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THE WORLD BANK ANNUAL REPORT 2005
YEAR IN REVIEW



OPERATIONAL SUMMARY | FISCAL 2005

IBRD MILLIONS OF DOLLARS	FY05	FY04	FY03	FY02	FY01
Commitments	13,611	11,045	11,231	11,452	10,487
Of which development policy lending	4,264	4,453	4,187	7,384	3,937
Number of projects	118	87	99	96	91
Of which development policy lending	23	18	21	21	15
Gross disbursements	9,722	10,109	11,921	11,256	11,784
Of which development policy lending	3,605	4,348	5,484	4,673	4,393
Principal repayments (including prepayments)	14,809	18,479	19,877	12,025	9,635
Net disbursements	(5,087)	(8,370)	(7,956)	(769)	2,149
Loans outstanding	104,401	109,610	116,240	121,589	118,866
Undisbursed loans	33,744	32,128	33,031	36,353	37,934
Operating income	1,320	1,696	3,021	1,924	1,144
Usable capital and reserves	32,072	31,332	30,027	26,901	24,909
Equity-to-loans ratio	31.4%	29.4%	26.6%	22.9%	21.5%

IDA MILLIONS OF DOLLARS	FY05	FY04	FY03	FY02	FY01
Commitments	8,696	9,035	7,282	8,068	6,764
Of which development policy lending	2,301	1,698	1,831	2,443	1,826
Number of projects	160	158	141	133	134
Of which development policy lending	32	23	24	23	15
Gross disbursements	8,950	6,936	7,019	6,612	5,492
Of which development policy lending	2,666	1,685	2,795	2,172	1,280
Principal repayments	1,620	1,398	1,369	1,063	997
Net disbursements	7,330	5,538	5,651	5,549	4,495
Credits outstanding	120,907	115,743	106,877	96,372	86,572
Undisbursed credits	22,330	23,998	22,429	22,510	20,442
Undisbursed grants	3,021	2,358	1,316	148	—
Development grant expenses	2,035	1,697	1,016	154	—

LETTER OF TRANSMITTAL

This *Annual Report*, which covers the period from July 1, 2004, to June 30, 2005, has been prepared by the Executive Directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) in accordance with the respective bylaws of the two institutions. Paul Wolfowitz, President of the IBRD and IDA, and Chairman of the Board of Executive Directors,

has submitted this report, together with the accompanying administrative budgets and audited financial statements, to the Board of Governors.

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

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Note: The complete Financial Statements, including Management's Discussion and Analysis, audited financial statements of the International Bank for Reconstruction and Development, and audited financial statements of the International Development Association, are published on the CD-ROM enclosed with this report. This *Annual Report* is also available on the Internet at www.worldbank.org.

All dollar amounts used in this *Annual Report* are current U.S. dollars unless otherwise specified.

MESSAGE FROM THE PRESIDENT OF THE WORLD BANK AND CHAIRMAN OF THE BOARD OF EXECUTIVE DIRECTORS



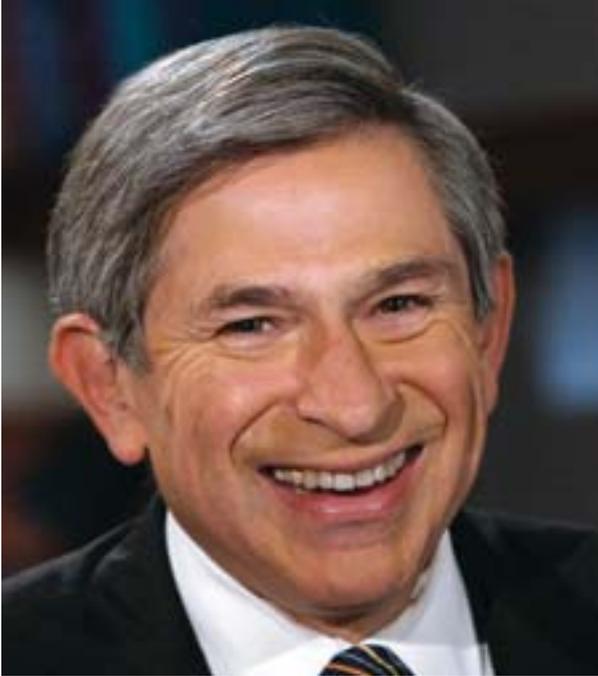
Outgoing President James D. Wolfensohn congratulates President Paul Wolfowitz on his appointment by the Bank's Board of Executive Directors.

This Annual Report records the achievements of the World Bank during the last year of the tenure of my distinguished predecessor, Jim Wolfensohn. It is an enormous responsibility to be entrusted with the leadership of this extraordinary institution, and I am grateful to Jim for having done so much to strengthen it over the past decade.

While Jim had many accomplishments in the job, probably none is more important than his relentless focus on poverty reduction as a moral issue and as the central mission of the organization.

Within this report of the World Bank's activities and financial standing, you will find sections on

- **Addressing Worldwide Poverty**—A description of how the World Bank works to promote sustainable economic growth and channel needed services to poor people. This chapter also details the Bank's work toward achieving the Millennium Development Goals; its institutional and global efforts toward effective development; and its outreach to clients through Public Information Centers and on the Web.
- **Regional Perspectives**—A breakdown of the World Bank's lending and activities across the developing world, featuring highlights of projects in borrowing countries within each of the Bank's six regions.



World Bank President Paul Wolfowitz



Mr. Wolfowitz meets with young people during his first visit to Africa as World Bank President.

- Summary of Fiscal Year Activities—A description of the Bank’s development knowledge-sharing over the fiscal year; a discussion of the Bank’s approach to lending in low-income and middle-income countries; the Bank’s resources; and a summary of the Bank’s lending by region, theme, and sector, such as environmental programs and infrastructure projects. This section also describes the Bank’s partnerships with public, private, and civil society stakeholders.
- The fiscal 2005 financial statements, organizational information, income by region, new operations approved in fiscal 2005, and various lending data are included on a CD inserted inside the back cover of this report.

While much has been accomplished by this institution and its development partners, much remains to be done. The G-8 Summit at Gleneagles at the beginning of this new fiscal year has brought a welcome focus on the challenges of global development, particularly in Africa. It has also reaffirmed the central role of the World Bank in so much of that work and has given us even more to do.

As we move forward, we need to keep a balance among the different development priorities. The first priority must be to pay special attention to the needs of the poorest people in the poorest countries in the world. At the same time, the World Bank still has an important role to play with the rapidly

growing developing countries, the so-called “middle-income” countries that nevertheless still have hundreds of millions of people living in extreme poverty. Finally, as a multilateral development institution, the World Bank is uniquely positioned to help the world address some of the concerns of the “global commons,” such as the development of sustainable energy and the alleviation of global health crises.

In all of this work, the Bank is blessed with an exceptionally dedicated and qualified professional staff. It is an honor and a privilege to work with them on a daily basis.

A handwritten signature in black ink that reads "Paul Wolfowitz". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Wolfowitz

THE BOARD OF EXECUTIVE DIRECTORS

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

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

During fiscal 2005 the Executive Directors regularly met at Bank headquarters to carry out their responsibilities, both in formal Board meetings as the Committee of the Whole and in informal meetings. Directors also serve on one or more standing committees: Audit; Budget; Committee on Development Effectiveness; Governance and Administrative

Matters (COGAM); and Personnel. With the committees' help, the Board discharges its oversight responsibilities through in-depth examinations of policies and practices, such as the evolution of implementation of the Sarbanes-Oxley corporate governance legislation in the United States; budget reform at the Bank and IFC; the World Bank Group's involvement in extractive industries; strategic staffing and diversity; and strengthening the voice and participation of developing countries and transition economies. COGAM is involved in ongoing discussions on improving the effectiveness of Board activities.

Executive Directors and Alternate Executive Directors periodically visit member countries to review Bank assistance in progress. They meet a wide range of people, including project managers, beneficiaries, and government officials, as well as civil society organizations, the business community, other development partners, financial institutions, and resident Bank staff. In July 2004 Directors visited Angola, South Africa, and Tanzania. In January 2005 they visited Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka. In April 2005 they visited Morocco, Saudi Arabia, and the West Bank and Gaza.

Directors also play an active role in preparing the agenda and issues papers for the semiannual meetings of the joint World Bank–International Monetary Fund (Bank–Fund) Development Committee.

In fiscal 2005 the Development Committee continued to review progress toward achieving the Millennium Development Goals (MDGs) at its discussion of the *Global Monitoring Report 2005, Millennium Development Goals: From Consensus to Momentum*. The report included a major focus on Sub-Saharan Africa. The Development Committee also reviewed, among others, papers on aid effectiveness and financing modalities; an operational framework for achieving debt sustainability; Bank support of the economic growth



Photo left to right: (standing) Robert B. Holland III, Mr. Herwidayatmo, Pietro Veglio, Eckhard Deutscher, Mathias Sinamenye, John Austin, Tom Scholar, Chander Mohan Vasudev, Thorsteinn Ingolfsson, Sid Ahmed Dib, Yahya Abdullah M. Alyahya, Nuno Mota Pinto, Otaviano Canuto, Pierre Duquesne, Paulo F. Gomes, Gino Alzetta, Gobind Ganga, Alexey G. Kvasov, Luis Marti; (seated) Mahdy Ismail Aljazzaf, Zou Jiayi, Jaime Quijandria, Yoshio Okubo, Ad Melkert

agenda, which is based on creating an enabling investment climate and financing infrastructure; leveraging trade for development; prospects for the global economy; and strengthening the voice and participation of developing countries and transition economies in the work and decision making of the Bretton Woods institutions. (See “Development Committee Communiqués, Fiscal 2005” in Organizational Information on the accompanying CD-ROM.)

STRATEGIC ISSUES

The major areas of Board emphasis during fiscal 2005 are highlighted below.

Strategic Framework

The Board’s work remained closely aligned with the twin pillars of the Bank’s strategic framework—promoting a favorable investment climate and empowering poor people. The continued relevance of these priorities, confirmed over the years by a series of medium-term strategy papers, was underscored this year by the Executive Directors. Directors stressed the need for the Bank to intensify its efforts in implementing the framework by sharpening the tools and procedures for meeting the development challenges set forth in the Millennium Development Goals. Directors reviewed a number of progress reports on ongoing efforts at harmonizing operational policies, procedures, and practices among donors; on meeting the needs of low-income countries, including heavily indebted poor countries and low-income countries under stress; and on strengthening partnerships with middle-income countries.

Poverty Reduction

The challenge of meeting the Millennium Development Goals is becoming more and more pressing as the 2015 target

date approaches. The Board continued to closely monitor implementation of the Bank’s poverty reduction mandate and its contributions toward the goals. The Board discussed papers on the country-owned poverty reduction strategies outlined in Poverty Reduction Strategy Papers (PRSPs). Directors considered 8 PRSPs, 2 interim PRSPs, and 20 PRSP Progress Reports in fiscal 2005, identifying areas where further refinement would be useful. Directors also considered a paper that reviews the effectiveness of Poverty Reduction Strategy Credits, the Bank lending instrument that supports poverty reduction objectives.

Debt and Debt Sustainability

The Board discussed the choice of indicative debt burden thresholds to be used in a framework for analyzing debt sustainability in low-income countries, the interaction of the framework with the Heavily Indebted Poor Countries Initiative, and the modalities for joint debt sustainability analyses by Bank and Fund staff.

Country Programs

Building on PRSPs for low-income countries and national development strategies for middle-income countries, Country Assistance Strategies (CASs) and Country Partnership Strategies capture the essential elements of the Bank’s partnerships with member countries. These strategies are the cornerstone of Bank Group work at the country level. During this fiscal year Directors continued to recommend that CASs include more detailed frameworks for measuring results, including intermediate indicators to measure and monitor progress toward medium-term outcomes agreed on by the country, the Bank, and other development partners. Directors emphasized the need for CASs to be more focused and selective and to build on partnerships. They highlighted

the importance of linking harmonization and alignment efforts to the results agenda. They also identified the need for the Bank to complement country programs with regional and subregional approaches. The Board reviewed 36 CASs, 10 of which are results-based, during the fiscal year. It continued to monitor the evolving Bank response to the Asian tsunami disaster and to the Interim Program in Iraq.

