Facts & Figures

About the World Bank Group

Fall 1998

Basic facts and figures on:
- Bank affiliates
- Annual lending
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Hot updates on:
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- Policies on corruption, child labor, and social protection

Introduction

Questions and Answers: Facts and Figures about the World Bank Group is updated once a year for the World Bank/IMF Annual Meetings in the fall and in previous years was updated semi-annually. Its purpose is to help staff respond to frequently asked questions by media, non-governmental organizations and the general public.

Although primarily intended for World Bank staff, it is a valuable reference tool for anyone interested in the World Bank Group.

The booklet has two sections: Section One, *Facts and Figures*, covers the general administrative, organizational and financial facts to help the reader understand how the Bank operates; Section Two, *Questions and Answers*, discusses regional and topical issues currently "in the news" in a Q&A format.

You'll find a main table of contents as well as one organized alphabetically to help you locate the information. You'll also find a detailed index at the back.

Please direct any questions to Cynthia Delgadillo, telephone 202-473-9661 or email *cdelgadillo@worldbank.org*

For latest updates on this information, you can find *Questions and Answers: Facts and Figures about the World Bank Group* on the web at *www.worldbank.org*, then click on "About the World Bank Group", then on "Questions and Answers".

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Acronyms

ACC	Administrative Committee on Coordination
AfDB	African Development Bank
APLs	Adaptable Program Loans
ARDE	*Annual Review of Development Effectiveness* (1997)
ADB	Asian Development Bank
BPD	Business Partners for Development Network
CAS	Country Assistance Strategies
CEECs	Central and East European countries
CGAP	Consultative Group Against Poverty, Consultative Group to Assist the Poorest
CPLs	currency pool loans
DEC	Development Economics
DEM	Deutsche mark
EBRD	European Bank of Reconstruction and Development
EC	European Commission
ECO	Expanded Cofinancing Operations
ECOSOC	Economic and Social Council
EDI	Economic Development Institute
EFA	Education for All
EIB	European Investment Bank
EMU	European Monetary Union
ENSO	Southern Climate Oscillation
ESSD	Environmentally and Socially Sustainable Development Network
FDI	foreign direct investment
FIAHS	Fund for Innovative Approaches to Human and Social Development
FIAS	Foreign Investment Advisory Service
FPSI	Finance, Private Sector, and Infrastructure Network
GATT	General Agreement on Tariffs and Trade
GEF	Global Environmental Facility
GHG	Green House Gas emissions
GSSN	Gender Sector Strategy Note
HD	Human Development Network
HIPC	Heavily Indebted Poor Countries Initiative
HNP	health, nutrition, population sectors
IBRD	International Bank for Reconstruction and Development
ICNL	International Center for Not–for–Profit Law
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Association
IDB	Inter–American Development Bank
IDF	Institutional Development Fund
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
ILO	International Labor Organization
ILO	International Labour Office
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPR	intellectual property rights
LILs	Learning and Innovation Loans
MERCOSUR	Southern Cone Common Market
MFI	microfinance institutions
MIGA	Multinational Investment Guarantee Agency
NAFTA	North American Free Trade Agreement
NEAPs	National Environment Action Plans
NGOs	non–governmental organizations
NIS	Newly Independent States
NLG	Netherland guilders
NTPC	National Thermal Power Corporation, India
OCS	Operational Core Services Network
OECD	Organization for Economic Co–operation and Development
OED	Operations Evaluation Department
PAG	Policy Advisory Group
PHN	population, health and nutrition
PREM	Poverty Reduction and Economic Management Network
PTI	Program of Targeted Interventions
QAG	Quality Assurance Group
SAPRI	Structural Adjustment Participatory Review Initiative
SAPRIN	NGO Steering Committee for SAPRI
SCLs	single currency loans
SCP	single currency pool loans
SGP	Small Grants Program
SIF	Social Investment Funds
TRIPS	Trade Related Aspects of Intellectual Property Rights
UNAID	Joint United Nations Program on AIDS
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCDF	United Nations Capital Development Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WBG	World Bank Group
WDR	World Development Report
WFP	World Food Program
WTO	World Trade Organization
Y2K	Year 2000 problem

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Alphabetical Listing

Section One: *Facts and Figures*

The World Bank Group comprises five organizations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). The term World Bank refers to only IBRD and IDA.

The World Bank is the largest provider of development assistance to developing countries and countries in transition, committing about $20 billion in new loans each year. Its main focus is to help people in developing countries raise their standards of living through finance for agriculture, schools, health programs, transportation and other essential needs.

The International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) are the private sector affiliates of the World Bank Group. IFC supports private enterprise in the developing world through loan and equity financing. MIGA facilitates the flow of private foreign direct investment to its developing member countries by providing investment insurance to foreign private investors in theses countries against political risks such as expropriation, breach of contract and war. It also provides investment marketing services and legal advice to host governments on means to attract foreign investment.

The International Centre for Settlement of Investment Disputes provides facilities for the conciliation and arbitration of disputes between governments of ICSID member countries and investors. It does not itself engage in conciliation and arbitration.

The International Bank for Reconstruction and Development (IBRD), was established in July 1944 at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire, USA. The World Bank opened for business on June 25, 1946. In 1947 it gave its first loan to France for $250 million to finance post-war construction. Today, the World Bank has a lending portfolio of $144 billion.

Membership

Membership: As of August 24, 1998, the IBRD had 181 members; IDA had 160; the IFC had 174; MIGA had 146 and ICSID had 129.

Eligibility

Only the very poorest countries are eligible for IDA credits. Under formal guidelines, countries with average annual per capita incomes of $1,506 or less are eligible. In practice, however, IDA credits are given to countries with average annual per capita incomes of $925 or less. Creditworthy countries with average annual per capita incomes below $1,506 could be given a blend of IBRD loans and IDA credits. Generally, countries with annual average per capita incomes less than $5,445 are eligible for IBRD loans. When a country's average annual per capita income exceeds $5,445, the process of "graduating" from IBRD is triggered.

Industrial vs. Developing Countries

The use of the terms "industrial" and "developing" is a matter of convenience. It is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. In its analytical and operational work, the

Bank characterizes economies as low-income, middle-income, and high-income. Low-income and middle-income economies are sometimes referred to as developing economies. Low-income countries are those with average annual per capita incomes of $785 or less; middle-income, $786 to $9,635; high-income, $9,636 or more.

Country Withdrawal

Under the Articles of Agreement of the Bank, any member can withdraw from the Bank at any time by giving notice to the Bank. A member may also be suspended, and after a year, expelled from the Bank if it fails to fulfill any of its obligations to the Bank. A country that ceases to be a member of the IMF automatically ceases being a member of the Bank unless, within three months, the Bank decides by a special majority to allow it to remain a member.

The Articles of Agreement contain detailed provisions on the respective rights and obligations of the withdrawing member and the Bank. When a country ceases to be a member of the Bank, it continues to be liable to the Bank on its contractual obligations, such as servicing its loans. It also continues to be liable to the Bank for calls on its unpaid subscription resulting from losses sustained by the Bank on guarantees or loans outstanding on the date of withdrawal.

Only a few countries have withdrawn from the Bank during its history. All but one withdrew voluntarily, and all but one rejoined the Bank later. The countries that have withdrawn are Poland (withdrew in 1950; rejoined in 1986); Czechoslovakia (the only country to be expelled from the Bank for failure to meet its obligations to the Bank, in 1954; rejoined in 1990); Cuba (withdrew in 1960; has not rejoined); the Dominican Republic (withdrew in 1960; rejoined in 1961); and Indonesia (withdrew in 1965; rejoined in 1967).

Bank President

The President is selected by the Bank's Board of Executive Directors. The Articles of Agreement do not specify the nationality of the president, but by custom the United States Executive Director makes a nomination. By a long-standing, informal agreement, the president of the Bank is a U.S. national, while the managing director of the International Monetary Fund is European. The initial term is five years; a second term could be five years or less. There is no mandatory retirement age. The President's salary is $224,650 net of taxes.

Bank's Past Presidents

Eugene Meyer (1875-1959). Assumed office on June 25, 1946. He was the owner of the *Washington Post* and active in banking circles, as head of a successful banking house (Eugene Meyer & Co.). Mr. Meyer served as World Bank president for six months.

John J. McCloy (1896-1989). Term: March 1947 to April 1949. He was a lawyer, and his law firm was counsel to Chase National Bank. He held positions in the executive branch of the U.S. government (including Assistant Secretary of War), he resigned from the Bank to become U.S. High Commissioner to Germany.

Eugene Black (1898-1992). Term: July 1949 to December 1962. He was an investment banker and senior vice president of Chase Manhattan Bank; previously he had been U.S. Executive Director to the Bank and Assistant Secretary at the U.S. Treasury. He served for 13 1/2 years–the longest of any World Bank president.

George Woods (1901-1982). Term: January 1963 to March 1968. He served one term plus three months. He was an investment banker and Chairman of First Boston Corp.

Robert S. McNamara (1916 -). Term: April 1968 to June 1981. He was President of Ford Motor Co. and Secretary of Defense in the Kennedy and Johnson administrations. He served for 13 years.

A.W.Clausen (1923 -). Term: July 1981 to June 1986. He was with Bank of America and BankAmerica Corp. for 32 years, serving the last 11 years as President and CEO, before coming to the Bank. He returned to BankAmerica Corp. as chairman in 1986. He served for 5 years.

Barber B. Conable (1922 -). Term: July 1986 to August 1991. He was a member of the House of Representatives from 1965-1985, serving 18 years on the House Ways and Means Committee, serving the last eight years as its Ranking Minority Member. He also was a member of the Joint Economic Committee and House Budget and Ethics Committees. He served for 5 years.

Lewis T. Preston (1926-1995). Term: September 1991 to May 1995. He joined J. P. Morgan & Co. in 1951, where he became President and later Chairman of the Board and CEO, posts he relinquished in 1989. He was Chairman of the Executive Committee of J. P. Morgan from 1989 to February 1991. He served for 4 years.

James D. Wolfensohn

James D. Wolfensohn. Term: June 1995 to present. Mr. Wolfensohn, the World Bank Group's ninth President since 1946, established his career as an international investment banker with a parallel involvement in development issues and the global environment.

Since becoming president of the World Bank on June 1, 1995, he has traveled to more than 80 countries in order to get first-hand experience of the challenges facing the World Bank, and its 181 member countries, in the post-cold war era.

During his travels, Mr. Wolfensohn has not only visited development projects sponsored by the World Bank, but he has also met with the Bank's government clients as well as with representatives from business, labor, media, non-governmental organizations, religious and women's groups, students and teachers. In the process he has taken the initiative in forming new strategic partnerships between the Bank and the governments it serves, the private sector, civil society, regional development banks and the United Nations.

In 1996, together with the IMF, Mr. Wolfensohn initiated the multilateral debt relief proposal for the heavily indebted poor countries (HIPC) to ease their debt burden. The Bank, which represents approximately 7 per cent of the developing world's total outstanding debt, has committed $2 billion to the initiative.

In order to improve the Bank's effectiveness in fighting poverty, and to meet the needs of a rapidly changing global economy, Mr. Wolfensohn has launched a major reform program in the Bank — The Strategic Compact.

The principal goals of the Compact are to shift resources to front-line lending and operations services, to have the Bank move closer to the client through decentralization, and to offer a broader range of products and services.

A central feature of Mr. Wolfensohn's Strategic Compact is to incorporate key aspects of the information revolution into the Bank's work by transforming the institution into a Knowledge Bank. The goal is to build a more agile, knowledge-based institution, which can share its storehouse of experience and know-how with clients and partners across the globe.

New networks have been created within the Bank to share expertise and best practice across regions and 350 mid- and high-level managers are undertaking an executive development program to sharpen their management skills.

Prior to joining the Bank, Mr. Wolfensohn was an international investment banker. His last position was as President and Chief Executive Officer of James D. Wolfensohn Inc., his own investment firm set up in 1981 to advise major U.S. and international corporations. He relinquished his interests in the firm upon joining the World Bank.

Before setting up his own company, Mr. Wolfensohn held a series of senior positions in finance. He was Executive Partner of Salomon Brothers in New York and head of its investment banking department. He was Executive Deputy Chairman and Managing Director of Schroders Ltd. in London, President of J. Henry Schroders Banking Corporation in New York, and Managing Director, Darling & Co. of Australia.

Throughout his career, Mr. Wolfensohn has also closely involved himself in a wide range of cultural and volunteer activities, especially in the performing arts.

Presently, in addition to serving as President of the World Bank Group, he is Chairman of the Board of the Institute for Advanced Study at Princeton University.

In 1970, Mr. Wolfensohn became involved in New York's Carnegie Hall, first as a board member and later, from 1980 to 1991, as Chairman of the Board, during which time he led its successful effort to restore the landmark New York building. He is now Chairman Emeritus of Carnegie Hall.

In 1990, Mr. Wolfensohn became Chairman of the Board of Trustees of the John F. Kennedy Center for the Performing Arts in Washington, D.C. On January 1, 1996, he was elected Chairman Emeritus.
Mr. Wolfensohn has been President of the International Federation of Multiple Sclerosis Societies, Director of the Business Council for Sustainable Development, and served both as Chairman of the Finance Committee and as Director of the Rockefeller Foundation and of the Population Council, and as member of the Board of Rockefeller University.

He is an Honorary Trustee of the Brookings Institution and a member of the Council on Foreign Relations and the Century Association in New York.

Born in Australia in December 1933, Mr. Wolfensohn is a naturalized U.S. citizen. He holds B.A. and LL.B. degrees from the University of Sydney and an M.B.A. from the Harvard Graduate School of Business.

Before attending Harvard, he was a lawyer in the Australian law firm of Allen Allen & Hemsley.

Mr. Wolfensohn served as an Officer in the Royal Australian Air Force, and was a member of the 1956 Australian Olympic Fencing Team.

Mr. Wolfensohn is a Fellow of the American Academy of Arts and Sciences and a Fellow of the American Philosophical Society. He has been the recipient of many awards for his volunteer work, including the first David Rockefeller Prize of the Museum of Modern Art in New York for his work for culture and the arts.

In May 1995 he was awarded an Honorary Knighthood by Queen Elizabeth II for his contribution to the arts. Mr. Wolfensohn has also been decorated by the Governments of Australia, France, Germany, Morocco, and Norway.

He and his wife, Elaine, an education specialist and a graduate of Wellesley, B.A., and Columbia University, M.A. and M.Ed., have three children—Sara, Naomi, and Adam.

Board of Governors

The World Bank operates under the authority of the Board of Governors. Each of the institution's 181 member countries is represented by one governor, who is usually a ministerial-level government official. Once a year the Boards of Governors of both the IMF and the Bank meet in a joint session known as the Annual Meetings. The views of individual governments, however, are represented throughout the year by the executive directors.

Executive Directors

General operation of the Bank is delegated to a smaller group of representatives, the Board of Executive Directors, with the president of the Bank serving as chairman of the board. These executive directors are based in Washington, D.C.. The Board of Executives Directors is responsible for policy decisions affecting the World Bank's operations and for the approval of all loans. The Bank has 24 executive directors. The five largest shareholders—France, Germany, Japan, the United Kingdom and the United States— each appoint one executive director. The other countries are grouped into constituencies, each represented by an executive director who is elected by a country or group of countries. The members themselves decide how they will be grouped. Some countries—China, Russia and Saudi Arabia—have formed single-country constituencies. The country groups more or less represent geographic regions with some political and cultural factors determining how they are constituted. The Executive Directors normally meet twice a week to oversee the Bank's business.

Inspection Panel

www.worldbank.org

An independent Inspection Panel was established by the Executive Directors in September 1993 to help ensure that the Bank's operations adhere to the institution's operational policies and procedures. Bank-supported projects are designed to conform to the institution's policies and procedures. Now any group of individuals who consider they have or may be directly and adversely affected by a Bank-supported project or projects can ask the Panel to investigate complaints ("requests for inspection") that the Bank has failed to abide by its policies and procedures.

The Panel has received numerous queries concerning potential requests for inspection (Requests). To date, the Panel has received thirteen formal Requests. Detailed guidance for filing Requests is provided in the Panel's *Operating Procedures*. These are available from the Panel's office in Washington, D.C., the InfoShop in Washington, D.C., the Bank's offices in London, Paris, and Tokyo, field offices, and on the Internet (http://www.worldbank.org).

The members of the Inspection Panel are appointed by the Executive Directors on the basis of their knowledge and experience of development and their ability to deal thoroughly and fairly with complaints. The 3 first members, were appointed in April 1994. Every year the Panel members select a chairperson from among themselves. Dr. Ernst-Günther Bröder served for the first 2 years and is also the current Chairman. Mr. Richard E. Bissell served as Chairman 1996/97 Alvaro Umaña Quesada 1997/98. The current Panel members are:

Ernst-Günther Bröder is the former President of the European Investment Bank (EIB) (1984-1993), where he also served as a director from 1980-1984. He held several supervisory and consultative functions in international banks and other institutions. Mr. Bröder was a Governor of the European Bank for Reconstruction and Development from 1991-1993, and a member of the special advisory group for the Asian Development Bank in Manila from 1981-1982. He is a member of the Panel of Conciliators for the International Centre for Settlement of Investment Disputes, Washington. Before being appointed President of the EIB he served from 1964-1984 with the Kreditantstalt für Wiederaufbau in Frankfurt, where he was a member of the Managing Board from 1975-1984 and spokesman since 1980. He has written and co-authored several books and articles on financial and economic subjects. Dr. Bröder holds a Doctorate in Economics from the University of Freiburg, and studies political and natural sciences at the University of Cologne, Mainz, and Paris.

Jim MacNeill, appointed August 1, 1997, is a policy advisor on the environment, energy, management, and sustainable development to international organizations, governments, and industry. He is Chairman of the International Institute of Sustainable Development, and a member of the boards of the Woods Hole Research Center, the Wuppertal Institute on Climate and Energy Policy, the Environmental Education and Training Institute of North America, and Ontario Hydro. He was Secretary General of the World Commission on the Environment and Development (the Brundtland Commission) and a major author of the Commission's world-acclaimed report, "Our Common Future". He served for seven years as Director of Environment for the Organization for Economic Cooperation and Development (OECD). Earlier, her was a deputy minister in the Government of Canada. Mr. MacNeill holds a graduate diploma in Economics and Political Science from the University of Stockholm and Bachelor's Degrees in Science (Math and Physics) and Mechanical Engineering from Saskatchewan

Edward S. Ayensu, appointed August 1, 1998, is President of the Pan-African Union for Science and Technology and an international development advisor. He is Executive Chairman of Edward S. Ayensu Associates Ltd. – Science, Technology and Economic Consultants and Executive Chairman of Advanced Gracewell Communications Co. Ltd. and the founding Chairman of the African Biosciences Network. He is Chairman of the Ghana National Biodiversity Committee; a member of the International Advisory Council on Global Scientific Communications, UNESCO and member of the Board of Directors and International Vice Chairman of the International Institute for Sustainable Development (IISD). He held many positions during his 20 years at the Smithsonian Institution in Washington, D.C and has held various posts in other international scientific and technical organizations. For nearly two years he was the Senior Advisor to the President and the Director for Central Projects Department at the African Development Bank. He was formerly the Vice-Chairman, and advisor to the Scientific and Technical Advisory Panel of the Global Environment Facility; and a former member of the Energy Sector Management Assistance Programme Consultative Group, and of the Senior Advisory Council of the Global Environmental Facility (GEF). He has a PhD from the University of London.

International Bank for Reconstruction and Development

The IBRD, established in 1945, is now owned by 181 countries. To join the IBRD, countries must first be members of the International Monetary Fund (IMF). The IBRD lends only to creditworthy borrowers and only for projects that promise high real rates of economic return to the country.

The IBRD borrows most of the money it lends through medium- and long-term borrowings in capital markets across the globe. It also borrows funds at market-based rates from central banks and other government institutions. Creditworthy countries with average annual per capita incomes below $1,506 could be given a blend of IBRD loans and IDA credits. Generally, countries with annual average per capita incomes less than $5,445 are eligible for IBRD loans. When a country's average annual per capita income exceeds $5,445, the process of "graduating" from IBRD is triggered.

The Bank offers three loan products for new loan commitments: currency pool loans (CPLs), LIBOR-based single currency loans (SCLs), and fixed-rate single currency loans. Maturity on loans is 15 to 20 years, with a grace period of about five years.

IBRD Graduates

Twenty-six past IBRD borrowers have graduated. The graduates, and the fiscal year of their last loan, are France, 1947; Luxembourg, 1948; Netherlands, 1957; Belgium, 1958; Australia, 1962; Austria, 1962; Denmark, 1964; Malta, 1964; Norway, 1964; Italy, 1965; Japan, 1967; Taiwan, 1971; New Zealand, 1972; Iraq, 1973; Iceland, 1974; Finland, 1975; Israel, 1975; Singapore, 1975; Ireland, 1976; Spain, 1977; Greece, 1979; Oman, 1987; Bahamas, 1989; Portugal, 1989; Cyprus, 1992; and Barbados, 1994. Korea graduated from the Bank in 1994, but lending was resumed in 1997 in response to the country's economic crisis.

International Centre for Settlement of Investment Disputes (ICSID)

The International Centre for Settlement of Investment Disputes (ICSID) provides facilities for the conciliation and arbitration of disputes between governments (or constituent subdivisions or public agencies) of ICSID member countries and investors (individuals or companies) that qualify as nationals of other member countries. The Centre's objective in making such facilities available is to promote an atmosphere of mutual confidence between governments and foreign investors conducive to private international investment. At present 129 countries are members of ICSID. A further 15 countries are in the process of becoming members.

ICSID does not itself engage in conciliation and arbitration. This is the task of conciliators and arbitrators appointed for each case, generally by the disputing parties. The Centre assists in the initiation and conduct of the conciliation and arbitration proceedings, performing a variety of procedural and administrative functions. The conciliation and arbitration procedures themselves are governed by the provisions of ICSID's constituent Convention (the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States) and by regulations and rules adopted pursuant to the Convention.

Recourse to ICSID conciliation and arbitration is entirely voluntary. No government or national of a member country is obliged to resort to such conciliation or arbitration. However, once the parties have consented, they are bound to carry out their undertaking and, in the case of arbitration, to abide by the award.

Provisions on ICSID arbitration are commonly found in investment contracts between governments of member countries and investors from other member countries. Advance consent by governments to submit investment disputes to ICSID arbitration can also be found in about 20 investment laws and in over 900 bilateral investment treaties. Arbitration under the auspices of ICSID is similarly one of the main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties (NAFTA, the Energy Charter Treaty, the Cartagena Free Trade Agreement, and the Colonia Investment Protocol of Mercosur).

To date 53 cases have been registered by the Centre, three involving conciliation and the remaining 50 involving arbitration. Nineteen arbitrations are currently pending before the Centre. The majority of the other cases have concluded with settlements by the parties on agreed terms, before the rendition of an award.

Parties to ICSID proceedings have included the governments of 38 different countries from each of the major regions of the world and nationals of more than a dozen other countries. The disputes have involved different kinds of investment in the agricultural, banking, construction, energy, health, industrial, mining and tourism sectors. 116 different individuals from 39 countries have served on the conciliation commissions and arbitral tribunals thus far constituted in the cases.

ICSID also carries out research and publishes information and analysis in the fields of arbitration law and foreign investment law. Examples of the Centre's research work include its preparation of a study of bilateral investment treaties published in book form in 1995. A recent study of the Centre examines in detail the dispute-settlement provisions of investment laws and bilateral and multilateral investment treaties made in the 1990s.

ICSID is frequently called upon by governments and investors to provide advice on dispute-settlement provisions of investment laws, treaties, and contracts. The Centre also collaborates often with other World Bank Group organizations in responding to requests for advice on draft arbitration and investment legislation.

International Development Association

www.worldbank.org/html/extdr/ida.html

IDA's borrowers: There are now 80 IDA-eligible countries which represent 3.3 billion people or 80 percent of the population of developing countries. Forty-one IDA borrowers are in Sub-Saharan Africa, but most people—nearly 2.6 billion–live in Asia. About 1.2 billion of the people in IDA countries survive on incomes of less than US$1 per day. However, during IDA-10—(FY94-96)—90 percent of new lending commitments were to countries with per capita incomes below $650.

Eligibility. IDA lends selectively; it is not an entitlement. A government's performance in poverty reduction, macroeconomic management and project implementation, among other indicators, is the main determinant of its access to scarce IDA loans (known as credits). Where policy performance is unsatisfactory, lending is reduced or stopped. For example, during IDA–10, countries ranked in the top 20 percent according to IDA performance criteria received more than ten times the per capita amounts received by those ranked in the bottom 20 percent. The other determinants of a government's access to IDA credits are GNP per capita income and lack of credit worthiness for IBRD lending.

IDA Funding. IDA depends on contributions from its more affluent member countries—including some developing countries—for most of its financial resources (although repayments of past IDA credits are becoming an increasingly important source of funding). Contributions generally reflect a donor's overall aid program and its strength in the global economy. The number of IDA donors has grown over the years. For example, the Republic of Korea, Turkey, and Botswana, which used to borrow from IDA, are now contributors. Brazil, Russia, Argentina, Hungary, and the Slovak Republic are current IBRD borrowers who are also contributing to IDA.

IDA-11 donors. Argentina, Australia, Austria, Belgium, Botswana, Brazil, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, the Republic of Korea, Kuwait, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Oman, Poland, Portugal, Russia, Saudi Arabia, the Slovak Republic, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, Venezuela.

U.S. Obligations to IDA-10, IDA-11: As of the beginning of FY98, the U.S. is current in meeting its obligations to IDA-10 and IDA-11.

IDA Graduates. Twenty-one countries have graduated from IDA since its inception in 1960: Botswana (1974), Chile (1960), Colombia (1962), Costa Rica (1961), the Dominican Republic (1973), Ecuador (1974), El Salvador (1977), Indonesia (1980), Jordan (1978), the Republic of Korea (1973), Mauritius (1975), Morocco (1975), Papua New Guinea (1983), Paraguay (1976), Philippines (1979, 1993), St. Kitts (1994), Swaziland (1975), Syria (1974), Thailand (1979), Tunisia (1977), Turkey (1973).

The Republic of Korea, Botswana and Turkey are now donors to IDA.

IDA Terms. IDA credits have maturities of 35 to 40 years with a 10-year grace period on repayment of principal. There is no interest charge, but credits do carry a small service charge, currently 0.75 percent. The grant equivalent of IDA is about 65 percent.

During the IDA-10 period (FY94-96), an average of $6 billion was committed for 120 new projects each year. More than half of IDA operations in the IDA-10 period involved some form of participation by directly affected stakeholders, and the depth and breadth of participation increased dramatically. IDA lending for health care and nutrition, education, water and sanitation, and social protection increased nearly 70 percent during IDA-10 over the IDA-9 period. During IDA-10, about 25 percent of lending was for adjustment. New adjustment operations supporting policy reforms were implemented in more than 30 countries.

Lending/Disbursement thus far for IDA-11. IDA disbursements reached $5.6 billion in FY98. Disbursements have increased during the 1990s. This reflects an intensive effort to improve portfolio management through better project design and more emphasis on implementation results. IDA lending commitments were $7.6 billion in FY98, up from $4.6 billion in FY97. This increase mainly reflected performance improvement in African countries as well as greater implementation capacity in large South Asian countries with overall good policy performance. IDA lending commitments were $4.6 billion in FY97, reflecting in part the transitional costs of the Bank's renewal program, as well as normal year-to-year fluctuations.

Despite the extremely stringent evaluation standards the Bank imposes on its projects, some factors that affect the success of IDA projects, such as civil war and social instability, cannot be influenced by IDA. Of the IDA projects completed in 1993–94, one-third of those that the World Bank rated as failing to achieve anticipated objectives were in six countries—Myanmar, Rwanda, Sierra Leone, Somalia, Sudan, Zaire—where conditions prevented virtually any development project from succeeding.

International Finance Corporation (IFC)

The International Finance Corporation (IFC), part of the World Bank group, fosters economic growth in the developing world by financing private sector investments, mobilizing capital in the international financial markets, and providing technical assistance and advice to governments and business. IFC's share capital is provided by its 174 member countries, which collectively determine the Corporation's policies and activities.

IFC catalyzes private sector investment in emerging markets by collaborating with firms in developed countries on investment projects and, more generally, demonstrating the profitability of the developing world's private sector through successful project financing. The Corporation charges market rates for its products, does not accept government guarantees, and limits its participation to no more than 35 percent of project equity.

Since its founding in 1956, IFC has committed nearly US$24 billion of its own funds and has arranged US$17 billion in financing for more than 2,000 companies in 134 countries. In FY98 IFC approved 308 projects, providing US$3.4 billion in financing for its own account. It mobilized US$2.5 billion through the IFC loan syndication program for private sector projects in developing countries. Under this program commercial lenders provide their own funds and take their own commercial risk, but IFC acts as the lender of record. Investors thus enjoy the same tax and country risk benefits that IFC derives from its special status as a multilateral development agency.

The World Bank and IFC's activities are complementary. The Bank's strengths are its relationships with governments, its positive influence on policy and institutional frameworks, and its social sector impact through investments. This lays the groundwork for sustainable private sector investments by IFC. IFC is transaction oriented, concentrating on capital markets, manufacturing, and private infrastructure, such as power, water, and telecommunications.

The IFC and the World Bank have joined forces to create the Foreign Investment Advisory Service (FIAS), which advises governments on promoting and regulating direct foreign investment.

Multilateral Investment Guarantee Agency (MIGA)

The ***Multilateral Investment Guarantee Agency*** was established in April 1988 as a member of the World Bank Group, to facilitate the flow of private foreign direct investment to its developing member countries. It does this by providing investment guarantees (insurance) against political risks to foreign private investors in developing countries, and investment marketing services and legal advice to host governments on means to better attract foreign investment.

Like IFC, MIGA is an independent, self-sustaining agency of the World Bank Group, with its own capital base of US$1.08 billion and membership of 145 industrialized and developing countries. In fiscal 1998, MIGA's Board of Directors approved a US$1 billion funding package which included a US$150 million grant transfer from the World Bank. The remaining funds will be provided in portions of cash and callable capital. The recapitalization package has been sent to the Council of Governors for a vote within the following year.

MIGA's guarantee program helps to mitigate foreign investors' concerns about the political risks of transfer restriction, expropriation, breach of contract, and war and civil disturbance, involved in investing in some developing countries. This allows investors to focus on the business risks associated with their projects. For various reasons, including eligibility criteria, however, existing investment insurance entities are often unable or unwilling to provide the type of coverage that investors require. MIGA fills these gaps in the investment insurance market and complements the activities of other insurers. MIGA also collaborates closely with private insurers in providing investment insurance (See *MIGA Guarantees* below).

In addition, many developing countries need assistance in facilitating foreign investment flows, in disseminating information on investment opportunities to foreign investors, and in strengthening their institutional framework for investment promotion. Complementary to, and in support of, its insurance activities, MIGA provides assistance in these fields through its investment marketing services and legal departments.

MIGA Guarantees: MIGA has issued 348 contracts of guarantee for a total of $4.2 billion in coverage, as of the end of fiscal 1998. MIGA guarantees have facilitated an estimated $25 billion of foreign investment in 62 developing countries. Insured investors are from 29 countries. MIGA's guarantee portfolio includes a number of investments between developing countries. The investments were broadly distributed across many sectors, including agribusiness, financial services, infrastructure, manufacturing, mining, and tourism.

To better serve the expanding needs of its clients — both investors and developing member countries — MIGA has developed several innovative mechanisms and new guarantee products, to expand its insurance capacity and enhance its cooperation with other investment insurers.

Some of the initiatives developed by MIGA to serve the growing demand for investment guarantees are:

- The ***Cooperative Underwriting Program***, a form of coinsurance created by MIGA. The CUP is designed to encourage private insurers to enter markets where they may not have insured investments without the involvement of a multilateral institution such as MIGA. Under the agreement, MIGA will act as insurer-of-record for the entire amount at risk.

MIGA cooperates closely with major *private insurers* such as American International Group, Lloyd's of London, Sovereign Risk of Bermuda, and Zurich-American Political Risk, through reinsurance and coinsurance arrangements. For example, MIGA concluded a cooperation agreement with Brockbank Syndicate Management Ltd. of Lloyd's of London under the Agency's CUP, during the year, through which Brockbank will make available up to US$100 million in additional capacity per transaction, on a case-by-case basis. This will allow MIGA to issue increased amounts of insurance coverage, better serve the needs of investors, and facilitate additional investment. Further, MIGA signed a contract under the CUP with Zurich-American Political Risk of Washington, D.C., for a power project in Argentina.

- In FY97 MIGA signed a ***Quota Share Treaty Reinsurance Agreement*** with ACE Limited, a Bermuda-based private reinsurer. The agreement is the first of its kind to offer long-term, private political risk reinsurance of foreign private investments in developing countries. The agreement expanded MIGA's insurance capacity, allowing the Agency to issue up to US$75 million per project (US$50 million for its own account) and up to US$325 million per country (US$225 million for its own account).

