are called upon to provide more and better aid, but there is a concern that countries may not be able to absorb it effectively. However, aid increases pledged since the Monterrey summit, if realized, are still below the level of the early 1990s relative to gross national income in recipient countries. A recent Bank study found that countries with relatively good policies and institutions could absorb a substantial increase in aid that could be used effectively to boost progress toward the MDGs. As a conservative estimate, such countries could absorb at least $30 billion annually. As countries improve their policies and governance over time, the amount of aid that can be used effectively would increase to $50 billion or more per year, the amount that most estimates suggest is necessary to support adequate progress toward the MDGs.

Figure 4.1 **Monitoring: Dimensions of Developing-Country Policies**

Economic and financial policies
- Macro
- Trade
- Private sector regulatory and institutional environment
- Financial sector
- Infrastructure

Human development
- Education and health
- Social protection
- Voice/inclusion
- Gender



Public sector governance
- Public expenditure and revenue management
- Public administration
- Transparency, accountability, control of corruption

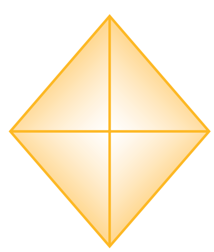
Environmental management
- Policies and institutions

Source: World Bank. 2004. *Global Monitoring Report 2004*. Washington, D.C.

Figure 4.2 **Monitoring: Dimensions of Developed-Country Policies**

Macrofinancial policies
- Policies supportive of economic growth and stable capital flows

Aid
- Quantity and quality of aid
- Debt relief



Trade policies
- Agriculture and manufactures
- Services (including temporary movement of workers)
- Trade-related assistance

Global public goods
- Environment
- Others

Source: World Bank. 2004. *Global Monitoring Report 2004*. Washington, D.C.

Table 4.1 **Bank Lending to MDGs, Fiscal 2004**

	Number of projects			Commitments (millions of dollars)		
	IBRD	IDA	IBRD/IDA	IBRD	IDA	IBRD/IDA
All projects	87.0	158.0	245.0	11,045.4	9,034.6	20,080.1
MDG-related projects	19.5	39.7	59.2	2,406.6	2,356.9	4,763.5
Achieve universal primary education	3.0	6.9	9.8	204.8	578.8	783.6
Promote gender equality and empower women	0.3	3.3	3.6	24.4	343.8	368.2
Reduce child mortality	0.8	0.5	1.3	274.5	63.3	337.7
Improve maternal health	0.5	2.2	2.7	212.6	79.7	292.3
Combat HIV/AIDS, malaria, and other diseases	0.3	8.7	9.0	25.0	354.2	379.2
Ensure environmental sustainability	9.1	12.7	21.8	788.4	516.2	1,304.6
Develop a global partnership for development	5.6	5.4	11.0	876.9	420.9	1,297.8

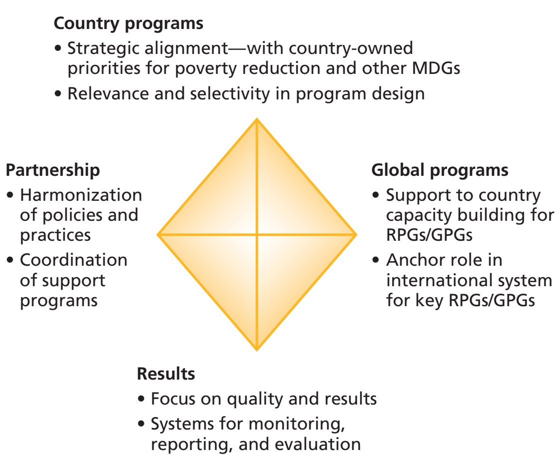
Note: Data are not given for the first Millennium Development Goal: eradicate extreme poverty and hunger. The Bank's overall mission is to reduce poverty. Therefore, all of its lending is linked to the first goal. The number of projects includes fractions because of the system employed for counting, which identifies projects that address more than one goal and is designed to avoid double counting or overreporting of deliverables. Numbers have been rounded.

The cost of achieving the MDGs is difficult to estimate for several reasons. One is that putting a price tag on achieving these goals requires distinguishing between average and marginal cost. In education, the marginal cost of enrolling a child could be higher than the average cost, because children not in school might be harder to induce to attend school or may live in more scattered populations. Another is that progress on one goal contributes to progress on other goals. For example, safe drinking water and good sanitation promote better health. There are multiple determinants for each goal, and they cut across many sectors. The interdependence of goals implies that costing each goal separately could result in double counting. The effectiveness of additional expenditure also depends on appropriate changes in policies and institutions.

Bank Lending for the MDGs

In fiscal 2004 the Bank analyzed the level of all new commitments in relation to the individual Millennium Development Goals. Table 4.1 shows the breakdown of lending aimed at goals 2–8.

Figure 4.3 **Monitoring: Dimensions of Development Agency Support**



Note: GPGs = global public goods; RPGs = regional public goods.
Source: World Bank. 2004. *Global Monitoring Report 2004*. Washington, D.C.

ASSESSING THE QUALITY OF BANK ACTIVITIES

The Bank's Quality Assurance Group has a mandate to monitor the quality of the Bank's projects and analytical work. It reports directly to senior management but shares its reports with the Board. (The reports are posted at **www.worldbank.org**.) Its assessments are conducted by peer review panels that draw on several hundred senior staff as well as seasoned professionals from other development agencies, think tanks, universities, and civil society organizations. This approach lends credibility and allows the Bank to provide timely feedback to frontline operations.

The Quality Assurance Group assesses the quality of new projects in "real time," providing immediate feedback to task teams and their managers when a project is approved (quality at entry) and during implementation (quality of supervision). It also assesses Bank analytical and advisory services, known as economic and sector work, just after delivery to client countries. In fiscal 2004 the Quality Assurance Group initiated a pilot program for assessing country lending portfolios on demand from country managers. Its flagship *Annual Report on Portfolio Performance* explores the scale, structure, performance, and quality of the active portfolio. It also presents an analytical perspective on one or two key challenges to ongoing Bank operations.

Quality indicators derived from quality assurance reviews have documented broad improvement over the past several years, although the trend for quality at entry has flattened somewhat over the past two years. During fiscal 2003, 85 percent of projects received satisfactory ratings for quality at entry—down from the average of 90 percent for fiscal 2000–02. For fiscal 2002, 90 percent of projects were rated satisfactory in terms of quality of supervision, and 92 percent of projects received satisfactory ratings for their economic and sector work. The fiscal 2003 *Annual Report on Portfolio Performance* notes that the proportion of satisfactory development outcomes as evaluated by the Operations Evaluation Department (OED) in projects exiting the portfolio fell. Project supervision ratings of performance had failed to give sufficient early warning of the decline in outcomes. Based on these findings, Bank management has initiated a comprehensive program to enhance development outcomes and increase the reliability of project performance monitoring and reporting. Figures 4.4, 4.5, and 4.6 show the Bank's Active Project Portfolio by region, theme, and sector.

INDEPENDENT EVALUATION

The Operations Evaluation Department is an independent unit within the World Bank that reports directly to the Bank's Board of Executive Directors. OED's evaluations seek to provide an objective basis for gauging the results of the Bank's work, to ensure accountability in the achievement of the Bank's objectives, and to allow Bank staff to learn from experience. OED helps improve Bank work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.

The overall objective of OED's flagship *Annual Review of Development Effectiveness* is to apprise the Bank's Board of Executive Directors of the Bank's development effectiveness. The *2003 Annual Review of Development Effectiveness: The Effectiveness of Bank Support for Policy Reform* found that the Bank's current

Figure 4.4 **Active Project Portfolio by Region as of June 30, 2004** | share of net commitments of $95.1 billion

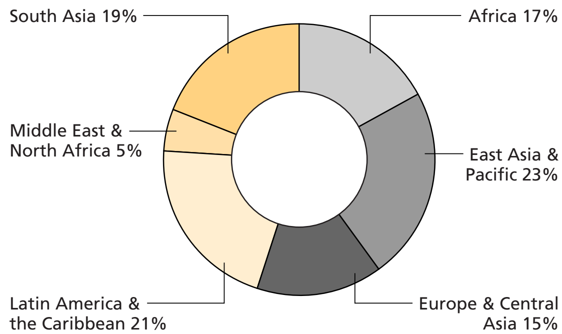


Figure 4.5 **Active Project Portfolio by Theme as of June 30, 2004** | share of net commitments of $95.1 billion

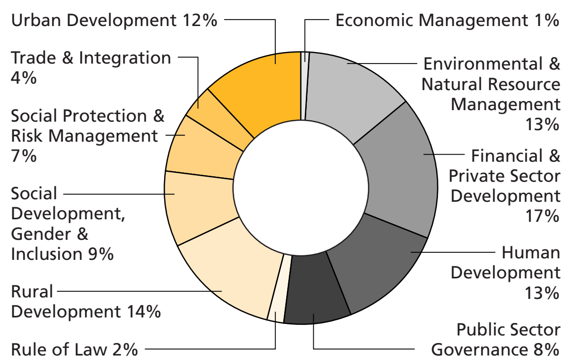
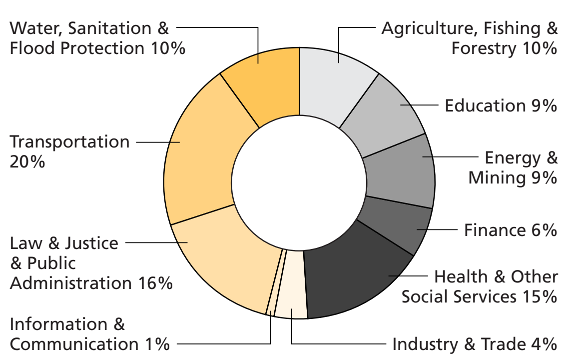


Figure 4.6 **Active Project Portfolio by Sector as of June 30, 2004** | share of net commitments of $95.1 billion



strategy treats policy reform and institutional development as instruments for creating an environment conducive to pro-poor growth and widespread, sustainable poverty reduction. The report examined the Bank's effectiveness in helping client countries put in place policies conducive to sustainable poverty reduction and emerged with three key messages:

- Two-thirds of developing countries improved their economic and social policies over the past four years. Countries that did so grew at about twice the rate of countries that did not. In many cases Bank programs (including all forms of Bank support, not just adjustment lending) contributed to policy improvements.
- Bank country assistance had satisfactory outcomes in about 70 percent of the cases evaluated by OED. Where outcomes were not satisfactory, contributing factors included inadequate country knowledge, poor alignment between programs and country policy-making styles, overoptimism about debt sustainability, and attempts to transplant policies or institutions without adequate consideration of country-specific factors.
- During fiscal 2002, 79 percent of project outcomes were satisfactory, exceeding the strategic compact target of 75 percent. About 84 percent of the fiscal 2003 projects have been evaluated, and of these, 74 percent are rated satisfactory (see figure 4.7).