SECONDMENT PROGRAM

To enhance the voice and participation of developing and transition countries in decision making at the Bank and the Fund, the Executive Directors of the Bank identified a number of capacity-building measures, including the creation of a five-year secondment program for Bank officials from those countries.

Sixteen secondees have been given six-month assignments in operational units at the Bank, with the objective of achieving better communication and knowledge sharing between Executive Directors and their constituencies, with particular attention to Bank procedures, products, and operations.

OVERSIGHT AND FIDUCIARY RESPONSIBILITY

The Board exercises oversight and fiduciary responsibility on behalf of its shareholders, in part through its Audit Committee. The committee revised its terms of reference in 2003 to reflect best practices and continues to remain abreast of evolving standards of corporate oversight, governance, and control issues. The committee advises the Board on financial management and other governance matters to facilitate Board decisions on financial policy and control issues. In particular, the Internal Audit Department and the Department of Institutional Integrity have begun briefing the committee in restricted executive sessions on risk and control issues within their respective purviews.

ADMINISTRATIVE BUDGET

The total administrative expenses for fiscal 2005 were \$2,011.3 million, net of reimbursements, and included \$172.7 million for the Development Grant Facility. The net administrative expenses of \$1,502.2 million represented a 2 percent real increase over the fiscal 2004 budget (a 5 percent nominal increase). In June 2005 the Executive Directors approved a total administrative budget, net of reimbursements, of \$2,102.8 million for fiscal 2006.

INSPECTION PANEL

In fiscal 2005 the Inspection Panel received three new Requests for Inspection involving Bank projects in Pakistan (National Drainage Program Project), Burundi (Public Works and Employment Creation Project), and Cambodia (Forest Concession Management and Control Pilot Project). Thirty-six Requests for Inspection have been filed since the panel was established: 11 from Africa, 11 from Latin America and the Caribbean, 10 from South Asia, and 4 from East Asia and Pacific. Of the 36 formal requests received, the Panel has recommended investigations in 18 cases, 6 under the rules that applied before the April 1999 clarifications to the resolution that established the panel, and 12 since those clarifications were adopted. As of May 2005, the panel was conducting 4 investigations.

Requests for Inspection, Management Responses, panel recommendations, panel investigation reports, and management recommendations for projects reviewed this fiscal year can be found at www.worldbank.org/inspectionpanel.

SELECTION OF A NEW PRESIDENT

On March 31, 2005, the Executive Directors unanimously selected Paul Wolfowitz to become the Bank's tenth president, effective June 1, 2005.

EXECUTIVE DIRECTORS, ALTERNATES, AND COMMITTEE MEMBERSHIP | JUNE 30, 2005

EXECUTIVE DIRECTOR	ALTERNATE	CASTING VOTES OF
APPOINTED		
(vacant)	Robert B. Holland, III	United States
Yoshio Okubo ^{c, d, g}	Toshio Oya	Japan
Eckhard Deutscher ^{e (C)}	Walter Hermann ^h	Germany
Tom Scholar ^{b (VC)}	Caroline Sergeant	United Kingdom
Pierre Duquesne ^{a (C)}	Anthony Requin	France
ELECTED		
Gino Alzetta ^{a, d (VC)} (Belgium)	Melih Nemli (Turkey)	Austria, Belarus,* Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
Luis Marti ^{a, d} (Spain)	Jorge Familiar ^h (Mexico)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela (República Bolivariana de)*
Ad Melkert ^{c, e, i (C)} (Netherlands)	Tamara Solyanyk ^h (Ukraine)	Armenia, Bosnia and Herzegovina, Bulgaria,* Croatia, Cyprus, Georgia, Israel, Macedonia (former Yugoslav Republic of), Moldova, Netherlands, Romania,* Ukraine
Marcel Masse ^{d, e} (Canada)	Gobind Ganga ^h (Guyana)	Antigua and Barbuda,* The Bahamas,* Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica,* St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Otaviano Canuto ^{a (VC), b, i} (Brazil)	Jeremias N. Paul, Jr. (Philippines)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname,* Trinidad and Tobago
Biagio Bossone ^{a, b} (Italy)	Nuno Mota Pinto (Portugal)	Albania, Greece, Italy, Malta,* Portugal, San Marino,* Timor-Leste
John Austin ^{b, e, i} (New Zealand)	Terry O'Brien ^{h (C)} (Australia)	Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands, Micronesia (Federated States of), Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Vanuatu
Mathias Sinamenye ^{c, d} (Burundi)	Mulu Ketsela (Ethiopia)	Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia,* Nigeria, Seychelles,* Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
Chander Mohan Vasudev ^{c (C)} (India)	Akbar Ali Khan ^h (Bangladesh)	Bangladesh, Bhutan, India, Sri Lanka
Thorsteinn Ingolfsson ^{b, e} (Iceland)	Svein Aass ^h (Norway)	Denmark, Estonia,* Finland, Iceland, Latvia, Lithuania,* Norway, Sweden
Sid Ahmed Dib ^{c, e} (Algeria)	Shuja Shah (Pakistan)	Afghanistan, Algeria, Ghana, Iran (Islamic Republic of), Morocco, Pakistan, Tunisia
Pietro Veglio ^{c (VC), d} (Switzerland)	Jakub Karnowski (Poland)	Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan,* Uzbekistan
Mahdy Ismail Aljazzaf ^{b (C), g} (Kuwait)	Mohamed Kamel Amr (Arab Republic of Egypt)	Bahrain,* Egypt (Arab Republic of), Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives, Oman, Qatar,* Syrian Arab Republic, United Arab Emirates, Yemen (Republic of)
Zou Jiayi ^{a, b} (China)	Yang Jinlin ^h (China)	China
Yahya Abdullah M. Alyahya (Saudi Arabia)	Abdulrahman M. Almofadhi (Saudi Arabia)	Saudi Arabia
Alexey G. Kvasov ^{d (C)} (Russian Federation)	Eugene Miagkov ^h (Russian Federation)	Russian Federation
Herwidayatmo ^{a, e} (Indonesia)	Nursiah Arshad ^h (Malaysia)	Brunei Darussalam,* Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam
Jaime Quijandria ^{c, d} (Peru)	Alieto Guadagni (Argentina)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay*
Paulo F. Gomes ^{b, e (VC), f} (Guinea-Bissau)	Louis Philippe Ong Seng ^h (Mauritius)	Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo (Democratic Republic of), Congo (Republic of), Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, Togo

*Member of IBRD only.

Committees

- a. Audit Committee
- b. Budget Committee
- c. Committee on Development Effectiveness (CODE)
- d. Personnel Committee
- e. Committee on Governance and Executive Directors' Administrative Matters

- f. Pension Benefits Administration Committee
- g. Pension Finance
- h. CODE Subcommittee (formed 1/12/05)
- i. Ethics Committee

- C = Chairman
- VC = Vice-Chairman

THE WORLD BANK GROUP

The World Bank Group today comprises five closely associated institutions that collaborate to support development projects worldwide. Examples of Bank Group cooperation include joint Country Assistance Strategies; investment promotion initiatives; the Foreign Investment Advisory Service; guarantee programs for major infrastructure projects; collaboration on private sector development activities; joint programs for developing micro, small, and medium enterprises; and HIV/AIDS awareness and prevention. (See www.ifc.org, www.miga.org, and www.worldbank.org/icsid for annual reports of the other members of the World Bank Group.)



THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Established 1945 | 184 Members
 Cumulative lending: \$407.4 billion
 Fiscal 2005 lending: \$13.6 billion
 for 118 new operations in 37 countries

IBRD aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and (nonlending) analytical and advisory services. The income that IBRD has generated over the years has allowed it to

fund development activities and to ensure its financial strength, which enables it to borrow in capital markets at low cost and offer clients good borrowing terms. IBRD's 24-member Board is made up of 5 appointed and 19 elected Executive Directors who represent its 184 member countries.

IBRD KEY FINANCIAL INDICATORS | FISCAL 2001–2005

MILLIONS OF DOLLARS

	2001	2002	2003	2004	2005
Operating income	1,144	1,924	3,021	1,696	1,320
Loans outstanding	118,866	121,589	116,240	109,610	104,401
Total assets	222,748	227,454	230,062	228,910	222,008
Total equity	29,570	32,313	37,918	35,463	38,588



THE INTERNATIONAL DEVELOPMENT ASSOCIATION

Established 1960 | 165 Members
 Cumulative commitments: \$161 billion*
 Fiscal 2005 commitments: \$8.7 billion for
 160 new operations in 66 countries

*Includes credits, grants, and guarantees.

Contributions to IDA enable the World Bank to provide approximately \$8 billion to \$9 billion a year in highly concessional financing to the world's 81 poorest countries (home to 2.6 billion people). IDA's interest-free credits and grants are vital because these countries have little or no capacity to borrow on market terms. In most of these countries, the

great majority of people live on less than \$2 a day. IDA's resources help support country-led poverty reduction strategies in key policy areas, including raising productivity, providing accountable governance, building a healthy private investment climate, and improving access to education and health care for poor people.

IDA KEY FINANCIAL INDICATORS | FISCAL 2001–2005

MILLIONS OF DOLLARS

	2001	2002	2003	2004	2005
Operating income (loss)	866	692	108	(1,684)	(986)
Development credits outstanding	86,572	96,372	106,877	115,743	120,907
Total sources of development resources	101,134	109,495	119,454	127,930	130,378



THE INTERNATIONAL FINANCE CORPORATION

Established 1956 | 178 Members
 Committed portfolio: \$24.6 billion
 (includes \$5.3 billion in syndicated loans)
 Fiscal 2005 commitments: \$5.4 billion
 for 236 projects in 67 countries

IFC promotes economic development through the private sector. Working with business partners, it invests in sustainable private enterprises in developing countries without accepting government guarantees. It provides equity, long-term loans, structured finance and risk management products, and technical assistance and advisory services to its clients.

IFC seeks to reach businesses in regions and countries that have limited access to capital. It provides finance in markets deemed too risky by commercial investors in the absence of IFC participation and adds value to the projects it finances through its corporate governance, environmental, and social expertise.

IFC KEY FINANCIAL INDICATORS | FISCAL 2001–2005

MILLIONS OF DOLLARS (unless otherwise indicated)

	2001	2002	2003	2004	2005
Operating income ^a	241	161	528	982	1,953
Net income	345	215	487	993	2,015
Liquid assets, net of associated derivatives	13,258	14,532	12,952	13,055	13,325
Loan and equity investments, net	8,696	7,963	9,377	10,279	11,489
Borrowings withdrawn and outstanding	15,457	16,581	17,315	16,254	15,359
Total capital	6,095	6,304	6,789	7,782	9,798
Return on average assets (%)	0.6	0.6	1.8	3.1	5.4
Return on average net worth (%)	4.1	2.7	8.2	13.7	22.6
Cash and liquid investments as a percentage of next 3 years' estimated net cash requirements (%)	101	109	107	116	142
Debt-to-equity ratio	2.6:1	2.8:1	2.6:1	2.3:1	1.8:1
Capital adequacy ratio (%)	48	49	45	48	50
Total reserve against losses on loans to total disbursed loan portfolio (%)	16.0	21.9	18.2	14.0	9.9

a. For 2005, income after expenditures for technical assistance and advisory services.

Note: For more information, please consult the IFC (www.ifc.org), MIGA (www.miga.org), and ICSID annual reports.



THE MULTILATERAL INVESTMENT GUARANTEE AGENCY

Established 1988 | 165 Members

Cumulative guarantees issued: \$14.7 billion*

Fiscal 2005 guarantees issued: \$1.2 billion

*Amounts include funds leveraged through the Cooperative Underwriting Program.

Concerns about investment environments and perceptions of political risk often inhibit foreign direct investment—a key driver of economic growth—in developing countries. MIGA addresses these concerns by providing political risk insurance (guarantees), offering investors protection against noncommercial risks such as expropriation, currency inconvertibility, breach of contract, war,

and civil disturbance. MIGA also provides advisory services to help countries attract and retain foreign investment, mediates investment disputes to keep current investments intact and remove possible obstacles to future investment, and disseminates information on investment opportunities to the international business community.