- Specialized ***Investment Guarantee Trust Funds*** for investments in Bosnia and Herzegovina and the West Bank and Gaza, respectively. MIGA acts as the administrator and issuer of guarantees for both these Funds, on behalf of the sponsors, which included the European Union and various industrial countries.

The **West Bank and Gaza Investment Guarantee Trust Fund** received funding from the Palestinian Authority during FY98 and approval of additional contributions by the Board of Directors of the European Investment Bank. In November, MIGA organized a seminar on "Safeguarding Investment in the West Bank and Gaza" at the World Bank headquarters in Washington, D.C., which brought together potential investors, members of financial institutions, chambers of commerce, and other insurers interested in investing in the Territories. Mr. James D. Wolfensohn, president of MIGA, addressed the seminar. These efforts have already resulted in seven applications for coverage of prospective investments in the West Bank and Gaza. The Guarantee Trust Fund was created by MIGA in 1997 in cooperation with the Palestinian Authority.

The European Union sponsored the **Investment Guarantee Trust Fund for Bosnia and Herzegovina** with a credit line of 10.5 million ECU in late March 1997. Investors from EU member countries and some East European countries are eligible for Trust Fund guarantees. MIGA is currently processing a guarantee application for a construction project and has some 10 additional applications for guarantee of investments into the country.

These guarantee funds will contribute to the development needs of the respective beneficiaries by encouraging investors to channel much-needed capital to these regions. The projects will follow the broad parameters of MIGA's guarantee program. Further, since MIGA is administrator of the Funds, projects covered by the Funds will have the same developmental objective of the Agency. The Funds will, thus, facilitate projects that are financially and economically viable, environmentally sound, and benefit the development objectives of the beneficiaries through creation of employment, the generation of revenues, and transfer of technology.

MIGA technical assistance services: MIGA also provides technical assistance to public and private sector investment intermediaries in developing member countries and transition economies. This assistance is designed to help client countries attract and retain foreign direct investment (FDI). MIGA also links with private sector companies to facilitate investment through electronic dissemination of information relating to investment opportunities and through investor fora. More than 130 developing and transitional countries have benefited in the past from MIGA's capacity building, investment facilitation and information dissemination assistance.

As part of its information dissemination efforts, MIGA offers an Internet-based marketing, communications and information "marketplace," IPA*net* (www.ipanet.net), which provides potential investors with easy and fast access to information on investment opportunities, business operating conditions, key players and latest news in the field of FDI. IPA*net* was selected "Website of the Week" by the Financial Times in April 1998 in recognition of its achievements since inception in 1995. As part of its outreach efforts, MIGA also started publishing the IPA*net* Newsletter, highlighting news and events relating to international investment.

In June 1998, MIGA launched PrivatizationLink, an on-line information service highlighting investment opportunities stemming from divestiture of state-owned enterprises. The website — a specialized window in IPA*net* focusing on privatization issues — features company profiles of enterprises slated for sale, including data on specific activities of the enterprise, the ownership structure, workforce, fixed assets, divestiture plan, closing date for bids, recent financial data, market position and future potential. In addition, users can find background information on privatization agencies and their programs, and lists of upcoming privatization transactions.

Finally, MIGA launched its first field based technical assistance program — the AFRI-IPA Support Program — in February 1998. The program builds on MIGA's work in Africa over the past eight years, providing professional "hands-on" technical assistance to IPAs and sectoral ministries on the continent. All operations carried out through these field functions have a multi-country focus, thus facilitating cross-boundary sharing of experience among African countries and alerting external institutions and potential investors to regional opportunities.

MIGA's legal department provides mediation services to help avoid investment disputes and assists developing member countries in the establishment of appropriate investment legislation to attract foreign direct investment.

Member countries: Country membership has steadily increased from 29 countries in fiscal 1988 to 145 in FY98. Another 17 countries are in the process of joining. Rising country membership, broader privatization opportunities worldwide, and a healthy pipeline of about 1,200 preliminary applications for guarantees are all factors that will contribute to the continued growth of MIGA's guarantees activities. On the technical assistance side, MIGA will continue to address the strong demand for support from developing and transitional member countries for their respective investment promotion efforts.

Consultative Group to Assist the Poorest (CGAP)

The Consultative Group to Assist the Poorest (CGAP)—a Micro-finance Program is a multi-donor effort, launched on June 27, 1995, to reduce poverty by increasing access to financial services for very poor households through financially sustainable institutions.

CGAP's strategy is anchored on building microfinance institution (MFI) retail capacity in order to achieve its mission. CGAP pursues five key strategic thrusts, all of which are in support of this core objective. These are: (1) support institutional development in the microfinance sector; (2) support changes in donor practices to further improve the 'quality of their microfinance operations; (3) increase understanding on poverty outreach to MFIs; (4) improve the legal and regulatory framework for MFIs; and (5) facilitate 'commercialization' of the industry.

CGAP consists of four main bodies: (1) the Consultative Group composed of 26 Member Donors, (2) the Policy Advisory Group (PA) composed of 11 leading practitioners in the microfinance field and chaired by Mr. Kimanthi Mutua, (3) the CGAP Secretariat, responsible for the implementation of the program, housed in the Private Sector Development Department of the World Bank, and (4) the Investment Committee, which reviews and approves all funding proposals.

There are currently 26 Member Donors in CGAP. The bilateral donors include: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States. The multilateral donors include the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Commission (EC), the Inter-American Development Bank (IaDB), the International Fund for Agricultural Development (IFAD), the International Labour Office (ILO), the United Nations Development Programme (UNDP), theUnited Nations Capital Development Fund (UNCDF), the United Nations Conference on Trade and Development (UNCTAD), and the World Bank.

CGAP disseminates information about microfinance to government officials, donor agencies, and microfinance practitioners in English, French and Spanish via its FOCUS Notes series, which synthesizes key literature (best practices) on microfinance; and its Occasional Paper series, a more detailed publication that addresses technical issues. CGAP publications can be accessed on the World Wide Web at: http://www.worldbank.org/html/cgap/cgap.html.

The World Bank and the International Monetary Fund

The World Bank and the IMF were both established in 1944 at a conference of world leaders in Bretton Woods, New Hampshire. The aim of the two "Bretton Woods institutions" as they are sometimes called, was to place the international economy on a sound footing after World War II. The work of the Bank and the Fund are complementary, but their individual roles are quite different. The World Bank is a lending institution whose aim is to help integrate countries into the wider world economy and promote long-term economic growth that reduces poverty in developing countries. The IMF acts as a monitor of the world's currencies by helping to maintain an orderly system of payments between all countries, and lends money to members who face serious balance of payments deficits. While the World Bank makes loans for both policy reforms and projects, the International Monetary Fund concerns itself with policies alone. It provides loans to member countries that have a short-term problem meeting their foreign payments requirements and seeks to obtain full convertibility among the currencies of its members under the system of flexible exchange rates in force since 1973.

The World Bank lends only to developing or transition countries, but all member countries (rich and poor) can call upon the IMF's services and resources. For the Fund to do its job properly, the vast majority of the world's countries must participate in its work. Since international trade and investment cross borders, nearly every country must buy and sell foreign currencies to finance imports and exports. The IMF monitors such transactions, and consults with its members on ways they can contribute to a fluid and stable global monetary system. Information on the IMF can be found at www.imf.org.

The Bank began by focusing on individual projects, where the institution still puts most of its resources, but now also makes loans for general improvements in economic polices. These reform loans aim, among other things, to channel limited resources into more cost-effective investments to reduce budget deficits, stem inflation or strengthen public institutions. By correcting these distortions, adjustment loans can help developing country economies use resources more effectively and secure long-term growth.

The World Bank and the United Nations

Cooperation between the Bank and the UN has been in place since the founding of the two organizations (1944 and 1945) and focuses on economic and social areas of mutual concern such as reducing poverty, promoting sustainable development and investing in people. In addition to a shared agenda, the Bank and the UN have almost the same membership. Bank membership is open to countries which are members of the International Monetary Fund. Only a handful of UN member countries are not Bank members, among which are Cuba and Democratic People's Republic of Korea.

The Bank's formal relationship with the United Nations is defined by an 1947 agreement which recognizes the Bank as an independent specialized agency of the UN—as well as a member and observer in many UN bodies. A recent review of the nature of collaboration activities between the United Nations and Bretton Woods Institutions confirms that a multifaceted, extensive and growing partnership exists between them.

The Bank also has links with the UN at the political and policy-making level in the work of the General Assembly and its committees, the Economic and Social Council (ECOSOC), whose members recently participated in an exchange of dialogue on development issues with the Bank's Executive Directors, and such bodies as the Administrative Committee on Coordination (ACC). The broad range of positive cooperation at the global and country levels includes the following:

- At the executive level, the Bank President and the Secretary-General engage in an on-going dialogue on substantive issues such as poverty eradication, capacity building in Africa, humanitarian and post-conflict issues, human rights and financing of development. Additionally, President Wolfensohn actively participates in a range of UN fora, such as ACC and the ECOSOC Substantive Session policy dialogue, and maintains an on-going dialogue with heads of UN Programs, Specialized Agencies and Commissions such as Mary Robinson, the High Commissioner for Human Rights.

- At the political level, as represented by member states, the Bank has observer status in several UN bodies including, the General Assembly and its Second and Third Committees and ECOSOC, which address issues that bear directly on the work of the Bank, e.g. population, poverty, HIV/AIDS, gender issues and women and development, governance and civil society, communications, and the environment. In addition, the Bank maintains an active dialogue with individual member states and political groups such as the G-77 and the European Union.

At the operational level, the Bank— as a specialized UN agency—works with other UN Funds and Programs in its project work through policy coordination, project implementation, cofinancing and aid coordination. For example, the Bank is one of six co-sponsors of the Joint United Nations Program on AIDS (UNAID), contributing over $800 million so far in the fight against HIV/AIDS. And the Bank's partnership with the World Food Program (WFP) links their food-for-work community infrastructure programs to Bank follow-up investments. In addition, the Bank is an integral part of the United Nations global conference process. The Bank helps to prepare for and participates in virtually all of the UN global conferences and, as an active member of the task forces to follow-up on United Nations conferences, to implement goals at the country level.

The World Trade Organization (WTO), GATT and the World Bank

The World Trade Organization (WTO), established on January 1, 1995, is the successor to the General Agreement on Tariffs and Trade (GATT). It is now the legal and institutional foundation of the multilateral trading system and embodies the results of the Uruguay Round trade negotiations concluded with the "Marrakesh Declaration" of April 15, 1994.

The WTO is based in Geneva, Switzerland. Its essential functions are:

- Administering and implementing the multilateral trade agreements that make up the WTO.
- Acting as a forum for multilateral trade negotiations.
- Seeking to resolve trade disputes.
- Overseeing national trade policies.
- Cooperating with other international institutions involved in global economic policy making.

The WTO has a much broader scope than GATT—it covers trade in goods, services, and intellectual property, as well as merchandise trade.

The Bank is not a member, as only countries are members of the WTO. In the past, relations between the Bank the WTO have been on an ad hoc basis. Recently an agreement has been reached that would facilitate the advancement of the organizations' common responsibilities without compromising the unique responsibilities of either. The Bank now gives observer status to the WTO at the Annual Meetings of the Board of Governors, and the WTO has given the Bank observer status at the meeting of the WTO Ministerial Conference. At the working level, each organization enjoys observer status at each other's meetings on topics of common interest.

The program of cooperative work between the two institutions is extensive. For example, the Bank is currently an active participant in a WTO-led initiative to develop a program of technical assistance to help the least developed countries make use of opportunities offered by the multilateral trading system. The Bank is also providing support to WTO working groups on the relationship between trade and investment and between trade and competition policy.

Global Environmental Facility

The GEF provides grant and concessional funding to recipient countries for projects and programs that protect the global environment and promote sustainable economic growth.

The Facility, originally set up as a pilot program in 1991, was restructured and replenished with over US$ 2 billion in 1994. A second replenishment in March 1998 provided $2.75 billion for a four-year period. These funds are to cover the agreed incremental costs of activities that benefit the global environment in four focal areas: climate change; biological diversity; international waters; and stratospheric ozone. Activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas, are also eligible for funding. Both the Framework Convention on

Climate Change and the Convention on Biological Diversity have designated the GEF as their funding mechanism.

GEF projects and programs are managed through three implementing agencies: the UN Development Programme (UNDP), the UN Environment Programme (UNEP) and the World Bank. The GEF Secretariat, which is functionally independent of the three implementing agencies, reports to and services the Council and Assembly of the GEF.

The GEF is striving for universal participation. Currently 164 countries are participants. Countries may be eligible for GEF funds in one of two ways: (1) if they are eligible for financial assistance through the financial mechanism of either the Climate Change Convention or the Convention on Biological Diversity; or (2) if they are eligible to borrow from the World Bank (IBRD and/or IDA) or receive technical assistance grants from UNDP through a Country Programme. A country must be a party to the Climate Change Convention or the Convention on Biological Diversity to receive funds from the GEF in the relevant focal area.

Bank Staff Benefits

Bank Salaries: The Bank's compensation system is market-driven and is designed to maintain pay scales that keep pace with the labor markets where we recruit staff. Each year, the Bank collects and uses salary data from comparable organizations to set competitive salary scales at the Bank.

A U.S. General Accounting Office (GAO) review commissioned by the U.S. Congress in FY95 found that IMF and Bank Group salaries are commensurate with comparator markets.

Tax Status: Under provisions of the Bank's charter, international treaty and domestic tax legislation, most staff of the World Bank (as at other international organizations) are not required to pay income taxes on their salaries. This allows the Bank to significantly reduce expenses by lowering those salaries to a level which is competitive with after-tax salaries at comparator organizations. Thus, all the Bank's comparator salary surveys, as well as salaries paid to staff, are handled on a net-of-tax basis. The Bank Group pays those who are liable for income taxes (the overwhelming majority of whom are U.S. citizens) an allowance to cover this liability. In FY98, the Bank Group provided $65 million in tax allowances to staff. This keeps their after-tax income in line with that of other staff. U.S. citizens working at the Bank pay both federal and state income taxes on their salaries. Foreign nationals are exempt from federal and state taxes on World Bank income by a treaty signed by the U.S. government when the Bank headquarters was established in Washington in 1945. All staff also pay local property, sales, and other taxes. (U.S. staff on regular and fixed term appointments numbered approximately 1,580 in FY98).

Comparator organizations: The criteria for selecting comparators were established by the Board of Directors when the Bank's current salary system was instituted in 1989. These include factors such as their size; their employment of financial or technical staff relevant to the Bank's staffing profile; and their consistent participation in the salary surveys. The Bank employs Hay Associates—an international consulting firm which maintains large compensation databases—to assist in selecting comparators, and in gathering and analyzing data from them. Once the consultants suggest comparators, the Bank reviews their suggestions to ensure that the criteria are adequately met. The consultants provide only aggregate market data on pay practices so that salary scales of individual companies cannot influence our selection of comparators. This year, there were more than 80 comparators in the U.S. alone that represented the public sector as well as private industrial and financial sectors. Among these are the U.S. Civil Service, the Federal Reserve System, Bell South, Alcoa, Kellogg, First Bank System and Bank of America.

Number of Staff

As of July 31, 1998, the IBRD and IDA combined employ an active headquarter-based workforce (including regular, fixed-term, long-term consultants, and temporary staff) of about 7,472. The IFC and MIGA combined employ about 1,319 (GEF 37) for a total Bank Group headquarter-based workforce of about 8,828.

Local staff in field offices number about 2,082. About 491 of the headquarter-based workforce are also assigned full-time to field offices.

Gender Composition of Staff: Representation of women

As of June 30, 1998, women account for 52 percent of the 8,807 total Bank Group headquarters-hired workforce. Women represent: 33.4 percent of "professional" staff (levels 18+); 26.4 percent of "advanced professional" staff (levels 22+); 17.0 percent of "management" (levels 25+) and 14.9 percent of "senior management" (levels 27+).*

Of staff at levels 18 and above (headquarters-hired), women represent 34.6 percent in IBRD, 26.9 percent in IFC and 37.1 percent in MIGA. Of staff at levels 25 and above, they account for 17.6 percent in IBRD, 14.3 percent in IFC and 16.7 percent in MIGA.

Women account for 47.9 percent of the 2,070 locally-hired workforce. They represent 36.9 percent of locally-hired "professional" staff. Women represent 36.4 percent of locally-hired staff at levels 18+ in IBRD and 39.4 percent in IFC (MIGA has no locally-hired staff).

Annual Meetings

The Articles of Agreement of the IBRD state that "The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors." The by-laws of the IMF state that "The Board of Governors shall hold regular meetings, which shall be at annual intervals unless the Board of Governors decides otherwise." At these meetings, the Boards of Governors of the Bank and the Fund meet to discuss various matters, including the Annual Reports and finances of the Bank Group and the Fund. In addition, the Meetings:

- Provide a forum for the exchange of views between individual member countries and the managements and staffs of the Bank and the Fund on economic and monetary conditions and policies in those countries. Many countries view these exchanges as the primary benefit of their participation in the meetings.

- Provide a forum for exchanges of views among member countries and between the countries and the managements of the Bank and the Fund on global economic and monetary conditions and

*These designations are provided to help make the Bank's grading system understandable to outsiders; they are NOT official Bank definitions of staff categories.

the policies and operations of the institutions. In this connection, the Meetings can provide a forum for international cooperation and enable the institutions to learn how to continue to adapt to serve their membership better.

- Facilitate interaction between the private sector, including potential investors and non-governmental organizations, and other Meetings participants.

- Facilitate the regular and effective interaction among member countries required for the formation and work of constituent groups.

- Provide an effective forum for explaining to the public — directly and through the media — the tasks, objectives, and relevance of the Bank and the Fund. In this manner the Meetings make a major contribution to openness.

The shared costs for the joint Annual Meetings of the Bank and the Fund (and over 140 associated meetings) when held in Washington are about $11 million. When meetings are held abroad the costs have generally been higher mainly because of higher travel expenses. Travel costs account for over half of the budget. The cost to the institutions of the 1997 Annual Meetings in Hong Kong was about $16 million.

In accordance with their by-laws, the Bank and Fund pay the travel and subsistence costs for the Governor and Alternate Governor for each member country. (Since 1996 reimbursement has been based on business class travel rather than first class travel.) This provides all countries with equal opportunity to attend the meetings.

For Annual Meetings held in Washington, the main costs are for logistical facilities such as: telephones, computing services, offices, and salaries for temporary contractual staff. (The Bank/Fund Conferences Office, which is responsible for the coordination of the arrangements for the Annual Meetings, the Spring Ministerial Meetings and other meetings, has a permanent staff of eight.)

About 10,000 people* attend the meetings, including about 3,500 governors and their delegations from 182** member countries, more than 5,000 visitors and special guests, mainly from private business and the banking community and non-governmental organizations, and about 1,000 representatives of the media. In addition, Bank and Fund staff attend the meetings with officials of government delegations, and representatives of the banking community and other participants.

The Annual Meetings traditionally have been held in Washington two years out of three and, in order to reflect the international character of the two institutions, every third year in a different member country. The 1997 Annual Meetings were held in Hong Kong and the 2000 Annual Meetings will take place in Prague.

Development Committee

The Development Committee is a forum of the World Bank and the International Monetary Fund that facilitates intergovernmental consensus-building on development issues. Known formally as the

* Including spouses
** The IMF has 182 member countries, the World Bank Group has 181 member countries

Ministerial Committee of the Boards of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, the Committee was established in 1974.

The Committee's mandate is to advise the Boards of Governors of the Bank and the Fund on critical development issues and on the financial resources required to promote economic development in developing countries. Over the years, the Committee has interpreted this mandate to include trade and global environmental issues in addition to traditional development matters.

The Committee has 24 members, usually Ministers of Finance and Development, who represent the full membership of the Bank and Fund. They are appointed by each of the countries, or groups of countries, represented on the Boards of Executive Directors of the Bank and Fund. The Chairman is selected from among the Committee's members and is assisted by an Executive Secretary elected by the Committee. The outgoing Chairman is Anwar Ibrahim, Deputy Prime Minister and Minister of Finance, Malaysia. The Executive Secretary is Alexander Shakow.

The Development Committee meets twice a year; in the spring in tandem with the Interim Committee, and in the fall before the Bank-Fund Annual Meetings. The agenda for the meetings is based on issues recommended by the Chairman, the President of the Bank, the Managing Director of the Fund, and the Executive Boards of the Bank and Fund. At its next meeting on October 5, the Committee will address, *inter alia,* the World Bank response to the Asian crisis and special measures of assistance to certain post-conflict countries.

The Strategic Compact

The Strategic Compact is a plan for fundamental reform and renewal of the World Bank's basic mission to reduce poverty. Through the Compact, the Bank's shareholders and managers will invest in and implement a series of changes over the next year to refocus the development agenda (e.g., renewed emphasis on social development and institution building) improve products, speed up processes, lower costs, and increase development impact. The Compact will also establish clear performance criteria to measure progress, and will hold managers accountable.

The Compact's vision is of a professionally excellent institution which responds quickly to the evolving and varying needs of its clients and provides a wide range of high-quality services; which operates through partnerships and acts as a catalyst for private-public collaboration; and which builds capacity and knowledge for the entire development community. Above all, it is a vision of an institution which delivers development results.

The central objective of the Compact is to improve the Bank's development effectiveness. In terms of lending effectiveness, for example, it is expected that the proportion of projects rated as satisfactory will increase from 66 to 75 percent, meaning that an extra $2 billion a year of the Bank's lending will have greater impact. Given the catalytic role of Bank funding, this translates into a total $5 billion a year of more effective development lending.

The Bank must change if it is to be effective in the rapidly changing global economy—where private capital flows have grown to become five times greater than official assistance, where many different actors (from multilateral banks to NGOs) now play a much greater role in development, and where technological change has revolutionized the way business is done. The Bank has been slow to respond to these changes—with overly bureaucratic processes. In response, the Compact aims at retooling the Bank's knowledge base, rebuilding its professional excellence, and revamping its processes and systems.

Decentralization

The decentralization initiative is one of the pillars of the Strategic Compact. The Bank adopted key principles for decentralization, outlined in *Decentralization: A Strategic Tool for Strengthening the Bank's Development Effectiveness* (presented to the Board in June, 1997). Decentralization is intended to bring a larger share of Bank staff in closer proximity to the Bank's clients.

Significant steps toward decentralization took place in FY98. The Bank strategy to move closer to its clients resulted in sharp increases in both the number of staff and level of decision-making authority in the field. Staff in the field increased from 25 percent to 38 percent of the total Regional staff from FY92 to end-FY98. Decision-making authority was also transferred rapidly, with 22 (of 51) Country Directors now located in the field compared to only 3 as of June 1997. At this time, almost all of the large country programs of the Bank are led by Country Directors located within their client country. Of the remaining directors at Headquarters, most manage multiple smaller-country lending programs, for which the business case to relocate to the field is less clear-cut.

Though it is too early to measure the full effects of the shift in location of work in recent years, there is some evidence that proximity to the client has improved understanding of the local environment and client needs, resulting in more locally-responsive solutions and shorter processing times. There are also indications that the more sustained involvement of field-based staff has enabled the Bank to deepen its role in institution building.

In the coming year, the Bank will continue the relocation of selected Country Directors and staff associated with field-based Country Directors. In addition, a continued increase of locally-recruited staff will augment capacity in field offices. Finally, the Bank will place significant emphasis on implementation issues, especially the training and development of local staff and the building of global teams.

Knowledge Management

Knowledge Management's goal is to capture and organize development know-how; make it more readily accessible to staff, clients and partners; strengthening its dissemination and capacity building efforts; and, ultimately, enhance the effectiveness of all its products and services. It would make the Bank a clearing-house for knowledge about development — not only a corporate memory of best practices, but also a collector and disseminator of the best development knowledge from outside organizations.

The Knowledge Management approach, launched organization-wide in October 1996, achieves a balance between "connecting" and "collecting": i.e. *connecting* those who need to know with those who do know, as well as building *collecting* know-how and making it accessible inside and outside the organization. Networks lead seven principal activities: (i) building communities of practice; (ii) developing an on-line knowledge base to make know-how widely accessible; (iii) establishing help desks and advisory services; ·(iv) building a directory of expertise; (v) making available key sectoral statistics; (vi) providing a dialogue space for professional conversations; and (vii) establishing external access and outreach to external clients, partners and stakeholders. The Regions are also developing (i) collections of country information (ii) live data bases, and (iii) support for task and country teams. It is supported by the Economic Development Institute's distance education strategy which aims at building country capacity to improve access and quality in education through distance learning. The Economic Development Institute, or EDI, is the Bank's training and technical assistance arm.

Client outreach and external partnerships are playing an increasingly important role in the Bank's knowledge management program, which is geared to meet the goal of broad external access by the year 2000.

Networks

Networks are an integral part of the institutional renewal effort aimed at improving the quality, relevance, and cost-effectiveness of the assistance we provide to our clients. They are an explicit way of linking Bank-wide communities of staff working in the same field across organizational boundaries and equally important, of linking Bank staff with our partners outside the Bank. These networks cluster around five basic areas of the Bank's work: Environmentally and Socially Sustainable Development (ESSD); Finance, Private Sector, and Infrastructure (FPSI); Human Development (HD); Operational Core Services (OCS); and Poverty Reduction and Economic Management (PREM).

The Network's main objectives are: To put the best *global knowledge*, thinking and experience—from inside and outside the Bank— in the hands of each task team and Bank clients; (2) to *strengthen* the *skills* of staff by doing a better job of skills assessment, development and staffing; (3) to link regional and central units' sector agendas more closely to build stronger, more coherent *shared strategies*; (4) to build strong task teams and to deliver *higher-quality products* to Bank clients; (5) to *work in partnership* with multilateral and bilateral donors, UN agencies, regional development banks, NGOs, and private enterprise.

Environmentally and Socially Sustainable Development (ESSD) Network

The Environmentally and Socially Sustainable Development (ESSD) network is responsible for ensuring that the economic, environmental, rural and social criteria for development are integrated in Bank-financed projects. The sectors and themes this Network addresses relate to: environmental, natural resources management, rural development and agriculture, integrative approaches to water use, the role of and engagement with the civil society, cultural heritage, social issues and post-conflict initiatives. In cooperation with other networks in the Bank (for example those dealing with infrastructure and energy) it also addresses the environmental and social aspects of urban, energy, transport and infrastructure development.

The ESSD Network is composed of three sectors: (1) Environment, (2) Rural Development, and (3) Social Development. This Network includes Bankwide staff from the six Regional Offices (Africa, East Asia and the Pacific, Europe and Central Asia, Latin America and Caribbean, Middle East and North Africa, and South Asia), the Operations Evaluation Department, Development Economics, and the Economic Development Institute. The ESSD Network is to enhance and maintain strategic alliances with key partners including governments, foundations, regional development banks, bilateral and other multilateral and UN agencies, NGOs and specific constituents (for example farmers) to advance environmentally and socially sustainable development in client countries.

Finance, Private Sector and Infrastructure (FPSI) Network

The Finance Private Sector and Infrastructure network is a dynamic alliance of Bank professionals — not a traditional organizational structure — dedicated to providing world-class services to its clients.

Through its Bank Group-wide network, FPSI contributes to sharing global know-how, providing just-in-time advisory services, strategy formulation and development assistance products. FPSI offers opportunities to maintain professional excellence through skill maintenance and new learning.

The FPSI network is organized into five families:
- *The Financial Sector*: financial institutions, financial structures/design and financial markets
- *The Private Sector*: business environment, regulatory work, competitiveness, privatization, restructuring, micro-enterprises, and small or medium enterprises (SMEs)
- *The Energy and Mining Sector*: oil and gas, power, mining, and telecommunications and informatics
- *The Infrastructure Sector*: water supply and urban development
- *The Transport Sector*: transport economics and policy; highways, road safety and maintenance; rural roads and transport services; ports, rail, aviation, and logistics; urban transport.

The FPSI Network Council represents the client perspective of the network and is responsible for defining what is required from the network, building from global and regional strategic perspectives. The sector boards are responsible for the supply aspects of the networks and ensure the network's capability to deploy resources and deliver quality products.

TechNet

website: www.worldbank.org/html/fpd/TechNet

TechNet is a networking program of the World Bank Group that delivers information on science and technology, and develops science and technology-related projects. The program was designed to encourage understanding and promote the use of science, technology and information in development. TechNet initiatives attempt to: (1) improve our understanding of the impact of new technologies on developing countries and the factors that enhance or restrict their ability to take advantage of them; (2) raise awareness of member governments, Bank staff and management, and other potential donors/contributors of the opportunities and challenges for developing countries created by rapid technological progress; (3) integrate technological concerns into the development strategies of member country governments and the Bank's country assistance strategies; and (4) accelerate the transfer of new technologies to developing countries and their adaptation to local conditions, while promoting local capacity for technological development.

To achieve these objectives, TechNet:

- acts as a clearinghouse and network for professionals inside and outside the Bank interested in science and technology for development, facilitating connections and building support for technology-related initiatives;
- disseminates information on issues of science and technology for development through the World Wide Web, seminars, publications and S&T related issues.
- supports conceptual work to improve understanding of the role of science and technology in development;

- conducts electronic and real conferences related to science and technology for development.

infoDev

website: www.worldbank.org/infodev.

The Information for Development Program (*info*Dev) is a global, small-grants program managed by the World Bank to assist developing countries take advantage of the opportunities information and communication technologies (ICT) offer for accelerating social and economic development. *info*Dev brings together the expertise of developed and developing country governments, multilateral donors and private organizations. *info*Dev serves as an important link to the vast network of technical, informational and communications expertise available throughout the world—sharing world-wide experience with and disseminates best practices to governments and key decision-makers, both public and private, on the economic development potential of ICT. Its agenda links the market-opening interests of eventual investors to the objectivity and long-term development goals of public donors.

*info*Dev evaluates and funds projects submitted by individuals, government agencies, private companies, academic institutions and/or non-governmental organizations (NGO's). It supports awareness raising initiatives and innovative projects in areas such as Internet connectivity, distance education, telemedicine and telecommunications liberalization. *info*Dev is part of the Development Grant Facility of the World Bank, and as such, is the main donor coordination mechanism for ICT within the Bank.

Human Development (HD) Network

The Human Development Network, established in September 1996, is a new way to link Bank staff and managers who work in related sectors: education; health, nutrition, population; and social protection. The Network was established to help staff bring the best global knowledge and expertise to the Bank's clients. The Network acts as a channel for staff to exchange ideas and work experiences and better to support and help each other in serving our clients; it also assists managers to work together more closely in making key strategic and staffing decisions.

Supporting improvements in the human development sectors is now a central part of the Bank's business, reflecting the fact that investing in people is a core element of its strategy and emphasis on poverty reduction. In FY96 through FY98, over 20 percent of total new Bank lending was in the human development sectors. Lending to these sectors has increased rapidly, tripling since the early 1980s. The average amount committed each year for social sector projects during the past three years has been $4.9 billion. Inevitably, new lending commitments vary and totals fluctuate from year to year. Disbursements in the 3 human development sectors have risen steadily over the past 5 years, from $1.908 billion in FY94 to $3.846 billion in FY98. Today the Bank is the single largest source of external finance for education, health, and nutrition.

The Bank would like to see further increases in the amount and share of lending for human development sectors. Rapidly growing areas include health sector reform, pensions, and social funds. Non-lending activities, including providing technical and analytical advice to countries, are also a major part of the Bank's work in human development. The issues in the field of HD are also changing along with global transitions, e.g. changing demographics and evolving technologies. Other factors are the changing roles of government: private enterprise is becoming increasingly involved in traditionally public domains, and decentralization trends are enabling local governments to perform functions traditionally handled centrally.

Operational Core Services (OCS) Network

The OCS (Operational Core Services) network facilitates building and disseminating knowledge; enchances staffs skills; improves team and product quality; leverages external partnerships; and develops business strategies

The OCS network places a strong emphasis on service and business alignment. Its orientation is as much on the internal clients–operation staff–as on the network membership itself. The OCS network aims to ensure that World Bank operational teams can count on strong support from staff and units that provide essential core services. They do this by bringing together four areas: quality promotion; procurement; financial management and resource management. The network consists of four families:

- Quality family: has the institutional mandate to ensure that teams are supported by tools, processes, business policies, information, and advice;
- Procurement family: aims to provide professional services to operational teams and other clients, which will allow the Bank to exercise its fiduciary responsibilities while promoting development effectiveness;
- Resource management family: aims to make a major improvement in the way that resources are managed in the Bank. It aims to reform and streamline planning and budgeting systems so that they can be used to support managers and other users effectively and at a low cost.
- Financial management group: supports improved borrower capacity as well as modernizes approaches to disbursement under the Loan Administration Change Initiative (LACI).