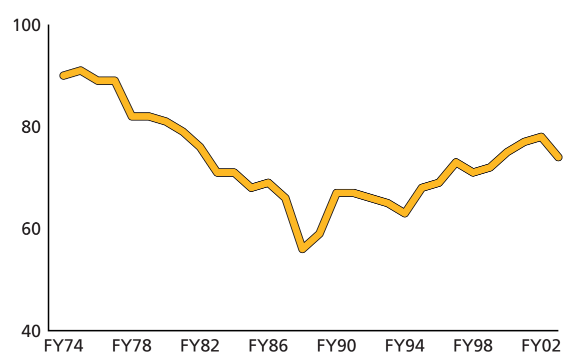
Corporate Evaluations

Corporate evaluations are produced in response to a Board request or to address particular concerns. They assess ongoing activities for overall effectiveness, efficiency, and consistency with stated objectives. The corporate evaluations completed in fiscal 2004 included *Comprehensive Development Framework* and *Sharing Knowledge: Innovations and Remaining Challenges.*

The *Comprehensive Development Framework* evaluation concluded that to achieve the benefits of this approach, countries need to put disciplined budget processes in place; donors need to support efforts to strengthen budget processes and align their assistance with national development strategies; and all donors, particularly the World Bank, need to show leadership in developing better mechanisms for designing and implementing cross-sectoral programs.

Sharing Knowledge: Innovations and Remaining Challenges found that more strategic direction and oversight of the Bank's knowledge processes are required and that network and regional units should link their knowledge-sharing activities more closely to core operational processes. The evaluation stated that the Bank's commitment to a comprehensive knowledge

Figure 4.7 **Project Performance Trends, 1974–2004** | satisfactory project outcomes, percent



Note: Data for fiscal 2003 are partial.
Source: World Bank, Operations Evaluation Department calculations.

initiative was timely and appropriate and that Bank knowledge can now be accessed more quickly and easily, but it concluded that improved oversight, monitoring, and incentives are needed.

Country Assistance Evaluations

Country Assistance Evaluations examine Bank performance in a particular country, usually over the previous four to five years. They assess how well performance conforms to the relevant Bank Country Assistance Strategy, and they evaluate the overall effectiveness of the strategy. The fiscal 2004 Country Assistance Evaluation for Armenia concluded that Bank assistance should focus on improving the environment for private sector development and supporting public sector reform. Together, progress in these areas can generate the job creation and export expansion necessary to sustain progress. The Bosnia and Herzegovina evaluation found that the Bank needs to work closely with the International Monetary Fund and the European Union to present a common approach on critical reforms.

Since 1990 the Bank has played an important supportive role, through policy advice and institution building, in China's enormous progress. In fiscal 2004 OED recommended that the Bank continue to play a role in China. However, with a reduced lending program and without IDA resources, both the Bank and China will need to adapt their policies and procedures to make the best use of Bank assistance.

In Croatia the Bank should turn its attention to fostering growth, attacking unemployment, and strengthening debt sustainability through private sector development, including working to create a better environment for new firms. In Rwanda OED recommended that IDA assistance focus on reducing poverty and inequality, using the Millennium Development Goals as an organizing framework. OED concluded that analytical and advisory work and adaptation of projects to country conditions are crucial for Rwanda's development. A joint evaluation on Tunisia undertaken with the Islamic Development Bank recommended that the World Bank help the government improve the environment for private investment, enhance the efficiency and quality of social spending, and strengthen institutions and safety nets in the rural sector.

Sector and Thematic Evaluations

Sector and thematic evaluations examine Bank performance and experience in a lending sector or a crosscutting theme over 5 to 10 years and report on how

well they conform to Bank policy and good practice and on how well Bank objectives have been met. The *Review of Social Development in Bank Activities* helped define the Bank's work on social development, showed its importance to development effectiveness, and provided messages on how social development work could be made more effective. OED recommended that the Bank identify and promote the use of social-thematic combinations that improve outcomes. It suggested that strategic planning needs to address current skills, monitoring, and evaluation. OED's report *Promoting Improvements in Ghana's Basic Education* concluded that the delivery of hardware inputs to Ghana's basic education system has had a substantial impact on higher enrollments, as well as on better learning outcomes, but it recommended that more attention be paid to less privileged schools.

The *Extractive Industries and Sustainable Development* evaluation highlights the need to address governance issues squarely, strengthen project implementation, and use the Bank's convening power to reach out to stakeholders more vigorously. The evaluation found that to enhance extractive industries' contribution to sustainable development, the World Bank Group needs to formulate and implement integrated strategies at the sector and country levels. The *Transition Economies* evaluation showed how the Bank supported the huge transition that took place in the former socialist countries of Eastern Europe and the Soviet Union. It pointed out that an earlier focus on governance, growing poverty, and the privatization process would have helped the transition economies. OED concluded that Bank assistance was largely successful but recommended that active programs of stakeholder inclusion should be widely replicated and that Country Assistance Strategies should be used to bolster reform capacity.

OED Reviews of CAS Completion Reports

An important change introduced in OED's fiscal 2004 work program was the OED review of piloted CAS (Country Assistance Strategy) Completion Reports. These completion reports are important new self-evaluation instruments that are validated by OED reviews. OED reviews of the completion reports are expected to be mainstreamed starting in fiscal 2005, with an eventual 20–25 reviews undertaken each year. In fiscal 2004 OED undertook reviews of the Brazil, Cameroon, Mozambique, Ukraine, and Zambia CAS Completion Reports.

INSPECTION PANEL

The Board created an independent Inspection Panel in 1993 to address more closely the concerns of people affected by Bank projects and to ensure that the Bank adheres to its operational policies and procedures in designing, preparing, and implementing projects. Any group of two or more people that believes it is or may be harmed by a Bank-supported project may ask the Panel to investigate its complaint that such harm stems from the Bank's failure to abide by its policies and procedures.

The Executive Directors decide, on the recommendation of the Panel, whether an investigation will take place. The Inspection Panel provides a vehicle for private citizens, and especially poor people, to directly access the World Bank's highest governing body, the Board of Executive Directors. The process for addressing claims has empowered and given voice to people who may have been adversely affected by World Bank–financed projects.

As one of the World Bank's mechanisms for addressing compliance, the existence of the Panel has enabled the Bank to listen to complaints brought forward, consider the Panel's assessments of those claims, and adopt better policies and operational procedures to successfully implement the Bank's poverty reduction mission.

In fiscal 2004 the Panel received six new requests for inspection involving Bank projects in the Philippines (Manila Second Sewerage Project), Cameroon (Petroleum Development and Pipeline Project), Mexico (Indigenous and Community Biodiversity Project), Colombia (Cartagena Water Supply, Sewerage and Environmental Management Project), and India (Mumbai Urban Transport Project, two requests). The

Panel also published its second book, *Accountability at the World Bank: The Inspection Panel 10 Years On,* which traces the evolution of the Panel and reviews its experiences over the years. It discusses eligibility issues and the Panel's effect on World Bank practices and policies. The book was translated and published in French, Spanish, and Portuguese.

Thirty-three requests for inspection have been filed since the Panel was established: 10 from Africa, 11 from Latin America and the Caribbean, 9 from South Asia, and 3 from East Asia and Pacific. Of the 33 formal requests received, the Panel has recommended investigations in 14 cases, 6 under the rules that applied before the April 1999 clarifications to the resolution that established the Panel, and 8 since those clarifications were adopted.

Requests for inspection, Panel recommendations, Panel investigation reports, and management recommendations for projects reviewed this fiscal year can be found at **www.worldbank.org/inspectionpanel**.

EXTERNAL EVALUATION

The World Bank Group began the Extractive Industries Review in 2000 to determine how effective its investments in the oil, gas, and mining industries have been in advancing sustainable development—and to help define the future role of such investments, which represent about 2 percent of annual lending commitments. Developing countries often find Bank Group involvement crucial to achieving positive outcomes, and projects with Bank Group funding often set examples on environmental, social, and governance safeguards that industry subsequently follows.

The review consisted of two evaluations by groups operating independently of Bank Group management: one by the operations evaluation units of the World Bank Group and the Compliance Advisor Ombudsman for IFC and MIGA (discussed above); and the other through a stakeholder consultation process. The reviews found that Bank Group involvement in extractive projects has resulted in positive contributions to sustainable development, but not uniformly. The stakeholder report, in particular, suggested reforms in a number of areas, including a greater emphasis on renewable energy sources, more transparent reporting of revenue figures, increased consultation with local stakeholders, and fuller disclosure of project information.

Bank Group management released a reform proposal for the Bank Group's activities in the extractive industries on June 18, 2004. The proposal, released at the request of the Board of Directors, was available for public comment for 30 days in order to have the benefit of additional views before the Board authorized an official Bank response. The full proposal, encompassing a response to both internal and external reviews, can be found at **www.worldbank.org/ogmc**. Additional information about the various extractive industries reviews can be found at **www.eireview.org**, **www.ifc.org/oeg**, and **www.caoombudsman.org/ev.php**.

Among the Bank's shareholder nations, broad support remains for involvement in extractive industries. In addition to promoting and raising standards for industry, the Bank assists with public sector reforms, provides technical advice and training, and offers expertise and innovative financing for environmental protection and alternative energy.


Alden W. Clausen, World Bank President, 1981–1986.


Barber B. Conable, World Bank President, 1986–1991.


World Bank President A. W. Clausen on a visit to Mexico.


In 1980, the World Bank approves a $200 million loan to Turkey to support economic recovery and structural adjustment.

Robert S. McNamara (1968–1981)	A. W. Clausen (1981–1986)

1980s

1980

First structural adjustment loan is approved—$200 million for Turkey.

People's Republic of China assumes representation for China and becomes one of the largest borrowers.

Timothy Thahane appointed first African Vice President.

1981

1982

Sixth IDA Replenishment, providing $12 billion.

Anne Krueger is appointed first female Vice President (for Economics and Research).

1983

Bank establishes small grants program to promote cooperation among NGOs, governments, academics, and the media.

The 1984 Industrial Credit Project in China supported the development of light industries like this metal shop.

In 1985, Mr. Belisario Betancur (center) signs the documents for a $129 million loan to Colombia for expansion of the water supply system in Bogota. World Bank President A. W. Clausen is pictured on the right.

Agricultural produce at the Mersin market in Southern Turkey, part of the 1981 Fruit and Vegetable Project.

Barber B. Conable (1986–1991)

1984 **NGO Working Group** is established to provide a world-wide forum for dialogue about development issues with civil society.

1986

1987 **Major reorganization** of the Bank. New Country Departments formed and the first Environment Department created.

1988 **Multilateral Investment Guarantee Agency** (MIGA), the newest affiliate of the World Bank Group, established with 29 signatories.

1989 **Bank's Executive Board** endorses directive on the disclosure of information.

Chapter 5

Summary of Fiscal 2004 Activities

As a group, developing countries grew much faster than developed economies in calendar 2003, although the accomplishments of individual economies varied widely. Gross domestic product (GDP) per capita in the low- and middle-income countries increased 3.5 percent during the calendar year, more than twice the 1.6 percent average growth rate experienced in high-income countries. Developing countries benefited from the revival of global investment, with capital spending among the group growing 10.8 percent in 2003, more than twice the rate at which it grew in 2002.