MIGA KEY FINANCIAL INDICATORS | FISCAL 2001–2005

MILLIONS OF DOLLARS (unless otherwise indicated)

	2001	2002	2003	2004	2005
Operating income	49.3	48.4	38.1	25.6	24.1
Operating capital ^a	653	702	766	811	830
Operating income/operating capital (%)	7.5	6.9	5.0	3.2	2.9
Net exposure	3,157	3,202	3,204	3,259	3,138
Operating capital/net exposure (%)	20.7	21.9	23.9	24.9	26.4
Five largest exposures ^b	1,002	1,006	912	923	834
Five largest exposures/net exposure (%)	31.7	31.4	28.5	28.3	26.6
Net exposure in IDA-eligible countries	934	1,113	1,255	1,139	1,341
Net exposure in IDA/net exposure (%)	29.6	34.8	39.2	34.9	42.7

a. Shareholders' equity plus net insurance portfolio reserves.

b. Aggregate of five largest country net exposures.



THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

Established 1966 | 142 Members

Total cases registered: 184

Fiscal 2005 cases registered: 25

ICSID helps encourage foreign investment by providing international facilities for conciliation and arbitration of investment disputes, thereby helping foster an atmosphere of mutual confidence between states and foreign investors. Many international

agreements concerning investment refer to ICSID's arbitration facilities. ICSID also conducts research and publishing activities in the areas of arbitration law and foreign investment law.

WORLD BANK GROUP COOPERATION IN EXTRACTIVE INDUSTRIES

In response to the independent 2004 Extractive Industries Review, the World Bank, IFC, and MIGA have begun implementing proposals endorsed by the Board of Directors. These programs are aimed at improving the governance, community involvement, and revenue management of oil, gas, and mining projects supported by the Bank Group. The organizations are now setting up an Extractive Industries

Advisory Group, which will draw on the experience of outstanding representatives from a range of stakeholder groups to provide advice and a forum for discussing key issues in these industries. As part of an overall commitment to sustainability, the Bank Group will also increase its investments in natural gas and renewable energies, as well as in projects that improve energy efficiency.

Note: For more information, please consult the IFC (www.ifc.org), MIGA (www.miga.org), and ICSID annual reports.





A VISION FOR DEVELOPMENT

The World Bank's mission is to work for a world free of poverty. This year, as world leaders and development partners have taken stock of progress toward achieving their vision for development, they have seen that without bold actions, the Millennium Development Goals (MDGs) they adopted at the turn of the century will not be reached. To focus global attention on the world's poor people, they have proclaimed 2005 the year of development.

There is a growing realization that lack of sufficient progress toward these goals has immediate and tragic consequences. Every week 10,000 women in the developing world die giving birth, and 200,000 children under age five die of disease. More than 8,000 people die every day from AIDS-related conditions, and 2 million people will die of AIDS this year in Africa alone. As many as 115 million children in developing countries are not in school.

For hundreds of millions of people, a future without poverty, disease, and illiteracy depends on development. For the world, long-term security and peace depend upon it.

Stepped-up action toward meeting the MDGs is thus necessary. The urgency of this need is highlighted in the second *Global Monitoring Report*, which assesses progress and proposes ways to build momentum toward achieving the goals (see page 23). The Bank is a central partner in the effort—through its knowledge, its lending, and its support for country-owned poverty reduction strategies.

The Bank has sharpened its support for the development agenda through a two-pillar strategy for reducing poverty that is based on building the climate for investment, jobs,

and sustainable growth and on investing in poor people and empowering them to participate in development.

The strategy recognizes the vital relationship between long-term growth and human development: without human development, economic growth cannot be sustained; and a healthy economic climate provides a setting in which people can thrive.

BUILDING THE CLIMATE FOR INVESTMENT, JOBS, AND SUSTAINABLE GROWTH

Growth is an essential and powerful instrument for reducing poverty and improving living standards. If developing countries are to meet the MDGs, economic growth in these countries must accelerate.

Strong growth requires an economic climate that is conducive to investment, job creation, and higher productivity. To foster a climate for equitable growth, the Bank conducts economic analysis and provides country lending and policy advisory assistance for a variety of programs (see chapter 3). These programs aim to help maintain economic and financial stability, improve investment climates and enable private sector development, facilitate better governance and effective efforts to combat corruption, develop and maintain infrastructure, support environmental sustainability, and promote openness to trade and access to world markets for goods.

Improving the Investment Climate and Enabling Private Sector Development

The Bank's analytic work on investment climates provides countries with valuable information and tools. Now in its

second year, the Doing Business project, which is supporting reform work in more than 30 countries, provides objective, quantifiable indicators of business regulation in 145 countries. It provides tools for benchmarking that enable governments to compare their investment climates to those of their neighbors and their performance to global best practices. This year's report, *Doing Business in 2005*, expands the indicators of business constraints to include property registration and investor protection. The report also helps identify reform priorities.

The new Investment Climate Surveys Database, with data from 30,000 firms in 58 countries, offers additional indicators to inform governments contemplating reforms. This year the Bank and IFC completed an analysis of corporate governance in 10 countries, bringing the number of analyses to 48. Drawing on this research, the Bank's *World Development Report 2005: A Better Investment Climate for Everyone* has elevated the importance of improving the investment climate within the development agenda.

The Bank Group's advisory services and lending are turning diagnostic work into action in many countries. Commitments for 109 new projects with private sector

development components in fiscal 2005 amount to more than \$3.8 billion. With 23 country investment climate assessments completed this year, country assessments are now being used to guide reforms or support Bank projects in over 40 countries. For example, in El Salvador the investment climate assessment helped shape the Bank's Growth Development Policy Loan by identifying challenges in the investment climate and infrastructure. In Cambodia the Bank-IFC Foreign Investment Advisory Service is working with the garment industry to create a socially responsible brand image that will help it compete globally.

Facilitating Good Governance and Combating Corruption

Research shows that open and transparent governments are more likely to generate economic growth. For this reason, the Bank now requires all Country Assistance Strategies to address governance (see chapter 3).

In fiscal 2005 Bank lending for governance totaled \$2.6 billion, 12 percent of new lending (see chapter 3). This lending supports reforms in public financial management, procurement, service delivery, tax policy, customs administration, and law and justice. (See www1.worldbank.org/publicsector/index.cfm.)

THE MILLENNIUM DEVELOPMENT GOALS

- **Eradicate extreme poverty and hunger**
Halve the proportion of people in extreme poverty, and the proportion of people who suffer from hunger, by 2015
- **Achieve universal primary education**
Ensure by 2015 that all children will be able to complete a full course of primary schooling
- **Promote gender equality and empower women**
Eliminate gender disparity in primary and secondary education by 2005, and in all levels of education by 2015
- **Reduce child mortality**
Reduce by two-thirds the under-five mortality rate by 2015
- **Improve maternal health**
Reduce by three-quarters the maternal mortality rate by 2015
- **Combat HIV/AIDS, malaria, and other diseases**
Halt the spread of HIV/AIDS, malaria, and other major diseases, and begin to reverse the spread, by 2015
- **Ensure environmental sustainability**
Halve the proportion of people without sustainable access to safe drinking water by 2015
- **Develop a global partnership for development**
Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system, and address the special needs of the least developed countries

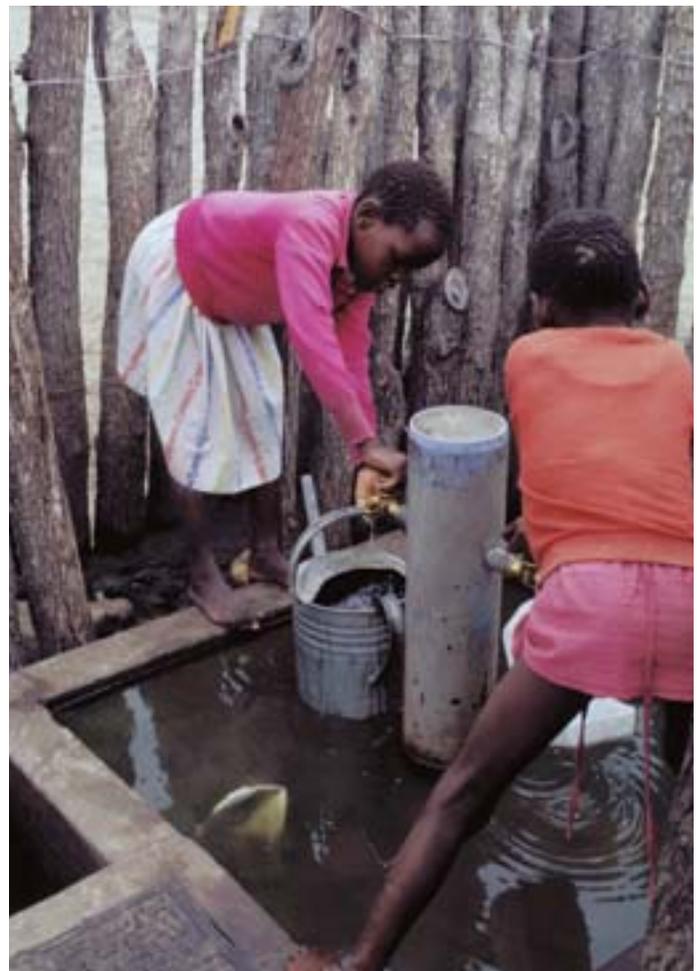
Integrity of Financial Systems The Bank's program to fight money laundering and the financing of terrorism focuses on helping countries strengthen the integrity of their financial systems. The Bank works with the intergovernmental Financial Action Task Force, similar regional bodies, and the United Nations to promote policies that encourage transparency in financial sectors and help detect and prosecute corruption. In fiscal 2005 the Bank more than doubled its assistance in this area, providing training programs and long-term expert mentors for regulators, organizing global dialogues with the public and private sectors, conducting assessments of country compliance with international best practices, and publishing reference guides and practical manuals.

Capacity Building and Diagnostics The World Bank Institute (WBI) helps policy makers from client countries develop the knowledge, skills, and abilities that will enable them to improve governance and stem corruption. In cooperation with the Bank's lending program and partner institutions, the Institute delivers participatory learning programs that help local government leaders formulate specific institutional reforms. In fiscal 2005 WBI helped civil society organizations from Benin, Guatemala, Guinea, Sierra Leone, and Zambia to develop governance and anticorruption assessments.

WBI and the Bank's Development Economics Group produce the Worldwide Governance Indicators, which assess more than 200 countries and territories on key dimensions of governance. These indicators are widely used by policy makers, donor agencies, and social science researchers. (See "Capacity Development" in chapter 3.) (See www.worldbank.org/wbi/governance.)

Law and Justice Courts and other justice institutions are vital to good governance and the fight against corruption, as they enforce the rules governing economic and social interaction. Since 1991 the Bank has funded more than 1,500 law and justice activities in 140 countries. These include 17 freestanding justice projects that were active in fiscal 2005.

Institutional Integrity The Bank is a leader among international institutions in resources committed to fighting fraud and corruption in its own operations and in client countries. The Department of Institutional Integrity was created in 2001 to investigate allegations of fraud and corruption within the Bank and in Bank-funded projects. The Bank issued its first *Annual Report on Investigations and Sanctions of Staff Misconduct and Fraud and Corruption in Bank-Financed*



Projects in February 2005. The report provides detailed data for fiscal 2004 and summary data for fiscal 1999–2004. Since 1999 the department has investigated and closed more than 2,000 cases. As of the end of fiscal 2005, these investigations had led to the debarment of more than 300 firms and individuals. The Bank publishes all of its debarments at www.worldbank.org/procurement. Allegations can be received at the Bank's 24-hour hotline (1-800-831-0463), by e-mail

(investigations_hotline@worldbank.org), and through Bank staff and other sources.

Revitalizing Infrastructure

The World Bank supports activities in a wide array of infrastructure services, including energy, transport, water supply and sanitation, urban services, telecommunications, oil, gas, and mining. It helps clients improve infrastructure service delivery through policy dialogue and institution building, support for reform, and physical investment. It also acts as a catalyst for leveraging financial and other assistance from development partners and the private sector.