In support of decentralization of some operational work, several of the newly-hired procurement and financial management specialists will be located in field offices.

The Poverty Reduction and Economic Management (PREM) Network

The Poverty Reduction and Economic Management Network focuses on countrywide economic policy and cross-cutting issues focused around four themes - economic policy, gender, poverty and the public sector.

- **Economic Policy** work embraces such concerns as broad-based growth, macro economic and macro finance issues, fiscal sustainability, international trade and finance and aid effectiveness.
- **Public sector** work includes public expenditure policy, institutional development, governance (including corruption), civil service reform and capacity building.
- **Gender and Development** work includes an examination of the relationships between gender and poverty, growth, and intrahousehold allocations of resources. It aims to mainstream gender issues in all aspects of the Bank's work.
- **Poverty Reduction** work focuses on aspects of development as they affect the poor (structural adjustment, rural development, labor markets, global integration, etc.), and the delivery of services to the poor.

PREM's primary aim is to enable the Bank's regional staff to support developing countries in their efforts to reduce poverty through good economic management, strengthened institutions, and effective governance, and by mainstreaming gender issues in development strategies. The network will pursue this goal by:

Building and disseminating global knowledge. PREM will help inform task teams on good practices in the areas of poverty, gender, economic policy, and public sector, by making it easier to get the right information quickly from both inside and outside the Bank. It will also provide opportunities for staff systematically to contribute to the Bank's global knowledge base thereby helping the Bank to become a world-class knowledge institution. The three main tools that PREM is using to achieve this objective are: ***Thematic groups*** - supporting the establishment of communities of practice where staff share an interest in a given topic, both as contributors and users of knowledge. ***A knowledge management system on line*** - building an organized, searchable collection of information resources on the Bank's intranet. ***PREM Advisory Service*** - maintaining a help desk that staff can call to get information on policies and best practice and for referrals to the most knowledgeable network staff in a given area.

Developing sector strategies. The network is developing sector-specific strategies that will guide and inform the Bank's work. The Public Sector Group's anti-corruption paper "*Helping Countries Combat Corruption: The Role of the World Bank*" has been distributed widely throughout the Bank and provides a framework for a Bankwide anti-corruption action plan. A strategy paper for work on public sector reform was completed in July 1998. The Poverty Group has redesigned the process for poverty monitoring and reporting in the Bank, focusing more on the impact of Bank interventions and less on the counting of activities and inputs. The first Annual Report on Poverty under the new network structure will be completed in December 1998. A strategy paper on adjustment lending for subnational governments was recently completed by the Economic Policy Group, and an innovative program of Structural Policy Reviews has been approved by the Board and is now being implemented. A strategy paper on Economic Policy is scheduled for completion in the spring of 1999. A gender strategy paper will be prepared by the end of the year, and a Policy Research Report on Gender is being launched, for completion in FY00.

Improving team and product quality. One of PREM's key objectives is to increase the skills and flexibility of task teams, thus enabling them to deliver higher-quality products to the Bank's clients. One instrument to improve task teams is the development of a diversified recruitment data base, which is being developed by PREM's human resources team. PREM also has responsibility for advising on and reviewing Country Assistance Strategies (CASs). In order to provide timely and constructive inputs to the CAS process, PREM has revised its review procedures to get involved at an early stage of CAS preparation for selected countries, and to introduce a cross-country perspective in the review process. In addition, the PREM knowledge management system will assist country teams, and PREM Groups will provide cross-support on request.

Leveraging external partnerships. PREM is the focal point for a number of key Bank partnerships. Among them are the IMF, the WTO, UNCTAD, OECD/DAC, and other MDBs. PREM Groups also have active contacts with NGOs, especially in relation to the work on poverty, debt, corruption, and gender issues.

Development Economics/Chief Economist

The Development Economics Vice-Presidency (DEC), headed by Senior Vice President and Chief Economist Joseph E. Stiglitz, provides high quality economic information, data, analysis, research, and training to the Bank Group and its partners. DEC's organizational units are responsible for

- expanding and maintaining, disseminating and applying the Bank's knowledge and databases;
- providing training and education to build the capacity of clients and staff in their development efforts;
- supporting Bank operations by distilling research findings into practical policy options and recommendations;
- assessing global economic prospects as they affect developing countries, and analyzing the links between developing countries and the world economy
- providing economic advice to the President and top managers, and developing the Bank's position on international economic policy issues.

DEC authors many of the Bank's annual publications, including the ***World Development Report, World Development Indicators, Global Economic Prospects and Global Development Finance.*** DEC also produces working papers, newsletters, academic publications and Policy Research Reports.

Economic Development Institute

The Economic Development Institute (EDI) is the Bank's key instrument for delivering learning programs on development to clients. EDI's programs are open to participants from governments, nongovernmental organizations and Bank staff and cover development topics that support the Bank's overall objective of poverty reduction through sustainable and equitable development.

In fiscal 1998, EDI learning events directly reached some 20,000 participants from 149 countries through three interlinked product lines—training workshops and seminars (including some 20+ core courses and highly customized programs to meet special situations); policy services; and knowledge networks. And to increase client access to World Bank learning programs in timely and cost-efficient ways, EDI introduced **a distance learning service** that allows instructors and learners to meet via electronic networks — including television and computer — over long distances. This World Bank Learning Network will be linked to learning centers in 90 Bank field offices as well as in partner institution facilities by the year 2000.

In June 1998 EDI and the Bank's Learning and Leadership Center (which mainly provided Bank-staff training services) were joined together to create a broader-based and more comprehensive learning institution with a wider reach and giving opportunity for greater impact.

For information on EDI programs, including course descriptions and a calendar of activities visit: www.worldbank.org/edi, or contact: edicorecourses@worldbank.org.

Non-governmental Organizations

Collaboration between the World Bank and Non-governmental Organizations (NGOs) has increased dramatically since the 1980s. Fifty percent of the 302 projects approved in FY98 involved NGOs, up from an average of 10 percent in FY74-91.

The Bank sees an important role for NGOs in helping to promote equitable economic growth, reduce poverty, and protect the environment. By representing the interests of the poor and as advocates in promoting the priorities and concerns of local communities, NGOs help enhance the ability of Bank projects to meet these objectives. NGOs continue to help shape Bank policy and procedures through the NGO-World Bank Committee, which consists of senior Bank managers and 26 NGO leaders from both developed and developing countries. This partnership ensures that the Bank is alert to issues and concerns of the NGO community. The major areas of discussion at its annual meeting in October 1997, were participation (in particular the joint monitoring of a number of operations and Economic Sector Work (ESW)), Bank-NGO relations, collaboration and joint exploration in the field of NGO Capacity Building and the decentralization of the Committee to the Regional level. Regional level meetings took place throughout the year in Lima, Peru, Abidjan, Cote D'Ivoire, Katmandu, Nepal and Paris, France.

Funding to NGOs

NGOs are usually the indirect recipients of proceeds from Bank loans and credits via grants or loans from the borrowing government. Sources of funding for NGOs include the Bank's Small Grants Program, Institutional Development Fund (IDF) grants, and the Global Environment Facility's new Small- and Medium- Sized Grants Fund administered by the UN Development Program (UNDP). The Bank's Small Grants Program (SGP) is a small grant-making fund now managed out of the Social Development anchor. It was previously financed by the Special Grants Program and now comes under the recently approved Development Grants Facility. Its purpose is to provide institutions (including NGOs) in developing countries with funds for promoting dialogue and dissemination of information about international development. In FY97 a total of 60 grants were awarded, ranging in size from US$10,000 to US$30,000. In FY98 the SGP is being decentralized under a pilot program, whereby SGP grant decisions will be made and administered at the Resident Mission level - consistent with the Bank's decentralization efforts.

Social Funds

There is a mechanism for partnership with NGOs that is increasingly being used by the Bank to channel resources to demand-driven subprojects proposed by public, private, or voluntary organizations. One of the explicit objectives of social funds is to strengthen decentralized delivery mechanisms and support local organizations responding to local needs. At the end of FY96, the Bank had supported 51 Social Funds Projects (43 free-standing and 8 components of broader projects) in 34, totaling over $1.3 billion. 40 projects were active Social Investment Funds (SIFs) at end of FY96, and had a total portfolio of US$1.2 billion. 29 percent of the Social Funds are concentrated in Latin America; 53 percent in Africa; 6 percent in the Middle East and North Africa; 2 percent in East Asia; and 5 percent in South Asia.

The first conference on Social Investment Funds was held in May 1997, and was organized though the joint efforts of the NGO -World Bank Committee, several NGOs and foundations, and the Economic Development Institute (EDI), the Quality Assurance Group, and the Poverty and Social Policy Department within the Bank. The purpose of the SIF Conference was to bring together practitioners of Social Funds to take stock of the experience in implementing such programs; establish consensus around their main achievements, weaknesses and risks; agree on recommendations for improving programs, and to facilitate the integration of international and regional networks of social funds. A paper on impacts of Social Funds was prepared by the Poverty Reduction and Economic Management (PREM) Network. The aim of the Social Fund Portfolio Review was to assess the factors influencing quality at entry and to review the experience of implementing Bank-financed Social Funds. The review found that, for Social Fund sub-projects to realize their potential development impact, conditions need to be in place to ensure that sub-projects are demand-oriented, owned by the communities, and that appropriate institutional and financial arrangements are in place to sustain the benefits.

An NGO Unit paper, "NGO *Involvement in World Bank-Financed Social Funds: Lessons Learned*" was published in May 1997. It reviews the Bank's experience involving NGOs in SIFs. The paper found that while not an end in itself, NGO involvement in social funds generally helps to ensure that the conditions mentioned above are realized. The paper identifies issues encountered as well as lessons learned in the design and implementation of SIFs, and as such provides a useful tool to both Bank staff and NGOs involved in Bank-financed social funds.

Strengthening Capacity for Partnership in the Field

Since FY96 over half of the World Bank's resident missions have specialists positions with responsibility for NGO liaison and partnership. At the end of FY97, 62 Resident Missions had such positions. Although regions use titles ranging from NGO Specialists (Africa), Social Analysis & NGO Specialists (LAC), Community Development Specialists (Asia) to External Affairs Officers (ECA), at least one primary responsibility of these staff members is to encourage regular and systematic communication, collaboration, and dialogue with NGOs and other civil society organizations at the local and regional level. In addition to facilitating consultation and collaboration with NGOs in many Bank financed projects, NGO Specialists have also played a crucial role in involving civil society in the Country Assistance Strategy process, and in Economic and Sector Work. Through numerous initiatives, NGO Specialists have also helped governments to develop fora for government-NGO-Bank dialogue on policy issues and to identify ways to improve their relations with NGOs.

In his meeting with Specialists during a Learning Forum held in Washington in May FY97, Mr. Wolfensohn praised their work to date, and pledged to allocate the resources necessary to ensure their effectiveness.

NGO Law

The *Handbook on Good Practices for Laws Relating to Non-governmental Organizations* was published in discussion draft form in May 1997. The Handbook is the result of the NGO Unit's work with an international NGO - the International Center for Not-for-Profit Law (ICNL) - since 1995 to analyze existing NGO laws in over 100 countries. It is designed to assist governments and other parties to analyze the strengths and weaknesses of existing laws, or draft more appropriate ones. Since publication of the draft Handbook, several thousand copies have been distributed through Resident Missions, bilateral agencies, foundations and NGOs. In pursuing this work the Unit has developed partnerships with USAID, the Asian Development Bank, CIVICUS, the Aga Khan Foundation, the Rockefeller Brothers Fund, the Ford Foundation, the Commonwealth Foundation, Johns Hopkins University, and others in an effort to further the discussion and understanding, and to develop better laws for NGOs.

Participatory Development

Ownership of projects by local communities is vital to sustainable development, and improved project quality. Since the board approved the 1994 report, *The World Bank and Participation*, and its recommended Bank-wide action plan, each of the regional offices has developed a Participation Action Plan of its own.

Structural Adjustment Participatory Review Initiative (SAPRI)

The World Bank works with a broad global network of some 300 NGOs and other civil society organizations these groups have agreed to work together, in collaboration with participating governments, to review the impact of adjustment lending and policy advice in up to ten countries. This initiative, known as SAPRI, has been developed in a highly participatory way through consultations between a World Bank team, headed by the Development Economics Vice Presidency, and an NGO/civil society network committee, coordinated by The Development Group for Alternative Policies, a Washington-based NGO. SAPRI aims to improve understanding about the impacts of adjustment policies as well as about how the participation of local, broad-based civil society can improve economic policymaking. As a forward-looking exercise, the initiative will attempt to identify practical changes in economic policies that can lead to significant improvement in people's lives.

SAPRI will use country case studies to look at the effects of policies on all societal groups—both winners and losers—with particular emphasis on those who have not benefited and those who have not participated in the policymaking process. The analytical approach will draw on both quantitative, aggregate methods as well as qualitative, participatory methods of investigation. A series of public forums will be held at both the international and country levels to guarantee that a broad range of civil society groups participate in SAPRI. A national steering committee—comprising civil society, government, and the Bank—will be established in each participating country to coordinate the review and determine the specific adjustment policies to be studied in their countries. Each country team: (1) organizing public forums; (2) conducting a field investigation into the impacts of selected adjustment policies; and (3) summarizing the existing literature on adjustment in that country.

The countries included in SAPRI—Ghana, Mali, Uganda, Zimbabwe, Ecuador, Hungary and Bangladesh—were selected through a process of consultation and negotiation between the Bank, governments, and the NGO/civil society network. The most important criterion was that both the governments and the local civil society groups concerned agreed to participate. Other criteria were that the countries should: (a) form a representative sample from Africa, Asia, Latin America, and Eastern Europe, including diverse economic structures, geographies, languages, and peoples; and (b) have a history of adjustment experience. A final important consideration was whether local organizations had the interest and capacity to organize and lead the investigation in their countries.

The First Global Forum was held on July 14, 1997, in Washington to launch the overall SAPRI exercise. Representatives to the National Steering and Technical Committees come from governments, citizen organizations, and the World Bank. The NGOs have conducted extensive outreach, through participatory workshops all over each country, to broaden their networks and publicize SAPRI. Also, the World Bank and the global NGO Steering Committee for SAPRI (SAPRIN) agreed on a new policy of access to World Bank documents for SAPRI. The next steps, which have been taken in several countries, are for each National Steering Committee to select topics for investigation and to conduct the First National Forum where topics will be discussed and narrowed down for investigation. The majority of first National Forums will take place in the summer and fall of 1998.

FINANCIAL FACTS

Assets and Liabilities

The Bank's principal asset is its portfolio of outstanding loans. Bank loans are either made directly, to or guaranteed by, a member. The Bank's loan portfolio is diversified by country and sector. No loans are made which, in the Bank's opinion, cannot be justified on economic grounds or which would be for countries not deemed creditworthy. Creditworthiness of all borrowing members is kept under continuous review. New loans are made at interest rates based on the Bank's cost of borrowings, or at market reference rates adjusted to reflect the Bank's cost of borrowings relative to such rates. The Bank's other major asset is its portfolio of liquid investments.

How Bank funds loans

The money from IBRD loans comes principally from its borrowings in world capital markets. As of June 30,1998, the IBRD had about $106 billion in borrowings outstanding, compared to $107 billion in loans to member countries. In its effort to secure low cost funding for development, the IBRD has tapped a wide range of markets, issuing debt in a total of 31 different currencies or currency units (ECU and EURO are counted as separate currency units) in its history, across all maturities and with a variety of instruments. In addition, a portion of the Bank's loans is funded with its retained earnings and with equity capital paid in by its shareholders.

Loan Products

The Bank currently offers three loan products for new loan commitments: currency pool loans (CPLs), LIBOR-based single currency loans (SCLs), and fixed-rate single currency loans (SCLs).

Currency Pool Loans (CPLs)

The currency composition of borrowers' CPL obligations reflects that of the currency pool and is the same for all borrowers. At least 90 percent of the US dollar equivalent value of the currency pool is maintained in fixed currency ratios of 1 US dollar: 125 Japanese yen: 2 Deutsche mark equivalent. These ratios have been maintained since 1991, were reviewed in 1996, and are next expected to be reviewed by the Bank's Executive Directors in 2001.

On January 1, 1999, the euro will be introduced as the national currency in each of the countries participating in the European Monetary Union (EMU). At that time, the national currencies of these countries (frequently referred to as legacy currencies) will cease to exist as currencies in their own right and the ECU will be replaced by the euro on a 1 for 1 basis. Presently, the currency pool consists principally of USD, JPY and DEM group currencies. The DEM group consists of DEM, NLG and CHF. Both the DEM and the NLG will become sub-divisions of the euro. The Bank may in its communications with borrowers from January 1, 1999 refer to the "euro group" (CHF is not expected to be part of this euro group) instead of to the DEM group. The target ratios will then be restated in terms of USD:JPY:EURO. Additionally, in the invoices for repayment the Bank may specify that the amount to be repaid on the next interest payment date is due in a specific legacy currency or in euro.

The lending rate for CPLs is reset semiannually. It is a direct pass-through to borrowers of the Bank's cost of funding for these loans, as recalculated each June 30 and December 31. Under current policy guidelines approved by the Bank's Executive Directors, at least 85 percent of this funding is medium-to long-term fixed rate funding. Currently, few borrowers are selecting CPLs and many converted out of CPLs to SCL and single currency pool (SCP) terms during the conversion exercise, which concluded June 1, 1998 (see below).

Single Currency Loans (SCLs)

IBRD borrowers may select LIBOR-based and fixed-rate SCL terms for new loans. SCLs are offered in currencies of sufficient borrower demand in which the Bank can efficiently fund itself. As of the date of this document, the Bank is offering SCLs in Deutsche mark, European currency units, French francs, Japanese yen, Netherlands guilders, pounds sterling, Swiss francs and US dollars. From January 1, 1999, the Bank will offer SCLs denominated in euro, and will discontinue offering SCLs in legacy currencies. SCLs are not offered to borrowers in their own currency.

For LIBOR-based SCLs, the lending rate is tied to six-month LIBOR (PIBOR in the case of French francs) in each loan currency, plus a margin. This margin comprises the Bank's funding cost spread relative to LIBOR (PIBOR) and a lending spread. The lending rate is reset semiannually on the interest payment dates for each loan.

In the case of fixed-rate SCLs, the lending rate for each fixed-rate SCL is set on semiannual rate-fixing dates for loan amounts disbursed during the preceding six-month period (Disbursed Amounts). The rate remains fixed for such Disbursed Amounts until they are repaid. In effect, a fixed-rate SCL is like a series of fixed-rate sub-loans, comprising as many fixed-rate sub-loans as semesters in which disbursements occur. The fixed lending rate is based on the fixed-rate equivalent of six-month LIBOR for the loan currency corresponding to the maturities of the Disbursed Amount on its rate-fixing date, plus a funding cost margin, lending spread and risk premium to compensate the Bank for market risks incurred in funding these loans. For the interim period from the date each disbursement is made until its rate-fixing date, interest accrues at the same rate as is applicable to LIBOR-based single currency loans for such period.

The likely successor rate for the Bank's legacy LIBOR SCLs would be the euro LIBOR rate. In the case of French francs, the Bank's SCLs are based on PIBOR. PIBOR will be discontinued as of January 1, 1999. It is likely that France will designate EURIBOR as the successor rate to PIBOR. The Bank will contact French Franc borrowers regarding the successor rate source.

In the case of fixed-rate SCLs, to the extent that the initial disbursements are subject to LIBOR/PIBOR rates prior to a rate fixing date, the above applies here as well.

Spreads and Fees

Under the new loan charge policy approved on July 31, 1998, which applies only to new IBRD loans (those for which the invitation to negotiate will be issued on or after July 31, 1998), the contractual loan spread is 0.75 percent over the cost of funds as defined for each of the loan products. A front-end fee of 100 basis points (one percent of the loan amount) also applies and is payable on effectiveness of the loan. All Bank loan agreements specify a 0.75 percent commitment fee to be charged on undisbursed loan balances. Commitment fees begin to accrue 60 days after a loan is signed. They are payable on semiannual interest payment dates. This loan charge policy change does not affect the spreads and fees on existing loans.

For interest periods beginning in FY99, the Board approved an unconditional waiver of 0.50 percent of the contractual commitment charge of 0.75 percent. The Board also approved a 0.05 percent waiver of interest charges for borrowers that are timely in servicing their IBRD loans.

The Conversion Offer

From September 1, 1996 through June 1, 1998, borrowers had the choice of requesting the Bank to convert the currency and, in the case of undibursed amounts, the interest rate basis of their CPL obligations. During this period, borrowers converted about 58 percent of the roughly USDeq 145 billion of CPL volumes which were eligible for conversion at the start of the conversion offer. In particular, as of July 1, 1998, a total of about USDeq 68 billion of CPLs had been converted to single currency terms. This volume represents 950 loans to 54 of the 89 countries covered by the offer. USDeq 19 billion of undisbursed CPLs had been converted to SCL terms and USDeq 49 billion (including USDeq 0.6 billion of undisbursed amounts) to SCP terms. The USD was the currency of choice for 87 percent of conversions. LIBOR was the interest rate basis of choice for 63 percent of conversions to SCL terms. The conversion exercise concluded June 1, 1998.

Single Currency Pool (SCP) Loan Terms

Single Currency Pool (SCP) loan terms are not offered for new loan commitments. They were offered in connection with the Bank's conversion offer (see above) and they were amendments to the terms of existing currency pool loan agreements to enable borrowers who wished to change the nature of the currency obligation of their loans. Borrowers could convert individual currency pool loans to SCP terms in one of four currencies: USD, JPY, DEM and CHF. Loans that were converted to SCP terms would initially be multi-currency obligations, committed in USD equivalent. The Bank undertakes to shift the currency composition of each SCP loan to at least 90 percent in the borrower's designated currency no later than July 1, 1999, and to maintain it at or above 90 percent thereafter. Ultimately, the Bank intends to shift the currency composition of each SCP loan to 100 percent in the designated currency.

Global Bonds

Global bonds are medium- or long-term debt securities offered simultaneously to investors worldwide. The global character of these bonds' distribution and trading distinguishes them from more traditional Eurobonds and from bonds issued solely in individual domestic capital markets. They are legally qualified to be sold in major domestic capital markets, such as those of the United States., Japan, and Germany, as well as in the international markets in Europe or Asia. The broader range of intermediaries and of different investors participating in global bond issues makes these issues relatively more liquid than bonds offered through more traditional methods.

Global bonds have special features designed to make them less costly and more convenient for investors to hold and trade. These include linked clearing systems (which permit investors and dealers to use the domestic or international system most convenient for them) and trading across major markets in the European, North American, and Asian time zones. Global bonds also enable the Bank to raise large amounts of money quickly on fine terms even in difficult market environments.

The World Bank developed and issued the first-ever global bond in U.S. dollars in 1989, the first in Japanese yen in 1991 and the first in Deutsche mark in 1993. Since 1989 a substantial number of other borrowers, including industrial country and emerging-market governments and corporate issuers, have begun using global bonds to meet their financing requirements.

Global bonds are one type of instrument that the Bank uses to access capital markets. The Bank also issues Euro bonds and securities in domestic markets. In the implementation of the overall funding program, the Bank chooses the instrument that best contributes towards the borrowing strategy and the objective of raising funds at the lowest possible cost on a sustainable basis. This reduces the Bank's lending rate to its clients, the developing countries.

Guarantees

A Bank guarantee is an irrevocable commitment to a third party that has loaned funds to a borrower in a Bank member country that the Bank will repay the guaranteed portion of the debt obligation if, under specified conditions, the borrower does not. The borrower may be the member country, or one of its entities, or a private sector entity in the member country. The sovereign member counter-guarantees the Bank. Thus, if a Bank guarantee is called by the third party, the Bank pays under the terms of the guarantee, and a new sovereign obligation is created between the member country and the Bank.

Guarantees issued by the Bank

The B-loan program, initiated in 1983, was the first effort to use Bank guarantees. Of the 24 B-loan operations approved between 1983 and 1988, five involved the use of Bank guarantees. Following a review of the program, B-loans were suspended in 1988 and subsequently replaced by the Expanded Cofinancing Operations (ECO) program in 1989. The guarantee concept was broadened under the ECO program to support private sector projects as well as public sector projects. Under the ECO program, six guarantee operations were approved by the Board for India, Hungary, Pakistan, China, the Philippines, and Jordan. In September 1994, the Board approved expansion of the guarantee program under the initiative for the "mainstreaming of guarantees." Recent developments in the financing needs of Bank borrowers and their increasing interest in promoting private sector investments in infrastructure opened possibilities of using Bank guarantees as a mainstream instrument to complement the support provided by MIGA and IFC. Guidelines for country eligibility, guarantee coverage, fees, and operational procedures were refined to promote the use of guarantees. Guarantee operations have been approved. These are for China (3), Pakistan (2), Lebanon (1), Jordan (1), Philippines (1), Ukraine (1) and Russia (1), Hungary (1), and Morocco (1).

Types of Guarantees

The Bank's guarantee may be either for specified risks (the partial risk guarantee) or for all credit risks during a specified part of the financing term (the partial credit guarantee).

A ***partial risk guarantee*** covers specified risks arising from nonperformance of sovereign contractual obligations or certain political force majeure events. These are appropriate for private projects especially for " limited recourse financing," as in build-operate-transfer, build-own-operate and similar concession projects.

A ***partial credit guarantee*** typically extends maturities beyond what private creditors could otherwise provide, for example, by guaranteeing late-dated payments or providing incentives for lenders to roll over short–term loans. They are typically used for public sector projects involving sovereign borrowings.

Guarantees for IDA-only Countries

In many IDA-only countries, macroeconomic reforms have led to an improved business environment. Private investors have shown a growing interest in these countries, especially in sectors undergoing reforms. To ease the transition in countries that are clearly on a path of policy reform, IBRD offers "Enclave" guarantees which are *partial risk guarantees* intended for export–oriented private sector projects in IDA-only countries that are expected to generate sufficient foreign exchange for servicing debt and other financial obligations of the project. In these projects, the IBRD would cover limited sovereign risks pertaining to government performance. Unlike guarantees in IBRD-eligible countries, the enclave guarantee would *not* cover the performance and payment obligations of an output purchaser, or foreign exchange availability and transferability risks.

As of November 1997, IDA can now offer *partial risk guarantees* on a pilot basis to private lenders against country risks that are beyond the control of investors and where the official agencies and the private market currently offer insufficient insurance coverage. IDA guarantees would be available where an IBRD Enclave guarantee is not available.

Bank Borrowings FY98

During FY98, the Bank borrowed $27.9 billion equivalent in new funding with maturities of one year or greater. Short-term borrowings (transactions of under one-year in maturity) stood at about $6.8 billion equivalent at the end of FY98.

Subscribed Capital

As of June 30, 1998, IBRD's total subscribed capital stood at $186.4 billion. Of this, 6.06 percent, or about $11.3 billion, was paid-in. The balance was callable capital, an obligation of all member governments which protects holders of IBRD bonds and guarantees.

Allocation of Bank Income in FY98

The Bank earned an income of $1,243 million in FY98. Of this amount, $750 million was allocated to the General Reserve. An additional $182 million, representing the difference between actual funding of the Staff Retirement Plan (SRP) and SRP accounting expenses for FY98 was allocated to a pension reserve. In addition, the Executive Directors recommended to the Board of Governors that: (a) an amount equivalent to and up to $370 million in SDRs as of June 30, 1998 be transferred as a grant to IDA, $210 million to be transferred out of FY98 net income, and up to $160 million from Surplus, to be drawn down on a Bank-last basis, and (b) $100 million be transferred out of FY98 net income as a grant to the HIPC Debt Initiative Trust Fund to be drawn down as needed. Any excess of net income over $1,242 million be transferred to surplus.

IBRD Loans: New Loan Charge Policy

The World Bank's Board of Executive Directors recently approved a new loan policy designed to support the Bank's longstanding financial strength and thus enable it to continue to deliver its development mandate.

Under the new policy, for loans on which the invitation to negotiate will be issued on or after July 31, 1998:

The spread that is charged borrowers above the Bank's funding costs will be increased by 25 basis points (a quarter of one percent of the loan amount) from the current 50 basis points (half of one percent) to 75 basis points (three-quarters of one percent). A front end fee of 100 basis points (one percent of the loan amount) will be added, to be repayable on effectiveness of the loan. The current commitment charge structure of 75 basis points (of which 50 basis points is normally waived) will be maintained. In most recent years, the Bank waived 25 basis points of interest rate spread to countries that are current in their servicing of existing loans. The Board agreed that for Fiscal Year 1999 the waiver will be reduced to 5 basis points.

AAA Bond rating

The objective of IBRD financial policies is to intermediate long-term funds from international capital markets to support development in the borrowing countries. Maintaining a strong AAA rating is of critical importance to all members since, in reflecting the Bank's outstanding financial strength, it permits the Bank to provide loans at the lowest feasible cost consistent with assuring its continued fine access to capital markets.

Bank's Financial Risk

IBRD's main business is to accept and manage the risk of lending to its developing member countries. The Bank assesses and manages this risk at the country level and in the aggregate. At the country level, country assistance strategies take country risk into consideration, by relating lending levels explicitly to country creditworthiness and Bank exposure. Country creditworthiness is assessed in relation to the country's current and expected future ability to repay Bank loans. No IBRD lending takes place when a country is judged not creditworthy. Bank exposure is assessed in relation to Bank-wide exposure guidelines. At the aggregate level, the Bank's overall credit risk is regularly reviewed by the management and the Board.

Along with credit risk the Bank also accepts market risks consisting of currency risk, interest risk, and funding risk. These risks are kept limited and are shared with borrowers. Currency risk is kept very limited by the Articles of Agreement and is managed according to 1989 currency management policies: the Bank lends or invests borrowed funds in the same currency, and Bank reserves and surplus are kept in the same currency composition as its outstanding loans.

Interest risk is passed through to borrowers through the variable-rate loans the Bank now makes. In the case of fixed-rate single currency loans, the Bank bears some interest risk for which it charges a risk premium. In addition, the Bank assumes some interest rate risk on its liquidity portfolio within prescribed risk parameters. Funding risk (the inability to gain access to a particular currency on terms needed to meet obligations at a particular time) is managed in two ways: the Bank borrows mostly medium- to long-term maturities and carries out currency swaps to obtain the desired currencies; and, the Bank carries sufficient liquidity to meet the projected cash needs on account of debt service and loan disbursement requirements.

Administrative Budget

The total IBRD/IDA administrative budget approved by the Board for FY98 is $1.424 billion.

Bank Lending in FY98

New lending commitments and disbursements from the World Bank to client countries were up sharply in fiscal year 1998, which ended on June 30. Commitments were at a record $28.6 billion, while disbursements were $25.5 billion.

The figures include both the market-rate loans made by the International Bank for Reconstruction and Development (IBRD) and the concessional loans made to the world's poorest countries through the International Development Association (IDA). By comparison, commitments were $19.1 billion in FY97 and $21.4 billion in FY96.

The high level of commitments was due in large part to the Bank's quick response to East Asia's financial crisis, which led to some reshaping of the loan portfolio. IBRD loan commitments in FY98 amounted to $21 billion for 151 projects, compared with $14.5 billion for 141 projects in FY97. IDA commitments were $7.5 billion for 135 projects in FY98, compared with $4.6 billion in FY97.

IBRD/IDA combined gross disbursements at the end of FY98 rose to $25.5 billion, up from nearly $20 billion FY97. IBRD gross disbursements totaled $19.8 billion, compared with $14 billion in FY97; IDA gross disbursements in FY98 were $5.6 billion, compared with $5.9 billion in the previous fiscal year.

Investing in people, or human development operations, remained a major focus in FY98, with total lending for health, population, nutrition, education, and social support totaling $6.435 billion. The Bank is the largest external financier of human development programs in its client countries and lending to these sectors increased considerably in FY98. Loans to the health, population and nutrition sectors totaled $1.99 billion. Education lending increased significantly in FY98 with 35 education loans to 28 countries totaling $3.129 billion.

The protection and shoring up of social safety nets, such as social security for the unemployed and pension funds to support aging populations, gained renewed attention in fiscal 1998. For example, in East Asia, the Bank is working with local communities and partners such as UNICEF and the Asian Development Bank to support urgent short term assistance in the form of school feeding programs, supplemental feeding in public clinics, vaccination campaigns, and subsidies for school tuition. Social investment funds with substantial public works components, are also being supported in Thailand and other countries. Overall, social sector lending in FY98 totaled $1.315 billion.

Results by Region

The East Asia financial crisis prompted a shift in the composition of the Bank's fiscal 1998 lending program: 13 adjustment and/or technical assistance and emergency operations were added while 11 investment loans were dropped, deferred or moved into standby status. Overall, the **East Asia and Pacific** region received $9.62 billion in new IBRD/IDA commitments for 45 projects—$8.85 billion for IBRD and $776 million for IDA. The region received $4.9 billion from IBRD/IDA in FY97. Bank support for the region's financial crisis included pledges of up to $16 billion to support programs of structural reform and technical assistance for countries in the region, including a record $3 billion loan to the Republic of Korea in December 1997. Overall, the largest share of lending went to support the finance sector ($5.42 billion), followed by lending for transportation ($1.11 billion) and agriculture ($1.06 billion).