The economies of Europe and Central Asia grew 5.5 percent in 2003, up from 4.6 percent the year before. The outlook for 2004 and beyond is for continued robust growth in the region as a whole. GDP in South Asia rose 6.5 percent in 2003, up from 4.3 percent in 2002, with domestic demand providing the impetus for growth. Output in South Asia is expected to grow 7.2 percent in calendar 2004, followed by a period of moderation. At the forefront of the global turnaround in investment are the developing countries of East Asia and the Pacific, which are expected to grow 7.4 percent in 2004, led by continued rapid growth in China.

In contrast with accelerating growth in other developing regions, GDP growth in Africa slowed to 2.4 percent in 2003, down from 3.3 percent in 2002. Over the next two years, the region should be able to accelerate GDP growth toward a range of 4 percent. Doing so will require significant structural reforms—in addition to good weather and greater political stability. Problems of disease and poor infrastructure still represent challenges in the region.

Despite severe disruption in the Middle East and North Africa—tied in large measure to the Iraq conflict—GDP growth jumped from 3.3 percent in 2002 to 5.1 percent in 2003, the strongest economic performance since 1991. Underpinning the growth was a sharp upturn in growth in the region's oil-exporting economies, which grew 5.7 percent in 2003, up from 3.6 percent in 2002.

Growth recovery in Latin America and the Caribbean has been slower, partly because of uneven performance across countries. Regional GDP advanced 1.3 percent in 2003, following a contraction of 0.6 percent during 2002. The region's GDP is expected to grow 3.8 percent in 2004. (Figure 5.1 shows GDP per capita by region, 1993 to 2003.)

Growth in developing countries overall is expected to grow 5.4 percent in 2004—the strongest growth in two decades—before easing back toward 5 percent in 2005–06. In this context, the Bank continues to adapt its activities to respond to country needs for lending and advisory services.

KNOWLEDGE SHARING AND ANALYTIC AND ADVISORY SERVICES

The Bank's store of development knowledge has always been an important element of its assistance to client countries. Analytic and advisory services include economic and sector work, technical assistance, and research services. Capacity enhancement includes initiating outreach that enables client countries to access global knowledge.

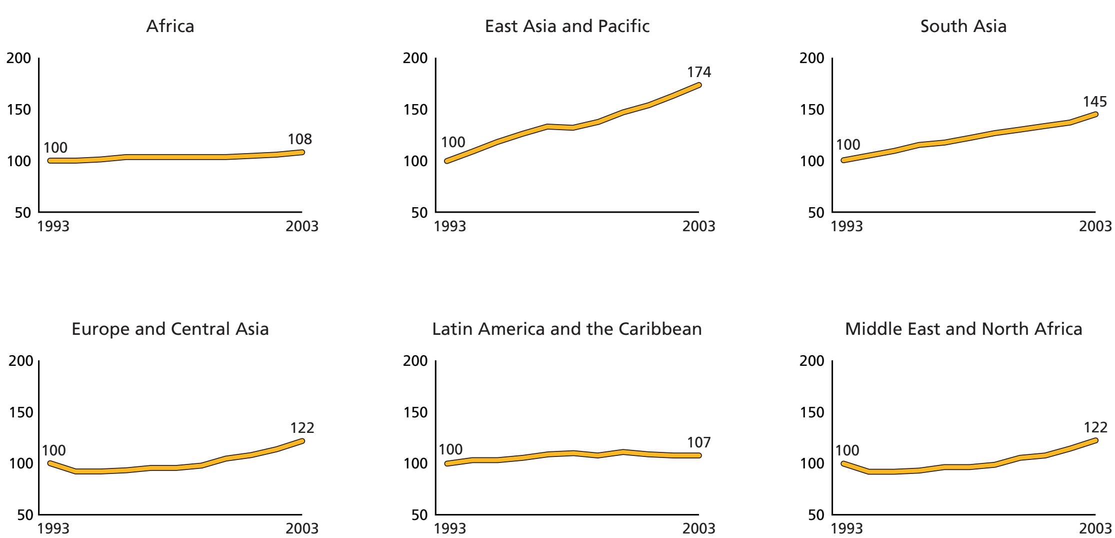
Research

Country research—which forms the core of the Bank's knowledge base—culminates in a number of knowledge products, including Policy Research Working Papers, development data, analyses of development prospects, and a wide range of development publications. One flagship publication, the annual *World Development Report,* incorporates research from across the Bank. Its findings form the basis for Bank activities and are a catalyst for further research.

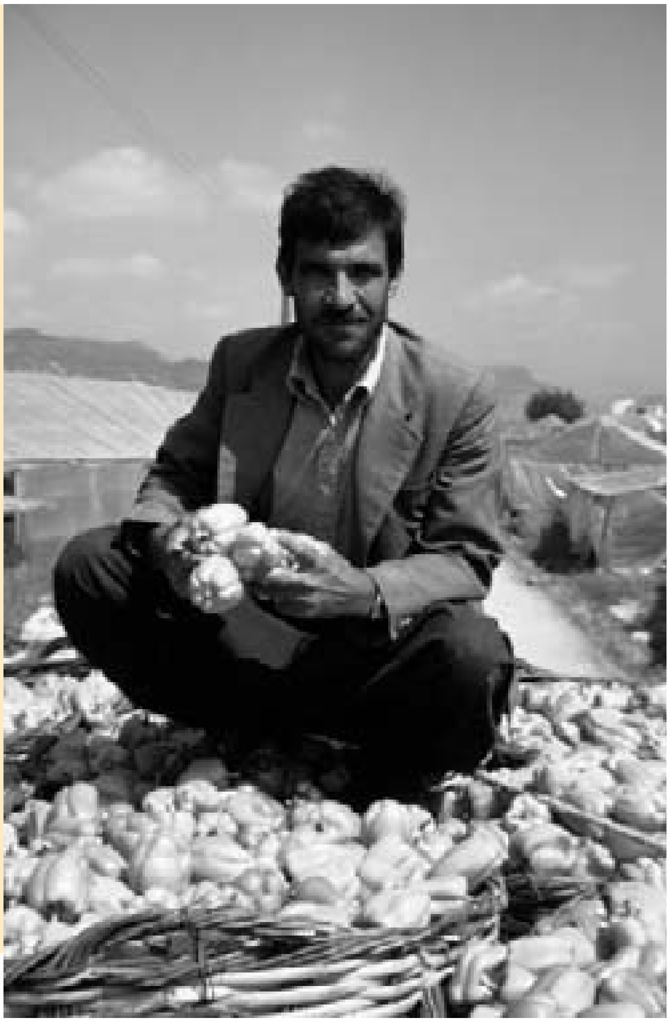
World Development Report 2004: *Making Services Work for Poor People* focused on one pillar of the Bank's

San Juan del Sur, Nicaragua

Figure 5.1 **Gross Domestic Product per Capita Index, 1993–2003**



Source: World Bank World Development Indicators Database.



Turkish farmer with food intended for export.

strategy—investing in and empowering poor people—and included evidence from multiple impact evaluations on how best to deliver health, education, and infrastructure services. Such systematic evaluations help policy makers decide how best to allocate scarce resources—which programs and policies should be replicated, which should be modified, and which should be eliminated.

The report cited the evaluation of the Progresa Program in Mexico, which offers monthly cash payments to poor families conditional on their children's school attendance and participation in health programs. The rigorous independent evaluation convinced the Mexican authorities to expand the program to benefit 20 percent of the Mexican people. The knowledge acquired through this evaluation was relevant not only for Mexico but for other countries that are now carrying out similar programs.

The Bank's research department conducted several new impact evaluations in fiscal 2004. These included evaluations of targeted transfer programs similar to Progresa in Argentina, Brazil, Ecuador, and China; community-driven development interventions in Georgia, Indonesia, Pakistan, and the Philippines; rural roads investments in Vietnam; sanitation programs in Bangladesh and India; teacher and health worker incentives in several countries in Africa and Asia; and the use of the press and information campaigns in Uganda.

World Development Report 2005: A Better Investment Climate for Everyone focuses on the other pillar of the Bank's strategy—building the climate for investment—and notes that investment climate conditions vary tremendously across as well as within countries. The report draws on numerous data sources and country case studies to identify emerging lessons of experience in designing and carrying out investment climate improvements that will contribute to growth and poverty reduction. It focuses on the four interrelated ways that governments influence the decisions of firms: through the cost of doing business, the risks associated with pursuing opportunities, the direct barriers to opportunities, and the competitive pressures that firms face.

The *World Development Report 2006: Equity and Development* will assess the nature of inequality in the developing world and the role it plays in economic development and poverty reduction. High levels of inequality make it harder to reduce poverty in its various dimensions and to meet the Millennium Development Goals. The report will describe levels of inequality and recent trends within and across countries, examining the extent to which such inequalities matter and how they can be reduced in ways that promote growth and economic efficiency.

Economic and Sector Work

Economic and sector work (ESW) augments the Bank's lending activities, increasing the impact on development. Economic and sector work products include core diagnostic reports for Country Assistance Strategies and overall policy dialogue, country advisory and regional reports that provide advice on special topics, and less formal products such as policy notes, workshops, and conferences. ESW increasingly emphasizes country ownership, participatory processes, partnerships, and capacity building.

The majority of advisory work in fiscal 2004 examined financial and private sector development and public sector governance. Much work also examined human development, social protection, and rural development, which helped provide the basis for project design and country programming. The Bank's Investment Climate Assessment for Poland sought to identify features of the investment climate that matter most for productivity, particularly for poor men and women, as well as priority areas for reform. A policy note for the Indian authorities was delivered on a quick-response basis to identify measures that could be adopted to improve India's fiscal stance. Country Financial Accountability Assessments, undertaken for countries such as Djibouti and Uganda, analyzed the strengths and weaknesses of countries' public sector financial accountability arrangements and informed the governments' design of programs for building financial management capacity. Regional reports exploring such issues as trade, health, and income distribution supplemented country reports.

During fiscal 2004 the Bank delivered 734 economic and sector work products to clients (table 5.1). Of these, 122 were core diagnostic reports that underpinned Country Assistance Strategies, Poverty Reduction Support Credits, and other adjustment lending and that facilitated policy dialogue with clients. The Bank also produced a significant number of informal products, reflecting the increased emphasis on capacity building and the provision of "just-in-time" analysis designed to help countries achieve quick results.

About 30 percent of the fiscal 2004 program was delivered by the Bank's Africa region; another 21 percent was delivered by the Europe and Central Asia region. The East Asia and Pacific region and the Middle East and North Africa region focused on increased use of programmatic economic and sector work, and the Middle East and North Africa region continued its involvement in the reimbursable Technical Cooperation Program. (For more information on how the Bank is collaborating with bilateral and multilateral donors, see **www.countryanalyticwork.net**.)

An important goal of the Bank's Environment Network is to ensure that actions taken to promote development and reduce poverty do not result in environmental degradation.