Significant progress was made in fiscal 2005 toward implementing the Infrastructure Action Plan, which commits the Bank to enhancing its support by providing country analytic work in response to client demand for infrastructure strengthening, and by refining its lending instruments and advisory approaches. Infrastructure lending grew from \$5.4 billion in fiscal 2003 to \$6.5 billion—about a third of total lending commitments—in fiscal 2004, to \$7.3 billion in fiscal 2005—remaining at a third of total lending.

The Board approved 77 infrastructure projects in fiscal 2005, a 7 percent increase over the number of commitments in fiscal 2004. Transportation projects received the largest share of commitments, at almost 43 percent, followed by energy and mining, water supply and sanitation, and information and communication technologies.

The Bank delivered 188 regionally managed economic and sector work or analytic infrastructure products in fiscal 2005. Significant changes have been made in the way this work is done, with greater emphasis on the linkages between infrastructure and other sectors. Examples include work in Colombia and Indonesia as well as a flagship infrastructure study on East Asia carried out jointly with the Asian Development Bank and the Japan Bank for International Cooperation. Similar analytic work is envisaged for Africa, Europe and Central Asia, and Latin America and the Caribbean.

The Bank is making substantial investments in new areas. Together with IFC, it is exploring opportunities for engaging with clients more effectively at the subnational level through





the Municipal Fund Joint Pilot Program. It is also partnering with the International Monetary Fund (IMF) to find ways to address the lack of adequate fiscal resources for infrastructure investment once ongoing expenditure commitments in country budgets are met. The Bank and IFC are offering guidance to staff and clients on the role of the private and public sectors in providing infrastructure services and are fine-tuning approaches to public-private partnerships. The Bank is also continuing to pilot output-based aid approaches, in which governments delegate service delivery to third parties under contracts that tie disbursement of public funding to the outputs and services actually delivered to target groups.

The Bank remains committed to having a significant impact in client countries by scaling up infrastructure activities and will continue to engage other development partners, including the private sector, in this work.

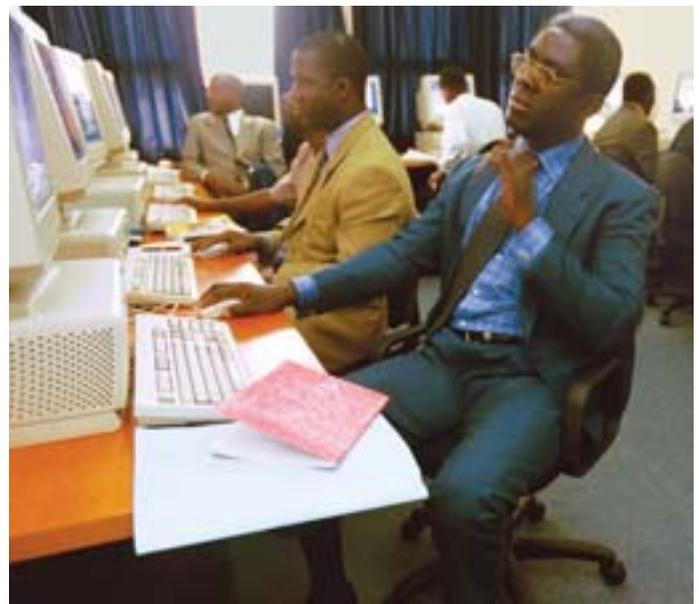
Tackling Risks and Uncertainties Affecting Developing Countries

Poor countries face risks and vulnerabilities that stand in the way of sustainable development. Water insecurity, commodity price volatility, extreme weather variability, and natural disasters affect growth prospects. Ecological risks—caused by climate change, biodiversity loss, depletion of fisheries stock, and unsustainable practices such as illegal logging—threaten the availability of natural resources for productive purposes and wealth creation. Social imbalances, weak institutions, and political instability lead to conflicts, which deter development efforts.

The Bank is addressing these issues with a suite of interrelated sector strategies on agriculture and rural

development, forests, water resources, the environment, and social development. This set of strategies takes an integrated approach to growth based on social and environmental responsibility. It also focuses resources on conflict-affected countries.

Agriculture and Rural Development Seventy percent of the world's poor live in rural areas. The Bank's renewed focus on rural development is therefore timely, and is reflected in Bank lending of \$2.8 billion in fiscal 2005.





Social Development During fiscal 2005 the Bank’s Board of Executive Directors discussed “Empowering People by Transforming Institutions: A Social Development Implementation Plan for the World Bank.” This action plan focuses on the core values of inclusion, cohesion, and social accountability. (See “Sector Strategies” in chapter 3.)

Environment Investment in environmental and natural resource management projects was \$2.5 billion in fiscal 2005, representing 11 percent of Bank lending. This year’s Global Development Marketplace also focused on finding solutions for a sustainable environment. (See box 1.1.)

Multidisciplinary Approaches To take full advantage of synergies on cross-sectoral issues, the Bank has formed natural resource management teams to ensure that land, fisheries, biodiversity, and forests projects are managed collaboratively. Implementation of the Water Resources Strategy, work on agricultural commodities and international trade, and work with TerrAfrica, a regional partnership that promotes sustainable land management in Africa, also involve such collaboration.

Global Partnerships The Bank advances its sustainable development agenda through key global partnerships, including partnerships with the Global Environment Facility and the

Consultative Group on International Agricultural Research. The World Bank–World Wildlife Fund Alliance for Forest Conservation and Sustainable Use renewed its commitment to slowing the depletion of the world’s forests by committing to phase two of the partnership, which sets new targets for reducing forest depletion. The Global Program on Fish will seek to improve sustainable livelihoods in the fisheries sector and in rural coastal communities in response to the current crisis in capture fisheries. Public-private partnerships for carbon finance surpassed \$800 million, representing a major effort to generate a stable global market for carbon emissions trading. Through the Critical Ecosystem Partnership Fund, the Bank, together with Conservation International, the Global Environment Facility, the government of Japan, and the John D. and Catherine T. MacArthur Foundation, is conserving the Earth’s biodiversity hotspots. It is supporting the work of the Com+ Alliance of Communicators for Sustainable Development, a global communications platform aimed at bringing sustainable development closer to the people. (See www.cgiar.org, www.thegef.org, www.worldbank.org, and www.complusalliance.org.)

Conflict-Affected Countries and Fragile States More than one-third of the Bank’s borrowers are affected by conflict. Poor countries suffer disproportionately from civil war: a

BOX 1.1

2005 GLOBAL DEVELOPMENT MARKETPLACE

Seventy-eight finalists from 42 countries showcased innovative approaches to improving the lives of poor people while promoting environmental conservation at the Global Development Marketplace competition in Washington, DC, in May. Titled *Innovations for Livelihoods in a Sustainable Environment*, this year’s call for proposals attracted more than 2,600 entries from 136 countries in the areas of renewable energy, biodiversity conservation, sustainable agriculture, and mitigation of air and water pollution. Thirty-one finalists received funding of up to \$150,000 each from an award pool of nearly \$4 million.

The award pool is cofinanced by the World Bank Group, the Global Environment Facility, the John D. and Catherine T. MacArthur Foundation, and Conservation International, among others.

The Development Marketplace identifies and supports local ideas that deliver results. In addition to the global event, nine country-level Development Marketplaces were held in 2005, covering a total of 14 countries. These country-led programs reach out to truly grassroots projects and focus on key local development themes. (See www.developmentmarketplace.org.)



The Bank is helping communities to rebuild after the devastating tsunami of December 2004.

country whose annual per capita gross domestic product (GDP) is \$250 has an average 15 percent risk of civil war in the next five years, whereas a country whose per capita GDP is \$5,000 has less than a 1 percent risk. A typical civil war lasts seven years and causes an estimated 30 percent increase in poverty and a 13 percent increase in infant mortality.

The Bank increasingly uses tools related to conflict sensitivity in its operational work, with 15 countries using conflict analysis frameworks and completing postconflict needs assessments and recovery plans. IDA had committed more than \$3 billion in exceptional postconflict assistance by fiscal 2005. Since 1998 the Post-Conflict Fund has also approved \$71.2 million for 142 grants in 38 countries and territories. Most of these grants are implemented by civil society organizations and United Nations agencies. Forty-two percent of all such funds have gone to Africa. The poorest conflict-affected countries are also supported through the Low-Income Countries under Stress Initiative. (See chapter 3 and www.worldbank.org/licus.)

Responding to Disasters

The tsunami in the Indian Ocean on December 26, 2004, had a devastating—and disproportionate—effect on poor people. The Bank responded quickly, assisting with recovery planning, helping coordinate rehabilitation and recovery support requested by national authorities, and mobilizing financial support.

Within days the Bank had teams in India, Indonesia, the Maldives, and Sri Lanka, the four most severely affected countries. Staff in Bank country offices worked side by side with government counterparts and other partners, notably the Asian Development Bank, to assess the extent of the damage and loss and to develop recovery strategies. In the Maldives the Bank quickly established a country presence. In the Seychelles and Somalia, where the Bank does not have active programs, Bank staff in the region provided assistance to the lead support agencies and identified financing options outside the Bank. Three principles guided Bank support for tsunami recovery: government leadership of the recovery efforts, community involvement in assessing needs and designing

recovery programs to ensure that they will benefit poor people, and efficient coordination among members of the donor community. (See www.worldbank.org/tsunami.)

Disaster reduction is at the core of the Bank's mission of fighting poverty. Since its establishment, the Bank has been a leader in providing postdisaster reconstruction assistance. Its expertise in recovery and reconstruction and its efforts to promote more effective disaster risk management allowed it to respond to the tsunami in a strategic and comprehensive way.

Since 1998 the Bank has provided training and technical assistance on integrating disaster risk reduction into development programs. Bank staff and representatives of client countries are trained in disaster-related topics, drawing on case studies to promote sustainable recovery processes and reduce the vulnerability of communities to future disasters. (See www.worldbank.org/hazards.)

There is a growing recognition that disaster-prone countries need to develop a more proactive approach to disaster risk management. That was highlighted in this year's Bank publication, *Natural Disaster Hotspots*. The approach includes reducing risk before disasters hit and strengthening preparedness and response capacities to enable full and effective utilization of resources after a catastrophe. In most cases, humanitarian aid and reconstruction assistance are not sufficient for full recovery from disaster events. Often, absorptive capacity is very weak, and only a fraction of committed funds are disbursed, even years after the disaster.

To address these problems, the Bank has been promoting a comprehensive risk management framework. This framework includes developing a better understanding of the risks facing a country and the scale of potential losses, taking steps to mitigate the potential effects of disasters, and examining the potential to use existing lending products more creatively to support ex ante recovery financing mechanisms.

Fostering International Trade

The Bank seeks to promote a world trading system that is more conducive to economic development, and to help developing countries capture the benefits of global trade. In fiscal 2005 it advocated for World Trade Organization members to



achieve as ambitious an outcome as possible in the current Doha Round of trade negotiations. It emphasized the importance of a successful round of talks to the health of the world economy and the fight against poverty.

The Bank works at both the multilateral and country levels to support clients in their trade integration strategies and to help them manage the transition to the environment that would emerge from a successful Doha Round. This work focuses on three areas: supporting investment and technical assistance projects to help countries identify the gains from trade facilitation reforms; making resources available to support trade policy reforms; and generating the analysis needed to anticipate, measure, and ameliorate the special adjustment costs countries could face as a result of multilateral trade liberalization.

In fiscal 2005 the Bank approved 15 new projects with trade facilitation components, for a total of \$381 million. These projects focus on infrastructure, services, financial systems, and other sectors of the economy essential to advancing trade and development. The Bank also helped several countries prepare for accession to the World Trade Organization. The World Bank Institute promoted 60 trade-related learning events.

The Bank published several important reports on trade in fiscal 2005. *Global Economic Prospects 2005: Trade, Regionalism, and Development* concludes that regional trade agreements can improve prospects for rapid poverty reduc-

tion, but only if developing countries liberalize trade unilaterally, multilaterally, and regionally. Other key trade research publications include *Global Agricultural Trade and Developing Countries* and the *Customs Modernization Handbook*. In the past two years, the Bank has launched studies on how to improve trade policies and develop trade opportunities in more than 50 countries as well as some 15 regional studies. (See www.worldbank.org/trade.)