New lending commitments to **Africa** in FY98 totaled $2.87 billion for 59 projects. Of this amount, $2.81 billion were IDA credits (57 projects), and $57 million were IBRD loans. In FY97, combined lending to the region totaled $1.74 billion. This increase reflected significant policy improvements in some African countries as well as increased responsiveness on the Bank's part. Disbursements also remained high. Transportation lending received the largest share of lending, at $770.1 million.

In **South Asia**, $3.86 billion in new IBRD/IDA commitments were approved in FY98 for 25 projects. Of this, $1.32 billion was from IBRD and $2.55 billion was from IDA. FY97 combined lending to the region came to $2 billion. Agriculture lending received the most funding, at $876.1 million; followed by education ($718.2 million), health population, and nutrition ($626.4 million), and social protection ($543.2. million). India was again the largest borrower in the region, receiving support totaling over $2 billion.

The countries of **Europe and Central Asia** saw $5.22 billion for 69 projects approved for FY98—$4.46 billion from IBRD and $762 million from IDA. This compares with $5.1 billion in FY97 ($4.6 billion from IBRD; $494 million from IDA). The Russian Federation was the largest borrower in the region in FY98, receiving loans of $1.63 billion.

Commitments by IBRD and IDA to **Latin America and the Caribbean** in FY98 totaled $6.04 billion for 68 projects, with $5.68 billion in IBRD loans and $360 million in IDA credits. The greatest share of lending in FY98 went toward education ($1.199 billion), followed by lending for population, health and nutrition ($824 million). Loans to the region in FY97 were $4.6 billion—$4.4 billion from IBRD and $125 million from IDA.

New commitments to the countries of the **Middle East and North Africa** in FY98 amounted to $968 million for 20 projects, compared to $915 million in FY97. Urban development received the most financing ($212 million), followed by finance ($180 million), and education ($143 million).

Operations Evaluation

The goals of evaluation are to provide an objective basis for assessing the performance of the Bank's policies, programs, projects, and processes. Evaluation helps provide accountability for the achievement of the Bank's objectives. It also helps improve policies, programs, and projects by identifying and disseminating the lessons learned from experience and by making recommendations drawn from evaluation findings. This process allows the Bank to learn both from its successes and its mistakes and helps management in decisionmaking.

The Operations Evaluation Department (OED) reports directly to the Bank's Board of Executive Directors. It assesses what works and what doesn't, how the borrower plans to run and maintain projects, and what lasting contribution the Bank has made to the country's overall development. Projects are evaluated first by the operational staff responsible for supervising the project, and then independently by OED.

The main unit of account has shifted from individual lending operations to country, sector and thematic evaluations. OED also evaluates the Bank's nonlending services, its policies and processes. Assessments of individual lending operations and of associated nonlending services are the building blocks for OED's regular evaluations of the Bank's country and sector assistance strategies.

OED's Country Assistance Reviews concentrate on the impact and development effectiveness of the Bank's whole program of assistance to each country. They provide an opportunity to assess lending and nonlending services in the context of the overall country assistance strategy, the Bank's impact on country policies, and its aggregate contribution to global development priorities. OED's country studies are issues-oriented and geared to current decisionmaking. They offer lessons and recommendations for the Bank's regional staff to feed into country portfolio performance reviews and the design of country assistance strategies.

The overall performance of Bank operations is rated either satisfactory or unsatisfactory. *Satisfactory* means that an operation's major relevant objectives have been achieved efficiently. Outcome is defined as the combination of *relevance, efficacy and efficiency*. Where a rate of return can be estimated, it needs to be above 10 percent to justify a satisfactory outcome.

OED rates the outcome of all the Bank's completed operations. It also rates *institutional development* and the prospects for *sustainability*, as well as Bank and borrower *performance*. OED also evaluates the long-term effects of World Bank operations several years after completion. These impact evaluations assess what lasting contributions the Bank has made to the borrower country's development.

Evaluation reports are available through the Bank's Infoshop and their summaries can be read at OED's home page on the internet: *http://www.worldbank.org/html/oed/index.html.* The web page also contains shorter publications such as *Lessons & Practices* and *Précis*.

Quality Assurance Group

The Quality Assurance Group (QAG) monitors the quality of the Bank portfolio overall, and conducts quality assessments of projects around the time of approval and during supervision. QAG also does quality assessment of economic and sector work. The QAG approach is characterized by: a small core staff, with reliance on customized panels of respected professionals for each assessment. QAG was established in 1996 in order to promote excellence in Bank performance, by enhancing learning through early identification of the lessons of experience, and increasing accountability for results by providing real time, credible feedback to staff and managers on the quality of their work.

Net Flows and Net Transfers

Each year developing countries receive external capital inflows in the form of loan disbursements from existing or new borrowings. These loans help finance investment and imports for economic development. Developing countries also make amortization payments on loans they received in previous years. The difference between loan disbursements and loan amortization payments is reported as debt-related net flows. Net flows equal the change in a country's external indebtedness. The normal pattern would be positive net flows to a country in the early stages of development (an external debt build-up), declining net flows as a country achieves a more advanced stage of development (stabilization of external debt), and capital exports at a high level of development (resulting eventually in net external creditor status).

The concept of net flows can be broadened to include other sources of external financing of development. The aggregate net flows concept includes grants and foreign direct investment (FDI).

Debt and FDI generate obligations. Creditors and investors expect compensation in the form of interest payments and profit remittances. In general, effective use of external resources should generate the capacity to meet these external obligations. Aggregate net transfers are calculated by subtracting interest payments and profit remittances from aggregate net flows.

Net flows and net transfer position of the Bank

In FY98, net flows from the IBRD to all borrowers were $7.9 billion (in FY97 they were $2.1 billion), while net flows from IDA were about $4.9 billion ($5.4 billion in FY97), giving a total for IBRD and IDA of about $12.8 billion in FY97 ($7.5 billion in FY96). Debt disbursed and outstanding from the IBRD was equal to about $107 billion in FY98 ($106 billion in FY97). With interest and charges paid to the IBRD in FY98 of about $6.7 billion ($7.3 billion in FY96), there was a positive net transfer from IBRD to all borrowers of about $1.2 billion in FY98 (net transfers were negative in FY97 and totaled $5.2 billion). In the case of IDA, with charges of about $545 million in FY98 ($524 million in FY97), there was a positive net transfer to IDA borrowers of about $4.4 billion ($4.9 billion in FY97). For IBRD and IDA together, there was thus a positive net transfer of about $5.6 billion in FY97 (net transfers were negative in FY97 and totaled $324 million). However, a more accurate measure of the institution's financial contribution to the development of its member countries is the level of gross disbursements. This measure shows the new funding being provided to support productive investment, adjustment efforts and related purposes. In FY98, gross disbursements from IBRD were $19.2 billion and from IDA were $5.6 billion, giving an IBRD and IDA total of about $24.8 billion.

Negative Pledge Clause

The negative pledge clause is a standard feature of all IBRD loan agreements. Its basic purpose is to protect the IBRD against the use of government resources, or the use of government authority to mobilize other resources, to enable other foreign creditors to obtain foreign exchange in preference through liens established on public assets. The clause requires that if any lien (falling within the scope of the clause) is established on public assets, the IBRD will be granted equal and ratable security. The scope of the IBRD clause does not encompass liens established on private assets.

Trust Fund

A trust fund is a financial and administrative arrangement between the Bank Group and an external donor under which the donor entrusts funds to the Bank to finance a specific development-related activity. Approximately $1.1 billion was disbursed in FY98, mostly through the Bank. (Approximately $47 million was disbursed through the IFC.) Of the FY98 total, about 46 percent of trust fund disbursements provided country-specific financing support complementary to the Bank's loans and credits through cofinancing, debt reduction, and Special Bank assistance (e.g., Bank funding on grant or IDA-like terms for Bosnia-Herzegovina and West Bank/Gaza). Another 38 percent of the disbursements were for technical assistance and advisory services, including project preparation, policy studies, training, and institution-building. The remainder is channeled to other organizations for disbursements under global programs, such as the Consultative Group on International Agricultural Research and the African Program for Onchocerciasis (Riverblindness) Control.

Euro/Euro Task Force

The Treaty on European Union, signed in Maastricht in 1992, set the framework for Economic and Monetary Union (EMU). In May 1998, the European Council announced that Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Spain, and Portugal had fulfilled the necessary conditions for the adoption of a single currency, the euro.

On January 1, 1999, the euro will become the official currency of the participating EU member states and will replace their national currencies, which become sub-divisions of the euro. Exchange rates of the national currencies of these states will be irrevocably fixed vis-à-vis the euro. During the transition period from January 1, 1999 to December 31, 2001, payments can be made in each participating member state either in euro or in the (former) currency of that state.

The advent of the euro will affect the World Bank Group in many ways. Given the scope of the problem and the need for business-driven integrated solutions, the Euro Task Force was launched in January 1998 under the sponsorship of the senior management of the Bank Group. The Task Force was mandated to facilitate Bank Group business units to assess the impact of the euro on the Bank's products, business processes, systems and data sources, and to prepare action plans to ensure business continuity and the smooth integration of the euro into the Bank's business. The actions plans also sought to avail of new opportunities provided by the introduction of the euro.

The Task Force is implementing a communications strategy to inform borrowers and other affected parties of impacts and changes. This will include the future posting of a euro page on the Bank's external website.

Section Two: *Questions and Answers*

REGIONAL ISSUES

Africa

Q. *Recent conflicts in Sub-Saharan Africa appear to threaten optimism about gains made on the continent over the past few years. What is the Bank's view?*

A. Conflict is always a matter of concern to the Bank, for it lays waste to physical infrastructure, economic prospects, and most importantly, human lives. The uncertainty created by conflict in Africa has always made development more difficult. However recent events have not significantly compromised Africa's economic growth prospects.

Uncertainty is a fact of life in Africa, and exists in three main areas — large fluctuations in commodity prices, drought and famine, and conflict. Each of these factors has affected African economic performance and prospects, and together they are much of what makes development such a large challenge. We deal with these factors by trying to evaluate the specific risks they pose to economic growth. Presently, based on the size, location, and intensity of the current conflicts, the Bank estimates their threat to overall economic growth in Africa is low, though this requires careful monitoring.

What is encouraging is that, despite the presence of all three of these factors of uncertainty, most African countries have exhibited increasing and sustained growth rates in recent years. For the fourth year in a row, the region experienced positive per capita economic growth in 1997: the average African country grew at 4.6 percent (per capita growth rate of above 2 percent), slightly lower than the 4.8 percent observed in 1996. Trade and investment have been growing, especially private investment. Investors have become more sophisticated in evaluating African economic prospects, and have started to differentiate among countries and areas of higher or lower risk. In this regard, investors have come to similar conclusions as the Bank, noting that as some countries enter into situations of conflict, others are coming out of them, and in balance there is no marked qualitative increase in the threats they pose to overall economic growth in the continent.

While several renewed conflicts reflect the fragility of Africa's transition, they should not be the sole image of the region. Too often, the only news out of Africa is that of war, famine, and refugees. The true news of Africa is of a varied and dynamic set of 48 countries at different stages in their economic and national development, engaged in working to improve their peoples' welfare.

Post-Conflict Reconstruction

Q. *What is the Bank doing to help repair and reconstruct those Sub-Saharan Africa countries desolated by war?*

A. Post-conflict reconstruction, part of the Bank's founding mandate in 1946, has received renewed focus in Africa in the 1990s. Reconstruction involves a proactive program of physical and social rebuilding, which attempts to address and rectify the underlying causes of recent conflict and create the foundations for sustainable stability and development. The Post-Conflict Unit, established in 1995/6 provides broad institutional support for these programs. Beginning with Uganda in 1992, the Bank has provided post-conflict monitoring or support across Africa, including Angola, Burundi, Chad, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Liberia, Rwanda, Sierra Leone, Somalia, and the Sudan.

Q. *What about those countries that have returned to conflict? Or states that do not have borrowing privileges due to political or economic situations?*

A. The Bank has sought to expand its funding and operational ability in order to serve those people most adversely affected by conflict. In countries that have returned to conflict in discrete or contained geographic areas, such as Rwanda and Ethiopia, post-conflict and other operation work continues in those parts of these countries where civil peace remains. Flexible funding mechanisms have been developed to assist communities in countries whose governments are in arrears, or who lack a recognized government. These new mechanisms include Learning and Innovation Loans and the Development Grant Facility's Post Conflict Fund (which is available not only to governments, but also transitional authorities, UN partner agencies, regional bodies, NGOs and civil society organizations). The Bank is also exploring new ways of providing special assistance to highly indebted post-conflict countries.

African Leaders Forums

Q. *Bank President James D. Wolfensohn has had two meetings with groups of African leaders in the last year—in Kampala in January, and in Dakar in June. What was the intention and outcome of these Leaders Forums?*

A. The President of the World Bank Group was invited to a meeting in Dakar with 17 Western and Central African Heads of State. The gathering on June 21-22, 1998 was a follow-up to the first Leaders Forum in Kampala on January 23-24, 1998, convened by President Museveni of Uganda and involving twelve leaders from Eastern and Southern Africa. The Dakar and Kampala meetings were designed to give the Heads of State a chance to seek some commonality in their development vision. The sessions presented a unique opportunity for Mr. Wolfensohn to hear the unfiltered views of African leaders on the development priorities of the continent and how the Bank Group could best contribute to Africa's progress. Discussions in Dakar focused most intensively on globalization and regional integration, natural resource management (especially water), capacity building, and the leaders' vision of the continent's future.

The Dakar consensus reflected the conclusions of the Kampala Forum. The meeting in the Ugandan capital agreed to stress twelve areas in future development programs, in partnership with the Bank:

1) Infrastructure (especially rural);
2) Rural Transformation;
3) Human Development (including basic education, primary health, nutrition);
4) Capacity Building;
5) Credit (including micro-credit);
6) Research (especially in agriculture);
7) Regional Integration (especially in infrastructure, reduction of trade barriers and strengthening of regional institutions);
8) Financial Sector;
9) Official Development Assistance (encouraging more official aid flow to Africa and accelerating HIPC);
10) Foreign Direct Investment;
11) Conflict prevention and resolution, and post-conflict reconstruction; and
12) Public Sector Reform (including good governance).

A follow-up committee of one leader from each of Sub-Saharan Africa's four regions will meet twice a year to build upon this process of intra-African consultation and collaboration.

HIV/AIDS in Africa

Q. *What is the Bank doing to assist African countries in the fight against HIV/AIDS?*

A. Africa is the region most heavily affected by HIV/AIDS in absolute numbers as well as proportionately. Although the region possesses only 10 percent of the global population, Africa accounts for 68 percent of all individuals presently living with HIV/AIDS worldwide. HIV/AIDS is clearly the most daunting of the many challenges that face Africa - threatening not only individuals' health, but also the continent's broader development prospects. The 15 countries with the highest HIV/AIDS prevalence in the world are in Sub-Saharan Africa, but there is hope for mitigating the severe impact and stopping the spread of the disease. Already, sustained action to educate and prevent transmission has proven effective in reducing HIV/AIDS prevalence rates in Senegal and Uganda.

The Bank is supporting all 3 major anti-HIV/AIDS activities: prevention, treatment/care, and research; and our response has evolved with the changing HIV/AIDS epidemic. To date, the Bank has committed approximately $800 million to 70 projects worldwide. The Africa Region has received nearly half of this funding, going mainly to programs in education, condom distribution, counseling/testing, and ensuring safe blood supplies. These programs have proven to be the most effective interventions.

In response to the unprecedented levels of HIV/AIDS in Africa, the Bank will be launching the Africa HIV/AIDS Initiative on December 1, 1998 (World AIDS Day). This Initiative sets the stage for a new approach to HIV/AIDS prevention and care: one that is based on partnerships and necessitates government leadership and commitment to long-term national responses. Importantly, this renewed response to HIV/AIDS will ensure that this disease is not solely addressed as a health issue, but will place HIV/AIDS prevention at the center of the development agenda.

Governance and Corruption in Africa

Q. *What is the Bank doing about corruption in Sub-Saharan Africa? Isn't corruption too "political" an issue for the Bank?*

A. Fighting corruption is as "political" as fighting poverty, and one cannot address the latter if one ignores the former. Governments and civil societies must make choices, choices which the Bank assists in analyzing and implementing. Without the political will of African governments, neither corruption nor poverty will be overcome.

Governance—of which anti-corruption measures are a part—has featured in the Bank's public policy debate in Africa for almost ten years, and the Africa Region has addressed corruption proactively in such countries as Kenya. Following the approval of a new Bank policy on corruption in September 1997, we have responded to official requests for assistance in six countries—Benin, Ethiopia, Malawi, Mali, Tanzania, and Uganda. The programs the institution develops with governments will support, among other things: civil service, legal, and judicial reforms, anti-corruption units, revision of procurement codes and supply management systems, training for the media in investigative journalism, and working with parliamentarians on ways to ensure greater integrity in public life. Other instruments may be developed as experience is gained. The Bank also expects to support other interested governments, once progress has been made in the above countries.

To strengthen protection against fraud and corruption in Bank-financed projects:

- procurement and consultant guidelines have been modified to allow disqualification of corrupt or fraudulent bidders;
- standard bidding documents now require information on commissions to agents, and allow the Bank to inspect the suppliers' or contractors' books;
- financial management specialists have been recruited at headquarters and assigned to operational missions (initially in Benin, Côte d'Ivoire, Ghana, Kenya, Tanzania, Togo, and Zambia); and
- local procurement specialists have been added to the staffs of our country offices in Ghana, Kenya, Nigeria, Senegal, Zambia, and Zimbabwe.

The Chad-Cameroon Pipeline

Q. *Why is the World Bank considering support for the proposed project?*

A. The World Bank's priority in Chad and Cameroon is to help reduce poverty and build a basis for sustained growth. The loans total about US$55 million for Chad and US$85 for Cameroon. The proposed project provides a unique opportunity to improve the development prospects of Chad by generating substantial additional fiscal revenues and foreign exchange (currently estimated at about $100 million per year and about $2.5 billion over the 25-year life of the project, depending upon world prices for oil). It would help generate additional revenues to finance education, health and infrastructure expenditures and other growth and poverty alleviation activities. Stronger public revenues would also provide a more sustainable fiscal and balance of payments outlook. As such, the project represents an important element in the Bank's country assistance strategy for Chad. The project would generate about $500 million in revenues over its life for Cameroon, where it will help to finance public expenditures.

Q. *What action is being taken to support the sound use of revenues in Chad?*

A. A principal feature of the project would be Chad's adoption and implementation of a credible revenue management program. Key features include: (a) building awareness of issues and capacity to manage revenues; (b) focusing expenditures on health, education and infrastructure; (c) promoting transparency and participation of opposition parties, civil society and the private sector in decisions regarding revenue management; (d) ongoing information and education campaign regarding the oil project, its revenues and their management; (e) enlarging the range of economic actors involved in expenditures, including the private sector; and (f) ongoing Bank/donor involvement, including monitoring of public expenditures. Chad has taken important strides recently to strengthen macrocosmic management, with the support of the structural adjustment credit approved by the Bank in June 1997. Chad has also taken tangible actions to broaden public participation, including organizing seminars and a televised parliamentary debate on the terms of the project. The Bank is helping to finance these outreach effort and is preparing a complementary capacity building project to strengthen Chad's revenue management capacity.

Middle East and North Africa

Algeria

Q. *What is the status of the Bank's assistance to Algeria?*

A. The Bank's program during the past three years focused on deepening economic policy dialogue, and strengthening the social safety net. **Economic policy dialogue** focused on two priorities: generation of growth in the non-oil sectors, and economic transformation through private sector participation in public enterprises. Strengthening of the **social safety net** was motivated by the dire unemployment situation in the country and by a progressive degradation of the living conditions of the population. Implementation of the Bank's program included: (i) a structural adjustment loan (US$300 million), fully disbursed and closed on April 1998; (ii) a Social Safety Net loan (US$ 50 million); (iii) a Rural Employment Program (US$ 89 million); and (iv) a Low Income Housing project (US$ 150 million). Bank activities in these areas slowed-down substantially during the past two years, as the overall security conditions remained fragile. At present, over half of the Bank's portfolio for Algeria (10 operations, US$ 750 million) is considered at risk. As agreed with the government, the portfolio will be restructured in the near future.

Q. *How does the Bank view developments in Algeria?*

A. Algeria is presently at a new turning-point, marked most notably by a relatively dynamic debate on overall economic processes and productive sectors issues, a definition of the national priorities for the future, and, to a promising extent, the openness of the decision making processes to stakeholders.

Supported by a Fund program and the structured adjustment loan, the government succeeded in achieving macroeconomic stabilization over the past three years: inflation was subdued (around 6 percent in 1997) and the exchange rate was maintained relatively stable (annual depreciation at around 5 percent in 1997), while the level of international reserves increased considerably (equivalent to over 8 months of imports). Prudent fiscal stance and a windfall of oil revenues in 1997 allowed the government to build a cushion of reserves (US$8 billion) that diminished somewhat the effects of external shocks (particularly the considerable drop of oil prices in international markets in 1998). However, sizeable structural challenges remain for the country to enter a sustainable growth path. In particular, the *unemployment situation* continues a steady deterioration (over two-thirds of higher education graduates do not find jobs, while skills mismatch is still pronounced), and *economic growth in non-oil industries* is still faltering. The ongoing decline in oil prices compounds these difficulties, despite the reserves cushion provided by the windfall in 1997. These problems require long-term structural solutions, duly accompanied by institutional reforms that facilitate the adjustment process. In particular, a key component of the structural reform agenda is the public enterprises *privatization program*. The GoA has achieved some progress in this area in the recent past: bidding processes were initiated for a small number of companies, and the authorities brought about some organization and/or institutionalization to the privatization program through the establishment of the National Council for Privatization (Conseil National des Participations de l'Etat) and the creation of sectoral and regional holdings of enterprises.

Egypt

Q. *What is the Bank's assessment of the current economic situation in Egypt?*

A. Macroeconomic stabilization efforts initiated in the early 1990s have been a success, and longer–term structural reforms are underway. Real growth in GDP accelerated from 1.9 percent to 5.4 percent during 1991/92–1996/97. GDP per capita now stands at US$1,180, moving Egypt into the range of lower middle–income countries. During the same period, inflation fell from 21 to 5.9 percent. The fiscal balance, foreign reserves, and external debt have also improved substantially. With these well-established positive trends, Egypt appears to be on the brink of another surge of growth similar to that experienced during 1975–85.

Q. *What is the Bank Group doing to support Egypt?*

A. Lending to Egypt totaled US$5.72 billion during FY1970–98, mainly for agriculture, energy/power, and industry/mining, although in recent years, support for the social sectors has received greater emphasis. In addition, support by IFC for the private sector has increased steadily in recent years, and IFC's current committed portfolio is $156 million. Since 1978, when IFC commenced business in Egypt, IFC has approved 56 projects with a total project cost of $4.3 billion.

Q. *Is the World Bank supporting the New Valley development project in Egypt?*

A. No request for financing of this project has been made to the World Bank, although the Government has asked the Bank for technical advice on how to maximize the returns from its ongoing investments in land development and how to phase future investments.

Over the past 30 years, the Government of Egypt has reclaimed over 1.2 million acres for agricultural development. The Government has announced a further program of horizontal land expansion in the North Sinai area and more recently, in several areas located in the far south and west of the Nile Valley which collectively have been referred to as the "New Valley Development Programme". The present stage of this program aims to develop over 500,000 acres for large-scale cultivation by the private sector in an area located roughly 30 km. from Abu Simbel. The Government of Egypt is providing a pumping station to extract water from Lake Nasser, the main canal (roughly 70 km. in length) and branch canals, while development of secondary infrastructure would be the responsibility of the private sector.

Jordan

Q. *Recently the government of Jordan announced that its earlier estimate of robust economic growth in 1996 (5.2 percent) was incorrect, and that, indeed, the latest estimates show no significant growth in 1996 (0.8 percent) and only a modest increase in 1997 (around 2 percent). Is there a change in the Bank's assistance strategy as a result of these developments?*

A. The results for 1996 (and initial estimates for 1997) are indeed disappointing. Nevertheless, when viewed with a slightly longer time horizon, Jordan's macroeconomic achievements and structural adjustments remain impressive — strong growth, minimal inflation, sharp reductions in the fiscal deficit, improvements in the current account, substantial increases in foreign reserves, and an almost halving of external debt to GDP ratios. And yet challenges remain — chief among them, restoring and sustaining Jordan on a higher growth path — in order to address the still high (and growing) levels of unemployment, poverty. The recently installed government recognizes these challenges, and is committed to addressing them; the Bank Group looks forward to collaborating with the government on these and other issues. The specifics of the Bank's Country Assistance Strategy for Jordan, which will cover the next three years, is currently under discussion with the authorities. It is likely that the Bank's strategy will focus on promoting exports and private investment, particularly in the tourism sector; supporting a strong social protection program; the development of human capital; improvements in water and environmental resource management; and promoting good governance so as to facilitate private investment and strengthen the social safety net.

Lebanon

Q. *Is the Bank concerned about the fiscal deficit and debt situation in Lebanon, and what is the Bank's position with respect to further assistance to Lebanon?*

A. The Bank considers that relatively high fiscal deficits were to be expected during the initial phase of post-war reconstruction. However, deficits at the level of recent years are not sustainable, nor are rising levels of public debts, even though Lebanon's external debt is still relatively small. The Bank is encouraged that there now is a clear commitment on the part of the authorities to reduce the fiscal deficit significantly from recent levels. This is the key to maintaining the confidence of financial markets and continued stability, both of which are critical to sustainable recovery. Considering the still large needs for post-war reconstruction investments, and the needs for investments in human resources, social development and the environment, the Bank plans to continue to have a sizable program of assistance to Lebanon, as long as there is progress towards the goals that the authorities have set for fiscal deficit reduction, and implementation of ongoing bank-supported projects—now a total of ten supported with $604 million in loans and $100 million in guarantees—remains satisfactory.

Q. *Have guarantees been made available on projects to Lebanon?*

A. A first guarantee for $100 million for the power sector (partial credit guarantee for a bond) was signed in early July 1997. The bond was placed for 10 years at 1 percent point over the U.S. Treasury rate. Further guarantees to support possible private sector investments in infrastructure are being considered.

Q. *Why did the Bank cancel the Coastal Pollution Control and Water Supply Project?*

A. The World Bank did not terminate the Loan Agreement; rather, the Government of Lebanon let it lapse due to its inability to produce the requisite legal opinion, which, in turn, require Parliament ratification of the agreement. The Bank had already extended the effectiveness date three times, on the assurance at the highest levels of Government that ratification was forthcoming. Unfortunately, the last deadline for loan effectiveness passed without action on the part of the Parliament. Given the importance of this project, the Bank would be willing to consider a new lending operation, subject to satisfactory reappraisal, provided that there again would not be inordinate delays in providing the legal opinion required for a loan to become effective. Furthermore, the World Bank remains committed to an active program in Lebanon, as was outlined in the Country Assistance Strategy for Lebanon approved by the Board of Directors in November 1997.

Morocco

Q. *What has been so far the impact of the Free Trade Agreement with the European Union?*

A. This agreement is most important in that it commits Morocco to a policy of trade liberalization with its main partner, the European Union. The agreement gradually eliminates tariffs on European industrial imports, provides for specific measures to promote European investments in Morocco, and programs substantial financial assistance. Although the Agreement has not yet been ratified by all EU members, the prospect of free trade with Europe has created in Morocco a more decisive and concrete attitude to reform, a new sense of urgency to modernize infrastructures and institutions, and has been stimulating private sector responses. Both the Bank and the EU have been providing assistance in this process.

Q. *How is the recent change of government in Morocco going to affect Bank strategy?*

A. The Country Assistance Strategy adopted one and half year ago focuses on a number of issues on which there is a very broad consensus in Morocco: the need to effectively tackle unemployment and low levels of social achievement, with a particular focus on rural women. The new socialist-led Government is likely to give a new impetus to the implementation of social reforms, and to continue strengthening the ability of the private sector to compete in the global economy. The Bank will continue to support the country in these efforts.

Q. *What is the current status of privatization and private sector development in Morocco?*

A. Since 1993, more than 50 enterprises have been privatized, with privatization receipts amounting to about DH 14 billion. Further progress promises to be difficult, however, as the delicate issue of liquidation will have to be tackled for many companies in the outstanding portfolio. Much has been accomplished in recent years to improve Morocco enabling environment for private sector development: macro economic stabilization is successful, key pieces of commercial legislation have been modernized and the financial sector has been largely liberalized. However, disappointing overall economic performance in the 90s suggests that some bottlenecks to private sector development still hamper the economy. The most important constraints include: administrative processes which are complex, non-transparent and slow; an inefficient judicial system; lack of access to finance for micro enterprises; a strongly appreciating real exchange rate; and untapped potential of more competitive provision of infrastructure services. The new Government has expressed its resolution to address these issues forcefully in the near future.

Syria

Q. *Is Syria in compliance with the agreement on the arrears to the Bank that was reached last year, and when will the Bank start lending to Syria?*

A. Syria is honoring the commitments it has made as part of the agreement. It has repaid all principal arrears in an amount of $272 million, it is current on new debt service falling due since the agreement came into effect, and it is repaying interest arrears. The Bank has begun to provide Syria with non-lending services, and the IFC is identifying possible projects that it could support. Under current policies, lending by the Bank (IBRD) could resume as soon as all arrears to IBRD have been settled.

Tunisia

Q. *What are the prospects of Tunisia's process of economic integration with Europe?*

A. By signing the EU Free Trade Agreement (FTA), substantial financial and technical assistance will become available to help the country move forward with its reforms. Key ingredients for Tunisia to become more competitive and reap the benefits of its opening include upgrading its industrial base, speeding-up reform in the financial and banking sectors and tackling the labor market mismatches by reforming labor laws to promote greater flexibility. The World Bank can help by providing advice, sharing international experiences and information. After a successful first Economic Competitiveness Adjustment Loan (ECAL I) that helped Tunisia move on its privatization program and deregulate some of its sensitive public monopolies in shipping, port management and cargo handling, a second operation (ECAL II) planned for FY99. It is expected to build on the achievements of the first one and focus on further bank privatization and financial sector reform.

Q. *How serious are the risks of political instability in the region?*

A. Civil conflict in neighboring countries has so far not significantly hindered Tunisia's economic performance—even the effects of the Gulf War in 1991 were limited and of short duration. A prudent macroeconomic framework, strong social programs, and determined policies to improve and expand access to healthcare and education have improved the standard of living for all members of Tunisian society and have contributed to reducing the threat of extremism. Closer ties with the EU and the implementation of the FTA should further strengthen economic prosperity, progress, and stability.

West Bank and Gaza

Q. *What is the status of the Bank's assistance program in the West Bank and Gaza?*

A. Since October 1993, the Bank has allocated $320 million from its net income to support its program in the West Bank and Gaza (WBG). The latest replenishment of $90 million was approved by member countries in July 1998. Of this, $213.5 million has been allocated to 13 operations which have also attracted some $295 million in joint or parallel cofinancing from other bilateral and multilateral donors. The three organizations of the World Bank Group – the Bank, IFC and MIGA – work particularly closely in the West Bank and Gaza. Three of the projects are joint IFC-Bank operations and the Bank provided the initial capital for MIGA's Investment Guarantee Fund which offers political risk insurance for private sector investments in the West Bank and Gaza.

In addition to the investment program, the Bank also plays a very substantive role in non-lending activities:

(i) The Bank continues to **administer two multi-donor trust funds** — the *Holst Peace Fund* and the *Technical Assistance Trust Fund* . After playing a major part in sustaining the Palestinian fiscal system in 1994-96, the *Holst Fund* is now primarily used as a vehicle for supporting employment generation activities. A total of $248 million, from 27 donor countries, has been disbursed by the *Holst Fund* since its inception. Although the activities of the *Holst* fund have wound down considerably from their peak in 1994-95, the Palestinian Authority (PA) and the donors have agreed to keep the Fund open at least until the end of 1998. This reflects an appreciation for the flexibility of the *Holst Fund* as a mechanism for delivering assistance and for the Bank's administration of the program.

(ii) The Bank plays a **key role in donor coordination**, as Chair and substantive mentor of the Consultative Group (CG) process; the CG now convenes each fall to discuss the PA's public investment program and to indicate financial support for it. The Bank also serves as co-chair of a very active local donor coordination structure, and as Secretariat of the Ad Hoc Liaison Committee (AHLC), in which capacity it reports on the state of the Palestinian economy, helps track donor funding activity and monitors adherence by the PA, the Government of Israel and the donor community to the Tripartite Action Plan.