Table 5.1 **Economic and Sector Work (ESW) Product Deliveries by Type, Fiscal 2003–04**

Product type	Number of ESW products delivered 2003	2004
Reports	443	487
Core diagnostic reports	119	122
Other products	283	247
Total ESW products	726	734

Note: Includes deliveries by both regions and networks.

Capacity Enhancement

In fiscal 2004 the World Bank Institute (WBI) shifted its strategy to supporting long-term institutional capacity building and customizing its programs to specific country needs. At the same time, it continues to reach broader audiences through distance learning on topics of global interest and to build informal groups of decision makers who share knowledge on common development problems. These "communities of practice" contribute to a more informed dialogue, often leading to improved development outcomes. They also help members solve problems and answer questions that come up in their daily work.

WBI was instrumental in organizing the six-month-long global learning and knowledge-sharing process leading up to the Shanghai Scaling Up Poverty Reduction Conference held in China in May 2004. The conference brought together more than 1,200 participants to discuss successful approaches to poverty reduction based on some 100 case studies about how programs, policies, and projects could be replicated on a wide scale. Key decision makers shared insights with

BOX 5.1 **RESPONDING TO COUNTRY NEEDS**

As part of **China's** lifelong learning project, the World Bank Institute's Knowledge for Development Program organized a field visit by key Chinese representatives from various ministries. The group studied leading educational institutions and private sector companies in Mexico and the United States to assess models for quality and accreditation systems, distance education, and large-scale retraining.

At the request of **Madagascar's** president, WBI prepared and conducted a retreat for senior political and administrative leaders of the new government to help them formulate a national development strategy. Enlisting a team of leaders and policy makers from countries around the world, WBI was able to foster an intensive South-South exchange on how to improve the investment climate and governance.

In developing a Capacity Enhancement Needs Assessment for **Nigeria,** WBI worked closely with key stakeholders to identify their capacity enhancement needs, inviting them to determine the content as well as the methods to be used to build capacity. It also encouraged them to develop a shared vision of the future and a plan of action. In addition to traditional courses and seminars, this assessment identifies other means of knowledge exchange through networks and communities of practice, stakeholder dialogues, peer learning, and mass communication.

The GDLN Studio in the World Bank headquarters in Washington, D.C., where a dialogue with Afghan women is taking place.

peers from other developing and developed countries about what worked, what did not, and why, within different economic, social, and institutional contexts.

Some 20 multicountry, interactive videoconference dialogues were held before the Shanghai conference to give authors early feedback on the case studies being prepared for the conference. For example, a three-hour videoconference on scaling up poverty reduction through community-driven development was held at Global Development Learning Network sites in Beijing, Colombo, Delhi, Hanoi, and Paris in February 2004.

WBI works more and more closely with the Bank's operational country teams to ensure that the Bank's Country Assistance Strategies address capacity enhancement. To date the institute has contributed to 19 such strategies, including those for Brazil, India, and Kenya. WBI has also responded to the Bank's results agenda by emphasizing monitoring and evaluation, with a focus on intermediate outcomes. In fiscal 2004 it completed 12 outcome and impact evaluations, and another 13 are being prepared.

As always, WBI provides traditional courses and seminars. Today it also identifies other means of exchanging knowledge, such as networks and communities of practice, dialogues among stakeholders, peer learning, and mass communication. In addition, it has developed diagnostic and analytical tools that help countries assess their governance practices and their preparedness to compete in the global knowledge economy.

Part of WBI's new country focus has been to decentralize its programs gradually to take advantage of local expertise and combine efforts with local donors and learning organizations. Most recently, WBI and the Middle East and North Africa region launched the Marseilles Knowledge Hub, which serves the Middle East and North Africa. This small office will draw on local and global experts to exchange knowledge and help design programs on topics such as urban management, governance, and education. WBI also maintains a presence in Almaty, Beijing, Cairo, Moscow, Paris, and Tokyo. (See box 5.1.)

In partnership with local training centers and through the Global Development Learning Network's distance-learning facilities, the World Bank Institute delivered 1,016 training activities to 78,500 participants in some 124 countries in fiscal 2004. (See box 1.1 in chapter 1.)

WORLD BANK LENDING IN FISCAL 2004

The World Bank comprises cooperative institutions that mobilize financing from member shareholder equity by borrowing from international capital markets (for IBRD) and by means of outright contributions from the richer member countries (for IDA). It channels these resources to benefit poor people in borrowing countries.

Country lending reflects the Bank's focus on achieving the Millennium Development Goals. It is tailored to individual country needs, with lending instruments that are becoming increasingly flexible.

IBRD's clients are generally middle-income countries and, because of the limitation on IDA resources, some of the larger low-income countries that are deemed creditworthy for borrowing. IBRD offers loans that have long maturities and reflect its own favorable market costs. In fiscal 2004 IBRD provided $11 billion in loans in support of 87 projects in 33 countries.

IDA's clients are the poorest countries, which usually cannot afford to borrow on commercial terms. IDA offers grants and concessional, no-interest loans (called "development credits") to these countries, which are normally repayable in 35–40 years including a 10-year grace period. In fiscal 2004 IDA provided $9 billion in financing for 158 projects in 62 low-income countries.

Poverty reduction is at the core of lending by both IBRD and IDA, through investments that support growth as well as investments in basic public services. Through partnerships with other institutions, other funds are also made available for projects. Figures 5.2, 5.3, and 5.4 show IBRD and IDA lending for fiscal 2004 by region, theme, and sector. Table 5.2 shows World Bank lending by theme and sector. A detailed explanation of the Bank's financing is contained in volume 2 of this *Annual Report.*

The Role of IBRD

In fiscal 2004 countries with per capita income of less than $5,115 that were not IDA-only borrowers were eligible to borrow from IBRD. Countries with higher per capita incomes were able to borrow under special circumstances or as part of a graduation strategy. It is important to note, however, that the amount that IBRD is prepared to lend to eligible countries at any given time depends on their creditworthiness as individual IBRD borrowers. Countries may be eligible to borrow but may not have access to IBRD resources because of poor creditworthiness. Net IBRD loans

Figure 5.2 **Total IBRD-IDA Lending by Region, Fiscal 2004** | share of total lending of $20.1 billion

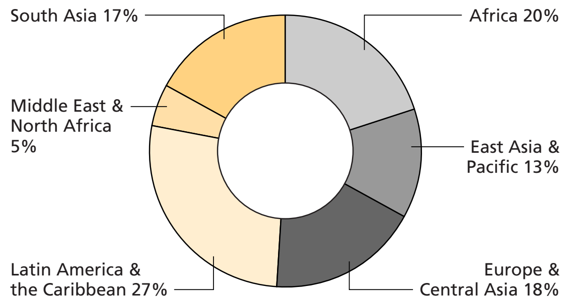


Figure 5.3 **Total IBRD-IDA Lending by Theme, Fiscal 2004** | share of total lending of $20.1 billion

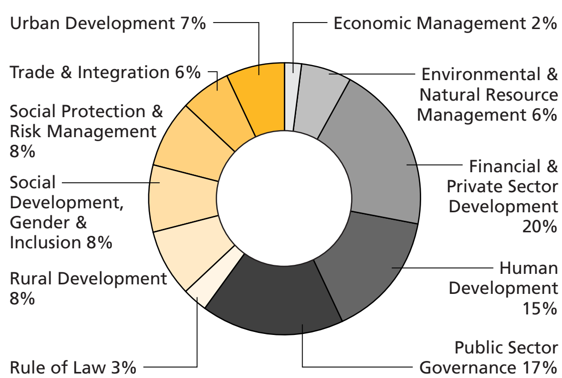


Figure 5.4 **Total IBRD-IDA Lending by Sector, Fiscal 2004** | share of total lending of $20.1 billion

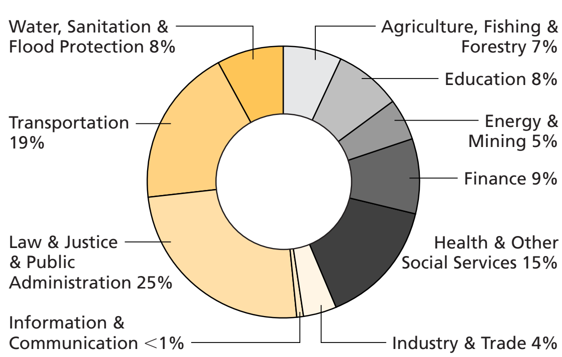


Table 5.2 **World Bank Lending by Theme and Sector, Fiscal 1995–2004** | millions of dollars

	1995–97 (annual average)	1998–99 (annual average)	2000	2001	2002	2003	2004
THEME							
Economic Management	1,129.2	1,952.7	799.6	895.3	1,408.0	777.7	428.6
Environmental and Natural Resource Management	2,616.5	2,018.6	1,829.4	1,354.6	924.0	1,102.6	1,304.6
Financial and Private Sector Development	5,876.9	9,486.0	3,368.4	3,940.9	5,055.4	2,882.9	4,176.6
Human Development	1,888.7	2,486.5	1,190.3	1,134.7	1,756.1	3,374.0	3,079.5
Public Sector Governance	1,646.0	2,550.7	2,142.5	2,053.7	4,247.2	2,464.1	3,374.0
Rule of Law	274.4	362.9	373.6	410.0	273.2	530.9	503.4
Rural Development	2,418.4	2,746.4	1,413.7	1,822.3	1,600.0	1,910.9	1,507.8
Social Development, Gender, and Inclusion	1,102.7	1,320.5	800.8	1,469.7	1,385.7	1,003.1	1,557.8
Social Protection and Risk Management	1,288.9	2,653.9	1,895.0	1,651.0	1,086.4	2,324.5	1,577.0
Trade and Integration	674.7	813.2	426.4	1,059.9	300.9	566.3	1,212.7
Urban Development	2,090.4	2,403.3	1,036.6	1,458.6	1,482.4	1,576.3	1,358.1
Theme Total	**21,006.8**	**28,794.8**	**15,276.2**	**17,250.6**	**19,519.4**	**18,513.2**	**20,080.1**
SECTOR							
Agriculture, Fishing, and Forestry	1,395.0	2,097.1	837.5	695.5	1,247.9	1,213.2	1,386.1
Education	1,633.2	2,154.3	728.1	1,094.7	1,384.6	2,348.7	1,684.5
Energy and Mining	3,459.9	2,311.0	1,572.4	1,530.7	1,974.6	1,088.4	966.5
Finance	2,069.6	5,029.9	1,571.6	2,246.3	2,710.8	1,446.3	1,808.9
Health and Other Social Services	2,053.2	3,114.1	1,491.7	2,521.2	2,366.1	3,442.6	2,997.1
Industry and Trade	1,661.3	2,922.7	1,036.7	718.3	1,394.5	796.7	797.9
Information and Communication	152.0	179.4	273.8	216.9	153.2	115.3	90.9
Law and Justice and Public Administration	3,543.2	6,264.7	4,534.6	3,850.2	5,351.2	3,956.5	4,978.7
Transportation	3,186.0	3,511.3	1,717.2	3,105.2	2,390.5	2,727.3	3,777.8
Water, Sanitation, and Flood Protection	1,853.5	1,210.2	1,512.6	1,271.7	546.0	1,378.3	1,591.6
Sector Total	**21,006.8**	**28,794.8**	**15,276.2**	**17,250.6**	**19,519.4**	**18,513.2**	**20,080.1**
Of which IBRD	15,288.5	21,634.3	10,918.6	10,487.0	11,451.8	11,230.7	11,045.4
Of which IDA	5,718.3	7,160.5	4,357.6	6,763.6	8,067.6	7,282.5	9,034.6

Note: Due to a recalculation of allocations by the system, lending by theme figures may differ from those in the 2003 *Annual Report*. For the Law and Justice and Public Administration sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under this category. For the Finance sector, changes in figures reflect the retroactive remapping of projects to a new Compulsory Health Finance sector code under Law and Justice and Public Administration. Numbers may not add to totals because of rounding.

outstanding to any individual borrowing country, irrespective of a borrower's creditworthiness, may not exceed $13.5 billion.