INVESTING IN POOR PEOPLE AND EMPOWERING THEM TO PARTICIPATE IN DEVELOPMENT

Investments in education, health, and gender equality are critical to attaining the Millennium Development Goals. These investments help empower people to participate in decisions about development projects that affect their lives and the lives of their families. Working with civil society organizations can also help empower people to have an impact on the local delivery of education and health services. The Bank is the world leader in investing in people's empowerment. (See www.developmentgoals.org.)

Focusing on Children and Youth

Nearly half the people of the world today are under 25 years old. Ninety percent of these young people live in developing countries. The Bank is the world's largest lender for education and health, the two sectors most directly related to the well-being of children and youth. The Bank has contributed

significantly to addressing the issues of poverty, HIV/AIDS, nutrition, social protection, and social development, all of which affect the lives of young people. In September 2004 the Bank held the second Youth, Development, and Peace conference in Sarajevo, co-organized with the European Youth Forum and the World Organization of the Scout Movement, which together represent more than 20 million young people and 28 million scouts. Participants gathered to discuss how to better collaborate on issues important to young people, and agreed to establish an informal network of dialogue and regular interaction.

Supporting Education

The Bank assists countries working toward meeting the goal of universal primary education through the Education for All Initiative. It also supports the development of the higher-level skills that are essential to economic growth and competitiveness.

In fiscal 2005 IBRD lent \$356 million for pre-primary and primary education and \$492 million for secondary, vocational, and tertiary education. IDA provided \$297 million

in support of pre-primary and primary education and \$294 million in support of pre-primary, secondary, and tertiary education. This funding helped, for example, to expand coverage of early childhood education in the Arab Republic of Egypt, particularly for poor families and girls; to strengthen rural education in the Kyrgyz Republic; and to improve the quality of basic education and access by poor and disadvantaged children in Nepal.

Globally, the Fast-Track Initiative (FTI) is the key instrument for donor cooperation and support for Education for All. As of June 30, 2005, more than \$900 million in official development assistance had been mobilized worldwide in support of primary education in the initial 12 countries in the Fast-Track partnership; and \$350 million of this was mobilized in 2005. Two new funds were launched in fiscal 2005. The Catalytic Fund, with pledges of \$290 million through 2007, provides transitional funding to countries with FTI-endorsed programs. The Education Program Development Fund, with \$6 million committed to date, helps countries with sector program development and capacity building in preparation for FTI endorsement. Significant financing gaps





must be filled to ensure sustainable flows to countries already participating in the FTI as well as the many other countries expected to do so over the next few years. (See www.worldbank.org/education.)

Achieving Gender Equality

Both research and experience show that helping women and men become equal partners in development—with equal voice and equal access to resources—accelerates economic growth.

In fiscal 2005 Bank staff conducted economic and sector work on the effects of gender-based barriers to development. Through innovative research in such areas as public expenditure, pensions, and land reform, the Bank is building practical knowledge that can help countries address gender issues.

Bank-funded projects increasingly incorporate qualitative and quantitative gender analysis in their design, particularly in the health, education, and social protection sectors. Governance, labor, judicial reform, and trade projects are also beginning to address gender issues. The Bank-administered Trust Fund for Gender Mainstreaming, financed by the Dutch and Norwegian governments, continues to support innovative projects, including such cross-regional projects as Incorporating Gender Issues into Parliament, and Mainstreaming Women with Disabilities through Community Health Care.

During fiscal 2005 the Bank held its first workshop on gender-based violence. It also monitored and evaluated its progress in promoting gender equality. The publication *Improving Women's Lives: World Bank Actions Since Beijing* reviews the Bank's contributions toward improving women's access to resources, reducing gender disparities in rights, and strengthening women's voice and empowerment. It renews the Bank's commitment to the 1995 Beijing Platform of Action and the MDGs. (See www.worldbank.org/gender.)

Reducing Child Mortality

Each year 10.4 million children die before they reach age five; of these, 4 million die in their first month of life and more than 3 million babies are stillborn. Ninety-nine percent of these deaths occur in the poorest countries. Child mortal-

ity has dropped rapidly in the past 25 years, but progress everywhere slowed in the 1990s, and a few countries experienced increases. The HIV/AIDS pandemic has contributed to these increases in some countries, especially in Africa (see chapter 2).

At current rates of progress, and without a substantial reduction in neonatal mortality, only a few countries are likely to achieve the MDG of reducing child mortality to one-third the 1990 level by 2015.

Bank lending for child health has steadily increased. In fiscal 2005, total lending was \$174.4 million, and \$129 million was provided for projects in South Asia and Africa alone. The Bank continues its analytic work and has intensified its policy dialogue with countries to make child health a priority, improve service delivery, strengthen health systems (to accelerate progress on scaling up the implementation of cost-effective interventions for maximum impact on poor people), strengthen private and public partnerships, and improve linkages among the various health care sectors. (See www.developmentgoals.org.)

Improving Maternal Health

Maternal mortality is an important measure of women's health and is an indicator of the performance of health care systems. Globally, modest progress has been made in the proportion of births assisted by a skilled health care worker, with an annual increase of 1.7 percent between 1989 and 1999. But each year more than 500,000 women die from pregnancy-related causes. Access to skilled care, especially for poor people, remains a major obstacle.

The Bank has made reducing maternal mortality one of its priorities. It provided \$191.6 million in fiscal 2005 to improve maternal and reproductive health, and provided \$160 million to South Asia and several African countries, where the majority of maternal deaths occur. In addition to increasing financial support, the Bank has intensified its efforts to improve health systems and health financing in order to address human resources issues and facilitate capacity building in program management and service delivery. Bank support in other areas, such as infrastructure,



Ugandan AIDS orphans.



Participatory development is taking root, even in the world's poorest nations. World Bank community-driven project in Haiti.

girls' education, and gender equality, will accelerate progress in reducing maternal mortality in the long run. The Bank is also forging strategic partnerships to build political commitment for equitable access to maternal health services. (See www.developmentgoals.org.)

Fighting Communicable Diseases

HIV/AIDS With 40 million people infected with HIV and more than 15 million AIDS orphans worldwide, HIV/AIDS continues to negate the development efforts of many countries, particularly in Africa. In all, the Bank has committed more than \$2.5 billion to fighting HIV/AIDS in 67 countries. It provides support for expanding prevention, care, treatment, and advisory services available to countries and promotes leadership through its global partnerships, especially as a cosponsor of the Joint United Nations Programme on HIV/AIDS.

Tuberculosis Multidrug-resistant tuberculosis is spreading, particularly in the Europe and Central Asia region. The disease is the most common opportunistic infection associated with HIV, increasing the number of people with tuberculosis in many countries in Africa. The Bank supports effective tuberculosis control through the Stop TB Partnership and through program financing in several of the 22 countries with high incidence of the disease. Efforts have been particularly successful in China and India. Cumulative Bank commitments to tuberculosis control since 1991 total more than \$600 million in more than 30 countries.

Malaria Every year more than 500 million people contract malaria, and 1.1 million die from the disease. Within the Roll Back Malaria Partnership framework, the Bank collaborates closely with countries, partner agencies, and civil society organizations, and has been a key contributor to malaria control successes in Brazil, Eritrea, and Vietnam. But in many parts of the world, the burden of the disease remains very high, and drug-resistant forms of the parasite are spreading. Recognizing that progress has been too slow and uneven, the Bank launched a new malaria booster program

in April 2005, marking Africa Malaria Day. The aim is to bring malaria under control faster and on a large scale. The booster program will combine country leadership, Bank resources, and cofinancing from multiple partners with technically sound interventions for prevention and treatment. (See www.developmentgoals.org.)

Engaging with Civil Society

This year the Bank continued to work with civil society on a variety of activities, ranging from policy consultations on the Bank's extractive industry review to funding civil society efforts for HIV/AIDS prevention in thousands of African communities. Civil society participation in poverty reduction strategies and consultation on Country Assistance Strategies increased, and civil society organizations were involved in 72 percent of new Bank commitments.

The Bank carried out research on and supported programs by civil society organizations to strengthen the provision of public services and improve governance through citizen oversight and participatory budgeting initiatives at the local level. It is supporting thousands of civil society organizations managing community development, environmental protection, and postconflict reconstruction initiatives in nearly 100 countries. The Bank's work with civil society over the past few years is described in a new report, *World Bank—Civil Society Engagement: Review of Fiscal Years 2002–2004*.

In fiscal 2005 the Board of Executive Directors discussed the paper "Issues and Options for Improving Engagement between the World Bank and Civil Society Organizations," which outlines 4 key challenges and proposes 10 action items to improve the quality of the Bank's engagement with civil society. In April 2005 the Civil Society Global Policy Forum brought together almost 200 civil society leaders, government officials, donor agency representatives, and Bank managers from 50 countries to discuss ways to improve engagement between the Bank and civil society at the global level. The Bank also held global conferences with various civil society constituencies, including youth, labor unions, and people with disabilities. (See www.worldbank.org/civilsociety.)



During the UN International Year of Microcredit, the Bank has helped develop frameworks that have enabled savings and credit services such as these in Mexico.

TOWARD EFFECTIVE DEVELOPMENT

The Bank is helping to build a global framework for effective development and attainment of the Millennium Development Goals, addressing its own institutional efficiency, and examining the effectiveness of its programs.

The Global Monitoring Report

The second *Global Monitoring Report, Millennium Development Goals: From Consensus to Momentum*, published jointly by the Bank and the IMF, sets out a five-point agenda of actions that can help developing and developed countries build the momentum needed to attain the MDGs. Recommendations include anchoring actions in country-led development strategies; improving the environment for stronger, private sector-led economic growth; scaling up education and health services; dismantling barriers to trade in developing and developed countries; substantially increasing the level and effectiveness of aid by at least doubling the level over the next five years and aligning the pace of the increase with recipient countries' absorptive capacities; and improving the quality of aid. Special attention must be given to accelerating progress in Africa, the region farthest from attaining the goals. (See www.worldbank.org/globalmonitoring.)

Managing for Results

The need to use information to improve decision making and steer country-led development processes toward clearly defined goals is now at the forefront of the global development agenda. During fiscal 2005 the pilot phase of the results-based Country Assistance Strategy methodology was completed, and a stocktaking paper was reviewed by the Board. Efforts to strengthen country-level statistical capacity continued, and the IDA14 (14th Replenishment of IDA) Results Measurement System was developed. (See chapter 3 for more on IDA.) At the global level, the Bank coordinated the preparation of a sourcebook on managing for development results with the Joint Venture on Managing for Development Results. (See www.mfdr.org/sourcebook.html.)

Increasing Internal Efficiency

The Bank's review of the effectiveness of its operating units sought to identify ways to enhance their performance in the context of a changing external environment with increasingly differentiated client demands. The review looked at the Bank's client service delivery model, the effectiveness of the Bank's thematic networks, and issues related to Bank decentralization, staffing, and staff skills.

The findings of the review were discussed and endorsed during the Bank's annual Strategic Forum, attended by senior managers. Recommendations under consideration include ways to strengthen both the Bank's services to country clients and its work on global issues; options for further Bank decentralization; and options for enhancing the effectiveness of thematic networks by strategically managing staff skills, improving knowledge sharing, and reducing overlapping mandates.

Promoting Budget Reform

The Bank's recent budget reform initiative, launched during fiscal 2005, builds on improvements made over the past several years and supports the Bank's long-term focus on results. Corporate and unit strategic decision making and performance management will increasingly be driven by a process of setting clear strategic objectives and deploying resources to achieve desired impacts. The three core goals of the reform are to strengthen the new multiyear budget framework, to give management the flexibility and room to manage effectively, and to hold management accountable for its performance. Business planning and monitoring processes will be simplified, and the focus of attention will gradually shift from hitting absolute targets at the end of each fiscal year toward supporting continually improved resource management in pursuit of medium-term goals.

A principal element of the new system is the Strategy and Performance Contract, which summarizes each unit's strategic direction, explains the trade-offs and choices it makes in allocating its resources, discusses the risks it faces in achieving its objectives, and identifies key performance indicators, which will be used to track results and performance.