(iii) In the politically-charged environment in which we work, the Bank Group's reputation as an impartial and technically strong institution has enabled us to advance the development agenda in WBG through macroeconomic strategy and sectoral policy analysis and in tackling important but complex institutional, regulatory and financial policy issues particularly in relation to the private sector.

Q. What are the Bank□s plans for further support to the West Bank and Gaza?

A. The World Bank remains fully committed to our program of support to Palestinian development as demonstrated by the decision of the Bank's member countries to support the $90 million replenishment of the Bank's *Trust Fund for Gaza and the West Bank* noted above. As our program matures, we are engineering a transition from providing emergency rehabilitation and relief to sustainable development — including medium and long-term investment and institution building. If the political and institutional environment allow, we expect to bring a number of important operations forward this year starting with the *Bethlehem 2000 Project* —a program of support for cultural heritage, essential infrastructure construction and rehabilitation and millennium celebrations in Bethlehem and surrounding municipalities. This will likely be followed by an *Electricity Sector Management and Investment Project* in the central and southern areas of the West Bank, and a project to support development of the Palestinian financial sector. We also plan to bring forward an operation to provide community level support to the poorest segments of the Palestinian population.

We are undertaking, as well, economic and sector studies including, among others, a review of public sector expenditures and management, a study of the transportation sector, and the delivery of health and education services.

Q. What can be said about the Bank□s performance in the West Bank and Gaza?

A. With the prospects for peace still unsettled, the program continues to embody a high degree of risk. Despite this, the Bank's portfolio performance has been extremely good, with overall disbursements at the close of FY98 of nearly $120 million. We have had a major impact on the ground, delivering, for example, a substantial portion of donor-financed infrastructure. Nearly 1,000 subprojects in the roads, water, sewerage, education and health sectors have laid a tangible foundation for economic development in the West Bank and Gaza. Considerable assistance has been provided, as well, to help create planning and policy formulation processes in the Palestinian Authority, and to develop, to the extent possible under the difficult political situation, a favorable financial and regulatory environment for private investment. These results would not have been possible without the decentralization of our management and program implementation to the Bank's resident office in the West Bank.

Yemen

Q. *Since 1995, the Government of Yemen has embarked on a strong stabilization and structural reform program. However, growth has yet to accelerate substantially, and there are concerns that public services are not addressing the needs of the poor. What are the key issues that still need to be addressed to generate growth, and how is the World Bank supporting these reforms?*

A. For several years, the government has been committed to a program of macroeconomic stabilization and structural reform with considerable success in growth, inflation, fiscal and external balances. Unfortunately, setbacks occurred over the past year, resulting from lower-than-expected oil prices and the inherent difficulties in mobilizing consensus for politically painful structural measures. Nevertheless, the authorities have persevered, and recognize that continued efforts must be made in order to sustain the achievements realized thusfar. Many of these steps will be difficult, as they involve medium-term institutional reforms. For example, public expenditures must be further rationalized so that limited resources are allocated to activities that have the maximum returns. Public administration systems need to be redesigned to focus on essential government services and to provide an adequate incentive framework for attracting high quality civil servants. Likewise, the public sector must drastically reduce the level of bureaucratic and other hassles that impede private sector development. Attention must also be paid to reform in the judicial and legal system. IDA is supporting reforms in all of these areas. Recently, in response to an urgent government request for adjustment support in response to fiscal needs that resulted from the fall in oil prices, a proposed Public Sector Management Adjustment Credit was designed on a fast-track basis. It will provide support for: (i) administrative reform; (ii) budget management reform; (iii) public expenditure rationalization; and (iv) revenue reform.

Europe and Central Asia (ECA)

Bank lending in FY98

Q. *Which countries were the top borrowers within the ECA Region in FY98 (July 1, 1997-June 30, 1998?)*

A. The Russian Federation was the largest borrower in the region, receiving loans of $1,628.5 billion. Turkey and Kazakhstan were the second and the third largest borrowers with loan commitments totaling US$603.1 billion and US$545 billion, respectively.

Q. *Which sectors received the most loans during FY98 in the ECA Region?*

A. The mining sector received the largest loan to a single sector in FY98: a US$800 million Coal Sector Adjustment Loan to Russia which focused on strengthening the social safety net in the industry affected by the economic transition. Other sectors that received large loans from the Bank include the education sector ($592.4 million), and the public sector management sector ($587.4 million).

EU Enlargement

Q. *What does the World Bank have to do with European Union (EU) enlargement?*

A. The ten Central and East European countries (CEECs) in question - Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia - are already members of the World Bank and active borrowers. Cyprus, in turn, is no longer a Bank borrower and has not asked for the Bank's assistance. The CEECs have requested that the Bank assist them through non-lending and lending services to prepare them for EU membership.

Q. *How is the World Bank's support related to EU enlargement?*

A. As for all of its borrowing countries, the World Bank's lending and non-lending assistance is presented in the Country Assistance Strategy (CAS). The CAS is discussed with beneficiary governments and representatives of the country's civil society. In the case of the EU accession countries, the CAS puts emphasis on the World Bank's contribution to the concerned country's efforts for EU membership, keeping in mind support that will be provided by other partners, especially the European Union (EU) and the European international financial institutions, notably the European Bank of Reconstruction and Development (EBRD), and the European Investment Bank (EIB). In March 1998, the World Bank signed a Memorandum of Understanding with the European Commission (EC) and EBRD by which it agreed to enhance the working relations both on a bilateral basis and through joint initiatives that would provide a forum to discuss general cooperation issues. Particular attention will be paid to co-financing suitable investment projects, as well as non-project related work in the candidate countries, with relevance to the EU pre-accession policies. As the EU's in-house financial institution, EIB is not a signatory of the Memorandum of Understanding but will be guided by its spirit.

Q. *Which type of non-lending assistance is the World Bank providing?*

A. The prime example of this type of assistance is the 1997 Poland Country Economic Memorandum (CEM) which has as its theme: "Reform and Growth on the Road to the EU". A similar CEM was issued in April 1998 on Slovakia and CEMs are under preparation for Estonia, Hungary and the Czech Republic. In the case of Slovenia the World Bank has prepared a number of sectoral notes, all with a EU accession focus. Discussions are under way with the other accession countries for similar analytical work.

Poverty Reduction and Social Support

Q. *How did the World Bank help to alleviate poverty and protect the poor from cuts in social services in FY98?*

A. Bank-assisted projects focus on establishing modern social protection systems that can cope with multiple social risks, such as poverty, old-age security, unemployment, child-vulnerability and social exclusion. Recent broad adjustment operations to help establish modern labor markets and social protection systems include: a US$ 800 million loan to Russia, and a US$30 million loan to FYR Macedonia. New loans are being prepared for Bulgaria and Kyrgyz Republic.

Among current and planned activities, loans supporting fundamental pension reforms play an increasingly important role. The Bank approved a US$300 million Pension Reform Adjustment Loan for Kazakhstan to support the most far-reaching reform of the pension system in the region. A similar operation is being prepared in Croatia. Investment and technical assistance projects focused on administration and management of pension systems are being prepared in Poland, Slovak Republic and Moldova.

A range of projects and non-lending services in support of the welfare of vulnerable and at-risk children has recently been approved. A Child Welfare Reform Project in Romania is using one of the Bank's new lending instruments (a Learning and Innovation Loan) to support deinstitutionalization of children. The social policy project in Lithuania supports a Mother and Child Boarding House to provide support for women and their children who are suffering domestic violence.

Environmental Clean-up

Q. *What is the World Bank doing to help environmental clean-up in the Europe and Central Asia Region?*

A. The Bank continues to be an active partner with the countries in the region in establishing realistic targets for environmental improvements, strengthening environmental management and ensuring environmentally sustainable growth. The Bank places great importance on helping the client countries prepare National Environment Action Plans (NEAPs) which allow for the integration of environmental concerns into a country's overall national development policies and programs. In fiscal 1998, Armenia, Azerbaijan, Georgia, and Uzbekistan completed their NEAPs, bringing the total number of NEAPs in the region to 17.

The Bank provides financial assistance to targeted environmental projects, as well as projects with environmental considerations and projects of regional and global importance. In FY97 and FY98, the World Bank committed US$71 million for environmental projects in Bulgaria, Croatia, and Latvia. The Bulgarian Environmental Remediation Pilot Project will assist the government in reducing environmental problems at a recently privatized copper smelter, including such problems as contaminated groundwater, solid waste disposal, and the management of industrial sludge. In Croatia, the Coastal Forest Reconstruction and Protection Project will protect soil and water as well as restore natural vegetation in the coastal area. The Latvian Municipal Solid Waste Management Project will demonstrate self-sustaining modern waste management techniques.

In FY97 and FY98, 11 out of 36 projects approved for the ECA region included components which addressed environmental quality and management. The Pilot Water Supply Engineering Projects in Uzbekistan and Kazakhstan helped develop operational methods and capabilities in project processing and cost recovery. In Lithuania, the Energy Efficiency/Housing Pilot Project supported private initiatives to improve residential energy efficiency, and the implementation of government policies to sustain housing privatization. The tendency to incorporate environmental concerns is noticeable not only in sectoral lending, but also in structural adjustment operations via incorporating energy pricing conditions.

The Bank continues to give high priority to regional initiatives in its environmental strategy which include the Aral Sea Basin, Baltic Sea, Black Sea, Caspian Sea, Danube River Basin and the Mediterranean Sea Programs. The Baltic Sea and Mediterranean Sea Programs, now at an advanced stage of implementation, have been highly successful in mobilizing loans and grants to address priority actions.

The recent trend in the Bank's environmental strategy is to refocus on the Newly Independent States (NIS). In June 1998, the Fourth Pan-European Conference of Environment Ministers held in Arhus, Denmark drew attention to the fact that environmental issues in the Newly Independent States (NIS) are qualitatively and quantitatively different from those in Central and Eastern Europe and need special attention.

Cultural Heritage

Q. *What is the Bank's involvement in projects of cultural and historic significance?*

A. The Bank has embarked on an expanded program of assistance for member countries that are interested in developing strategies and programs to help preserve cultural heritage. The rationale is that cultural heritage, and appropriate conservation programs, are critically important for the development of all countries. In the ECA region, two assistance operations have been approved to date – one in Georgia, where the first Learning and Innovation Loan (LIL) for a US$4.49 million Georgia Cultural Heritage Credit was approved in February 1998; and another in Russia (St. Petersburg). The Georgia project supports the management and promotion of Georgia's rich cultural heritage and the revival of the formerly dynamic tourism industry, and is part of a larger, cooperative effort between the Georgian Government, the Bank, and international organizations and governments.

Several others are under preparation in Romania, Turkey, Albania, Croatia, Uzbekistan. In Russia, the Bank supports St. Petersburg Center City Rehabilitation Project, part of a larger program to improve the city's historic center, and to develop and preserve those historic sites which provide an opportunity for economic growth in tourism, commerce, construction, and other services.

Adaptable and Innovative Lending (APLs and LILs)

Q. *How is the Bank able to improve operations in response to changing conditions in the client countries?*

A. To better respond to its clients in the ECA region, the Bank has introduced new adaptable lending instruments. Adaptable Program Loans (APL) are more flexible than traditional sector investment loans and are a sequence of smaller loans to support phased implementation of long-term development programs. APLs are particularly suitable for supporting development processes that have an overarching program with clearly defined development goals. The first APL finances the first phase of activities and sets the stage for subsequent loans. APLs also serve as a vehicle for coordinating donor activities and enlisting donor support for a common strategy. The loan given to Latvia in July 1998 to support the Rural Development Project is an example of an APL.

The LIL is simpler than a traditional project loan and smaller, generally less than US$5 million. LILs are most suitable when experimenting and piloting are needed to determine the best course of action before moving to larger operation. Many LILs serve as intermediate steps to Adaptable Program Lending intended to mainstream and extend the learning and results. LILs are designed to build on the groundwork of a local initiative, social assessment, and other participatory exercises. The flexibility in design and processing of a LIL offer more opportunities for the Bank to work in partnership with other donors and development agencies.

Albania

Q. *What is the Bank doing to aid Albania's recovery from the pyramid savings scandal and to stabilize its economy?*

A. The World Bank is continuously monitoring developments in Albania, and is assisting Albania in restoring economic stability, recovering economic growth and in providing social assistance programs targeted at those most affected by the 1997 crisis. Following the June 1997 elections, Albanian Prime Minister Fatos Nano participated in an international conference in Rome in July 1997, where the international donor community endorsed a recovery program. Under a two-staged program, the Bank – in conjunction with an IMF post-conflict Emergency Assistance Program – provided a Rehabilitation credit for budget support in December 1997. Bank financing assisted priority reform in the banking sector, social assistance programs, and public administration. At the same time, the Bank, jointly with six other donors, funded a technical assistance program for foreign administrations and auditors for the winding up of Albania's remaining pyramid schemes. This program is being implemented now. During the first half of 1998, the World Bank approved a private industry recovery project credit to foster the speedy revival of the private manufacturing sector which was affected by the crisis. Other important projects for Albania include a Health System Recovery and Development Project, and an Urban Land Management Project.

Bosnia-Herzegovina

Q. *What is the World Bank's strategy in support of Bosnia-Herzegovina's redevelopment?*

A. In the post-crisis period, the Bank has played a key role in international donor coordination, and has mobilized its own resources in support of recovery. Since early 1996, there have been 24 projects financed by the World Bank in several areas: forestry, electrical power, housing, irrigation, urban works, microenterprise, transport, health, education, tax administration, water supply and lines of credit for enterprises. On June 4, 1998, an IDA credit of US$63 million was approved to help Bosnia and Herzegovina introduce key reforms in the management of its public finances. With this credit, the World Bank is shifting its focus from reconstruction projects - which will continue on a selective basis - to policy-based lending. Implementation of policy reforms and institution building are not easy in any country, but these tasks are particularly difficult in a post-war environment. There is no alternative if Bosnia and Herzegovina want to maintain high rates of growth, reduce the still painfully high unemployment, and become fully part of today's Europe.

Russia

Q. *What is the total amount that the World Bank loaned to the Russian Federation in FY98?*

A. World Bank commitments to the Russian Federation in FY98 totaled US$1.628 billion for three projects (Second Coal Sector Adjustment Loan, Social Protection Implementation Loan, and Second Structural Adjustment Loan) .

Q. *Why is the Bank lending so much money to the Russian Federation?*

A. In August, 1998, Russia received the third structural adjustment loan in a series of Bank structural adjustment loans made to Russia since June 1997. This loan is the largest-ever made by the Bank in the ECA region totalling US$1.5 billion. It supports accelerated economic reforms needed to stimulate lasting growth, and to cushion the social impact of the transition to a market economy. According to Johannes F. Linn, World Bank Vice President for Europe and Central Asia, implementing the structural reform program will generate greater transparency, secure greater fiscal accountability, foster competition, and improve corporate governance, all of which should help rebuild the confidence essential to achieving sustained growth in Russia. These are the reasons why the Bank is willing to lend Russia such a considerable sum of money.

Latin America and the Caribbean

Q. *What is the status of development in Latin America and the Caribbean?*

A. Even though Latin America and the Caribbean has experienced an economic recovery in the 1990s, that recovery is still clearly below what is needed to bring about a sharp reduction in the high poverty indices of most countries in the region. Clearly high and sustainable growth rates — above 6 percent annually — are achievable in the region. Chile's track record during the last decade has shown the rest of the region it can be done. But what does it take to get there? Five strategic areas have been identified to achieve such high rates of growth: consolidation of macroeconomic stability, promoting quality investment in human development, accelerating the region's financial development, improving the legal and regulatory environment, and enhancing public-sector efficiency and governance. All these objectives will require technically and politically challenging institutional reforms.

Q. *What are the obstacles to economic development in Latin America and the Caribbean, and what is the Bank doing to help countries overcome them ?*

A. Poverty and the unequal distribution of income in the region are perhaps the most serious obstacles to sustainable development. About one-fourth of the population lives on less than one dollar a day, and the concentration of wealth and income is more extreme than in any other region of the world. The World Bank has worked with Governments over the past ten years to establish the strong macroeconomic environments that are necessary to sustain high growth rates, which are widely acknowledged to be prerequisites to significant reductions in poverty.

The World Bank has assisted with loans and advice to increase investments in basic health and education for the poor, which are expected to raise long-term productivity and to provide a means for them to escape from poverty. Increasingly, The World Bank is also assisting with the design and financing of safety nets to help those dislocated by economic changes or who for other reasons suffer from a transitional or permanent threat of poverty. For the fiscal year ending in June 1998, The World Bank lent over $2.5 billion for these purposes, fully 38 percent of new commitment for Latin America and the Caribbean. Lending for human development in the region, especially for basic education, is expected to rise significantly over the next several years to increase access to services and to raise their effectiveness in meeting the needs of the poor.

Another obstacle has been the weakness of the financial systems in the region, and the Bank has been working intensively in the areas of financial reform and private sector competitiveness. The Mexican peso devaluation revealed once again weaknesses in the banking system of several countries. The Bank is helping government that embark on programs of adjustment and reform to create a financial sector that encourages domestic savings while attracting money from abroad. The Bank is also stepping up its involvement in savings enhancement initiatives, such as the reform of pension systems and backing policy reforms which include the design of regulatory frameworks, strengthening supervisory systems and modernizing the judiciary system.

Yet another obstacle to development is the significant infrastructure gap in Latin America and the Caribbean. The World Bank estimates that the region needs to invest $60 billion yearly to make up this deficiency. The Bank has been lending in the areas of electricity and natural gas, telecommunications, transportation and water and sewage while at the same time encouraging decentralization of services, privatization and the development of regulatory systems that will foster competitiveness.

Finally it cannot be overemphasized that the LAC region is lagging behind other developing and developed countries in terms of institutional development, especially in the areas of corruption, quality of public bureaucracy, and law and order.

Mexico

Q. *What effects has the Asian crisis had on the Mexican economy?*

A. Thanks to the reforms of the last few years especially those implemented since the Mexican peso devaluation crisis that began in December 1994, the Mexican economy up until mid-1998 had weathered the contagion and spill over effect of the 1997 Asian crisis. As of August 1998, it was expected that the Mexican economy would grow one percent less than originally forecast in 1998, or about 4.8 percent, due to the devaluation of Asian currencies, and especially due to falling international oil prices that are the result of the lower demand for oil directly linked to the effects of the Asian crisis. These projections could change as markets grow more volatile.

Q. *What is the Bank doing to support Mexico's environmental reforms?*

A. The Bank is supporting Mexico's environmental reforms through technical assistance to help strengthen federal, state and municipal environmental agencies, and through onlending operations for water supply and sanitation, solid waste and transport air pollution control, including an integrated regional focus on the country's northern border. The Bank is also encouraging the efficient but sustainable use—including conservation—of the natural resource base, including forests, coastal areas and related resources, such as protected areas, bio-diversity zones and park systems, and soil and water. The portfolio under implementation comprises five projects totally about $800 million (net of cancellations) and a GEF grant for bio-diversity conservation of $25 million. The Bank expects to continue this focus over the next three years with particular emphasis on institutional strengthening of capacity of the States in environmental management.

Q. *What is the Bank's view on the current financial sector situation, especially with regard to FOBAPROA?*

A. The Bank has had no direct involvement with FOBAPROA. The Bank has provided support to the Mexican financial system since the crisis of 1994-95. This support has been manifested through a large quick disbursement loan ($1 billion) in FY96 and through technical assistance. It is maintaining a fruitful dialogue with Mexican authorities on issues pertaining to strengthening the Mexican financial system, particularly in the areas of banking regulation and supervision.

Argentina

Q. *What has been the Bank's role in supporting financial-sector and provincial reforms and how has the Asian crisis affected the Argentine economy?*

A. For more than a decade, the Bank has been providing advice and support for Argentina's financial sector reforms. The institution supported liberalizing financial markets, providing autonomy for the Central Bank, strengthening the monitoring of banks, instituting modern credit and banking regulations, and reducing the public sector's presence in the banking system. To assist in the privatization of provincial banks, and to consolidate the private banking system, two major banking loans were approved during 1995. The objectives of these programs have been met and the financial system of Argentina has gained resiliency. As evidence, even though the 1995 crisis in Mexico spilled over into Argentina — the so-called tequila effect — that economic crisis was overcome and, as of mid-1998, Argentina's financial system remains largely unaffected by the initial impacts of the Asian crisis. The Bank continues to provide technical advice on financial sector issues, most notably, on banking supervision, credit bureaus, collateral requirements and new credit instruments for small and medium scale businesses, while lending continues to focus on the provinces to foster structural reforms, including the privatization of provincial banks and restructuring of provincial social security systems.

Bolivia

Q. *Bolivia is one of the most highly indebted countries in the world, it is also one of the poorest, is the World Bank doing something to help?*

A. Precisely in response to this problem of countries like Bolivia, the World Bank, and other organizations of the international community, have established the Heavily Indebted Poor Countries Initiative (HIPC). This initiative reduces to sustainable levels the debt burden of poor countries with a strong record in structural reforms. On September 10, 1997, the World Bank and the IMF agreed to support a package of debt relief for Bolivia in accordance with HIPC.

All multilateral creditors including the Inter-American Development Bank (IDB) have agreed to support a package which reduces the net present values of multilateral creditors debt by US$ 448 million in NPV terms. Most creditors have agreed to frontload debt relief efforts. The World Bank will deliver its HIPC relief through coverage of all debt service payments to IDA from October 1, 1998 to the year 2000. The IDB, Bolivia's largest multilateral creditor, will provide assistance through a combination of write-off confessional loans and partial payment of interest on selected loans. The IMF relief will partially cover debt service payments in an agreed schedule.

The Bolivian government will use the resources released from debt service to improve the health care and education of its people and to promote rural development.

Haiti

Q. *Three year after the restoration of democracy, what is the state of economic reform in Haiti?*

A. Considerable amounts of international assistance have flowed to Haiti since the restoration of democracy in October 1994. Some US$1.4 billion was disbursed between 1994 and 1997 in programs comprising humanitarian assistance, budget support, and public investment. Over this period, World Bank assistance on highly concessional IDA terms committed US$269.2 million, of which US$156.0 million were disbursed, all with a focus on poverty reduction, basic social service improvement and human development, infrastructure rehabilitation and structural reforms. Despite these efforts, economic performance has fallen short of expectations in the midst of the deep and lasting Haitian political crisis erupted in 1997. Progress has been made toward achieving macroeconomic stability, but little has been accomplished on the institutional and economic reform front. The ongoing crisis is preventing the implementation of key economic reforms, delaying private investment, and severely limiting the capacity of the World Bank and other donors to provide new needed assistance to Haiti.

Brazil

Q. *What is the World Bank doing to help reduce poverty in Brazil?*

A. The Bank has two major objectives in Brazil: social and economic development and the reduction of poverty, which are mutually supportive. To achieve these ends, the Bank finances structural reforms to promote sustainable economic growth and social programs to combat poverty. In the social areas the Bank has identified six priorities for Brazil: education, land reform, health, water and sanitation, and urban poverty reduction. The World Bank has been helping the Government of Brazil to improve the scope and quality of education for the poor and has accorded priority to the sector over the next decade. The Bank is also helping the government provide access to land for the poor. Recent loans were approved for rural poverty alleviation in the Northeast of the country to finance the complementary infrastructure and social investments that accompany land acquisition by rural workers. Efforts are ongoing, jointly with the Government of Brazil, to strengthen the Bank's assistance in the other three areas.

Q. *What effects has the Asian crisis had on the Brazilian economy?*

A. Due in part to the reforms introduced by the Real Plan since 1994 and the timely policy response by the Brazilian government, as of mid-1998 the Asian crisis had not had as large an effect as did the Mexican crisis in 1995. The government raised interest rates and implemented a fiscal adjustment package without affecting social programs. Also the Congress passed important structural reforms one being the civil service reform. As a result of the rapid policy response, international reserves recovered to higher levels than before the crisis, capital inflows resumed, and interest rates were gradually reduced. Volatility in the region and globally could change this situation.

Drugs

Q. *What is the World Bank doing to reduce the production and trafficking in drugs (especially cocaine) in the Andean countries ?*

A. The Bank recognizes the pernicious effects that the illegal drug trade has on drug-producing and drug-consuming countries. It also recognizes that reducing the production, **transportation,** trafficking and use of narcotics in producing, consuming, **as well as transit countries,** requires a concerted and coordinated effort by governments and civil society. In the producing countries, interdiction and eradication efforts are crucial. These activities are outside the World Bank's mandate. But to complement government efforts to fight the drug trade, the Bank's programs in the Andean countries are contributing to the growth of employment and income generating activities in the legal economy.

East Asia

Q. *What can be done to rescue the East Asian miracle?*

A. Regional confidence and prosperity will only return if those countries caught up in the crisis embrace wide-reaching structural reforms, such as strengthening and regulating the banking system, and achieving greater openness and transparency on the part of governments as well as central banks and individual companies. Certain key fundamentals remain in place, such as high savings rates, relatively egalitarian income distribution, widespread education, and the vigorous pursuit of foreign exports. If East Asian countries can mobilize the social consensus needed to enact new structural reforms, the region has the ability, in the long-term, to build on its previous economic achievements and regain its standing.

Q. *Will the crisis worsen before it improves?*

A. East Asia is in the midst of a tremendously difficult time. The region has moved out of the first stage of the crisis, with capital flight estimated at $115 billion from the five major crisis countries—Korea, Thailand, Indonesia, Malaysia, and the Philippines–representing about 10 percent of their GDP. In addition, banking credits were reduced by an estimated $88 billion, which is approximately another 8 per cent of the GDP. Thus, about 18 percent worth of the GDP of these countries has vanished. This withdrawal of funds led to a tremendous loss of wealth in these countries, as well as losses on the stock and monetary exchange rates. This phenomenon has created an unavoidable shock, the impact of which the global economy will feel for some time.

Wholesale structural reform won't happen quickly. Transformation of the financial sectors will take at least three years. Restructuring the industrial sector, changing the governance of the banking and the corporate sector and the relationship to the States, and adjusting the globalisation process to the level and capacities of the economy is not something that can be done easily—these are long-term issues and fixing the problems in these respective areas will take years. While the Bank hopes that the accomplishments of the East Asian miracle will be more durable than the pain caused by this crisis, restoring previous standards of living in Asia will still be a long and difficult process.

Q. *How much money has the Bank pledged for East Asia crisis countries?*

A. The Bank has pledged nearly $18 billion to help Thailand, Indonesia, and Korea weather the crisis and implement reforms while protecting the poor, and has accelerated its investment programs and social safety net schemes in such countries as Malaysia, Philippines, China and Vietnam.

Of the $18 billion pledged, the Bank has thus far approved $1.08 billion for Thailand; $1.77 billion for Indonesia; and $5.48 billion for Korea.

Q. *What has been the focus of the Bank support for crisis economies in Asia?*

A. The World Bank is helping governments build the foundation for restoring growth and raising incomes by implementing a wide-range of financial and corporate reforms while strengthening social protection for the poor and other vulnerable groups to help cushion the worst impacts of regional recession. Early Bank efforts have focused on the immediate crisis in the financial and corporate sectors; now efforts are deepening with medium and long-term objectives to restructure the financial/banking sector, improve competitiveness and the health of corporate sector, and improve public and private governance to instill transparency and accountability in the relations corporates, banks and government.

Addressing the social impacts of the crisis, the Bank is focusing on ensuring spending on social service programs that assist the poor, introducing employment generation schemes in rural and urban areas, and improving community networks between civil society, governments, and the World Bank to better monitor impacts of the crisis and design appropriate intervention programs. Over the long-term, the Bank is working towards improving the social and human sustainability of growth to address the social shortcomings of Asian's earlier successes—growing inequality, lack of social safety nets (healthcare financing, pension systems, unemployment protection)—while protecting and strengthening the social advances prior to the crisis—education and health gains. And, it is working on improving the environmental sustainability of growth to address the environmental problems exacerbated by the crisis, including loss of financial resources for environmental reforms and protection, increasing pressure on local natural resources, and damages from the prolonged drought.

Q. *You seem to have been caught unaware by the problems in East Asia—why did the Bank fail to see the crisis coming?*

A. No one forsaw the huge scale of this crisis. The Bank knew that there was a need for the countries of East Asia to pay attention to strengthening their financial systems and to building stronger and more transparent government institutions, and we have said as much, both to Asian governments and in public. We have been in constant dialogue with our clients across the region about the challenges and risks faced by fast-growing economies, and that sustained private sector-led growth requires an efficient and open public sector that supports and regulates economic, commercial and financial activity.

But the scale of the crisis was impossible to predict. It has become a crisis of confidence, and in some ways, has become self-perpetuating. Further to that, the region is so dependent on intra-regional trade that a slowdown in one country affects others, and a slowdown in two or three countries—particularly the wealthier ones—is disastrous for all.

Q. *How does the Bank's role in the international rescue efforts in East Asia differ from that of the IMF?*

A. This is a joint international effort - but one in which we each have our part. The IMF, given its role as emergency lender in situations of financial crisis, is in the forefront of immediate efforts to stabilize East Asia's economies. The World Bank is responsible for longer-term rehabilitation, lending in support of economic reform and also social measures to cushion the effects of the crisis on East Asia's poor and vulnerable groups. The Bank stands firmly behind the Fund in its leadership of the East Asian rescue effort. Our loans will have their own specific conditions but will be consistent with the IMF's goals, so we have complementary roles.

China

Q. *How will the current financial crisis in East Asia affect China?*

A. China differs from the East Asian countries that have had crises in several important respects: it has been running a current account surplus, roughly three-quarters of its private capital inflows are in the form of foreign direct investment (which typically is not very volatile), its debt is relatively small as a fraction of its economy and even smaller than its $140 billion in reserves, and it has relatively little short-term debt. In addition to its sound external fundamentals, China maintains controls over capital flows that would prevent the capital flight which was a central part of the crisis in other countries in the region.

But the crisis is likely to result in somewhat slower growth in China, mostly due to internal factors. Also contributing are a decline in export growth, which is partly due to recession in Japan (and much of the rest of Asia) and the increased competitiveness of certain export industries in those countries resulting from devaluation. At the aggregate level, however, the extremely rapid continuing growth of exports to North America and to the E.U. has compensated for the fall in intra-regional exports, such that overall exports during the first half of 1998 still showed growth of 7.6 percent (modest for China). Indirect effects on the level of FDI have been surprisingly modest so far. Many if not most international investors continue to maintain a positive long-term outlook on China's economy in spite of the contagion effects of the Asian crisis and the domestic economic slowdown which has contributed to low average returns on investment in China in recent years. Meanwhile, the share of OECD-based national and multinational corporations in FDI in China is steadily increasing.

China's current external economic strength is in large measure a by-product of the successful macrostabilization and reform policies started in mid-1993 that gradually cooled the overheated economy and brought inflation under control. Without the successful macrostablilization policies begun in mid-1993, China would almost certainly have been much more seriously affected by the Asian crisis of 1997.

Korea

Q. *$10 billion to South Korea—is it wise to lend so much to a single borrower?*

A. South Korea, because it has graduated and paid back the bulk of its loans, has plenty of headroom to borrow from us. Maximum exposure for a large, low-risk borrower should not exceed about 13 percent of the outstanding IBRD portfolio, which is about $100 billion; South Korea's outstanding debt was $1.9 billion—prior to the resumption of Bank lending in response to the crisis in December 1997—allowing it to borrow new money comfortably. But this level of borrowing is only available to top quality, large borrowers with the proven capacity to repay. South Korea is an exceptional case. No other current borrower has this same combination of creditworthiness, and ability to repay loans.

Indonesia

Q. *What specific measures is the Bank taking to help Indonesia at its time of need?*

A. We responded to Indonesia's emerging financial crisis in October 1997 by pledging a total of $4.5 billion over three years as part of the original IMF package. This includes $2 billion for structural programs designed to help fix the underlying causes of the problems while protecting the poor and others who are particularly badly hit through measures including food subsidies and job creation schemes. In July 1998, we indicated our willingness to lend an additional $1 billion for reform programs to help finance the budget gap agreed with the IMF at that time. We have also, together with the government, reviewed our project portfolio and are redirecting about $1 billion to fund programs that are in direct and urgent response to the evolving needs of a country in crisis , including employment generation targetted to the poor and our scheme to keep as many as 25 million needy children in school through the crisis. At the same time, we have agreed with the government to cancel about $1 billion from the portfolio to clean out components and/or projects which are less of a priority, or which are no longer viable in the drastically changed environment. We are also facilitating a social safety net fund to channel tens of millions of dollars towards humanitarian needs.