Seventy-five percent of people who live on less than $1 a day live in countries that receive IBRD lending. The borrowers are typically middle-income countries that enjoy some access to private capital markets. Some countries that are eligible for IDA lending as a result of their low per capita incomes are also creditworthy for some IBRD borrowing. These countries are known as "blend borrowers." Even excluding IBRD loans to the blend countries, 25 percent of those who live on less than $1 a day live in countries that are IBRD borrowers. IBRD provides important support for poverty reduction by helping clients gain access to capital in larger volumes, on better terms, at longer maturities, and in a more sustainable manner than the market provides.

IBRD is a AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments. Its member borrowers have a voice in setting its policies. IBRD loans (and IDA credits) are typically accompanied by advisory services to ensure more effective use of funds. Unlike commercial banks, IBRD is driven by development impact rather than profit maximization.

IBRD Lending

At $11 billion, new lending commitments by IBRD in fiscal 2004 were close to the previous year's level. The share of adjustment lending was slightly higher than fiscal 2003.

Latin America and the Caribbean received the highest level of IBRD lending, with $5.0 billion or 45 percent of total IBRD commitments, followed by Europe and Central Asia with $3.0 billion and East Asia and Pacific with $1.7 billion. Lending was slightly more concentrated than it was in fiscal 2003. Whereas five countries received roughly 49 percent of total lending in fiscal 2003, four countries—Argentina, Turkey, Brazil, and China—received a combined commitment volume equaling 51 percent of total IBRD lending in fiscal 2004.

Among sectors, public administration, including law and justice, received the highest volume of IBRD lending, with $2.7 billion, followed by transportation with $2.5 billion and health and social services with $1.8 billion.

The thematic composition of lending in fiscal 2004 was led by financial and private sector development, followed by public sector governance and human development. Figures 5.5, 5.6, and 5.7 show IBRD lending by region, theme, and sector. Table 5.3 shows World Bank adjustment commitments in fiscal 2001–04.

IBRD Resources

As part of its regular financing operations, IBRD raised $13 billion at medium- to long-term maturities in international capital markets in fiscal 2004. This funding volume was below the $19 billion raised in fiscal 2003. IBRD issued debt securities in 10 currencies with a wide range of maturities and structures in fiscal 2004. Product diversification helps IBRD expand its investor base and reduce lending rates on its loans. IBRD's financial strength is based on the support it receives from its shareholders and on its array of financial policies and practices designed to maintain a high credit standing in international financial markets.

IBRD Financial Strength. IBRD's operating income in fiscal 2004 was $1,696 million, and allocable net income (which can be allocated to reserves and development activities) was $1,675 million. IBRD retained $680 million out of allocable net income in its general reserve in keeping with IBRD's strategy to preserve long-term financial strength and support other development needs. IBRD also added $405 million of the

Figure 5.5 **IBRD Lending by Region, Fiscal 2004** | share of total lending of $11 billion

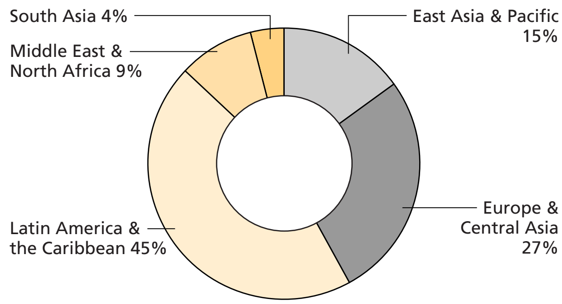


Figure 5.6 **IBRD Lending by Theme, Fiscal 2004** | share of total lending of $11 billion

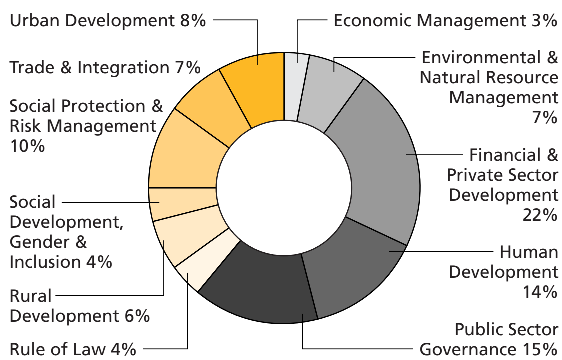


Figure 5.7 **IBRD Lending by Sector, Fiscal 2004** | share of total lending of $11 billion

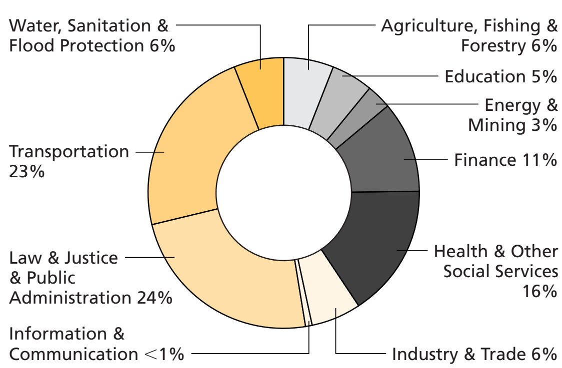


Table 5.3 **World Bank Adjustment Commitments, Fiscal 2001–04**

	2001		2002		2003		2004	
	Millions of dollars	Percent	Millions of dollars	Percent	Millions of dollars	Percent	Millions of dollars	Percent
Adjustment commitments by region								
Africa	908	16	1,437	15	789	13	925	15
East Asia and Pacific	250	4	17	0	100	2	104	2
Europe and Central Asia	1,132	20	4,743	48	710	12	1,620	26
Latin America and the Caribbean	2,788	48	2,517	26	3,639	60	3,022	49
Middle East and North Africa	185	3	263	3	165	3	0	0
South Asia	500	9	850	9	615	10	480	8
IBRD and IDA adjustment commitments								
IBRD	3,937	68	7,383	75	4,187	70	4,453	72
IDA	1,826	32	2,443	25	1,831	30	1,698	28
Total adjustment loans	5,763	100	9,826	100	6,018	100	6,151	100
Total World Bank lending commitments								
IBRD	10,487		11,452		11,231		11,045	
IDA	6,764		8,068		7,283		9,035	
Total IBRD + IDA	17,251		19,519		18,513		20,080	
Share of adjustment loans		33		50		33		31

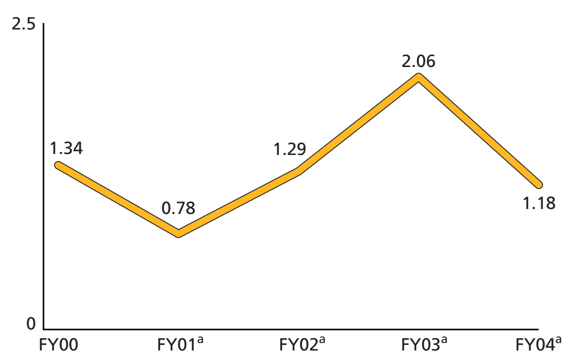
Note: Numbers may not add to totals because of rounding.

fiscal 2004 income to the surplus account. IBRD transferred $300 million to IDA, $240 million to the Heavily Indebted Poor Countries (HIPC) Trust Fund, and $50 million to the Debt Reduction Facility for IDA-Only Countries in fiscal 2004. IBRD maintained adequate liquidity in fiscal 2004 to ensure its ability to meet its obligations. As of June 30, 2004, the liquid asset portfolio was about $31 billion.

Maintaining Financial Strength. As a cooperative institution IBRD seeks not to maximize profit but to earn a return on assets sufficient to ensure its financial strength and sustain its development activities. IBRD achieves an annual net return on average earning assets of about 1 percent a year. In fiscal 2004 the net return on average earning assets returned to the 1 percent level after having risen above 2 percent in fiscal 2003 due to a reduction in the provision for loan loss. Figure 5.8 shows the net return on average earning assets for fiscal 2000–04.

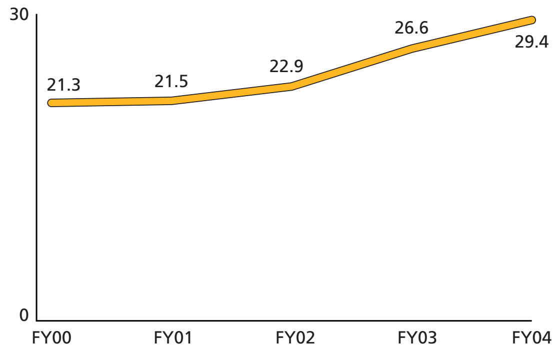
Managing Risk. Consistent with its development mandate, the principal risk taken by IBRD is the country credit risk inherent in its portfolio of loans and guarantees. Risks related to interest and exchange rates are minimized, and the Bank remains highly active in global credit markets to deliver financial instruments

Figure 5.8 **Net Return on Average Earning Assets** | percent



a. In fiscal 2001 IBRD adopted Statement of Financial Accounting Standard No. 133 and International Accounting Standard No. 39, which require that derivative instruments be reported at fair value. The returns shown above for fiscal 2001–04 are presented excluding the effects of these standards to facilitate comparison with prior years. With the inclusion of the effects of these standards, the ratios would be 0.87, 1.87, 3.64, and −1.67 for fiscal years 2001, 2002, 2003, and 2004, respectively.

Figure 5.9 **Equity-to-Loans Ratio as of June 30, 2004** | percent

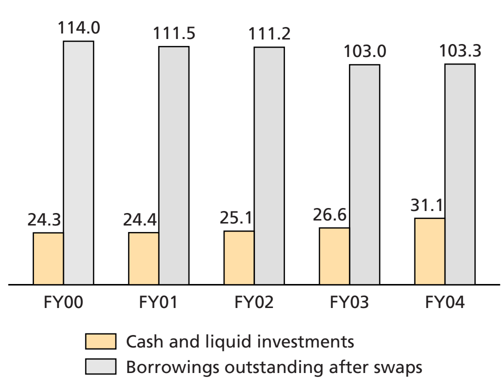


on the finest terms that are best suited to the needs of borrowers. One summary measure of the Bank's risk profile is the ratio of balance sheet equity to outstanding loans, which is closely managed in line with the Bank's financial and risk outlook. Figure 5.9 shows the equity-to-loans ratio as of June 30, 2004.