Participants at the GDLN Center in Guizhou, China.

Simplifying Bank Processes

The Bank continued its program to simplify and modernize its instruments, processes, and policies this year. Adjustment lending was renamed *development policy lending* to emphasize and reflect country ownership and support the efforts of client governments to meet their countries' needs. Changes were introduced in documents and procedures to allow for faster processing, so that borrowers receive funds and can address needs more promptly. As part of its work to support new ways of doing business, the Bank began implementing an updated policy on expenditure eligibility that makes it easier to finance expenditures that borrowers must make to implement projects. (See www1.worldbank.org/operations/eligibility.)

The Bank has also begun to simplify and modernize legal agreements that underpin IBRD loans and IDA credits and grants, with a view to clarifying their content, facilitating negotiations with member countries, and harmonizing them with the legal agreements of other international financial institutions in the long term.

Simplification is an ongoing process, and although the focus is now on implementation, the Bank will continue to readjust its policies, procedures, and instruments as necessary to meet borrowers' changing needs.

Harmonizing with Other Donors

During fiscal 2005 the Bank helped organize the High-Level Forum on Aid Effectiveness, held in Paris. The Forum brought together 620 participants representing 90 donor and partner countries, 27 aid institutions, and a range of civil society organizations. It adopted the Paris Declaration, which commits parties to improving ownership, harmonization, alignment, managing for results, and mutual accountability. It also agreed on 12 indicators for monitoring progress, with targets for 2010 to be set by September 2005.

Bank support that pools funds with other donors and governments through common mechanisms, often under sectorwide and program-based approaches, accounted for \$773 million in 9 projects in fiscal 2005, including support for health in Bangladesh and Nepal, and education in Morocco and Vietnam. The Bank also coordinated 17 Poverty Reduction

Support Credits worth \$1.4 billion with other donors, including credits for Ethiopia, Ghana, and Rwanda. It collaborated with other donors to produce analytic reports on poverty assessment and governance, and fiduciary diagnostics in Kenya, Tanzania, and several Central American countries. (See www.aidharmonisation.org and www.countryanalyticwork.net.)

Increasing Transparency

Fiscal 2005 was a landmark year for the Bank's transparency and disclosure agenda. In March the Board approved a number of revisions to the Bank's disclosure policy that will extend and simplify information disclosure, reaffirming the Bank's commitment to ensuring transparency about its activities. These changes included adopting a unified Country Assistance Strategy disclosure policy for IBRD and IDA; disclosing Board minutes (except those of executive sessions), the staff manual, the budget paper, and the staff compensation paper; and simplifying the disclosure clearance procedures.

This fiscal year also witnessed the introduction of more open policies on the disclosure of development-policy lending documents and Country Policy and Institutional Assessment (CPIA) ratings. CPIA ratings assess the quality of a country's policy and institutional framework and its suitability for fostering sustainable, poverty-reducing growth and effectively using development assistance. (See "Institutional Integrity" in this chapter, and "Low-Income Countries under Stress" in chapter 3.)

Evaluating the Bank's Work

The Operations Evaluation Department (OED) is an independent unit within the World Bank that reports directly to the Bank's Board of Executive Directors. Its evaluations seek to ensure accountability, provide an objective basis for assessing the Bank's work, and allow Bank staff to learn from experience.

OED's 2003 *Annual Review of Development Effectiveness* found that developing countries have improved their policies. Moreover, countries whose policies improved over the period 1999–2003 tended to grow at more than twice the rate of those whose policies did not improve. However, growth is not enough to reduce poverty. The 2004 review reported that the Bank's poverty reduction strategy appropriately highlights

both growth and the social aspects of development. But it may downplay sectors that cut across and complement these pillars, such as infrastructure, rural and urban development, and environment.

OED has evaluated a wide range of activities relevant to these development and poverty reduction issues. A review of Country Assistance Evaluations found that successful country programs are tailored to the country context. The Bank needs to deepen its country knowledge and link its assistance programs more closely with progress on country reforms.

OED's review of global programs found that the Bank is exploiting its comparative advantage more effectively at the global level than at the country level. But linkages between global programs and the Bank's country operations are weak.

A joint evaluation with the IMF's Independent Evaluation Office found that the poverty reduction strategy process has helped focus stakeholders in low-income countries on poverty, results, and an overarching framework for aid management. In many cases, however, countries have focused more on completing documents that give them access to resources than on improving their poverty reduction efforts.

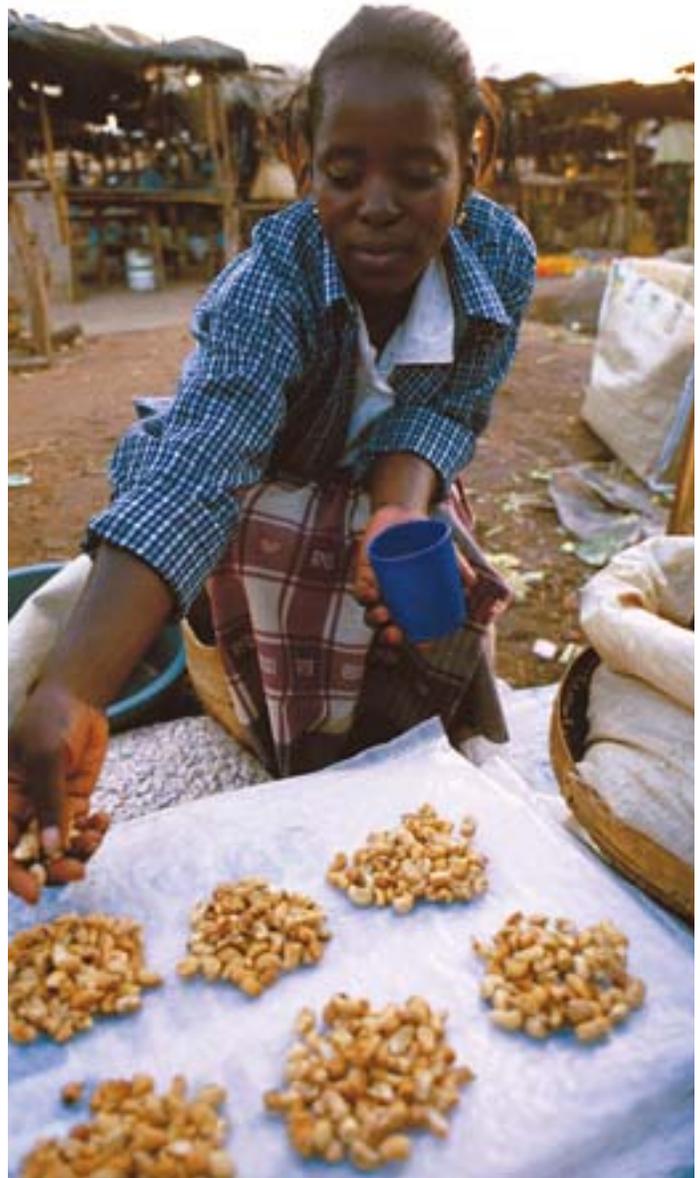
Finally, OED assessed the relevance and effectiveness of Bank support for building public sector capacity in Africa. It found that the Bank's success varies across sectors as well as from country to country. Most capacity-building support is designed and managed project by project, the report concluded, making it difficult to capture cross-sector issues and learn lessons across operations.

REACHING OUT TO CLIENTS

The Bank increased its outreach and accessibility in client countries with a number of initiatives this year, including expansion of its Public Information Centers worldwide. It also launched a number of Web-based information resources, and continued its work through the Global Development Learning Network (see box 1.2).

Development Information Services in Client Countries

Transparency, accountability, and the sharing of information promote good governance and are essential for sustainable



development. To increase all three, the World Bank is strengthening its Public Information Centers and services worldwide. By providing access to information on Bank projects and development in general, the centers encourage public participation in dialogue and help citizens make informed decisions about issues affecting their lives. In 2004 more than 90,000 people used public information services, and the number is expected to triple in 2005.

Public Information Centers are located in 75 capital cities throughout the world. Staff help visitors find information through a variety of methods, depending on the technology available. Staff also respond to public inquiries, listen to public concerns, and arrange seminars, dialogues, Webcasts, and radio programs that address development topics. Where Internet access remains limited, the Bank, in partnership with local learning institutions, has set up more than 60 satellite centers to provide countrywide access to information.

Fiscal year 2005 saw the establishment of five new Development Information Centers, which operate as clearinghouses for information on development from various

- “The challenges we face in the Caribbean today are the same ones Africa faced 10 years ago,” reflected Nancy George, chair of the HIV/AIDS Steering Committee for Jamaica’s technical university, in a videoconference that connected health practitioners in Jamaica’s Global Development Learning Network (GDLN) Center with colleagues in Barbados, Ghana, St. Lucia, Tanzania, and Uganda. “We can learn so much from your experience!”
- Federico Macaranas, executive director of the Asian Institute of Management Policy Center, and his colleagues in the Philippines linked with experts from four countries to discuss ways of improving data collection. “GDLN allows us to harness expertise from all over the world,” he said. Interactive technologies and learning methods allow development practitioners in different locations to communicate as if they were in the same room.

The Network is a global partnership of over 70 learning centers in more than 60 countries. In fiscal 2005 more than 35,000 people worldwide, in more than 900 videoconference-based activities, used it to learn from one another’s efforts to fight poverty. Policy makers coordinated humanitarian aid efforts in Côte d’Ivoire; mayors in Bosnia and Herzegovina took a course on delivering basic services to poor people; private companies in eight Latin American countries debated their social responsibility; and indigenous people in Alaska, Peru, and the Philippines discussed rural poverty.

At the launch of GDLN in June 2000, former World Bank President James D. Wolfensohn declared, “This is the end of geography as we know it.” Through GDLN, distance is no longer a constraint to transferring knowledge and experience from the people who have it to those who need it. (See www.gdln.org.)

organizations, including the Bank. These partnerships between the Bank, other multilateral development banks, civil society organizations, academic institutions, and government agencies are transforming the goal of disseminating and sharing information crucial to the sustainability of development into a reality. (See www.worldbank.org/publicinformation.)

Client Connection Web Site

Client Connection, a secure Web site for World Bank borrowers and project-implementing agencies, was launched in September 2003 to promote informed decision making and reduce the cost of doing business with the Bank. Since then, over 4,000 users in more than 130 countries have registered with Client Connection. Users can access public Bank information, secure information on their loan portfolios, and check on the status of procurement, disbursement, and repayment transactions through a user-friendly, client-focused interface.

Informal feedback and client surveys show a high level of satisfaction with the service, and daily usage rates have steadily increased. Clients welcome the transparency of the Web site and the ease of access to portfolio information, and many report that it has increased efficiency and reduced costs. New features will be added in the coming years, allowing online requests for the withdrawal of loan funds and other financial transactions. (See <http://clientconnection.worldbank.org>.)

Multilingual Web Sites

The Bank’s public Web site, with more than 1.5 million visitors a month, has become a primary conduit for communication and knowledge dissemination. Roughly a third of the Web site visitors are from non-Anglophone countries and make up the Bank’s fastest-growing audience online. In an effort to better reach these clients and support the Bank’s new Translation Framework, the Bank initiated the Multilingual Web Pilot

in fiscal 2005. The pilot created a new corporate Web site in French and expanded the existing Arabic and Spanish Web sites to include material beyond regional information. Three months after relaunching the Web sites, visitor numbers doubled to the Arabic and French sites and increased by one-third to the Spanish site. The Bank also publishes Russian and Chinese Web sites. (See www.worldbank.org.)

Youth Web Site

Youthink! is the World Bank’s online resource for students, teens, and kids on development and global issues. Written in age-appropriate language, Youthink! tackles development subjects by exploring those angles that young people care about and can relate to. Youthink! also invites young people to share their thoughts, opinions, and experiences by submitting material for publication to the Web site. (See <http://youthink.worldbank.org>.)