Q. *The Wall Street Journal, in an article headlined "Speak no evil", accused the Bank of "soft-pedaling" on the effects of corruption and being so "caught up in enthusiasm" that it failed to anticipate the crisis. What action is being taken?*

A. The Bank takes very seriously the issues this article raises and is addressing them. We spoke out publicly on the problem of corruption well before it became fashionable to do so. Mr. Wolfensohn, for example, raised the issue when he visited Jakarta in February, before the upheavals that led to the resignation of President Suharto. As the crisis worsened and the economy went into freefall, we focused our resources on emergency assistance, while addressing the major issues of "collusion, corruption, and nepotism" through the design of the conditionalities of the macroeconomic program. The program confronts the need to dismantle the big internal monopolies, cartels, internal trade barriers and other significant sources of corruption and nepotism - a prerequisite for both further assistance and for success in other areas in the fight against corruption. This action was largely successful.

We are aware of the need for a much more comprehensive and cooperative anti-corruption program in which the government, civil society and the international community can work together to change the culture of corruption. The campaign against corruption is a major part of our dialogue with the Government and closely influences the debate on future adjustment lending. In addition, we are determined to take actions aimed at eliminating corruption in the projects we finance. We are ready to build on suggestions made by NGOs and civil society, and are considering a number of initiatives such as a project watchdog committee comprising NGOs and other members of civil society, independent audits and the increased use of international public sector reform specialists. Discussions have already started with government and civil society, and will continue.

Q. *What are Indonesia's prospects for the future, given that it is the most severely hit of the Asian crisis countries?*

A. Indonesia is in deep crisis. A country that achieved decades of rapid growth, stability, and poverty reduction, is now near economic collapse. No country in recent history, let alone one the size of Indonesia, has suffered such a dramatic reversal of fortune. The next years will be difficult and uncertain. The economy is expected to contract this year by 10-15 percent, inflation could exceed 80 percent, and the number of poor could well double.

Recovery from this desperate situation will be slow and difficult. Much will depend on whether the nation can achieve the necessary political stability for implementing a difficult and complex agenda of economic reforms, and whether it will receive the necessary financial support from the international community. The World Bank recently unveiled a five point agenda of action for the near term requiring the concentrated focus of government policy and the full support of the international community:

- Protect the poor by ensuring the availability of food and other essentials at affordable prices; creating employment opportunities and helping to generate incomes through labor-intensive public works implemented by local communities; and preserving the availability of key social services, especially basic health and education.

- Deal with the debt overhang that has paralyzed many enterprises through debt restructuring—ensuring maximum participation of external creditors in the Frankfurt framework; developing a framework for resolving the domestic debt of corporates equitably, and ensuring effective operation of the new bankruptcy law.

- Resuscitate the banking system: restore credit flows, strengthen the Indonesian Bank Restructuring Agency so that it may operate as an efficient, transparent bank restructuring and recapitalization agency; develop mechanisms to ensure that exporters have adequate working capital.

- Improve governance and transparency including civil service and legal reform with a near term agenda focusing on: developing an action plan for designing and implementing competition policy; developing a transparent strategy for the government's privatization policy; finalizing transparent arrangements for private sector participation in the provision of public infrastructure; and by implementing arrangements for private sector enterprises to compete with BULOG in importing and marketing all items other than rice.

- Obtain substantial additional foreign financial assistance to finance a fiscal gap growing due to falling government revenues and the pressing need to protect the poor through subsidies and higher expenditures on social safety nets.

Q. *Is the Bank still relevant to Indonesia's needs?*

A. The crisis makes the Bank's role more relevant than before as it brings its global experience, money and humanitarian concerns to bear on treating the underlying causes of the Indonesian crisis. We are also redirecting loans already on the books to focus on helping the poor and the disadvantaged. We should not forget that Indonesia experienced significant gains in quality of life over the past 30 years with help from the Bank in areas ranging from healthcare and education to rural and infrastructure development. It is inaccurate now to try to portray these gains as artificial or as produced by statistical dishonesty. The Government, civil society and the international donors are looking to the Bank for leadership in addressing the social impacts of the crisis and in fostering economic recovery.

Myanmar

Q. *What is the Bank's relationship with Myanmar?*

A. During 1998 Myanmar went into arrears in its repayments to IDA, and the portfolio was placed in non-accural status on September 2. Accumulated arrears as of end-August were about $14 million equivalent.

Myanmar (formerly Burma) has been a member of the World Bank since 1952 and has received a total of $711 million equivalent in lending from IDA for 30 projects and $33 million equivalent from IBRD for 3 projects. The last Bank loan was committed in 1987 and closed in 1995. In 1995 the Bank prepared a country economic report that outlined priorities for economic reforms that would lead to sustainable growth and poverty reduction, especially in the rural rice growing areas. While the report was well received at the technical level, there was no serious response from the policy makers. There have been no new commitments to Myanmar since 1987, and no projects are currently being prepared.

North Korea

Q. *What is the Bank's relationship with North Korea?*

A. North Korea is not a member of the IBRD. However, the North Korean Government has expressed interest in learning about the World Bank and exploring the potential for extending technical assistance and training services to North Korea. The development of a possible relationship is being conducted in close consultation with concerned countries. A senior Bank representative has visited Pyongyang with the objective of providing an exchange of information and discussing training needs. At present the Bank is cooperating with UNDP in organizing expanded opportunities for North Korean officials to receive training in basic economics and finance.

Lao PDR

Q. *Will the World Bank fund the proposed Nam Theun II hydroelectric project in Lao PDR?*

A. The Government of Lao PDR has requested World Bank support for the project and has completed substantial preparatory work as required by the Bank. In October 1997, the World Bank Operations Committee concluded that the Bank should proceed with preparation of the project, but that further work would be required on several key issues before the Bank's next review of the project. No final decision will be made until the Bank is fully satisfied that all aspects of the project comply with the Bank's Operational Directives.

The World Bank has been asked, specifically, to provide: (i) a Bank partial-risk guarantee; and (ii) an IDA credit for the improvement of social and environmental conditions in the project area. The Nam Theun 2 project consists of a 50 meter dam on the Nam Theun river and a power station that would produce electricity for export to Thailand. The project is being developed by the Government of Lao PDR in conjunction with the Nam Theun Electricity Consortium (NTEC), a group of private developers. The World Bank is not being asked to participate in construction of the dam or power facility.

The key issues that will need to be addressed by the Government and the developers in the coming months include the negotiation of a Power Purchase Agreement with Thailand, specifying the price and conditions for the sale of electricity generated; a Concession Agreement between the Government and the project's developers; and details of the project financing plan and Partial Risk Guarantee. The Operations Committee noted that the present uncertainties in Thailand and East Asia may have an impact on the timetable for completing negotiations of these agreements.

Malaysia

Q. *What is the Bank doing to help Malaysia?*

A. Malaysia has had a long and productive relationship with the Bank, with a total of 99 loans approved since 1958, and a total disbursement of US$2.7 billion. Malaysia's successful development efforts over the past three decades, combined with its continued high growth and budget surplus, led to the Bank's slowly phasing out of an active program in Malaysia from 1993 onward. Over the past two years, the Bank has begun deepening relations through renewed policy dialogue with Malaysia. In June of 1998, the Bank approved a US$300 million economic recovery and social sector loan to provide the Malaysian government with the necessary budget flexibility to maintain spending on social sectors while increasing spending on targeted programs for the poor in rural and urban areas.

Papua New Guinea

Q. *What is the Bank's current relationship with Papua New Guinea?*

A. The World Bank continues to work in close cooperation with other donor governments and non-governmental organizations to support the efforts of Papua New Guinea (PNG) to sustain economic growth, improve the delivery and effectiveness of public services, particularly in the areas of health, education and infrastructure, and reduce poverty which is most severe in rural areas. In April 1998, the Bank helped to finance an El Niño Drought Response Project to help rural communities better cope with droughts triggered by the El Niño effect.

Development in PNG is severely constrained by structural bottlenecks in the political and economic arenas. The Government needs to address issues of corruption, accountability and transparency in its public administration and in the country's financial sector. The Bank has raised its concerns over these issues in its dialogue with the Government and civil society in PNG and is ready to proceed with a Structural Adjustment Loan once the Government has formulated a meaningful reform program in compliance with the Bank's rules and guidelines.

Thailand

Q. *What is the Bank doing to help Thailand, the first country to be hit by the Asian crisis?*

A. The Bank's program of reform and recovery in Thailand focuses on three key areas: renewing competitiveness; improving governance; and sharing growth and ensuring quality of life. To renew competitiveness, the Bank will help revitalize and restructure the financial and corporate sectors; will invest in education and skills training to build a strong workforce; will address infrastructure bottlenecks; promote regulatory reform and private sector participation; and facilitate trade. To improve governance and the ability for Thailand's public institutions to guide the economy towards recovery, the Bank is providing advice on a broad agenda of public sector reform that will include decentralization, overhauling the tax and expenditure administration, prioritizing public expenditures, streamlining budget implementation, and modernizing the civil service. To ensure that economic growth results in a higher quality of life for everyone, the Bank will provide policy advice that support and improve the impact of poverty-targeted investment programs; redressing regional imbalances—notably between rural and urban areas—by empowering local communities; and preserving the natural environment.

To support its reform objectives, the Bank has thus far approved $30 million for 2 financial sector assistance projects, a $350 million Finance Companies Restructuring loan, a $400 million Economic and Financial Adjustment loan, and is currently preparing a public sector reform loan targeting tax administration, expenditure and civil management, and fiscal decentralization. To address the social impacts of the crisis, the Bank has approved a $300 million Social Investment project to fund job creation and training programs, and low income health and small-scale community projects.

Q. *Is the Pak Mun dam in Thailand destroying the natural habitat, killing fish and forcing people to resettle on infertile soils without adequate compensation?*

A. No. Implementation of the project to build the Pak Mun dam complies with all the Bank's operational directives on local people and the environment. Pak Mun is a run-of-the-river dam with movable gates that, when fully open, allow the river to flow unimpeded. When the gates are closed, the dam will submerge an area of about 24 square miles—mostly of land that would routinely flood in the rainy season. Regulating the flow of water on the Mun River will actually ensure a continual supply to the Kaeng Tana rapids downstream, which previously dried up during the dry season.

In 1994 the original design of the dam was modified, relocating the dam 1.5 km upstream and lowering the dam height by 5 metres. This reduced the power benefits by one third, but it also halved the reservoir length and surface area, reduced the number of inundated families from 4,000 to 420, and preserved the Kaeng Tana rapids (a tourist spot).

The resettlement policy allowed families to choose where to resettle and what to do with their compensation money. Part of the project actually included a land titling exercise which gave 80 percent of the people involved formal title to their land. Potential resettlers at other dam sites have requested that they be treated as generously as Pak Mun resettlers. The Electricity Generating Authority of Thailand (EGAT), the project implementing agency, has set up ongoing monitoring of the environmental and resettlement aspects of the project to ensure that the high standards kept to date are maintained.

There still is no conclusive evidence as to whether there has been any impact by Pak Mun Dam on the fish population, fish catch levels, or change in the composition of species in the reservoir. Fish catch levels have historically been cyclical over a period of several years, so long term effects are not yet known. The Department of Fisheries and EGAT have conducted joint studies since October 1993 to determine fish populations and migratory patterns. Well over half of the species native to the Mun river have been found to successfully migrate up the fish ladder that EGAT built at the dam.

The loan closed in March 1995, fully disbursed, and an Implementation Completion Report was issued in June 1996.

South Asia

India

Q. *What is the nature of the Request for Inspection of the National Thermal Power Corporation (NTPC) Project?*

A. The NTPC project is partly supported by $430 million in World Bank financing and aims to help the government-owned NTPC increase its power generation capacity, upgrade the performance of NTPC power stations, make its new power stations more environmentally sustainable, and strengthen its environmental and resettlement and rehabilitation (R&R) management capability. In April 1997, 33 inhabitants of the project area filed a Request for Inspection, alleging violations by the World Bank of its policies and procedures. Specifically, they stated that they are being compelled to relocate without adequate consideration given to jobs, land, or housing.

Q. *How did Bank Management respond to the request?*

A. In response to the Request, Bank management has prepared an Action Program intended to improve the implementation and supervision of the project's environmental and R&R aspects. This program was prepared after several visits to the project area that included consultation with affected persons, local NGOs, and government agencies. The Bank's Action Program contains significant corrective measures, many of which are already underway. These include the appointment of a leading independent development institute to advise on solutions; the establishment of an independent monitoring panel to review and advise on implementation of the R&R program; and the training of new NTPC staff to strengthen their capacity to meet the projects goals. In addition, the Bank has initiated a dialogue with the Government of India and the concerned state governments to start work on a program addressing the Singrauli region's wider economic, social, and environmental problems.

Q. *Did the Board of Directors Agree to an Inspection?*

A. On September 11, 1997 the Board authorized the Inspection Panel to conduct a limited investigation in Washington. The Board decided that "in light of the conclusions and recommendation by the Panel, bearing in mind the preliminary field visit already undertaken by the Panel, an investigation should be conducted at the Bank's Headquarters in Washington to determine the extent to which the Bank adhered to its own policies and procedures under the project."

Welcoming the Action Program of corrective measures prepared by Bank management, and noting that the Program has the support of the Government of India and the NTPC, the Executive Directors requested periodic progress reports by the Bank's management on its implementation.

Q. *What is the Bank doing about child labor in South Asian countries ?*

A. Given the human and poverty dimensions of child labor in its client countries, the World Bank's South Asia Region launched an initiative in 1997 with the aim of beginning to assist its client countries to address child labor more effectively. To initiate this effort, the South Asia Region has appointed a Regional Coordinator for Child Labor, recruited a social development expert with field experience with child labor in the region, and designated child labor focal points in each of its operating units at Headquarters and in its field offices in Bangladesh, India, Nepal, Pakistan, and Sri Lanka.

The South Asia Region is working on several fronts to help address the problem of working children.

- **Reviewing Ongoing Projects**–Regional management has sensitized staff about the problem of child labor. Staff have been instructed to monitor Bank-assisted projects for employment of child labor, and if a problem is found, to work with the client so that appropriate measures to deal with the problem are introduced. To further reduce the possibility that child labor would be employed under Bank-assisted projects in India, the Child Labor Prohibition and Regulation Act 1986 has been added as another labor regulation which contractors should abide by during execution of contracts in the standard International Competitive Bidding civil works model in India.

- **Addressing Child Labor in Ongoing Projects**–In addition to identifying projects which indirectly or directly involve working children, the Bank is also supporting government efforts to deal with child labor through Bank-financed projects. For example, under the ongoing Bank-supported District Primary Education Project (DPEP) in selected states, the Government of India has directed program managers to make working children an additional target group under the program. The Bank is working with the government to identify specific steps that can be taken by the projects to get children out of work and into school.

- **Taking Working Children into Account in New Projects**–A number of new and proposed Bank-financed projects are using social assessments to take account of the needs of working children in project design. These include the India District Primary Education projects, the Uttar Pradesh Diversified Agricultural Support Project, the Integrated Child Development Services under the Andhra Pradesh Economic Restructuring Project, the recently launched Pakistan National Drainage Program Project, and a proposed India District Poverty Initiatives Project.

- **Carrying out Social Assessments and Addressing Child Labor in Key Bank Research**–Where there is a reasonable presumption that children will be employed in project-related activities, social assessment work is being undertaken to identify child labor and propose strategies on how to deal with it in project design. The South Asia Region is also beginning to address child labor issues in key Bank economic and sectoral reports and country assistance strategies. In collaboration with client governments and partner agencies, regional staff are preparing country situation analyses of child labor which will make specific recommendations on how child labor might be addressed and the role the Bank might play.

- **Creating Partnerships**–South Asia Regional staff have been forging partnerships with many governmental and nongovernmental organizations on child labor issues such as UNICEF, the International Labor Organization (ILO), and many national and international nongovernmental organizations (NGOs) engaged in child labor issues.

Q. *What is the Bank doing about corruption in South Asia?*

A. The South Asia Region has long been concerned with the problem of corruption and has progressively refined its procurement and disbursement procedures to minimize the risk of corruption in its projects. In addition, efforts to encourage deregulation, privatization and transparency measures have further promoted an anti-corruption environment in the region.

In the past few years, the South Asia Region has placed direct emphasis on the problem of corruption in its work. For example, Pakistan's 1995 Country Assistance Strategy and 1996 *Private Sector Assessment*, and Bangladesh's 1997 *Government That Works* report identified areas where corruption seemed prevalent, analyzed its consequences and listed several remedial actions.

Recently, the region has intensified its efforts as part of the Bank's institution-wide anti-corruption focus highlighted in the 1997 World Development Report, *The State in a Changing World* and the report, *Helping Countries Combat Corruption.*

The South Asia Region's goal is to assist its client countries in eliminating corruption. Its approach, which is coordinated with the Bank-wide approach, includes the following components:

1. Preventing fraud and corruption in Bank-financed projects
2. Helping countries requesting Bank support to reduce corruption
3. Taking into account corruption in country strategies, lending, policy dialogue, analytical work and in the choice and design of projects

Bangladesh provides a good example of anti-corruption efforts in the region. In 1996, the Bank and a team of local consultants prepared a report on public sector management reforms, *Government That Works*. The findings of the report were widely disseminated within the government and civil society, and the Cabinet endorsed most of the recommendations.

The Region's efforts in Bangladesh are concentrated on supporting government initiatives to combat corruption and strengthening institutions of civil society, including NGOs, the private sector and professional associations to promote constituencies that will tackle corruption, support an accountable and well-performing government, and strengthen the rule of law.

Q. *Does the India Ecodevelopment Project involve involuntary resettlement?*

A. Under the project, there will be no involuntary relocation of people who live within protected areas. However, on an experimental basis, the village ecodevelopment component can help a community develop its own voluntary relocation proposal, provided this is presented as one of a range of alternatives that include options not involving relocation. The Ecodevelopment Project aims to conserve biodiversity in seven globally significant protected areas in India by increasing collaboration between local people and government managers. It addresses both the impact of local people on the protected areas and the impact of the protected areas on the local people. Instead of providing a predefined blueprint, the design of the project adopts a groundbreaking process-oriented approach to participatory planning by park managers, NGOs, and local people, who together define the contents of subsequent project investments and actions in accordance with project guidelines.

Questions about the Inspection Panel Request regarding the Ecodevelopment Project should be referred to the Inspection Panel.

Q. *What is the India Andhra Pradesh Economic Restructuring Project?*

A. The AP Economic Restructuring Project is a $543.2 million assistance package (IBRD $301.3 million IBRD loan and $241.9 million IDA credit) which supports the Bank's first state-level multi sector investment operation in India. The project provides funds for health, nutrition, primary education, irrigation, and rural roads which will directly benefit the poor. It supports AP's ambitious reform program which is restructuring spending toward these priority sectors while carrying out a program of fiscal reform.

Q. *Is the Bank lending directly to AP and other states in India?*

A. India's constitution prohibits states from borrowing from external sources. All Bank loans to the states will continue to be channelled through the central government, and then on-lent to the states.

Q. *Why was Andhra Pradesh selected?*

A. It is important to note that AP approached the Bank to support its reform program. This is a home grown reform program and has not been imposed by the Bank. Like other states in India, public spending on key sectors such as education, health, nutrition, irrigation, and roads in AP was crowded out by costly subsidies which did not always reach the neediest, a rapidly expanding civil service, and interest payments. AP has demonstrated a strong commitment to reforms and has already taken a number of politically difficult steps such as cutting subsidies and public sector employment and introducing user charges and tariff reforms in power and irrigation. The project will provide further momentum for the AP's reform program and will help stimulate growth and reduce poverty in the state.

Q. *Why the state focus? Why is the Bank channelling such a large amount of funds to just one state? Why not break it down into several projects for different sectors? Why the multi sector state approach?*

A. Over the past few years the government's focus on reform has shifted to the states. Accordingly, the Bank has reoriented its country assistance strategy to focus mainly on those states that have chosen to embark on a comprehensive program of economic reforms. State-level operations are not new to the Bank in India. In the past, however, selection of state projects was done largely on project and sector grounds rather than the overall policy of the state. The Bank and the IFC are jointly developing state-level assistance programs for states in collaboration with central and state governments where a comprehensive program of assistance can be structured to cover all relevant sectors, and where the state government's reform is substantially underway. The aim is to provide resources for key sectors and at the same time, help the state control public expenditure and debt. This will help meet the state's priority needs and put its finances on a sustainable path.

Bangladesh

Q. *What is the extent of the arsenic problem in Bangladesh?*

A. The first detection in 1993 and subsequent confirmation after 1995 of high levels of arsenic in numerous shallow and deep wells in various parts of the country has raised serious health concerns. Recent investigations, though incomplete, confirm that the occurrence of arsenic in groundwater is more widespread than assumed at first and that it already affects a large number of people. Wells in more than half of Bangladesh's 64 districts are estimated to be contaminated with arsenic, mainly in the south western, middle and north-eastern parts of the country. Although it is estimated that tens of millions of people are at risk, about one third of the population of Bangladesh, to date, more than 1,000 cases of chronic arsenicosis that have been reported in Bangladesh, but experts believe this is just the tip of the iceberg. It is estimated that at least 1.2 million people are exposed to arsenic poisoning. This is the largest poisoning of any kind.

Q. *Why is the donor community moving so slowly to tackle the problem?*

A. Once the World Bank learned about the problem, it acted quickly. The Bank is coordinating the donor community in supporting the Government of Bangladesh's efforts to respond to the crisis with a $44.4 million project to which the Bank is contributing a US$32 million IDA credit. This is a "fast track" project that aims to stave off further illness and deaths caused by arsenic contaminated groundwater with rapid, effective action. *The Swiss Development and Cooperation Agency is co-financing the Project and the Bank has a collaborative framework with key external support agencies for additional support the Bangladesh.* Specifically, the project will provide alternative water supply and provide medical relief in affected areas; establish the extent, nature and causes of arsenic poisoning; and put in motion concrete actions for long-term solutions including water treatment, public awareness and increasing people's and government capacity to address similar crises.

Q. *Did Bank-financed projects contribute to the problem?*

A. In the Bank-financed Dhaka Water Supply Project, no arsenic has been detected at this time. The Bank has also financed a National Minor Irrigation Project where some of the irrigation wells not used for drinking water did show traces of arsenic. Through ongoing research, the Bank is looking into the linkage between pumping groundwater and arsenic contamination and the impact of arsenic-contaminated water on crops. There is no conclusive evidence at this point.

Q. *In what ways is the Bank applying what we now know on arsenic (and other toxic contamination of groundwater) to water projects?*

A. The Bank is internalizing the lessons learned from the Bangladesh Arsenic crisis in various ways, both in Bangladesh and outside. In Bangladesh, for example, the Bank is assisting the Government in formulating a National Water Management Plan that takes into consideration arsenic contamination of groundwater in the evaluation of strategic options for water management. Outside of Bangladesh, the Bank's water supply projects include a component of groundwater quality testing and monitoring to ensure that safe water is delivered to consumers, including in rural areas. Finally, we are consulting our partners in the development community to develop and improve sustainable and cost-effective mechanisms for groundwater quality monitoring that will build on progress in coverage achieved to date.

THEMATIC ISSUES

Child Labor

Q. *Does the Bank have a policy on child labor?*

A. There is a strong consensus in the Bank about how the problem of harmful child labor should be tackled. The Bank recently published a paper *Child Labor: Issues and Directions for the World Bank* which recommends combatting the use of harmful child labor through many initiatives such as measures to reduce poverty, support for basic education, and specifically targeted interventions. Training and workshops for sensitizing staff are being held as well as reviews of ongoing and new projects to determine if there are any child labor issues involved. Social assessments are examining the issues of working children in projects under development. These efforts are coordinated through local communities, NGOs and government. Communications and collaboration with experienced partner agencies in child labor issues (such as ILO, UNICEF) are increasing.

Q. *What can the World Bank do to prevent child labor?*

A. Child labor is a complex issue, but its primary cause is poverty. Poor families need additional income to survive and children often fulfill this need by working. The Bank's broad-based economic growth and poverty reduction activities contribute to the long-term solution of eradicating harmful forms of child labor. Reducing poverty, improving the situation of women, and increasing access to education are major ways to reduce child labor. But poverty alleviation takes time and some of the poorer countries, particularly those in Sub-Saharan Africa, are a long way from achieving universal primary education. Therefore, the Bank is pursuing shorter-term solutions targeted at reducing harmful child labor, as outlined in *Child Labor: Issues and Directions for the World Bank*.

Children also do not necessarily work by their own choice. Their labor is part of family survival strategies in which other family members benefit. In fact, the earning power of children is often the main reason for bearing them. When a child is removed from work, he or she may benefit, but others in the family may lose. These economic reasons imply that financial incentives to compensate for loss of income should be part of any policy that aims to reduce child labor. The Bank's approach to the challenge is multi-faceted, and projects may include direct or indirect assistance to children and their families to meet the costs of keeping them in school.

Q. *Isn't all child labor harmful? Why make a distinction between harmful and non-harmful child labor?*

A. While child labor is often harmful, it is not always so, especially where the alternative is deeper poverty and starvation for children and their families. Many working children are within a stable and nurturing family environment and benefit in terms of socialization and from informal education and training. Between 50-70 percent of working children, depending on the country in question, are studying at the same time. This may reduce their chances of completing primary education. In recognizing that children should receive an education, World Bank programs are designed to ensure that children of school age have access to school by introducing measures to reduce the costs of school attendance, eliminate fees, and provide clothes, food, and transportation.

There are many children, however, for whom work does unquestionable harm. Long hours of work can have a negative impact on a child's development and some types of work expose children to abuse and unsafe working conditions which affect their physical and mental health and social development. Projects or project components can be designed to help child workers by reducing the harmful effects of their employment.

Q. *What is the World Bank's role in the international effort to reduce and/or prevent child labor?*

A. The Bank can assist in reducing child labor in a number of ways. The Bank is working with organizations such as the ILO, UNICEF, NGOs, and governments to do so within the context of its focus on development and poverty reduction. The Bank is integrating child labor considerations into its programs and introducing new projects or project components to reduce the harmful effects of children working. The Bank is also emphasizing child labor issues in other projects. For example, in education projects, flexibility of school hours and vacation schedules that fit with agricultural production help to keep more child laborers within the school system.

Q. *How can the World Bank ensure that Bank projects do not employ child labor?*

A. The Bank is concerned with the possibility of children being employed on Bank projects. This is because non-compliance with child labor standards can undermine the execution or the developmental objective of Bank projects and programs. In order to avoid exploitative child labor occurring in its projects, the Bank considers including in its loan or credit agreements a provision that the borrower undertakes to enforce its child labor laws if there are good reasons to believe that child labor may occur. In India, for example, the Bank is discussing with the Government the inclusion of clauses in relevant project documents that would ensure that any agency with contracts under the project must abide by Indian labor laws (including laws on child labor). The Bank's credit agreement on the recently approved Silk Development Project in Bangladesh contains clauses requiring Bangladesh to make sure that the contractors carrying out the project abide by the applicable labor laws of Bangladesh, including child labor laws.

Q. *Has the Bank initiated any special programs to sensitize Bank staff to child labor?*

A. The Bank has placed Child Labor on its agenda and has addressed staff sensitization in various forms. Bank-wide seminars and workshop have been conducted, in collaboration with other multinational organizations, such as the ILO. In the Africa and South Asia Regions, where child labor is particularly pernicious, more targeted sessions have been conducted. These Regional seminars focus on operational and child labor issues unique to these particular areas.

Climate Change

Q. *Does the Bank consider global warming to be a real threat?*

A. There is no doubt that the issue of human-induced global climate change is one of the most serious environmental issues confronting the world today. The Intergovernmental Panel on Climate (IPCC) Change makes a convincing case that human activities are already changing the Earth's climate system, and that unless there is a concerted effort to reduce the projected emissions in greenhouse gases the Earth's climate will warm significantly, precipitation patterns will change, and sea levels will rise. It is not a question of whether climate will change in response to human activities, but rather when, where and by how much.

Q. *Does the Bank believe in IPCC estimates and views?*

A. The World Bank Group recognizes the IPCC as the principal scientific authority on global climate change, and accepts the conclusions of its latest assessments.

Q. *Does the Bank believe that El Niño is caused by global warming?*

A. A heightened El Niño, such as the one we are currently seeing in countries bordering the equatorial Pacific, is fully consistent with many climate change models, which predict an enhancement of the weather pattern known as the Southern Climate Oscillation ("ENSO") effect as the global climate warms. However, in the IPCC's assessment the cause and effect relationship is not sufficiently well established as to be able to call the recent enhanced El Niño phenomenon a man-caused event. Irrespective of whether its origins are natural or not, the serious effects of El Niño have been called a "dress rehearsal" for anthropogenic global warming.

Developing Countries and Global Climate Change

Q. *Why is the Bank arguing for the OECD to shoulder the entire burden of abating Green House Gases (GHG) emissions, when the main emitters of the future will be countries like India and China?*

The World Bank Group accepts the objections of developing countries to abide by Annex 1 country targets at this point in time, but equally recognizes that climate change is a global commons problem. Therefore, over time developing countries will also need to play an appropriate role in collective efforts to address climate change.

It is imperative that developed countries and the EITs take the lead in agreeing to limit their emissions. This should be quite feasible given that many cost-effective technologies, policies and practices exist to start to limit GHG emissions, and is appropriate given:

- historical and current emissions of greenhouse gases in developing countries are much lower than in developed countries and EITs, both in absolute and per capita terms;
- developed countries have a greater economic, technical, and institutional capability to start to address the issue in a cost-effective manner; and
- in the near-term developing countries need to increase their production and consumption of energy to alleviate poverty and under-development. We should remember a few stark facts: 1.3 billion people live on less than $1 per day; 3 billion people live on less than $2 per day; 2 billion people are without electricity and cook using traditional fuels which leads to a high incidence of respiratory illnesses and deaths; and 1.3 billion people live without clean water. To burden developing countries now with more costly technologies to curb their emissions would threaten the progress made to date in alleviating poverty and underdevelopment.

Q. *The Bank believes that Africa is a priority for attention in its lending and yet Africa only emits 3 percent of global GHGs — will this distort the lending policies of the Bank? Is Africa important in climate change?*

A. Africa is important in climate change — not so much for GHG emissions — but for the potential effects global climate change will have on African ecosystems and human settlements. Poor countries and their populations are among the most vulnerable to climate change due to their dependence on subsistence agriculture and rain-fed irrigation. In addition, tropical disease vectors all too common on the continent are predicted to spread to new areas as a result of a warmer climate.

Efforts to reduce Africa's vulnerability to global climate change are not a distortion of development assistance. Almost all measures to improve the resilience of African agriculture and ecosystems improve their capacity to withstand short-term natural climate variability, such as droughts, and are therefore fully in the domestic economic interest of the countries.

The projects that have dealt with limiting African GHG emissions are in priority sectors with multiple economic, social, and local environmental benefits. Examples include photovoltaics for rural electrification and improved management of biomass supplies to meet basic household energy needs.

Q. *With developing countries facing other pressing problems like poverty, malnutrition, and diseases, why is the Bank pushing them to spend scarce funds on climate change?*

A. Developing countries will be more vulnerable than developed countries, with the poorest of the poor being the most vulnerable. Poverty alleviation and sustainable economic development are clearly threatened by global climate change. The IPCC estimated that the economic costs of climate change in a doubled carbon dioxide world could be 5-9 percent of GDP in developing countries, although it is well recognized that this estimate is very uncertain. Addressing global climate change can no longer be viewed as a fringe activity, nor can it be considered the agenda of the North; it is central to development agenda.

It is now clear that countries can build a strong economic backbone even as they pursue lower-carbon energy paths, including energy efficiency, lower-carbon fuels and, where possible, renewable energy; and that this energy path will ultimately help them achieve more sustainable growth. In addition, the Bank believes that through resource and technology transfer mechanisms such as Joint Implementation, its clients stand to benefit from global efforts to address climate change.

Q. *Will the Bank fund the extra costs of protecting against climate change?*

A. In many cases, actions that benefit the global environment also benefit the country's economic development — these are "win-win" options and incur no extra costs for the country concerned. Where climate change solutions are not win-win, the Bank will seek additional resources to ensure that goals for national economic development and environmental quality are not compromised. The GEF is an important resource mobilization mechanism that pays for the incremental or extra costs of addressing climate change. Market-based mechanisms such as Joint Implementation are another way to trigger large flows of financial and technical resources to combat climate change. The Bank is exploring the potential of these market mechanisms through its Global Carbon Initiative.

The Bank and Climate Change Adaptation

Q. *Will the Bank be willing to compensate countries for loss of earnings due to the cost of adapting to or the damages from global climate change?*

A. Bank financial resources are loans and have to be paid back — they are not compensation. Countries could borrow Bank funds to make their agriculture or infrastructure less vulnerable to climate change. Peru and Ecuador are already taking out Bank loans to help stabilize their economies as they suffer through the impacts of the current El Niño cycle.

Payment of compensation could, in principle, be made through the Climate Change Convention's financial mechanism (currently the GEF). However, presently use of GEF funds for adaptation is limited to vulnerability assessment and adaptation planning. No payment of compensation or damage reimbursement is presently authorized by the Convention.