Achieving Efficient Intermediation. IBRD enjoys an exceptional franchise in capital markets, in large part reflecting the capital commitments of its sovereign shareholders and the preferred creditor status accorded by its borrowing members that support its high credit rating (AAA) and allow it to borrow for long maturities on favorable terms. This is reflected in the relatively low cost basis of its new borrowings, an average spread of about 38 basis points (1 basis point equals 0.01 percent) below the London InterBank Offered Rate in fiscal 2004, and the high volumes it can intermediate at low cost.

At the end of fiscal 2004 the Bank's outstanding borrowings from capital markets exceeded $103 billion

Figure 5.10 **Borrowings and Investments as of June 30, 2004** | billions of dollars



(net of swaps), and its total disbursed and outstanding loans were approximately $110 billion. The size of borrowings was about three times the size of its equity. Figure 5.10 shows the Bank's borrowings and investments as of June 30, 2004. Table 5.4 shows select IBRD financial data for fiscal years 2003 and 2004.

Generation and Distribution of IBRD's Net Income

IBRD earns income from the interest margin on its loans (returns on loans less cost of borrowings), the interest margin on its investments, and contributions from its equity. Barring unexpected credit events, IBRD generates net income after allowing for loan loss-provisioning expenses and administrative expenses, including its contribution to staff retirement accounts.

IBRD's allocable net income serves several purposes related to the Bank's mission. A portion of net income is retained each year to ensure IBRD's financial integrity. The general reserve allows IBRD to assume credit risk in lending to countries at the lowest funding costs, which in turn benefits borrowers. Income retention has enabled IBRD to maintain financial soundness through periods of deteriorating loan quality and surging loan demand.

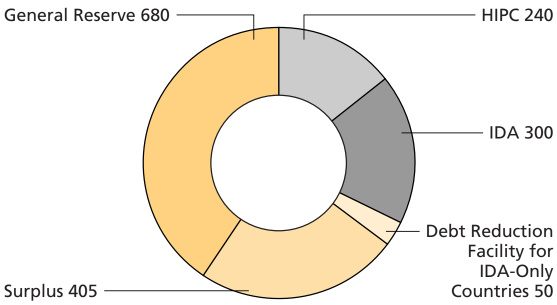
Support to IDA has consistently been a priority. Over the last five years, $1,522 million (or about

Table 5.4 **Select IBRD Financial Data** | millions of dollars

	Fiscal 2004	Fiscal 2003
For the fiscal year[a]		
Income from loans	4,403	5,742
Income from investments	304	418
Borrowing expenses	(2,789)	(3,594)
Administrative expenses	(934)	(882)
Other	712	1,337
Operating income[b]	1,696	3,021
Allocable net income	1,675	3,050
Loan commitments	11,045	11,231
Loan disbursements	10,109	11,921
At fiscal year end[a]		
Cash and liquid investments	31,126	26,620
Loans outstanding	109,610	116,240
Borrowings outstanding[c]	103,295	103,017
Equity	35,463	37,918

a. Excerpted from the audited financial statements presented in volume 2 of this *Annual Report*.
b. Excludes effects of Financial Accounting Standard 133 adjustments.
c. Outstanding borrowings, net of swaps.

Figure 5.11 **Proposed Allocation of Fiscal 2004 Allocable Net Income of $1,675 Million** | millions of dollars



Note: Proposal to the Board of Governors.

17 percent of IBRD's allocable net income) has been transferred to IDA.

Support for the Heavily Indebted Poor Countries Initiative has also been important. Over the past five years, transfers to the HIPC Trust Fund have amounted to a total of about $1,070 million, averaging about 12 percent of annual IBRD allocable net income.

IBRD's allocable net income helps meet other development needs from time to time. It enables IBRD to respond to unforeseen humanitarian crises and to provide grants or other support for worthy causes. IBRD also regularly shares income with its borrowing members through partial waivers of commitment fees and, for qualifying borrowers, waivers of contractual interest charges on loans.

Financial strength and standing in the markets allow IBRD to leverage its equity by four times in the international bond markets. This leverage increases IBRD's ability to lend for development activities. Figure 5.11 shows the proposed allocation of the Bank's net operating income.

The Role of IDA

IDA is the largest single source of concessional financial assistance for the world's poorest countries. It invests in basic economic and human development projects.

Eligibility for IDA resources is governed by a country's level of poverty (as measured by per capita income) and its lack of creditworthiness for IBRD resources. In fiscal 2004 countries with annual per capita gross national income of up to $865 were eligible for IDA assistance. (In exceptional circumstances, IDA extends eligibility to countries, such as small island economies, that are above the income cutoff but are not creditworthy to borrow from IBRD.) The amount of IDA resources that countries receive depends on the quality of their policies to promote growth and reduce poverty, which are assessed annually.

IDA recipient countries face complex challenges in striving to meet the Millennium Development Goals. Policy priorities include strengthening the fight against the spread of HIV/AIDS and other communicable diseases, building a healthy investment climate as a prerequisite for private sector investment, promoting gender equality, and improving the quality of basic education and poor people's access to it.

Traditionally, IDA provided assistance in the form of highly concessional credits. In fiscal 2003 it introduced the expanded use of grants, designed to address hardships faced by the poorest and most debt-vulnerable IDA countries. The grants are used to finance HIV/AIDS programs, natural disaster reconstruction, and postconflict reconstruction.

IDA is financed by its own resources and by donor governments, which come together every three years to decide on the amount of new resources required to fund IDA's future lending program and to discuss lending policies and priorities. Since 2001 senior-level representatives from borrowing countries have also participated in these replenishment discussions.

Historically, donor contributions have been determined on the basis of countries' relative economic strength and on their commitment to poor countries. The major industrial nations have thus been the largest contributors to IDA. But donor nations also include developing countries and transition economies—some of them IBRD borrowers and former IDA borrowers—including Argentina, Brazil, Hungary, the Republic of Korea, the Russian Federation, and Turkey. IDA's financial strength is based on the strong and continued support of its donors, as well as on repayments of past credits. (See IDA at **www.worldbank.org**.)

IDA Commitments

IDA commitments in fiscal 2004 reached $9 billon for 158 operations, consisting of $7.3 billion in credits and $1.7 billion in grants. IDA also provided a guarantee for $70 million. The volume of IDA commitments in fiscal 2004 represents a record in the history of IDA.

The largest share of IDA resources was committed to Africa, with $4.1 billion, constituting 45 percent of total IDA commitments. South Asia and East Asia and

Pacific followed with $3 billion and $0.9 billion, respectively. Among countries, Bangladesh, the Democratic Republic of Congo, India, Pakistan, and Vietnam represent the largest single recipients.

In fiscal 2004, about 19 percent of total IDA financing was provided in the form of grants to the following clients and projects: the poorest countries, $264 million; debt-vulnerable countries, $529 million; postconflict countries, $536 million; HIV/AIDS projects and those with HIV/AIDS-related components, $381 million; and natural disaster reconstruction projects, $2 million.

Public administration, including law and justice, was the leading sector receiving IDA support, with $2.3 billion, or 24 percent of the total. There was also significant support provided to the health and social services and transportation sectors, each representing $1.2 billion, or 14 percent of the total.

The two most prominent themes were public sector governance and financial and private sector development, each accounting for about 19 percent of IDA commitments. Major attention was also paid to human development with 17 percent, social development and gender with 13 percent, and rural development with 10 percent. Figures 5.12, 5.13, and 5.14 show IDA lending by region, theme, and sector.

IDA Resources

The 13th Replenishment of IDA (IDA13), which governs IDA operations for fiscal 2003–05, will provide a total of 18 billion in special drawing rights (SDRs) (about $23 billion) in concessional resources to eligible countries. This amount includes SDR 10 billion (about $13 billion) in new donor contributions; SDR 7.3 billion (about $9 billion) in IDA internal resources, including repayments of principal from past credits and investment income; SDR 0.7 billion (about $0.9 billion) in IBRD net income transfers (if available); and a small carryover of donor resources from the previous replenishment. Figure 5.15 shows the sources of IDA's funding over the last three replenishments.

Under IDA13 a major initiative was launched to strengthen IDA's focus on results. This initiative included development of a system to measure and monitor the results of IDA assistance across countries and to track the contribution made by IDA programming to country outcomes. Figure 5.16 shows IDA's stepped-up commitments in the social sectors.

Negotiations for the 14th Replenishment of IDA were launched in February 2004, when donor and

Figure 5.12 **IDA Commitments by Region, Fiscal 2004** | share of total lending of $9 billion

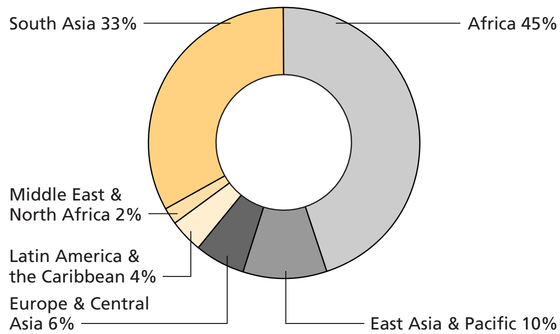


Figure 5.13 **IDA Commitments by Theme, Fiscal 2004** | share of total lending of $9 billion

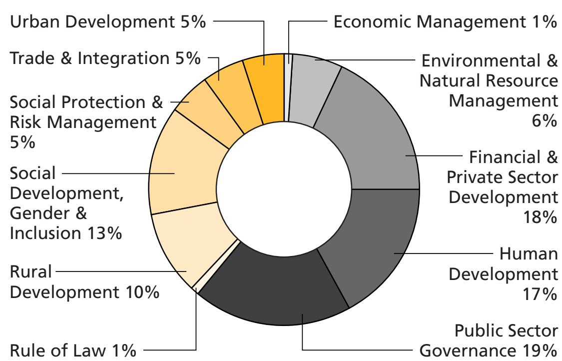


Figure 5.14 **IDA Commitments by Sector, Fiscal 2004** | share of total lending of $9 billion

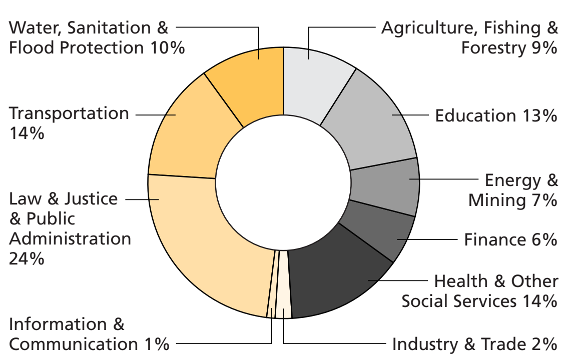
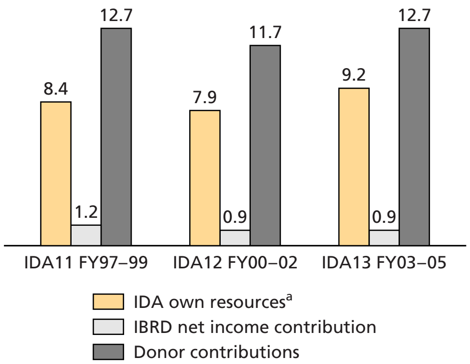
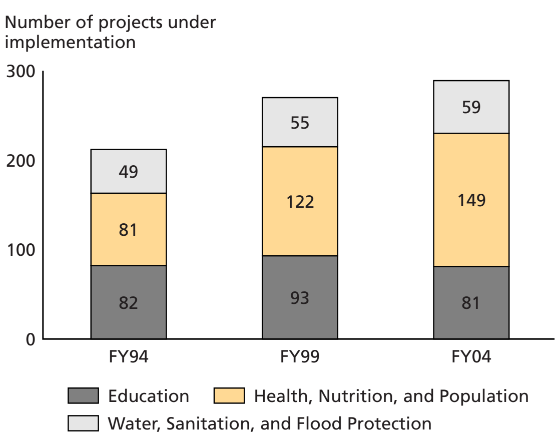


Figure 5.15 **Sources of IDA Funding** | billions of dollars



a. IDA own resources include principal repayments, charges less administrative expenses, and investment income.