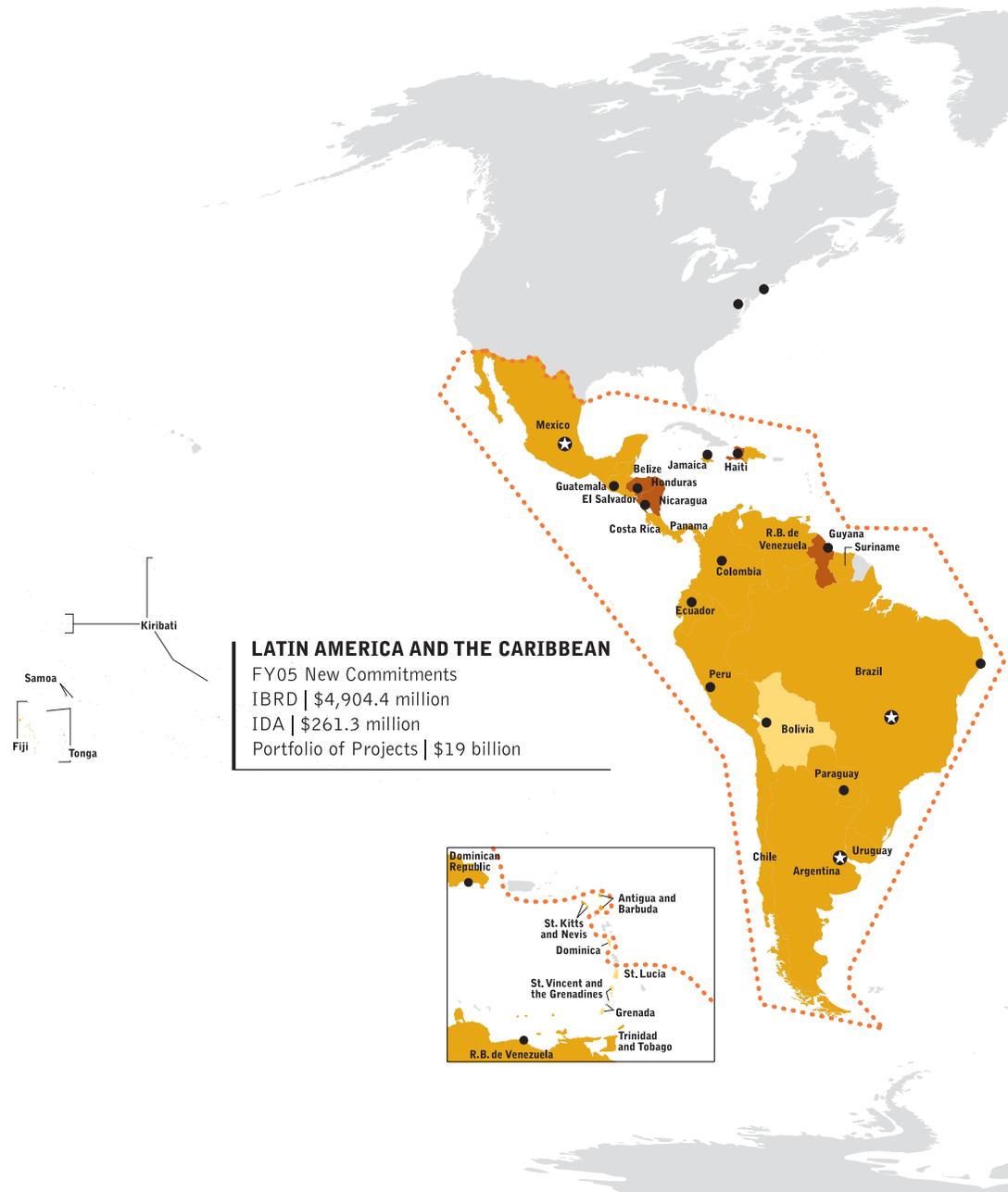
AIDS Media Center Web Site

The Bank launched the innovative AIDS Media Center in fiscal 2005 to provide journalists in developing countries with a global source for the most recent HIV/AIDS news, information, and analysis, and to help increase the accuracy, quality, and effectiveness of their reporting on the disease and related issues. The strength of the Web site comes from its broad coalition of contributing partners, including the BBC Trust, the International AIDS Vaccine Initiative, InterNews, the Johns Hopkins Bloomberg School of Public Health, the Kaiser Family Foundation, One World, the Panos Institute, PlusNews (run by the Integrated Regional Information Network of the United Nations), the Joint United Nations Programme on HIV/AIDS, the World Health Organization, and a growing list of regional journalists’ associations. (See www.aidsmedia.org.)



WORLD BANK REGIONS, COUNTRY OFFICES, AND BORROWER ELIGIBILITY

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



This map reflects the following changes in fiscal 2005: The Czech Republic graduated from borrower status; and Libya became eligible for IBRD borrowing.

MIDDLE EAST AND NORTH AFRICA

FY05 New Commitments
IBRD | \$1,212.1 million
IDA | \$71.5 million
Portfolio of Projects | \$5.9 billion

EUROPE AND CENTRAL ASIA

FY05 New Commitments
IBRD | \$3,588.6 million
IDA | \$504.9 million
Portfolio of Projects | \$15.8 billion

EAST ASIA AND PACIFIC

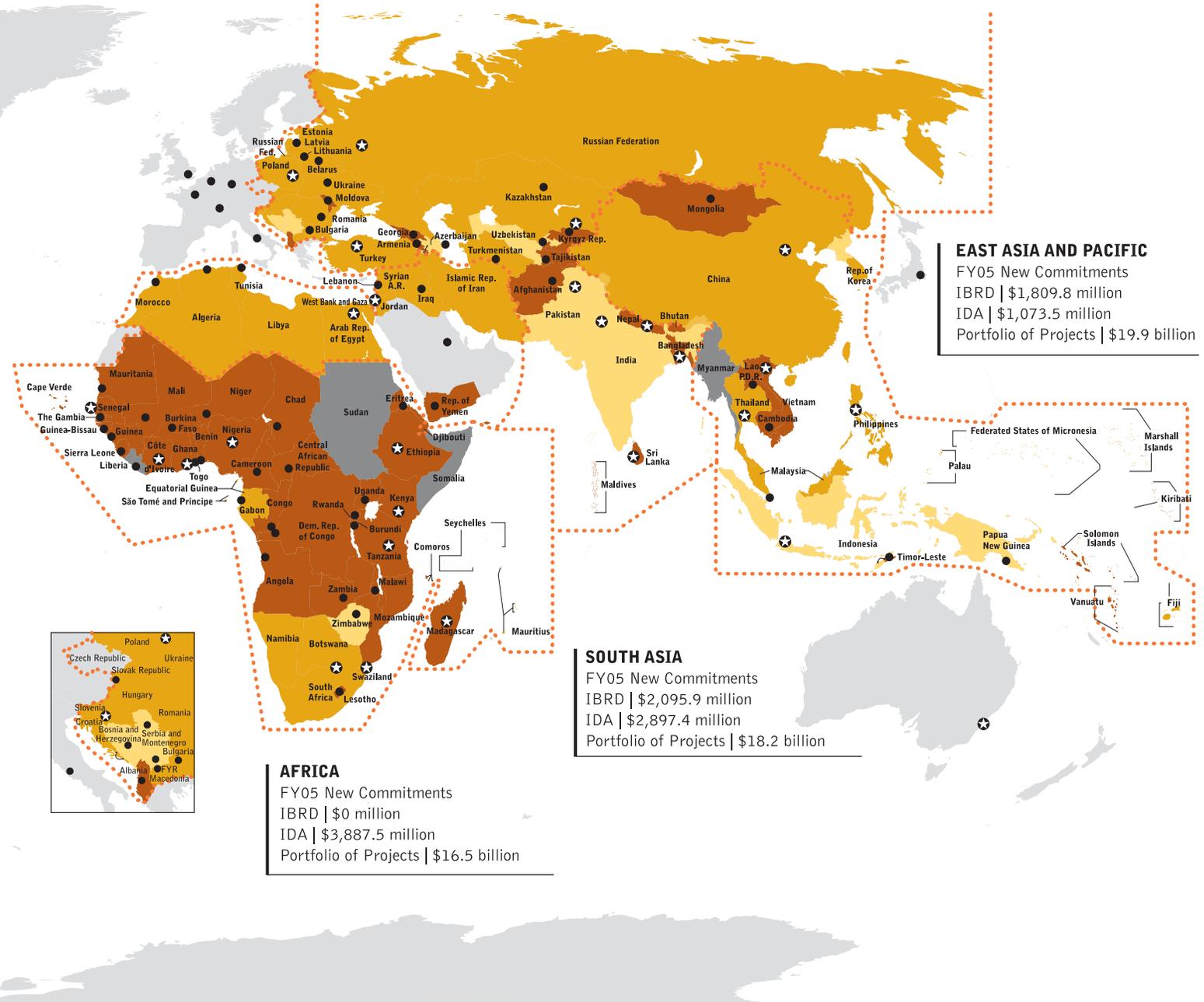
FY05 New Commitments
IBRD | \$1,809.8 million
IDA | \$1,073.5 million
Portfolio of Projects | \$19.9 billion

SOUTH ASIA

FY05 New Commitments
IBRD | \$2,095.9 million
IDA | \$2,897.4 million
Portfolio of Projects | \$18.2 billion

AFRICA

FY05 New Commitments
IBRD | \$0 million
IDA | \$3,887.5 million
Portfolio of Projects | \$16.5 billion





AFRICA

Africa's economy grew by 4.4 percent in 2004, with virtually all countries reporting positive growth. The region is projected to grow by 4.1 percent in 2005 as the benefits of past reforms and a more peaceful environment continue to translate into expanded economic activity. But the region faces serious challenges. More than 314 million Africans live on less than \$1 a day—nearly twice as many as in 1981. The continent is home to 34 of the world's 48 poorest countries and 24 of the 32 countries ranked lowest in human development. The HIV/AIDS pandemic costs Africa 1 percentage point of per capita growth a year, while malaria kills about 2,800 Africans a day. (See www.worldbank.org/aids and www.aidsmedia.org.)

Some progress toward improving human development was made during the past year, but the challenges remain enormous. To address them, several global development initiatives were launched in fiscal 2005. Key among them were calls for a doubling of aid, fairer trade, and greater debt relief.

Since the establishment of the New Partnership for Africa's Development (NEPAD) and the Poverty Reduction Strategy

Paper (PRSP) process, African countries have taken much more effective ownership of their own development. Both NEPAD and the PRSP process are based on partnerships with donors, dependable financial flows, measurable results, empowerment of poor people, participation by civil society and local communities, and accountability of recipient governments to their own people. The Bank has endorsed the Commission for Africa report, which emphasizes accelerated economic growth and the participation of poor people in economic expansion.

WORLD BANK ASSISTANCE

The World Bank is the largest provider of development assistance to Africa, and it has increased its support dramatically in the past five years. IDA commitments of \$3.9 billion in fiscal 2005 represented an increase of more than 80 percent compared with fiscal 2000, and disbursements of \$4 billion, more than double the fiscal 2000 figure. Africa has also benefited from a total of \$3.1 billion of relief from the Heavily Indebted Poor Countries Initiative. (See chapter 3.)

AFRICA FAST FACTS

Total population:	0.7 billion
Population growth:	2%
Life expectancy at birth:	46 years
Infant mortality per 1,000 births:	101
Female youth literacy:	77%
2004 GNI per capita:	\$600
Number of people living with HIV/AIDS:	25.2 million

TOTAL FISCAL 2005

New Commitments
IBRD \$0 million
IDA \$3,887.5 million

TOTAL FISCAL 2005

Disbursements
IBRD \$24.1 million
IDA \$3,994.6 million

Portfolio of projects under implementation as of June 30, 2005: \$16.5 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

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

The Bank's strategy for assisting Africa is outlined in the Strategic Framework for IDA's Assistance to Africa, which draws on the report *Can Africa Claim the 21st Century?* The framework focuses on reducing conflict, improving governance, increasing economic growth, enhancing competitiveness and trade, and improving aid effectiveness. The strategy is complemented by a vision of "hopeful realism" about Africa's capacity to reduce poverty. This vision focuses on five areas: developing the private sector, increasing regional integration, building capacity, doubling aid flows, and increasing Africa's share of world trade.