The Bank's Energy Strategy

Q. *Is the Bank's energy strategy working?*

A. The principles of the Bank's energy strategy, as framed in the two 1993 policy papers, *Electric Power Sector Reform* and *Energy Efficiency and Conservation* are:

- The WBG will not invest in a client country's energy sector unless that country shows continued commitment to sector-wide efficiency improvements through economic policy reform and market-based economic restructuring.
- The WBG will support competition and private sector investment, enabled by sound regulatory frameworks, in order to stimulate efficiency gains in production, fuel substitution, and trade.
- The WBG will accord high priority to production and end-use efficiency in the context of its energy operations.

A recent OED review has confirmed that there is a high level of commitment to the implementation of the reform agenda embodied in the power sector policy by both the Bank and the borrowers. Sector reform and restructuring yield significant environmental benefits compared to non-reform scenarios. However, more time and effort than initially estimated is needed to implement reforms. In addition, the review also found that greater commitment is needed on the part of the Bank with regard to programs for supply side and end-use energy efficiency, and for renewable energies.

Q. *Why are emissions from Bank projects much bigger than the emissions saved through its GEF portfolio?*

A. The Bank's mission is promote economic development and to alleviate poverty. It is universally recognized that the energy needs of the developing countries are very great, that increased energy consumption and economic growth will be essential if living standards of the poor are to be raised, that without accelerated development in many countries domestic environmental degradation will worsen, and that the current threat from anthropogenic climate change is caused much more by the affluent than the poorer nations. For all of these reasons, the Convention is clear that continued growth of energy and use of fossil fuels in developing countries is quite consistent with the Convention. But guidance from the Parties as to when and how such growth must be moderated in order to be consistent with the Convention will only evolve over time.

The WBG recognizes that addressing climate change is a long-term challenge. However, given the long lag times in the widespread effectiveness of technological measures, the WBG believes in the importance of taking action immediately. Therefore, the WBG is putting in place programs geared towards the long-term technological and policy shifts that are necessary to address climate change. The GEF is a key instrument in catalyzing the beginnings of this shift, but its resources are still modest relative to the energy financing needs of our client countries.

Renewable Energy

Q. *Does the Bank invest in energy efficiency?*

A. Actions to improve energy efficiency take many forms, and all Bank energy sector investments promote improved efficiency. The Bank has put emphasis on a series of actions in the energy sector designed to improve sectoral efficiency through restructuring and role of the private sector. It has become clear that, more than any other factor, changes in economic structure affect the future path of energy use and greenhouse gas emissions. The Bank has been in the forefront of such reform efforts at the macro and sector levels. As our clients' energy sectors reform, this will open avenues for more direct forms of energy efficiency assistance, particularly investments in demand-side measures.

Q. *Does the Bank invest in renewable energy?*

A. The Bank has the largest renewable energy portfolio of any institution in the world, with renewables projects totaling nearly $3 billion in the last seven years (not counting large hydro, which is a traditional renewable). This represents about 10 percent of the total portfolio value. This fraction is limited by two factors: (a) renewables, at their present level of supply cost, are not economic to substitute for fossil fuels on a large scale, and (b) even where they are economic today, such as for moderate levels of rural electricity supply, market distortions and entry barriers limit penetration of renewables. These obstacles are being addressed by a combination of R&D and technological progress, through the Bank's regular energy sector reform dialogue, and through the resources of the GEF. Thus, over time, the level of Bank support to renewables is expected to rise substantially.

Hydropower

Q. *Does the Bank believe in big hydro-electric projects as the solution to greenhouse gas emissions and global climate change?*

A. Hydropower is the traditional clean and renewable energy source that already supplies nearly 20 percent of global electricity, and its economically exploitable potential in developing countries may be three to four times larger than presently installed, even allowing for social, environmental and other constraints. Hydropower, therefore, has a role to play in global environmental action—provided that the social and environmental impacts are evaluated carefully and early in the project and carefully mitigated during implementation. In evaluating future large hydropower investments, the Bank will be guided by the recently organized World Commission on Large Dams, an outgrowth of the joint World Bank and International Union for Conservation in Nature (IUCN) workshop.

Nuclear Energy

Q. *Will the Bank fund nuclear energy and, if not, why not?*

A. The Bank has never financed a nuclear power station. Nuclear power produces no particulates, sulfur, or greenhouse gas emissions and thus appears to offer a clean, non-fossil-fuel alternative for power generation. However, world experiences with high investment costs, time-consuming and costly approval processes, lack of sustainable waste disposal options, risks of major accidents—together with the Chernobyl disaster—have raised grave doubts about the future viability of nuclear power. Private investors shy away from such risky high-cost investments.

Financing for nuclear development is usually available from suppliers' credits and export financing agencies.

Q. Given its work on shadow prices of carbon, at what price does the Bank believe that nuclear energy is warranted in the fight against global warming?

A. The issues surrounding nuclear power go beyond economic costs alone. Nuclear energy is not acceptable in many parts of the world because of concerns over reactor safety, disposition of nuclear wastes and proliferation of fissile materials. The trade-offs are thus complex and cannot be boiled down to a single carbon shadow value.

Forests

Q. *What is the Bank doing about forests? What are its views on sequestration?*

A. The Bank believes that sustainable forestry can play an important role in addressing climate change. Thus, in addition to abating GHG emissions in sectors like industry, energy and transport, the Bank is committed to working with partners like the World Wildlife Fund to decrease net emissions of CO_2 from forests. The aim of this initiative is to enhance the area of representative forest ecosystems and to place large areas of forest under sustainable management regimes.

The Bank has not taken a position on how the targets negotiated for the Kyoto Protocol should include changes in carbon sinks like forests. This is a technical and political question being debated by the Parties. However, to the extent that carbon sinks are counted against emissions commitments this could provide powerful synergies with local environmental and biodiversity protection needs.

Corruption

Q. *How does the Bank define corruption?*

A. The Bank, in the report "Helping Countries Combat Corruption: The Role of the World Bank," defines corruption as "the abuse of public office for private gain." The Bank acknowledges corruption exists within the private sector. But it is corruption involving the public sector which does the greatest damage to our borrower countries. It is also the main concern to the Bank since the Bank lends primarily to governments, and supports government policies, programs, and projects.

Q. *What are the key elements in the World Bank's approach to controlling corruption?*

A. The World Bank Group cannot unilaterally purge its borrower countries of corruption. But fighting corruption on three essential fronts—in partnership with national governments, the private sector, international organizations, and civil society—can do much to combat what Jim Wolfensohn has *called "the cancer of corruption."* The Bank is implementing the following actions in the fight against corruption:

Tightening up our end of the business:

- The Bank has tightened up its procurement rules to ban firms which it determines are, or have, engaged in corruption or fraud, and to cancel loans when officials demand bribes.
- We have established clearer channels for reporting fraud and corruption in Bank-financed projects, and strengthened our investigatory capacity.
- An important pilot scheme is exploring ways of changing the way the Bank disburses loan payments: tougher standards for borrowers—but then faster and less bureaucratic disbursement to agencies which can meet the tough new standards, and helping those which cannot as yet satisfy them.
- Surprise audit checks of projects have been carried out in Eastern Europe, Eastern Africa, and South Asia.

Sharpening our attack on corruption in borrower countries

- Raising corruption problems bluntly with government leaders, especially in private sessions with Mr. Wolfensohn.
- There is now a clear link between corruption and Bank lending. If Bank projects or the country's development objectives are threatened by corruption and the authorities are unwilling to act, lending will be reduced.
- Working with countries to develop overall anti corruption programs. Some 26 countries are so far involved in the programs, which promote (1) economic policy reforms which reduce opportunities for bribery and corruption, and (2) strengthening institutions, such as a professional civil service, transparent and fair tax agencies, and legal reform, such as more efficient courts and training prosecutors to better target corruption.
- A wide-ranging initiative has been underway for some time by the Bank's training and technical assistance arm, the Economic Development Institute, to combat corruption. It consists of training workshops and seminars for parliamentarians, public officials, journalists, and civil society on topics such as "good governance," public integrity, and the practical ingredients of anti corruption strategies.
- There is now a clear link between corruption and Bank lending. If Bank projects or the country's development objectives are threatened by corruption and the authorities are unwilling to act, lending will be reduced.
- In September 1997, the Bank Group released its anticorruption strategy (approved by the Board September 2). It sets out the Bank's action plan, explains how we are giving sharper anticorruption focus to economic reform, deregulation, and government restructuring, and also addresses Bank support for stronger enforcement measures against what Jim Wolfensohn described in the 1996 Annual Meetings as "the cancer of corruption." The strategy also addresses what the Bank needs to do to ensure that its own internal controls are in the best possible shape.
- The Bank coordinates its anticorruption efforts with the IMF and now meets regularly with other MDBs to share experience and coordinate efforts.

Pushing multilateral efforts are required to complement individual country action:

- Corruption seriously undermines public support in donor countries for continued flows of development assistance, which, in turn, hurts the world's poor.
- The Bank promotes economic reform and open government as the best defense against corruption.
- In the global competition for private capital, reinforcing the message that corruption puts countries at a serious disadvantage in the eyes of investors.
- Collaborating with the OECD, the European Union, the United Nations, the Council of Europe, as well as the International Chamber of Commerce, and NGO's such as Transparency International, in support of industrial countries' efforts to tackle anti corruption measures such as ending tax deductibility for bribes and criminalizing foreign corruption.

Q. *Is the Bank's call for better governance a prelude to political conditionality?*

A. No. In analyzing governance the Bank draws a clear distinction between the political and the economic dimensions. The Bank's interest in governance—defined as the manner in which power is exercised in the management of a country's economic and social resources for development—arises solely from its concern for the effectiveness of the development efforts it supports. If sustainable development is to occur, a predictable and transparent framework of rules and institutions for the conduct of private and public business must exist.

For the private sector the requirement is that the framework be clear, applied evenhandedly, and that the intentions of governments be predictable. With regard to governments, the need is for sound public sector management underpinned by accountability and transparency.

Q. *Does the Bank lend to countries when the political commitment to sound development management is weak?*

A. Lending levels have long been responsive to issues of development management and performance. When the commitment to sound development is weak, the Bank normally takes up these issues in its dialogue with borrowers while seeking ways to help the country improve performance in the key areas of concern. This dialogue is supported by economic and sector work. When the dialogue fails, the Bank's own lending to the country is likely to be affected.

Governance has been a recurring theme of the Consultative Group meeting of donors and governments the Bank has chaired since 1990. A total of 45 meeting were held for 29 countries during the period October 1990 to January 1993. At these meetings the following governance issues were discussed: accountability, 21 times; transparency, 13 times; legal framework for development, 22 times; public sector management, 28 times; military expenditure, 12 times; human rights, 18 times.

Education

Q. How does the Bank□s strategy in education reduce poverty?

A. The Bank's education strategy aims to reduce poverty in three ways. First, by promoting the acquisition of skills that directly reduce the manifestations of poverty: The subsistence farmer who acquires new agricultural technology and thereby increases his crop yield has more food to feed his family, and the mother who learns oral rehydration therapy and thereby saves her child sees her quality of life and that of her family improved. Secondly, by promoting the acquisition of skills that enhance economic growth: with the relevant higher-order knowledge and skills, a country's labor force can use the new technologies that increase productivity, which is likely to lead to economic growth. Economic growth in turn should increase the demand for labor, thereby putting more people into paid employment and providing the poor with higher incomes. And thirdly, by promoting the acquisition of values and attitudes that reinforce social cohesion and solidarity: learning respect for others, learning the benefits of cooperation and learning how different groups within a population are interdependent. These realizations are likely to cause the non-poor to look out more for the interests of the poor in their own society.

Q. *What is the Bank doing to keep girls in school?*

A. Currently, there are nearly 50 ongoing education projects that specifically support girls' educational participation. Examples of projects designed to address the constraints to girls' education, increase girls' attendance and decrease their drop-out rates are Burkina Faso's Post-Primary Education Project (FY97) and Pakistan's Northern Education Project (FY98).

The World Bank is a signatory to both the Education for All (EFA) and the OECD/DAC initiatives whose objectives are to achieve universal primary education for all children early in the next century.

Improving girls' educational opportunities is critical to achieving these goals. Currently, the majority of out-of-school children are girls, and it is widely recognized that there are special challenges to be faced in increasing girls' enrollment rates. For these reasons, the Bank is committed to giving special support to girls' education initiatives.

Early in 1996, the Bank completed a country-by-country assessment of gender differentials in primary and secondary schools. Forty-two countries were identified as being at special risk of not meeting the EFA/DAC goals of universalized basic education — in 34 of which the Bank is currently active. At present, following a comprehensive phase of monitoring, the Bank has determined that in three (Brazil, El Salvador, and Honduras) of the 34 countries, the challenges of achieving universal basic education are more generic in nature and do not warrant a special focus on girls' education.

As part of its effort towards becoming a "knowledge bank", the Bank's work in girls' education is increasingly being focused on: building client and bank staff knowledge and capacity on girls' education; building effective monitoring systems; and increasing inter-agency collaborations on girls' education. At present, a multi-agency partnership with British DFID, UNICEF and the Rockefeller Foundation is underway to examine factors which hinder or facilitate the effective implementation of girls' education projects and initiatives.

Q. *How are advances in information and communications technologies affecting education?*

A. The ability to utilize new information and communications technologies is becoming an essential element for competition in a global economy increasingly dependent on information and technology. The global economy is placing unprecedented demands on educational systems to produce graduates with the skills necessary to compete in this rapidly evolving environment. At the same time, education systems in the developing world are still facing the challenges of expanding access, increasing quality and improving efficiency. Yet, it is important that developing nations not be left behind in the information revolution and have the skills necessary for the global economy. The current state of technology (with falling prices and growing capabilities) provides an environment in which developing countries can learn from best practice in using interactive technologies while avoiding costly mistakes that others have made.

New technologies have created a renewed interest in distance learning applications to address the educational challenges that many countries face. Through distance learning programs that make use of satellite linkages, Internet connections and improved use of radio and television, educational programs can better reach those learners who are geographically isolated, often across national boundaries. Within countries expanded uses of distance learning are used to improve the quality of classroom instruction and to reach large numbers of learners in need of skills upgrading or certification.

Q. *What is the World Bank doing to help countries with Distance Learning?*

A. The World Bank is expanding its own distance learning activities and helping member countries build their capacities to conduct distance education. It is organizing a series of training activities and is funding projects utilizing distance learning to achieve a variety of educational objectives. The Education and Technology team within the Human Development Network is working with regional departments to outline strategies for incorporating educational technology and distance learning into national education plans. The EdTech team is also supporting the creation of a worldwide distance learning network through a website containing a wealth of information on all aspects of distance education (Global Distance EducatioNet). This network has now begun to incorporate associated centers from all areas of the developing world. The EdTech team also disseminates research and best practice in the use of distance learning and educational technology through its Education and Technology Technical Notes Series.

Gender

Q. *What is the Bank doing to increase its own investment in women's health and education programs?*

A. Total lending for operations with gender analysis, components, or actions between FY90 and FY96 averaged around 35 percent of the Bank lending portfolio. The human resources sectors account for almost half of all investment projects that include gender related action approved between FY94 and FY98. Most of these operations addressed education for girls and training for women, health and nutrition issues, employment opportunities for women and agricultural services.

Total lending for health (including population and nutrition) averaged around US $1,600 million between FY95 and FY98. Lending for projects that target specifically women's health and nutrition averaged almost US $600 million a year.

Total lending for education operations with gender analysis, components, or actions increased from US $1,208 million in FY96 to US $2,150 million in FY98. Bank lending for girls education increased from US $515 million in FY96 to US$825 million in FY98, surpassing the annual target set by the Bank for the year 2000. Fifty-three active/ongoing education projects have education components specifically targeted to female students. This represents around 30 percent of the total active/ongoing education projects.

Q. *What is the Bank doing to enhance women's access to financial resources as a means of improving their incomes?*

A. Access to financial resources by women is now recognized as a critical in their path out of poverty. The World Bank seeks to increase its investments in women's credit programs primarily through :

- *promoting micro-finance for poor women.* Relying increasingly in financial intermediation with poor women, the Bank works with in-country banks and NGOs which are close to grassroots networks. Effective national-level programs with extensive networks include Grameen Bank (Bangladesh), Janashakthi banks (Sri Lanka), and micro-finance networks in the Africa region (Kenya, Ghana, Zambia, Ethiopia, Cameroon and Burkina Faso); international NGOs include Acción International and Women's World Banking.
- *supporting social funds which include credit and micro-enterprise components, such* as the Bangladesh Poverty Alleviation project which has two key objectives which further the goal of extending credit to women.
- *funding projects in the agriculture sector which include components that extend credit to women.* For example, the Morocco National Rural Finance Project, through the National Agricultural Credit Bank (CNCA) in Morocco, helps promote savings and financial services for women clients, lending to women, and also recruiting women and men equally.
- *working in cooperation with other international development agencies to strengthen financial intermediaries who on-lend to women,* such as the Consultative Group Against Poverty (CGAP), a multidonor initiative to further the development of microfinance services to poor clients launched in mid

1995. One of CGAP's criteria for institutional funding is that at least half of the applicant retail financial institution's loans go to poor women.

- *continuing research and analysis on women's access to financial services*, with studies such as Do Targeted Credit Programs Improve the Nutritional Status of the Poor?; The Determinants and Impact of Basic Skill Attainment: The Role of School and Targeted Credit Programs in Bangladesh; The Informal Sector and Microfinance Institutions of West Africa; Sustainable Banking with the Poor; Sustainability of a Government targeted credit program: the Bangladesh Rural Development Board Rural Development Project-12; and Targeted Credit Programs and Rural Poverty in Bangladesh.

Q. *What percentage of Bank lending affects women?*

A. The Bank emphasizes the mainstreaming of gender issues into all activities, rather than separate projects for women. Thus all projects are expected to benefit women, at least indirectly. Since 1990 the Bank has lent an average of $5.04 billion a year across all operations that specifically address gender issues, primarily in the areas of education, population, health, nutrition, agriculture and credit.

Total Bank lending for operations with gender analysis, components or actions between FY90 and FY98 averaged nearly 35 percent of the lending portfolio, up from less than 10 percent during 1967-85. Most of these operations addressed education for girls and training for women, health and nutrition issues, employment opportunities for women and agricultural services.

In a regional analysis of the lending portfolio, the Operations Evaluation Department (OED) found that there was a significant jump (more than double) in the number of projects with gender-related action after FY88 for Africa and the East Asia and Pacific (EAP) regions, and after FY89 for Latin America and the Caribbean (LAC) and South Asia (SA). For the twelve countries where underinvestment in women has been more acute, the proportion of approved investment projects that included some gender-related actions jumped from 32 percent to 41 percent between FY94 and FY96, (compared to only 9 percent between FY67 and FY86).

Q. *Is there evidence that there are high private and social returns to investing in women? How is the World Bank drawing on this evidence in its investment choices?*

A. Investments in women reap intergenerational benefits for society in the form of lower child mortality, higher educational attainment, improved nutrition, and reduced population growth. Female education, particularly at the primary and lower-secondary level, is essential as a catalyst to increase the impact of other investments in health, nutrition, family planning, agriculture, industry, and infrastructure.

The social returns to investing in women lead, in turn, to economic gains. For example:

- Educated women have fewer and healthier children, which reduces the costs that households and the state must devote to healthcare.
- Investments in women's health lead to increased well-being, which also yield important intergenerational benefits and productivity gains.
- Providing women access to agricultural extension services affects their level of productivity.
- Similarly, providing credit to women has been documented to have a positive effect on individual/household welfare in general, which increases with female borrowing. A study by Pitt and Khandker (World Bank 1995) showed that Grameen Bank loans to women have relatively higher welfare effects than loans to men.

The Bank's investment in women's and girls' health, education, and access to agricultural resources and to credit are detailed in the preceding answers.

Q. *How can the Bank institutionalize a gender perspective in the design, implementation and evaluation of the projects and policies it promotes?*

A. A key objective for the Bank is to move gender beyond political correctness and a special interest issue to its full integration into the Bank's mainstream economic and social development activities, placing gender as a key dimension of the economic structure. New and exciting projects are being initiatives as part of a two-prong strategy to: (a) build the research and ideas pipeline on gender and development; and (b) reflect what we already know in our CAS, lending and advisory work.

- An External Gender Web Site and a Gender Sector Strategy Discussion site will be launched in September 1998 to promote the exchange of ideas, experience and information between the Bank and its development partners on the promotion of equal participation of women and men in development.
- The Gender Sector Strategy Note (GSSN), to be finalized by December 1998, will assess the Bank's record in implementing its commitments on mainstreaming gender and will set strategic directions for future involvement. The GSSN will propose institutional and operational priorities for future gender work in the Bank and a practical operational framework for their implementation.
- Gender issues are country and sector specific, so Regional Gender Action Plans will identify the critical gender issues for each member country and a monitorable set of actions to be pursued in lending and nonlending operations. A set of guidelines for integrating gender into the Country Assistance Strategies (CAS) is being developed also, so that priorities may reflect gender concerns.
- A Policy Research Report on Gender will be completed by early 2000, in time for the Beijing +5 meetings in New York. The PRR will define the conceptual framework and rationale for gender work in the Bank.
- The Gender Sector Board will contribute to integrating gender into the year 2000 WDR on Poverty — focusing resources on gender and poverty issues.
- A World Development Report (WDR) on Gender is planned for the Year 2004, in time for the Fifth World Conference for Women.
- *Training:* A learning strategy to enhance Bank staff skills in addressing gender issues in their operational work has been devised, and tool-kits have been developed for agriculture, water and sanitation and transport (forthcoming).
- *Monitoring*: The Bank has instituted a monitoring system to track progress in the way gender is incorporated in lending operations, ESW, CAS and poverty assessments.
- *Funding*: Three types of funding are available for enhancing local institutional capacity to address critical gender issues and create innovative approaches to: Grants to Women's Ministries, PHRD grants, and those of the Fund for Innovative Approaches to Human and Social development (FIAHS).

Heavily Indebted Poor Countries Debt Initiative (HIPC)

Q. *What is the goal of the Heavily Indebted Poor Countries Debt Initiative?*

A. The HIPC Debt Initiative was proposed by the World Bank and IMF and agreed by governments around the world in fall 1996. It enables poor countries with good policy performance to escape from unsustainable debt and focus all their energies on striving for sustainable development and reducing poverty. An important feature of this initiative is that it deals with the debt problems of the HIPCs in a comprehensive way, by focusing on achieving overall debt sustainability, thereby enabling countries to exit from the debt rescheduling process. It also represents a commitment by the international community, including all creditors, to act together in a coordinated and concerted way, to reduce the debt to a sustainable level.

Q. *Which countries would be eligible to participate in the Initiative?*

A. The Initiative is open to the poorest countries, those that are: (i) eligible for assistance only from IDA; (ii) face an unsustainable debt situation even after the full application of traditional debt relief mechanisms; and (iii) have established a track record of good policy performance in implementing economic and social reforms.

Q. *How does the initiative work?*

A. Under traditional mechanisms a three-year performance period is required for a country to become eligible for a stock-of-debt operation by the Paris Club of official creditors. This three-year performance period, the first stage of the Initiative, leads up to the "decision point". A Debt Sustainability Analysis will determine whether this Paris Club operation, together with at least comparable action by other non-multilateral creditors, would be enough for the country to achieve debt sustainability in another three years at the "completion point." From this Debt Sustainability Analysis, three outcomes are envisaged for potentially eligible countries:

- countries for which existing mechanisms are adequate to achieve debt sustainability in three years would exit from the rescheduling process and would not be eligible for additional support under the Initiative.
- countries for which existing mechanisms would not permit the achievement of sustainability in three years would receive enhanced action under the Initiative adequate to achieve debt sustainability by the completion point, provided they follow a second period of strong policy reform of normally three years.
- borderline cases, where there is a reasonable degree of doubt about whether existing mechanisms would achieve debt sustainability by the completion point, can defer action on a Naples terms stock-of-debt operation for three years, thereby leaving open the possibility of receiving enhanced assistance under the Initiative. Such countries would be assured of additional action at the completion point if needed to achieve debt sustainability.

At the completion point, creditors would deliver the debt relief promised at the decision point, provided that such action brings the actual, not the projected, debt-to-export ratio (on a Present Value basis) and debt service-to-export ratios at the completion point down to the agreed sustainability target range. If the actual ratios, due primarily to exogenous factors, were higher at the completion point than the target ranges, debt relief would be increased to achieve debt sustainability. If the actual ratios at the completion point were lower than the target ranges, due primarily to exogenous factors, debt relief could be reduced from what was committed at the decision point.

Q. *How is External Debt Sustainability determined?*

A. The Debt Sustainability Analysis is prepared by the staff of the IMF and the World Bank, together with officials of the debtor country, to determine whether a country is facing an unsustainable debt situation after the full application of traditional debt relief mechanisms. Sustainable debt levels would be defined on a case-by-case basis within the range of 200 to 250 percent for the debt-to-export ratio (on a Present Value basis) and 20 to 25 percent for the ratio of debt service to exports. Specific targets, within this range, are determined in the light of country-specific vulnerability factors, such as the concentration and variability of exports, and with particular attention to fiscal indicators of the burden of debt service. For very open economies where the exclusive reliance on external indicators may not adequately reflect the fiscal burden of external debt, an NPV debt-to-export target below 200 percent at the completion point can be recommended, provided that the country concerned meets two criteria at the decision point: an export-to-GDP ratio of at least 40 percent and a minimum threshold of fiscal revenue in relation to GDP of 20 percent. For countries meeting these thresholds, the NPV debt-to-export target will be set at a level which achieves a 280 percent ratio of the NPV of debt-to-revenue at the completion point.

Q. *What steps do eligible HIPCs need to undertake?*

A. Sustained improvements in their economic management, building on reform programs already launched by many governments; and structural and social policy reforms, including especially actions that will improve basic health care and education.

Q. *What flexibility is there in this 3 + 3 track record for performance?*

A. The required six-year performance period is being implemented flexibly on a case-by-case basis, with countries receiving credit towards the decision point for programs that are already underway; exceptionally, the second stage of three years can be shortened for countries which have already sustained records of strong performance. Countries which have interrupted their adjustment program during the first stage can also receive some credit for implementation of the program before it went off track, provided significant portions of the program have been sustained and the overall program has been brought firmly back on track. This would be decided on a case-by-case basis by the Executive Boards of the World Bank and IMF.

Q. *What are the creditors expected to do?*

A. All creditors are expected to participate in providing exceptional assistance beyond current mechanisms as required to reach debt sustainability. The amount of assistance to be provided by each group of creditors is decided case-by-case and is based on the need to deliver debt sustainability, share equitably the burden of the additional measures, and preserve the preferred creditor status of multilateral financial institutions. The debt relief provided at the completion point is unconditional.

Q. *What actions will Multilateral creditors take?*

A. Multilateral creditors would take action to reduce the Present Value of their claims sufficient to achieve debt sustainability, taking into account the amount of debt relief provided by Paris Club creditors and at least comparable action by other bilateral and commercial creditors. Multilateral institutions participate in the Initiative through action to reduce the Present Value of their claims either through the HIPC Trust Fund or through parallel action. Multilateral institutions may choose to provide assistance to help ease the burden of debt during the second three-year performance period for countries with continued strong performance. Such assistance, through interim measures, would count toward the completion point action committed by the multilateral institutions. IDA will provide a portion of its assistance in the form of grants during the interim period as a way of advancing the delivery of its debt relief ahead of the completion points.

Q. *How does the HIPC Trust Fund operate?*

A. The Trust Fund, established in November 1996, provides debt relief to eligible countries on debt owed to participating multilaterals: it will either prepay or purchase a portion of the debt owed to a multilateral creditor and cancel such debt; or pay debt service as it comes due.

The World Bank component of the HIPC Trust Fund, funded entirely by contributions from the IBRD, will be used to provide relief on debt owed to IDA. The Trust Fund, administered by IDA, will also be used to provide relief on debt owed to other multilateral creditors, based on contributions from them and from bilateral donors. The structure of the Trust Fund allows multilateral creditors to participate in ways consistent with their financial policies and to address the resource constraints of certain multilateral creditors and the potential requirements of donors.

Q. *What are the estimated costs of the Initiative?*

A. The latest costing exercise conducted in August 1998 estimates the potential cost of the completion measures, under the baseline export growth assumptions, to be US$7.8 billion (in 1996 present value terms). Based on proportional burden sharing, the World Bank's share is estimated at US$1.6 billion (1996 present value terms). However, if annual export growth were two percent lower than the baseline projections, total estimated costs would rise to US$8.7 billion and the share of the World Bank would be US$1.9 billion (1996 present value terms).

Q. *What is the World Bank's Contribution to the Initiative?*

A. The World Bank will take action, through interim measures, during the second stage with the selective use of IDA grants and supplemental IDA allocations. The principal vehicle envisaged for World Bank participation at the completion point, together with some other multilateral creditors, is the multilateral HIPC Trust Fund. The World Bank has transferred $750 million from IBRD net income to the HIPC Trust Fund. The World Bank remains committed to pay for its full share of the cost under the Initiative. Towards this end, the Executive Directors recommended to the IBRD Board of Governors another transfer of US$100 million of IBRD net income which will be considered in early October. Further transfers to the Trust Fund are envisaged, as needed.

Q. *What is the current status of the implementation of the HIPC Initiative?*

A. Since the approval of the Initiative at the September 1996 Development Committee meeting, staff of the Bank and Fund have moved, with ten countries concerned, to prepare Debt Sustainability Analyses for those countries that have already established track records of reform. As of September 16, 1998, decisions had been taken on debt relief for Uganda, Bolivia, Burkina Faso, Guyana, Mozambique, Côte d'Ivoire and Mali. Mali was the latest country to be approved on September 16, 1998 for a total amount of US$250 million in debt relief. The Boards of the Bank and Fund have also given preliminary consideration to the case of Guinea Bissau. The Debt Sustainability Analysis for Benin and Senegal showed that the external debt was sustainable without any assistance under the Initiative.

Q. *What is the overall debt relief that has been committed thus far under the initiative?*

A. Total debt for all seven countries is expected to amount to almost US$6 billion in nominal terms.

Q. *What countries will be considered next?*

A. Preliminary consideration will be given to Ethiopia's debt sustainability analysis in October 1998. In addition, debt sustainability analyses are well underway in Togo and Mauritania, and are pending agreement between the authorities and the IMF on an ESAF arrangement. Work on Guinea Bissau has been suspended due to the conflict. Several new countries may be considered in 1999, provided they can agree to an ESAF arrangement, such as Chad, Guinea, Nicaragua, Niger, Tanzania and Vietnam.

Q. *What countries have actually received relief from the HIPC Initiative.*

A. Thus far, the first country to reach its completion point is Uganda, and has received most of the promised debt relief from its creditors. Two other countries are nearing their completion points, namely Bolivia (in September 1998), and Guyana (in early 1999).

Human Rights

Q. *How can the Bank contribute to the promotion and protection of human rights?*

A. The role of the Bank is to promote the economic development of its member countries. Its success in this role helps to create an environment for the enjoyment by individuals in these countries of *all* their human rights.

The Bank's overriding objective is the reduction of poverty. *Freedom from poverty* is a basic freedom needed for full enjoyment of other human rights and yet is still denied to more than one billion people. The Bank's contribution to poverty reduction consists mainly of assisting its borrowing members to create macroeconomic frameworks conducive to growth and microeconomic conditions which help expand production and trade, in addition to its major role in the financing of projects and programs for human resources development, infrastructure, and a broad array of productive purposes.

The following are a few examples of the Bank's role in promoting human rights in a manner compatible with its Articles:

- The Bank routinely encourages, and increasingly requires, the involvement of *affected peoples and local NGOs* in the design and implementation of the projects it finances.
- The Bank's policies on *resettlement and rehabilitation* of people involuntarily *displaced* by its projects are intended to ensure that development is not achieved at the expense of those people. The Bank requires that such displaced persons must regain, if not improve, their standard of living. The policies call for such displaced persons to receive full compensation and rehabilitation. The Bank was the first development agency to adopt a policy on *indigenous peoples* and to advocate through specific covenants in its loan agreements the recognition, demarcation and protection of indigenous lands, and the provision of "culturally appropriate" services.
- The Bank provides technical assistance to enable its borrowing members to improve management of their human and economic resources. The Bank's increasing involvement in recent years at the request of borrowing countries, in supporting their efforts toward legal, judicial, and civil service reform helps the goals of openness, transparency, and accountability which are also basic requirements for improved human rights, including political rights.

For more information on human rights, please consult the newly published booklet, *Development and Human Rights: The Role of the World Bank*, made available end of September.

Q. *Can the World Bank use its influence with its borrowers to protect political rights?*

A. The Bank's and IDA's Articles of Agreement specifically stipulate that the IBRD and IDA and their officers "shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member or members concerned."