Figure 5.16 **IDA's Stepped-up Efforts in the Social Sectors** | 290 projects ongoing (compared with 212 a decade ago)



Note: Number of projects under implementation includes projects in both IDA-only and blend countries. IDA commitment value of ongoing social sector projects: 1994, $11.7 billion; 1999, $14.4 billion; 2004, $15.4 billion. Numbers may not add to totals because of rounding.

borrower representatives met in Paris. Main issues discussed included debt sustainability, IDA's performance-based allocation system, how to finance IDA grants, and the findings of recent independent evaluations of IDA's experience with country-led development.

Innovations in Lending

As part of the effort to enhance development impact, an increasing number of Bank loans support sectorwide approaches, known as SWAps. These efforts typically focus on an entire sector within a country, such as education, or on a large subsector, such as primary education. Many low-income countries, particularly in Africa, began pursuing SWAps in the mid-1990s in an effort to move away from fragmented projects to a country-led approach based on a comprehensive program.

Over the past decade, more than 30 Bank operations have supported SWAps, mostly in social sectors in Africa and South Asia. The Bank has collaborated with other development partners to organize external financing based on a common policy framework and a comprehensive sector program or investment plan. Harmonization of planning, monitoring and evaluation, reporting, auditing, disbursement, and procurement systems has usually been a major part of this effort. Pooling of governments' and partners' resources is increasingly used. In low-income countries the use of SWAps has helped improve the coordination of external resources. In middle-income countries they are increasingly seen as a way to align the Bank's support with a country's own strategy and systems and to reduce the transaction costs often associated with isolated projects.

Bank support for SWAps has grown over the past few years, as greater emphasis has been placed on country ownership, harmonization, results, and alignment with country systems and procedures. Ongoing efforts to simplify and modernize the Bank's internal policies and procedures enhance its ability to support the concept of sectorwide approaches more effectively, given the flexibility required for coordination with multiple development partners. Changes in the Bank's audit policies, expenditures eligible for Bank financing, and procurement guidelines, along with the move toward streamlined report-based disbursement, are all intended to enhance country results and also facilitate the sectorwide approach process.

Debt Relief and Debt Sustainability

The Bank continued to provide debt relief to the world's poorest and most heavily indebted countries in fiscal 2004. It also worked to improve debt sustainability—long-term debt management—in low-income countries in an effort to help these countries meet the Millennium Development Goals.

As part of a comprehensive development strategy, the Heavily Indebted Poor Countries Initiative (**http://www.worldbank.org/hipc**) is well on its way to achieving its primary goal of giving a fresh start to countries by cutting their external debt to manageable levels. Twenty-seven countries—two-thirds of those eligible—are participating, receiving debt relief that will total more than $52 billion from creditors over time. Fourteen of these countries have reached the completion point—the point at which creditors provide all of the remaining debt relief promised at the decision point. Ethiopia, Ghana, Guyana, Nicaragua, Niger, and Senegal reached the completion point in fiscal 2004. Eight other countries—Benin, Bolivia, Burkina Faso, Mali, Mauritania, Mozambique, Tanzania, and Uganda—reached the completion point before fiscal 2004. Thirteen countries have reached the decision point and are receiving interim relief.

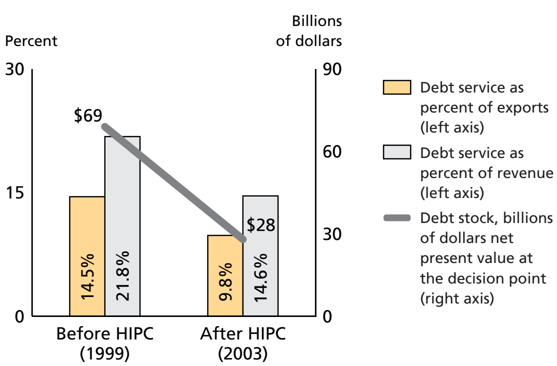
Key challenges remain for the HIPC Initiative. These include encouraging countries, many of which are affected by conflict, to reach the decision point—the point at which the international community agrees on the amount of debt relief a country needs to reduce its debt to a sustainable level and interim relief begins—by the end of 2004, the deadline for potentially eligible countries; encouraging countries that have reached the decision point to proceed expeditiously toward meeting the requirements for reaching the completion point; improving participation by certain non–Paris Club official bilateral, commercial, and small multilateral creditors; and continuing to support HIPC's pro-poor growth strategies.

The debt relief program has significantly reduced debt stock in heavily indebted poor countries (figure 5.17) and has allowed social spending in those countries to rise (figure 5.18).

Child health care in India.

The Bank's efforts to reduce poor countries' debt have expanded beyond the HIPC Initiative to address longer-term issues of debt sustainability. For many low-income countries, mobilizing sufficient financing to meet their development objectives, embodied in

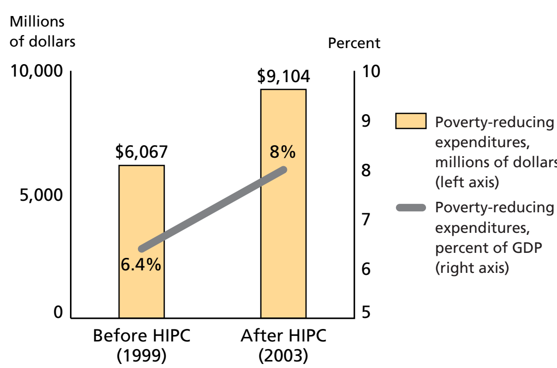
Figure 5.17 **HIPC Debt Relief: Reduced Debt Stock and Improving Debt Service Ratios**



Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2004.

Source: World Bank. September 2002. *Heavily Indebted Poor Countries (HIPC)—Status of Implementation*. Washington, D.C. World Bank. April 2004. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update*. Washington, D.C.

Figure 5.18 **Trends in Poverty-Reducing Expenditures before and after Assistance under the HIPC Initiative**



Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2004.

Source: World Bank. April 2004. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update.* Washington, D.C.

Woman spinning cotton thread in Bangladesh.

the Millennium Development Goals, while avoiding a potentially unmanageable debt burden represents a serious challenge.

Staff from the Bank and the International Monetary Fund are developing a new approach to assessing debt sustainability in low-income countries outside the HIPC Initiative. This approach is designed to take into account each country's circumstances and to guide lending decisions that balance a country's need for funds with its ability to service debt. The approach reflects extensive consultations with government officials, multilateral and bilateral donors, academics, and civil society organizations.

TRUST FUNDS

Trust funds are financial and administrative arrangements between external donors and the Bank that provide grant funding to address diverse development needs, including project preparation, technical assistance, advisory services, debt relief, postconflict transition, and the cofinancing of investment projects. Trust fund financing contributes to the Bank's poverty reduction mission by supporting innovative approaches to projects and expanding the scope of development collaboration. Donors include many industrial countries, a few of the larger developing countries, the private sector, and foundations. Increasingly such resources support multidonor programmatic instruments that underpin many of the Bank's external partnerships. Single-donor programmatic trust funds (for example, Japan's Policy and Human Resource Development Fund) also continue to be important instruments for supporting work with client countries. (See **www.worldbank.org**.)

Contributions

The Bank's trust fund portfolio was further expanded in fiscal 2004. Contributions received from donors totaled $4.9 billion, an increase of $0.46 billion, or 10 percent, over fiscal 2003. Funds held in trust rose from $6.89 billion to $8.6 billion, a 25 percent increase. These figures reflect contributions received on a cash basis for all trust funds except HIPC, the Global Environment Facility (GEF), and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), for which contributions are recorded on an accrual basis. The top 10 donors in fiscal 2004, shown in table 5.5, accounted for 86 percent of all contributions.

Disbursements

Disbursements during the year totaled $3.28 billion, an increase of $0.72 billion, or 28 percent, over fiscal 2003. The five programs with the largest disbursements were HIPC ($941 million); GFATM ($429 million); GEF ($398 million); the Afghanistan Reconstruction Trust Fund ($218 million); and the West Bank and Gaza Trust Fund ($170 million). Together these programs disbursed $2.16 billion, or 66 percent of total disbursements. Disbursements for all trust funds are reported on a cash basis. Contributions and disbursements are shown in figure 5.19.

Fund Balances and Investments

The level of fund balances has increased steadily to $8.6 billion in fiscal 2004, which is more than double the level in fiscal 2000. Most of this increase resulted from the establishment of large programmatic multidonor trust funds.

Major New Trust Fund Programs

In response to emerging development challenges, the donor community agreed to establish several new major trust funds and programs during fiscal 2004, with the Bank as administrator. These included a multidonor trust fund for Iraq, for which donors had pledged approximately $400 million for reconstruction; a multidonor supported Education for All Fast-Track Initiative Catalytic Trust Fund, for which $250 million is earmarked for contributions between fiscal 2004 and 2007; and a multidonor commitment in the amount of up to $185 million for a West Bank and Gaza Public Financial Management Reform Trust Fund, which serves as a budget support facility, cofinancing the existing Bank-funded structural adjustment operation for the Palestinian Authority.

Update on Selected Trust Funds

Fiscal 2004 activities of three of the many trust funds administered by the Bank are described here.

Global Program to Eradicate Poliomyelitis. The Bank administers a trust fund program launched in fiscal 2003 in partnership with the Gates Foundation, Rotary International, and the United Nations Foundation, to help eradicate poliomyelitis worldwide by 2005. To achieve this goal, the partnership uses an innovative financing mechanism in which trust fund resources are used to create financial incentives linked to eradication results. Once the performance goals of eradication efforts, funded by IDA credits, are achieved, trust fund resources are used to write off the debt, thus turning the IDA credit into a grant. As of the end of fiscal 2004, donor contributions to the trust fund totaled $39 million. The project was one of three selected to receive the Bank's Presidential Award for Excellence in December 2003.