Q. *Some suggest the Bank must recognize the relevance and importance of political rights and democracy to economic development and should use its powers to serve these objectives.*

A. The Bank's position is that while the violation of individual political rights is not a Bank concern per se, such violation, if it were to reach pervasive proportions, would become an issue in Bank decisions. This would be the case if the violation had significant direct economic effects or if it led to the breach of international obligations relevant to the Bank. This position respects the Articles' injunction that "only economic considerations" shall be taken into account by the Bank and its officers in their decisions. It realizes, however, that political events can have economic effects and authorizes the taking of these effects into account when they are clearly established. But it does not accord the Bank, as an international financial institution, the role of a political or ethical reformer of its members.

In the final analysis, the purposes of the world community may be better served if political reform is pursued by political organizations, and *political* human rights are monitored by the relevant UN organizations, regional agencies, courts, commissions, and the NGOs established for this purpose. The recent creation of the office of the UN High Commissioner for Human Rights is a clear recognition of an appropriate allocation of roles in this field.

Military Demobilization

Q. *In which countries has the Bank assisted in military demobilization?*

A. The Bank's Post-conflict Unit coordinates operational support across the Bank in the critical areas of demobilization and reintegration of combatants, reintegration of the internally displaced, demining/mine-action, rehabilitation of basic services, institutional development reconstruction of critical infrastructure, support to economic management, training and employment and food security. The Bank has supported post conflict reconstruction in Angola, Azerbaijan, Bosnia, Burundi, Cambodia, Chad, Colombia, Croatia, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Guatemala, Liberia, Rwanda, Sierra Leone, Sri Lanka, Tajikistan and Uganda.

Multilateral Debt

Q. *How large is developing countries' debt?*

A. The total debt of all developing countries is estimated at $2,171 billion as of the end of 1997. This would be an increase of 4 percent over the $2,095 billion recorded for 1996, the last year for which final figures are available.

Q. *What is the composition of the debt?*

A. Of the estimated $2,171 billion total as of end-1997, long-term debt was $1,729 billion ($1,650 billion at end 1996). Long-term debt consisted of $820 billion from official sources ($828 billion) and $909 billion from private sources ($822 billion). Short-term debt was $381 billion ($385 billion) and the use of IMF credit amounted to $62 billion ($60 billion).

Q. *How large is the debt relative to developing countries' economies?*

A. Developing countries' total stock of debt equaled 134 percent of exports in 1997, and debt service equaled 17 percent of exports. But the size of the debt burden varies enormously among developing countries. Fifty-two countries are classified as severely indebted, meaning that the present value of debt (the stock of debt adjusted for the degree of concessionality) exceeds 220 percent of exports or 80 percent of GNP.

Q. *What are the overall flows to developing countries?*

A. *Debt in the context of overall flows and investment:* Debt flows are only one part of financial flows to developing countries. Recent years have seen a rapid increase in foreign direct investment and portfolio investment in developing countries, which since 1993 have exceeded the value of net flows on debt.

Investment is strong again in 1997: Aggregate net long-term flows to developing countries are estimated at $300 billion in 1997 ($282 billion in 1996). Official development finance was $44 billion ($35 billion). Total private flows increased slightly and dominated total net flows to developing countries, accounting for 85 percent. Private capital flows were $256 billion in 1997 ($247 billion in 1996) to which foreign direct investment contributed $120 billion ($119 billion) and portfolio equity investment $32 billion ($46 billion).

But most investment still goes to a handful of countries: In practice, however, most of the increase in net flows has been to 20 middle-income countries–China and India are the exceptions among low-income countries. About half of all portfolio investment in 1991-97 was in Brazil, China, Malaysia, and Mexico. And almost sixty percent of all FDI flows in 1991-97 went to Brazil, China, Indonesia, Malaysia, and Mexico.

Operations Evaluation

Q. *How many of the Bank's operations are successful?*

A. OED's *1997 Annual Review of Development Effectiveness* (ARDE) shows that 71 percent of operations that exited the portfolio in FY96 had satisfactory outcomes, compared with an average 67 percent from FY90-95. Initial results for FY97 indicate a share of satisfactory outcomes as high as 76 percent. This is a tentative estimate, as more than half of FY97 operations have yet to be evaluated.

Q. *What determines a project's success?*

A. The borrower's performance is the most important factor of success. The next most important determinants are the Bank's own performance, country policies, and the overall quality of the institutional environment. The borrower's performance can raise the chances of satisfactory outcome by as much as 35-40 percentage points. Good Bank performance and sound macro-policy each raise the chance of success by 15-20 percentage points.

Population, Health and Nutrition

Q. *What is the Bank's strategy in the fields of health, nutrition, and population?*

A. During the next decade, the Bank's involvement in the HNP sector in low- and middle-income countries will be centered around three areas that are closely linked to client needs, to its comparative advantages in international health, and to enhanced partnerships with other organizations. The central mission of the Bank in the HNP sectors will be to help countries improve:

- poverty alleviation by addressing the health, nutrition and population needs of the world's poor and other vulnerable populations such as women, children, the disabled and elderly;
- the quality of people's lives by strengthening the performance of health care delivery systems in providing equitable access to a range of cost-effective, efficient and quality preventive and curative health services; and
- financial sustainability of the HNP sectors by securing affordable, equitable and efficient risk pooling (complemented by appropriate user charges) and by maintaining effective expenditure controls in both the public and private sectors.

Q. *How is the Bank responding to changes in the health care systems in client countries?*

A. In response to problems of public sector performance, the World Bank subscribes to an emerging policy paradigm for the role of government in the health sector – a substantial re-definition of the role of the state and non-governmental sectors in HNP. Often this will require a diminished role of the state as a direct service provider, reserving such involvement as a last resort focused primarily on poverty groups. Instead, governments will be encouraged to create a more "friendly environment" for non-governmental involvement and to define the terms of competition among providers. Simultaneously, the Bank will also assist governments become more effective in policy making, sectoral management, outcome evaluation, regulations (e.g. setting standards for drugs and expensive technology standards) and securing sustainable financing for the sector.

Q. *What does the Bank do on nutrition?*

A. The World Bank began lending for nutrition activities in 1976, and has provided financing in excess of US$ 1 billion for nutrition programs in over 74 countries since that time. The early stage of Bank lending in this area (1976-1990) was a period of innovation, experimentation, and learning. Levels of new lending remained relatively low, with an annual average of US$ 16 million. A period of expansion, beginning in 1990 and continuing to today, is characterized by the application of the early experience in a larger number of countries and to a greater variety of projects. Since 1990, annual new loan commitments for nutrition-related activities have averaged US$ 180 million per year. Strategic priorities for the World Bank in the field of nutrition are:

- to sustain awareness of the causes and consequences of malnutrition — often a hidden and persistent problem;
- to assist countries to develop capacity for policy formulation and program implementation to ensure sustainable improvements in food security and nutritional status of vulnerable populations; and
- to focus on regions and countries with high levels of under-nutrition.

Activities focus on improving infant and young child feeding and caring behaviors at the household level; targeting supplementary feeding of at-risk infants, young children, and pregnant and lactating women; improving access to nutritional services through the health care system, particularly for women and children; targeting multi-sectoral activities to improve food security; including micronutrient components in health, population, education, early childhood development, safety net, and agriculture projects; and, at the policy level, assessing the nutritional effects of macro and sectoral policy changes.

Q. *What is the Bank-recommended micronutrient strategy?*

A. The control of dietary deficiencies of vitamins and minerals — life sustaining nutrients needed only in small quantities (hence, "micronutrients") — is one of the most extraordinary development-related scientific advances of recent years. Dietary deficiencies of vitamins and minerals cause learning disabilities, mental retardation, poor health, low work capacity, blindness, and premature death. The result is a devastating public health problem: about 1 billion people, almost all in developing countries, are suffering the effects of these dietary deficiencies, and another billion are at risk of falling prey to them. The economic and social payoffs from micronutrient programs reach as high as 84 times the cost of the program. Probably no other technology available today offers as large an opportunity to improve lives and accelerate development at such low cost and in such a short time.

The 1990 Summit for Children endorsed three micronutrient goals for the end of the decade: the virtual elimination of iodine and vitamin A deficiencies and the reduction of iron-deficiency anemia in women by one-third. The Bank's micronutrient strategy adopts a variety of approaches to reaching these goals, including, for example:

Supplementation of preschool children, lactating women and measles cases with vitamin A and of pregnant women with iron-folate;

- Promotion of breast-feeding to guarantee adequate vitamin A and iron status in infants;
- Food-based approaches, including promotion of diet diversification and production of Vitamin A rich foods and food fortification;
- Promotion of changes in dietary practices and health behaviors.

To date, the Bank has invested an estimated US$ 155 million in more than 60 projects to address micro- nutrient deficiencies. The Bank works closely with partner organizations and member countries to support micronutrient components in health, nutrition, population, and education projects. In addition to technical and financial support for fortification and supplementation activities, attention is given to community-based research to develop messages for public education and mobilization campaigns, as well as to retraining of health service providers and to motivating greater private industry involvement.

Q. *How do Bank efforts fit in with global population issues?*

A. An increasing number of countries actively seek to work with the Bank on a diverse set of population issues. The Bank is seeking to improve its capacity to work with borrowers, other donors, and non-governmental organizations in formulating creative approaches to these issues. It has supported a broad range of policy and program measures to bring about the health and welfare benefits of fertility regulation and speed up the transition to lower fertility. These measures include efforts to increase the survival chances of mothers and children, to expand female education, and to improve women's status, in addition to provision of family planning services. Bank support of public and private sector efforts to achieve these objectives are generally targeted on the poor who may lack information or access to services because of market failure or inability to pay. Details of the Bank's commitments on global population issues are described in the document produced following the Cairo conference and in its new population strategy paper.

Over the last five years, the Bank has become one of the leading international financiers of reproductive health and family planning information and services. The annual dollar total of population and reproductive health components in new loans has more than tripled since the mid-1980s to around $350 million in recent years. The mix of projects has changed from a few large projects devoted mainly to construction of facilities to a larger number of more targeted projects addressing a range of programmatic needs, including contraceptive procurement, training, social marketing, and management information systems, as well as equipment and facilities, all key elements of successful family planning and reproductive health programs.

Q. *Does the Bank have policies on women's reproductive health?*

A. The Bank strongly supports improvements in women's reproductive health. Reproductive health interventions are cost-effective and have multiple benefits. The Bank assists borrowing countries to help establish basic reproductive health services and ensure access to them. These basic services include the prevention and management of unwanted pregnancy, safe pregnancy and delivery services, and the prevention and management of sexually transmitted diseases, including AIDS. The Bank also encourages positive reproductive health practices, such as delayed childbearing, safe sex and adequate nutrition, and assists countries to prevent practices harmful to women's health, such as female genital mutilation and gender-based discrimination and violence. A more detailed description of the Bank's approach to women's reproductive health can be found in the "Development in Practice" book entitled *A New Agenda for Women's Health and Nutrition*.

Q. *What is the World Bank doing to promote Safe Motherhood?*

A. The Bank supports member governments, along with other assistance agencies and non-governmental organizations in developing programs and implementing policies that will make pregnancy and birth as safe as possible for women and children. The World Bank has financed over 100 projects with women's health components in over seventy countries. Lending has averaged US$490 million over the past three years for reproductive health (family planning, maternal health and STDs/AIDS control) compared to US$170 million in 1990.

Examples of specific projects include:

- In India, the government's Child Survival and Safe Motherhood Initiative, was launched with the assistance of the World Bank and UNICEF. The project has contributed to a steadily rising proportion of pregnant women who receive pre-natal care and deliver their children in hospitals and to a 20 percent increase in the number of children fully immunized.
- The Bangladesh Population and Health Project, financed by a consortium of donors, supports Safe Motherhood by strengthening family planning and other health services, including comprehensive maternal and neonatal care, training of birth attendants, and upgrading health facilities.
- In Indonesia, the approach to Safe Motherhood is through partnership. By involving public and private sector agencies and NGOs involved in maternal health, this project seeks to improve the supply and demand for maternal health services, and to strengthen the sustainability of these services at the village level.

- Safe Motherhood goals are being obtained in Morocco by increasing availability to contraceptives, reorganizing prenatal service delivery at the provider and facility level, and by training traditional birth attendants.

Q. *What is the Safe Motherhood Initiative?*

A. The global Safe Motherhood Initiative was launched in 1987 to galvanize efforts to improve maternal health and to cut the number of maternal deaths in half by the year 2000. It is led by a unique alliance of co-sponsoring agencies who work together to raise awareness, set priorities, mobilize resources, provide technical assistance, stimulate research, and share information. Their cooperation and commitment have helped governmental and non-governmental partners from more than 100 countries to take action to make motherhood safer. In collaboration with other partners in the Initiative, the World Bank hosted a special event on World Health Day 1998 to call for accelerated action to reduce maternal mortality.

Q. *What is the Bank doing about the reemerging Tuberculosis epidemic?*

A. The World Bank is currently the largest single source of support for TB control programs worldwide, with investments of over $300 million in the 1990s. There is a growing need as this ancient infectious disease now kills between two and three million persons per year — mostly women and men in their most productive adult years. The disease is reemerging due to its association with the HIV/AIDS pandemic, as well as increased migration, and in areas of economic crisis. The World Development Report 1993 reported on the high cost-effectiveness of the WHO-recommended tuberculosis strategy known as the "DOTS" strategy — Directly-Observed Treatment, Short-course. In the two countries with greatest TB burdens, projects focused on this intervention. In China, half of the population now has access to DOTS programs with cure rates among the highest reported worldwide. In India, a recently-initiated project is supporting the launch of a revised national TB control program, and state and local innovation in implementation strategies. Bank-financed efforts are underway in all regions, mostly via integrated health sector development or reform projects — in as diverse settings as Kyrgyzstan and Haiti. Results show significant improvements in case detection methods and cure rates. Globally, the Bank is collaborating closely with NGOs, bilateral agencies, and WHO in promoting improved action against this killer.

Q. *What is the Bank doing about HIV/AIDS?*

A. The mission of the World Bank is to alleviate poverty and improve quality of life. HIV/AIDS impedes attaining these objectives, not least because it entails an enormous loss of human and economic resources. To date, the Bank has committed about $800 million to approximately 70 projects around the world aimed at preventing and controlling HIV/AIDS and sexually transmitted diseases. This commitment is likely to rise as more countries turn to the Bank for financial assistance in implementing strategies to fight the HIV/AIDS epidemic. The bulk of the Bank's finance for HIV/AIDS-related projects is provided in highly concessional terms to low-income countries through IDA.

In 1986, the Bank began providing funding for AIDS prevention as part of broader health and human development sector projects. Freestanding AIDS projects have been funded since 1989. As an example, $84 million was approved in 1992 for a multi-pronged prevention strategy in India. The program aims to promote behavioral change and condom use, control STDs, strengthen blood safety, enhance surveillance and clinical management, raise the national and provincial capacity to manage

HIV/AIDS control activities, and ensure humane treatment of people with HIV/AIDS. Nearly half of the HIV/AIDS projects presently funded by the Bank are in Sub-Saharan Africa, the region which has been the most heavily affected by HIV/AIDS.

In allocating funds for HIV/AIDS projects, the Bank works closely with individual governments, who are responsible for planning and implementing projects. For national HIV/AIDS programs to be successful it is imperative that they are based on a sound knowledge of local practice and traditions. The Bank also works in partnership with UN agencies (especially UNAIDS), bilateral donors and non-governmental organization to help countries develop strategies and programs.

Q. *What is the relationship between the World Bank and UNAIDS?*

A. The World Bank is one of six co-sponsoring organizations of the Joint United Nations Programme on HIV/AIDS (UNAIDS), with partners UNDP, UNESCO, UNICEF, UNFPA, and WHO. UNAIDS, which was formed on January 1, 1996, has four major roles: policy development and research; technical support to national AIDS control programs; advocacy for prevention and mitigation of the impact of AIDS; and coordination of the programs of cosponsoring agencies.

Social Protection

Q. *Have the Bank's adjustment policies slowed progress in the social sectors?*

A There is widespread concern regarding the effect of adjustment policies on social development. In particular, there is fear that fiscal restraint during adjustment reduces the public budget for health and education. Though this may have happened in some countries, the evidence shows that real per capita spending on health and education both have recovered from a period of declines in the 1980s. Countries that started the adjustment process early have seen the largest increases in public resources for social development. They have also experienced better growth performance, thus enhancing private resources for health and education.

Q. *Is the Bank concerned about the introduction and sustainability of pension systems in client countries?*

A. While pension systems are relatively new for the Bank, we are heavily involved in pension system reform in some 40 countries, through adjustment lending, project lending, and technical assistance. Bank work in this area focused and expanded with the publication of *Averting the Old Age Crisis* in 1994 which thoroughly evaluated existing pension schemes worldwide and developed a policy framework to guide future Bank work. As a sequel which focuses on design and implementation issues, a *Primer on Pension Reform* is at the point of completion. The Bank has a growing staff devoted to pensions, and recently concluded major adjustment loans to Argentina, Mexico, and Russia to support pension system reforms. The Bank has also provided technical assistance to China, Egypt and Turkey, as well as to a host of smaller countries in every region of the world. Project lending in this area includes financing improvements in administrative efficiency in countries such as Romania and Latvia.

Q. *What can be done during adjustment to protect the poor from any adverse affects?*

A. Though the performance of adjusting countries compares favorably to that of non-adjusting countries, certain groups within the population may endure adverse effects. Experience from the early adjustment efforts shows that it is important to deal with the social impact as an integrated part of the overall change in policy. Increasingly, efforts by the World Bank, bilateral donors and their client countries aim to cushion any short term negative effects through: (1) support for safety net projects through newly developed lending instruments such as Social Investment Funds; (2) social sector conditionalities, for instance to protect public resources for social development from budget cuts; and (3) more broad-ranging sector reform efforts to increase the efficiency of current resource use and direct more of the available resources to services that benefit the poor. To deal with the longer-term consequences, it is now common policy that social expenditures are protected as much as possible during the entire adjustment process, in particular those that have a direct impact on the well-being of the poor.

Poverty Reduction

Q. *What are the main elements of the Bank's poverty reduction strategy?*

A. Poverty is a multidimensional phenomenon, encompassing inability to satisfy basic needs, lack of control over resources, lack of education and skills, poor health, malnutrition, lack of shelter, poor access to water and sanitation, vulnerability to shocks, violence and crime, lack of political freedom and voice, and so forth. To assist governments in reducing poverty, the Bank supports broad economic growth based on labor-absorbing activities to generate income-earning opportunities for poor people; improved access to education, nutrition, health care, and other social services that serve both to improve welfare directly and to enhance poor people's ability to take advantage of new economic opportunities; the provision of social safety nets for the poorest and most vulnerable segments of society; and the establishment of institutions that serve the poor and build up or preserve their social capital.

Q. *How is the Bank implementing this poverty reduction strategy?*

A. Country conditions determine the appropriate country strategy for poverty reduction. The Bank discussed with borrowers their poverty reduction strategy, and formulates its strategy in consultation with stakeholders. The Bank's poverty reduction strategy informs its analytical work, Country Assistance Strategy, and lending program. The policy paper *Assistance Strategies to Reduce Poverty*, the *Poverty Reduction Handbook*, an operational directive, and the upcoming PovertyNet website provide details on how the Bank's approach to reducing poverty is integrated into its operations.

The Poverty Reduction Board, established in the PREM network in July 1997, is spearheading efforts to improve the impact of Bank operations on the poor. Pursuit of this goal requires progress in two areas: (1) a shift from describing poverty to formulating strategies to reduce poverty, and (2) a shift from counting poverty-focused projects to assessing their impact on the poor. In FY98, efforts were made to place poverty reduction at the center of country strategies (several countries, including Bolivia, Vietnam and Nepal, piloted this approach), and to improve information on the extent of poverty and the impact of projects (regional strategies are under preparation in several regions).

In recent years the Bank has successfully stepped up its poverty reduction analysis and lending through poverty assessments and the Program of Targeted Interventions (PTI), a pool of projects that specifically targets the poor. Poverty Assessments have now been completed for 86 countries. In FY98, 40 percent of total lending and 54 percent of IDA investment lending was specifically targeted to the poor. The level of PTI IDA lending is about the same level as FY97, but below the level of FY96 (which was 63 percent). The decline in FY97 reflected the unusually high level and share in FY96, which were due to the greater number of large PTI loans approved that year, and to a decline in aggregate lending in FY97. During FY96-98, about 60 percent of Bank lending supported economic reforms which were directly focused on poverty reduction, and much of the remaining lending supported projects and programs which increase the productivity of and economic opportunities for the poor.

The Bank's lending for human capital development has more than tripled in the past decade, from 6 percent of total lending in FY86-88 to 21 percent in FY96-98. During the period FY96-98, the Bank has lent an average of $1.8 billion per year in support of population, health and nutrition (PHN), $2.0 billion for education and $1.2 billion for other social sectors. The Bank's activities in the PHN sector have grown to a cumulative value of over $14 billion (including FY98), making the Bank the single largest external financier of health programs in low- to middle-income countries. At the end of FY98, the cumulative value of Bank loans for all levels of education was $26.8 billion. Whereas the Bank financed few safety nets in the mid-1980s, in FY97 and FY98 Bank lending in support of safety nets was $2.0 billion each year. The Bank's approach to lending for poverty reduction is necessarily broad — from building roads to educating girls.

Q. *What are the main findings of the Bank's report* Poverty Reduction and the World Bank: Progress in Fiscal 1996 and 1997?

A. The report found that the Bank has continued to make progress in helping governments reduce poverty. However, despite huge strides in reducing poverty over the past 40 years, 1.3 billion people live on less than $1 a day and almost 3 billion live on less than $2 a day. In many countries, certain groups are socially or geographically excluded and benefit little from the overall growth process. The key development challenge for the Bank will be to help bring these people into the socioeconomic mainstream in order to achieve sustainable growth in developing countries. The Poverty Group in PREM will be working on ways to deepen the Bank's understanding of the linkages between poverty and social exclusion, post-conflict situations, gender and violence. Emphasis will be placed on developing institutional, policy and investment options to tackle these issues.

Areas which require attention in the future include:

- improve poverty monitoring - strengthening individual country's own capacity to generate and use data for monitoring and diagnosing poverty.
- continue to improve the quality of poverty analysis particularly with respect to the impact of economy-wide policies on the poor and the gender dimensions of poverty.
- ensure that results of poverty assessments and other analysis are taken into account in Country Assistance Strategies, lending programs, and policy dialogue with governments.
- include low-income people who benefit from Bank-assisted projects and programs in their design and implementation.
- focus on evaluating the impact of interventions on poor households.

Q. *What is the Bank doing for the poor?*

A. The Bank's efforts to help governments reduce poverty include analytical work, policy dialogue, advice and lending. Country assistance strategies (CASs) are the vehicle for ensuring that the findings of poverty analysis make their way into the lending programs for individual countries. To better reach to poor, CASs are now increasingly being designed in ways that are firmly grounded in analyses that take into account how growth-oriented policies and sectoral reforms and investments will affect the poor. As part of an ongoing effort to build stronger partnerships, recent CASs are being prepared in close consultation with a broad array of partners.

Bank operations have supported a broad range of activities to increase the productivity and economic opportunities of the poor, to develop human capital, and to provide safety nets. Two-thirds (40 percent in FY98) of the Bank's investment lending and well over half (54 percent in FY97) of IDA's investment lending was directly targeted to the poor. Targeted projects complement broader policies and programs and are concentrated in the agriculture and rural development, education, population, health and nutrition, and social protection sectors. Bank funds going to poverty-focused adjustment operations have increased steadily over the recent years. Key issues in policy dialogue with client governments have included changing public expenditures so as to provide basic infrastructure and services in regions with concentrations of poverty and assessing the impact of agricultural policies on small farmers.

Q. *How many Bank structural or sectoral reform operations in recent years had a poverty focus?*

A. The amount of Bank lending for adjustment operations (structural and sectoral) classified as having a poverty focus increased steadily since FY95. Poverty-focused operations increased from 52 percent of adjustment operations in FY95 to 59 percent in FY96 and 62 percent in FY97. Adjustment operations with a poverty focus represented 52 percent of adjustment lending in FY97 and 64 percent in FY98.

Q. *How is the Bank addressing the social impact of the current financial and economic crisis in East Asia?*

A. The financial and corporate crisis in Asia is accompanied by a social crisis of, as yet, unknown proportions. Public funding for essential services such as health care and education is going down, while at the same time private incomes are declining. Unemployment is rising sharply, and inflation is eroding the remaining purchasing power. Price increases for selected food items, pharmaceuticals, and other imported goods aggravate the situation.

The Bank's strategy to address the social impact of the crisis is based on two clusters of activities, each with a short-term and a long-term perspective. The first cluster comprises all activities in the so-called social sectors, notably health, education, and food security. The second cluster evolves around employment and income maintenance. In addition, in recognition of some of the underlying non-financial causes of the social crisis, the Bank will design and implement all its activities in a participatory manner, with maximum transparency. Where desirable project implementation will be decentralized, with local participation. Over time, issues of decentralization, institutional reform, and governance will be addressed. A page in the World Bank's external Web site describes the Bank's response to the crisis in detail.

Water Sector

Q. *What is the extent of the World Bank's lending for the water sector?*

A. The Bank's water-related lending has consistently accounted for about 15 percent of overall Bank commitments. In FY98 lending commitments by the World Bank to the water sector totaled $1.865 billion. Of this $902.3 million was for agriculture and irrigation; $410 million was for hydropower; $516.6 million was for water supply and sanitation; and $36.3 million was for sewerage.

In 1997, the Bank's active portfolio (of ongoing projects) included $17 billion in lending for water-related projects.

Q. *How is the Bank involved at regional and global levels in tackling water issues?*

A. At the regional and global levels the Bank is involved in the Mediterranean Action Plan, the Baltic Sea and other regional seas initiatives and with the Council of Ministers of Water Affairs in the Nile Basin. Initiatives for the Danube, the Mekong, and the Indus river basins have also involved the Bank and, in some instances, the Global Environment Facility. The Bank is heavily involved in a variety of water partnerships, such as the Global Water Partnership, the World Bank-UNDP Water Supply and Sanitation Programme, and the African Water Utilities Partnership. The institution was also involved in setting up the independent World Commission on Dams.

The Bank has also launched a new partnership program to study and promote good examples of tri-sector partnerships (business, government, civil society) for providing water services to the urban poor. The Business Partners for Development (BPD) Network aims to create a global network of businesses, civil society and government to facilitate strategic partnerships that build trust and more inclusive societies.

Q. *As we near the year 2000, what involvement does the Bank have in proposing solutions to major water resource problems?*

A. The Bank is working with many parties – UN agencies, bilateral groups, private sector stakeholders and nongovernmental organizations – on developing a global consensus on water policy. The Bank expects to lend about $35 billion over the next decade on water following the 1992 Dublin Principles (these constitute three tenets: that a holistic, participatory approach is needed for managing water; that decisions should, wherever possible, be made at the lowest possible level; and that water should be treated as an economic good).

In August 1998, a World Commission on Water was launched with the aim of preparing a vision for addressing water issues in the next century. The 21-member Commission — which includes water, environmental, and development experts from around the world – is chaired by Ismail Serageldin, World Bank Vice President for Special Programs. The commission will release its report on World Water Day, May 22, 2000.

World Development Report 1998

Q. *We all know knowledge is important for development. What's new in this report?*

A. The 1998/99 World Development Report, *Knowledge for Development*, analyzes the problems of development in a new way — from the perspective of knowledge. It marries our understanding of the role of technology in economic growth with recent advances in how information affects markets, and explores how the poor can benefit the most from knowledge.

Motivated in part by contemporary economic trends such as the information revolution and the explosion of information intensive industries, the WDR explores the development implications of knowledge in education, environmental and financial policy, for the poor, and for the role of government and institutions.

Q. *What are the main messages of the Report and the key recommendations for developing countries?*

A. There are three main messages in the report. First, developing countries must attempt to narrow the gap in technical knowledge between them and developed countries. Second, in order to use this knowledge most effectively, developing countries should explore institutional arrangements to reduce information failures. These failures, which prevent markets for goods and services and markets for credit from functioning well, are particularly damaging to the poor. Third, when making public policy, officials must take into account the likelihood of information failures in public and private institutions. Policy decisions should reflect the reality that information is imperfect.

To harness the benefits of knowledge and new technologies, developing countries should rely on institutional innovations such as public-private partnerships to reduce information failures in all markets. But the persistence of information failures also reinforces the need for participatory development, greater transparency in political decision making, attention to local voice, and openness to learning and change.

Q. *What does the report say about intellectual property rights?*

Intellectual property rights determine to a large extent how developing countries are able to narrow technical knowledge gaps with developed countries. Good IPR regimes should strike a balance between consumers' need to have access to knowledge and producers' need to be compensated for creating knowledge. The IPR challenge for policymakers is to find innovative ways to maintain incentives to create knowledge while ensuring that knowledge is broadly disseminated. Recent international agreements, such as the Uruguay Round's Trade Related Aspects of Intellectual Property Rights (TRIPS), break new ground by establishing for the first time a comprehensive international system for IPR that addresses the growing importance of trade in information and knowledge-intensive services and goods.

Q. *What are the implications of the Report for current international financial crises?*

A. Of course, the final verdicts on the crises are still out. In general, financial systems are essentially markets for information that suffer acutely from information failures. Once panic sets in on the system, it spurs a self-fulfilling loss of confidence. In East Asia, the inability of investors to distinguish good firms, banks and countries from bad ones prompted them to abandoned all investments.

The report also highlights the importance of properly sequencing remedial measures with other reforms. Moves to deregulate and increase competition can be harmful without adequate institutions to ensure information and enforce performance. This sequencing problem may explain Russia's poor economic performance following the fall of communism. It also played a role in the East Asian crisis, where financial markets were liberalized without stringent monitoring and enforcement regulations.

Q. *What is the Bank doing to incorporate this new knowledge perspective into its operations?*

A. Since its inception, the World Bank has been primarily a capital Bank, lending money for development. Now, in addition to its lending function, the World Bank is also a Knowledge Bank, poised to help clients harness knowledge for development. This transformation entails improving how the Bank collects, manages and shares technical information and policy knowledge with governments and NGOs around the world. The Bank is also committed to improving global knowledge by addressing transboundary issues through partnerships with organizations such as the Consultative Group for International Agricultural Research, the International AIDS Vaccine Initiative and the Global Environmental Facility. Moreover, the Bank is committing more resources to addressing the implications of information imperfections and the limitations of markets in fulfilling development objectives. One outcome of this shift in focus is the creation of a new Public Sector Department dedicated to promoting institutions and good governance.

Y2K (Year 2000)

Q. *What is the Y2K (Year 2000) Problem?*

A. Until a few years ago, most programmers and hardware developers often saved space and effort by assuming that the first two digits of the year portion of a date were 19 and using only the last two digits to represent the year. As a result, many computer programs and systems will interpret the year '00' as the year 1900, not the year 2000. In these programs and systems, any calculations involving dates after the turn of the century will arrive at the wrong answer. Many systems have already run across the Y2K problem as credit cards with expiration dates after 1999 have been issued and as planning and budgeting calculations cross into the year 2000.

Rectifying singular instances of the Y2K bug in programs is simple. Fixing flaws in hardware is a bit more laborious since it involves replacing components or exchanging entire units. However, the greatest issue is the sheer magnitude and pervasiveness of the problem. The behavior of all programs and hardware have to be tested under all possible conditions, both individually and together to see if they are flawed. Once fixes are completed, all systems have to be tested again. Testing and fixing will involve significant amounts of man-power and will entail substantial amounts of system down-time. Thus, Y2K is a high-level management problem, not just a technical one.

Because so little time remains, those who start addressing the Y2K problem now can only expect to repair their most critical systems. Deciding what to fix and making contingency plans to deal with what may break down are the most urgent tasks.

Q. *What is the Bank doing to combat the Y2K problem?*

A. The Bank will tackle to the Y2K problem on three fronts: internal computer systems, Bank-funded projects, and raising the awareness of and supporting client countries.

The work on the Bank's internal systems is well underway since the Bank has been addressing the Y2K bug in its own systems for a number of years. The Systems Renewal Program, using SAP, will replace a large number of legacy applications; standardized Y2K-compliant PCs and associated software are being installed; and all physical plant and infrastructure at both Bank Headquarters and Field Offices are being updated.

In Bank Group financed projects, all governments, Project Implementing Agencies, and IFC investee companies have been contacted and provided an information packet on the Y2K problem.

Finally, to raise awareness in client countries, the Bank's info Dev program is conducting a series of Y2K seminars in developing countries and provides a Y2K toolkit aimed at assisting countries with setting up a national Y2K program. Info Dev also distributes grants to developing country governments for establishing a national Y2K policy and for remediation of Y2K problems found in system of national significance.

For further information, the Bank's Y2K web site can be found at http://www.worldbank.org/y2k.

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