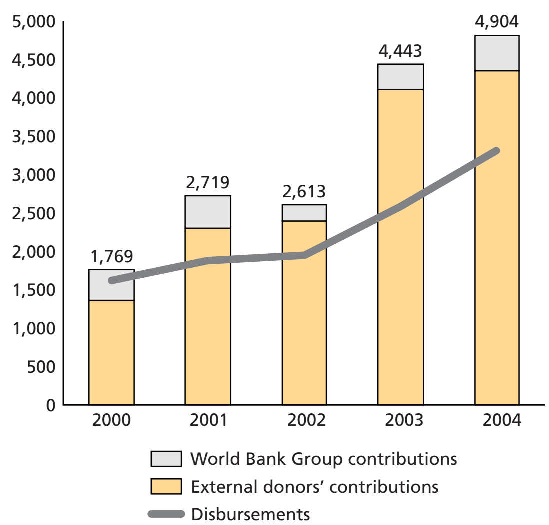
The Least Developed Countries (LDC) Fund for Climate Change. The LDC Fund was established in September 2002 to address the needs of least developed countries whose specific economic and geophysical characteristics make them especially vulnerable to the impact of global warming and climate change. In its initial phase the LDC Fund supports the preparation of national adaptation programs of action. The Global Environment Facility administers the fund and the Bank acts as its trustee. As of the end of fiscal 2004, $33 million had been pledged by 12 donor countries, and $17 million had been received; more than $9 million had already been allocated for 43 national projects and 2 global support projects, and most of these projects had begun their implementation.

Table 5.5 **Top Ten Trust Fund Donors** | millions of dollars

	FY03	FY04
European Community	241	880
United States	1,085	594
United Kingdom	252	585
Japan	500	508
World Bank Group	329	466
Netherlands	269	400
Germany	194	226
Canada	151	198
Italy	132	187
Norway	142	174
Other donors	1,148	686
Total contributions	**4,443**	**4,904**

Note: Donor ranking shown above is based on fiscal 2004 contributions.

Figure 5.19 **Trust Fund Contributions and Disbursements, Fiscal 2000–04** | millions of dollars



Iraq Trust Fund (ITF). At the Madrid Donor Conference in October 2003, the international donor community ratified the International Reconstruction Fund Facility for Iraq, comprising the World Bank Iraq Trust Fund and the United Nations Development Group Iraq Trust Fund, united through a common governance structure that ensures close coordination. The Board approved the Bank's role as Administrator of the ITF in January 2004. Donors had pledged approximately $400 million to the World Bank Trust Fund by the end of fiscal 2004. The ITF is focused on building institutional capacity and addressing urgent reconstruction and economic transition needs. A $3.6 million capacity-building project has supported 14 different sectoral and project management courses. A $40 million emergency project is financing primary and secondary school textbooks for the 2004–05 school year. Other projects address school rehabilitation, private sector development, infrastructure, and public health.

Cofinancing

Cofinanced funds are committed to complement specific Bank-funded projects by official bilateral and multilateral partners, export credit agencies, and private sources. These funds enable the Bank to leverage additional financing, mostly at concessional terms, to benefit recipient countries. The Bank's major cofinancing partners in fiscal 2004 included the Inter-American Development Bank ($3.7 billion), the European Commission ($640 million), and the British Department for International Development ($612 million). Regions benefiting from cofinanced projects included Latin America and the Caribbean ($4 billion), Africa ($3 billion), and South Asia ($1.3 billion).

Family planning clinic field workers visit patients in Dacca, as part of the Bangladesh Population Project (circa 1991).

A doctor checks a baby's weight and nutrition at a health center in Kbong, Uganda, circa 1991.

A field worker maintains irrigated furrows, part of the Seyhan Irrigation Project, in Turkey, circa 1991.

Landscape in rural Bhutan, circa 1992.

Mr. Lewis T. Preston, World Bank President, 1991–1995.

Barber B. Conable (1986–1991) | Lewis T. Preston (1991–1995)

1990s

1990

Global Environment Facility is created.

IBRD approves $1.3 billion loan, its largest to date, to Mexico for debt reduction.

1991

China replaces India as largest IDA borrower. China "graduates" from IDA in 1999/2000.

1992

Russian Federation and 12 republics of the former Soviet Union join IBRD and IDA.

President Preston tells the Earth Summit in Rio de Janiero that promoting development and protecting the environment are complementary.

World Development Report focuses on the environment.

1993

Independent Inspection Panel established to investigate external complaints from groups negatively affected by Bank-funded projects.

1994

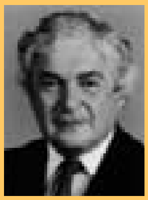
First Public Information Center is opened, in Washington, D.C.

World Bank celebrates 50th anniversary.

In Sri Lanka, solar power provides light for studying.

President Wolfensohn with World Youth representatives in Paris, 2003.

Mr. James D. Wolfensohn, World Bank President, 1995 to present.



Development Marketplace, December 2003

The Bank holds the first Development Marketplace in Washington, D.C., in 1998.

James D. Wolfensohn (1995–present)

1990s–Present

1996

Quality Assurance Group (QAG) is established to provide information on the quality of Bank work.

Trust Fund for Bosnia and Herzegovina is created.

IMF, World Bank, and donors launch the Heavily Indebted Poor Countries (HIPC) Initiative to alleviate debt.

Jessica Einhorn appointed first female Managing Director.

1997

Bank approves loans to the Republic of Korea and other economies affected by the financial crisis, to restore investor confidence and minimize social costs of the crisis.

1998

Bank approves Kosovo Special Fund.

World Faith and Development Conference held in London.

Bank holds first Development Marketplace to encourage innovation in development.

Bank formulates the Comprehensive Development Framework.

1999

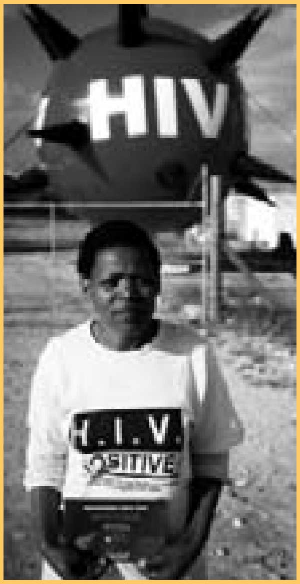
Bank begins to actively recruit and retain world-class staff with disabilities.

2000

The Millennium Development Goals are adopted by leaders of world's nations and international organizations.

Voices of the Poor is published. *World Development Report* focuses on attacking poverty.

Bank and partners create Global Development Gateway, an Internet portal on development.



In 2000 the World Bank committed an additional $500 million to fight HIV/AIDS.

Girl writing on slate board at a nonformal primary education school in Bangladesh, 1995.

In Cambodia, a community worker teaches sex workers about HIV/AIDS.

World Bank President James D. Wolfensohn at the World Bank Annual Meetings in Dubai in September 2003.

HIPC delivers on its year 2000 promise: 22 countries receive more than $34 billion in debt service relief.

Bank is named as one of world's five best practice partners in implementing knowledge management.

Completed projects with satisfactory outcome ratings reach 75 percent for first time in nearly 20 years (up from 60 percent in 1996).

Mamphela Ramphele is appointed first African Managing Director.

2002

International Conference on Financing for Development, held in Monterrey, Mexico, in March, achieves a new global partnership for development.

World Summit on Sustainable Development, a 10-year follow-up to the Rio Earth Summit, is held in Johannesburg, South Africa, in August.

2003

World Bank President James D. Wolfensohn delivers Annual Meetings speech in Dubai, where he calls for a new global balance and partnership among nations.

Investment Partnership for Polio, an innovative financing program supporting the eradication of poliomyelitis by 2005, is formed by the Bank and partners.

The Youth, Development, and Peace Conference brings young people into the Bank's dialogue on development.

2004

The Bank joins partnership to make generic drugs available to people infected with AIDS in more than 100 poor countries.

The Bank launches Youthink, a Web site where youth can share their ideas on development.

Global Conference on Poverty Reduction held in Shanghai, China, brings development community together to discuss actions to accelerate progress on the development agenda.

List of Boxes, Figures, and Tables

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Tables previously included in chapter 6 and as appendixes to volume 2 can be found on the CD-ROM.

Abbreviations

AML/CFT	anti–money laundering and combating the financing of terrorism
CAS	Country Assistance Strategy
CIS	Commonwealth of Independent States
CODE	Committee on Development Effectiveness
COGAM	Committee on Governance and Executive Directors' Administrative Matters
CSO	civil society organization
ESW	economic and sector work
FIAS	Foreign Investment Advisory Service
GDP	gross domestic product
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNI	gross national income
HIPC	heavily indebted poor countries
HIV/AIDS	human immunodeficiency virus/acquired immune deficiency syndrome
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IDA14	14th Replenishment of IDA
IFC	International Finance Corporation
IMF	International Monetary Fund
I-PRSP	interim Poverty Reduction Strategy Paper
ITF	Iraq Trust Fund
LDC	least developed country
LICUS	low-income countries under stress
MAP	Multicountry HIV/AIDS Program
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty Social Impact Analysis
SARS	sudden acute respiratory syndrome
SDRs	special drawing rights
SWAps	sectorwide approaches
TSS	Transitional Support Strategy
UNAIDS	Joint United Nations Programme on HIV/AIDS
WBI	World Bank Institute
WTO	World Trade Organization

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Resizing the viewing area: Place the cursor over the vertical bar to the right of the Bookmarks screen. When the cursor is properly positioned, it will take the form of left and right arrows. Click and drag the bar to the right or left.

Viewing the full table title: In the list of Bookmarks, place the cursor over the table title and the full title will appear.

Opening Excel files: Click on the blue links in the list of Bookmarks, or click on table titles after opening the PDFs.

Closing Excel files: Click on File, then Close, to close a particular table. Click on File, then Exit to close all Excel windows.

Printing: Click on File, then Print.

Exiting the CD-ROM: Click on File, then Exit.

SYSTEM REQUIREMENTS
Intel Pentium processor; 64MB of RAM; 24MB of available hard-disk space; Windows 98 or higher; Adobe Acrobat Reader (version 5.0 included on CD); Excel 95 or higher

THE WORLD BANK MISSION

TO FIGHT POVERTY WITH PASSION AND PROFESSIONALISM FOR LASTING RESULTS.

TO HELP PEOPLE HELP THEMSELVES AND THEIR ENVIRONMENT BY PROVIDING RESOURCES, SHARING KNOWLEDGE, BUILDING CAPACITY, AND FORGING PARTNERSHIPS IN THE PUBLIC AND PRIVATE SECTORS.

TO BE AN EXCELLENT INSTITUTION ABLE TO ATTRACT, EXCITE, AND NURTURE DIVERSE AND COMMITTED STAFF WITH EXCEPTIONAL SKILLS WHO KNOW HOW TO LISTEN AND LEARN.

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