In June 2005 the Bank sponsored a conference in Cape Town, South Africa, to focus on the challenge of financing Africa's huge infrastructure needs. More than 200 policy makers, financial experts, and private sector and civil society representatives attended.

(See also the IFC and MIGA annual reports.)

REDUCING CONFLICT

Conflict is estimated to cost affected African countries 2.2 percentage points of economic growth each year. In collaboration with NEPAD, the Bank is working to achieve peace and stability. These conditions are needed if countries in the region are to attract foreign investment and increase their exports.

In fiscal 2005 the Bank provided assistance to 17 conflict-affected countries and low-income countries under stress (see chapter 3). It also worked to increase transparency and reduce incentives for illegal trade in commodities linked to conflict, such as oil, gas, diamonds, timber, and precious metals.

A key objective of NEPAD is to help build capable and effective states that provide basic services, promote equity and security, and create an enabling environment for investment, wealth creation, and wealth sharing, particularly through the peer review mechanism. In support of this objective, the Bank directs more than 20 percent of its new lending toward public sector governance. Interventions cover expenditure management, civil service reform, decentralization, accountability mechanisms, and legal and judicial reform.

The Bank also provides catalytic grants to the Partnership for Capacity Building in Africa and assistance for the establish-

ment of the African Institutes for Science and Technology, which seek to increase scientific and technical achievement through regional approaches.

INCREASING ECONOMIC GROWTH, COMPETITIVENESS, AND TRADE

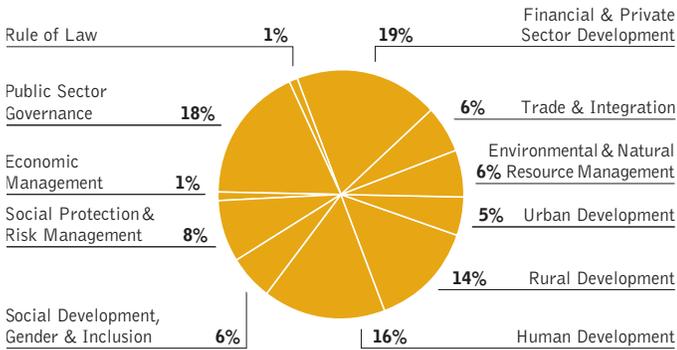
Fifteen African countries averaged economic growth of 5 percent a year over the past decade, but their success was not enough to offset the continuing drop in Africa's share of world trade. Trade expansion requires strengthening the agriculture sector, which employs 70 percent of Africa's labor force and accounts for 40 percent of its exports. The Bank is promoting efforts to meet the objective of NEPAD's Comprehensive



FIGURE 2.1

AFRICA

IBRD AND IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL OF \$3.9 BILLION



African Agricultural Development Program of increasing agricultural output by 6 percent a year through 2015. It is working to liberalize intraregional trade, set up capital markets, eliminate cascading tariffs that penalize African products, and help ensure the successful conclusion of the Doha Round of trade negotiations.



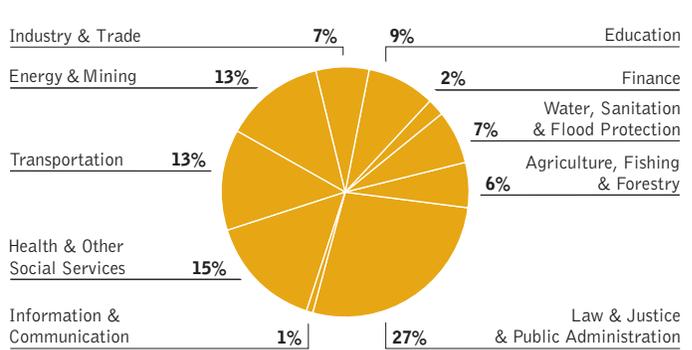
INCREASING REGIONAL INTEGRATION

With 15 landlocked economies and a gross domestic product the size of Belgium's, Africa needs more effective regional integration to prosper. In July 2004 the Bank established a Regional Integration Department that will fund multicountry pilot projects worth about \$500 million by fiscal 2007. Since fiscal 2001 the Bank has supported 11 similar projects total-

FIGURE 2.2

AFRICA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL OF \$3.9 BILLION



ing about \$550 million. The programs cover trade facilitation, regional approaches to HIV/AIDS, private sector development, regional power systems, telecommunications, transport, tertiary health and education, agricultural research, migratory pests, food security, transnational environmental issues, and the weather-related vulnerability of rural communities.

BUILDING THE PRIVATE SECTOR

The private sector has the potential to be the engine for growth and job creation, but changes in the business environment are needed if that potential is to be realized. Africa is a high-cost, high-risk place to do business, according to the Bank's *Doing Business in 2005* report. As a result, it received just \$9 billion of the world's \$135 billion in foreign direct investment in 2003. To help make Africa more attractive to foreign investors, the Bank is promoting constructive and practical partnerships between Africa's private sector and national governments. It also facilitates innovative approaches to financing. For example, the Bank, IFC, and MIGA are working together to support increased private participation in priority infrastructure projects. The Bank and IFC have also jointly begun a micro, small, and medium enterprises initiative.

SIMPLIFYING AND HARMONIZING AID FLOWS

Africa requires substantial increases in assistance to reach the 7 percent annual economic growth needed to achieve the Millennium Development Goals, to finance \$17 billion in annual infrastructure investments, and to fund the \$2.1 billion needed to attain the goal of Education for All. The Bank, which chairs the Strategic Partnership with Africa, is working to simplify, harmonize, and reduce the cost of providing aid to Africa. It is urging international partners to honor the promises they made in 2003 at the Monterrey Summit to increase assistance by \$12 billion a year and to fulfill the commitments they made in the Commission for Africa report.

TABLE 2.1

WORLD BANK LENDING TO BORROWERS IN AFRICA BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	78.2	138.5	138.7	37.8	67.8	46.5
Environmental and Natural Resource Management	172.4	110.0	159.9	227.0	195.3	217.2
Financial and Private Sector Development	466.7	625.8	780.7	383.6	810.9	768.2
Human Development	208.5	399.4	739.0	811.4	618.2	620.2
Public Sector Governance	495.3	429.6	851.9	432.4	818.5	708.0
Rule of Law	26.7	34.0	22.5	34.5	28.3	30.9
Rural Development	151.8	296.3	329.2	384.1	360.7	537.2
Social Development, Gender, and Inclusion	210.5	491.8	347.4	420.0	374.3	221.8
Social Protection and Risk Management	140.5	376.4	98.3	543.7	209.2	294.3
Trade and Integration	53.7	261.5	46.4	37.2	371.5	232.0
Urban Development	154.9	206.1	279.6	425.5	261.2	211.4
Theme Total	2,159.1	3,369.6	3,793.5	3,737.2	4,115.9	3,887.5
SECTOR						
Agriculture, Fishing, and Forestry	111.5	212.0	210.4	303.4	268.5	215.3
Education	189.8	209.5	472.6	423.6	362.9	369.0
Energy and Mining	176.3	198.0	490.3	324.4	365.8	509.5
Finance	118.4	200.1	192.8	67.2	165.7	68.6
Health and Other Social Services	183.1	889.9	616.6	775.9	723.1	590.3
Industry and Trade	104.7	170.6	266.7	92.7	95.4	253.8
Information and Communication	17.3	21.1	33.8	41.4	52.9	20.0
Law and Justice and Public Administration	838.2	880.8	906.9	721.8	1,004.0	1,077.5
Transportation	263.9	229.8	491.1	690.5	716.6	507.2
Water, Sanitation, and Flood Protection	155.9	357.8	112.2	296.3	360.8	276.2
Sector Total	2,159.1	3,369.6	3,793.5	3,737.2	4,115.7	3,887.5
Of which IBRD	97.7	0.0	41.8	15.0	0.0	0.0
Of which IDA	2,061.4	3,369.6	3,751.6	3,722.2	4,115.7	3,887.5

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.



EAST ASIA AND PACIFIC

The economy of the East Asia and Pacific region is growing rapidly, and income poverty is falling. The region grew at 8.5 percent in 2004 and accounted for a third of the growth in world trade. The number of East Asians living on less than \$2 a day declined by about 250 million between 1999 and 2004—at a time when the population grew by 80 million. Countries in the region are on track to meet the Millennium Development Goal for poverty reduction, although there is wide variation in the pace of progress across and within countries.

China continues to exert strong economic influence, through trade and cross-border production networks. Its growth has helped strengthen economic integration within East Asia and has increased the region's integration into the global economy. Many countries are considering how to maximize the opportunity China presents while managing the challenges.

High prices for natural resources, especially oil, likely will slow growth in the year ahead. Several other risks also threaten to reduce the rate of growth. In some countries, corruption is impeding investment—and imposing a heavy

burden on poor and vulnerable people. If rapid growth is to continue, more attention needs to be paid to preserving the environment, managing natural resources, providing more and better infrastructure, improving capital markets, and continuing to strengthen institutions responsible for managing the economy. As the devastating earthquake and tsunami in December 2004 demonstrated, the region is also vulnerable to sudden natural or external shocks, adding to the challenge of maintaining stability and growth.

WORLD BANK ASSISTANCE

The Bank's overall strategy for the region aims to support broad-based economic growth, promote higher levels of trade and integration within the region and with the global economy, enhance the environment for governance at both the national and subnational levels, increase social stability, and achieve the Millennium Development Goals. To help reach those goals, the Bank approved \$2.9 billion for the region in fiscal 2005, \$1.1 billion in IDA grants and credits and \$1.8

EAST ASIA AND PACIFIC FAST FACTS

Total population:	1.9 billion
Population growth:	0.8%
Life expectancy at birth:	70 years
Infant mortality per 1,000 births:	32
Female youth literacy:	98%
2004 GNI per capita:	\$1,280
Number of people living with HIV/AIDS:	2.3 million

TOTAL FISCAL 2005

New Commitments
IBRD \$1,809.8 million
IDA \$1,073.5 million

TOTAL FISCAL 2005

Disbursements
IBRD \$1,837.4 million
IDA \$685.0 million

Portfolio of projects under implementation as of June 30, 2005: \$19.9 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

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

billion in IBRD loans. Carbon trust fund contracts in the amount of \$33.1 million were signed this year, bringing the regional total committed for reducing global greenhouse gas emissions to \$44.9 million.

To support the new Indonesian government's efforts to better manage public finances and fight corruption, the Bank approved a \$300 million development policy loan and a \$60 million financial management reform program just months after the new administration took office. The Bank also approved new assistance strategies for Cambodia, the Lao People's Democratic Republic, the Pacific Island states, and the Philippines. Following the December 26, 2004, tsunami and earthquake, the Bank established a new multidonor trust fund at the Indonesian government's request to help coordinate some \$500 million in grant funding contributed for reconstruction. Also, \$20 million from previous Bank financing was redirected toward the tsunami reconstruction effort, and a \$25 million grant was made. An additional \$19 million in IDA credits was approved for this purpose in fiscal 2005.

To tailor its approach to individual countries, the Bank is increasingly working in partnership with other organizations (see box 2.1). This fiscal year it began preparing a joint assistance strategy for Cambodia with the United Kingdom's Department for International Development and the Asian Development Bank. In Thailand the Bank entered into a partnership with the Thai government, the Japan Bank for International Cooperation, the United States–Asia Environment Partnership, and the United Nations Development Programme to strengthen environmental management. Fiscal 2005 also saw the publication of the first joint study on infrastructure by the Asian Development Bank, the Japan Bank for International Cooperation, and the World Bank.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

The Bank completed four investment climate assessments in the region in fiscal 2005, and another four are under way. In China city leaders are focusing on problems identified in the 23-city investment climate survey. The Harbin city government is working to reduce, from 400, the number of court days

needed to resolve commercial disputes. With Bank support, the Indonesian government is proposing to replace its system of licensing and approval of investments with one of registration and investment promotion. Efforts are focusing on streamlining procedures required to start a business—a process that currently takes 151 days.

The Bank is helping Cambodia develop a strategy for economic growth by promoting private sector development following the end of its preferential quotas on garments. In China the Bank is supporting efforts to improve cross-border links with Mongolia and the Russian Federation and to modernize the banking system. In Vietnam the Bank is helping to strengthen the customs system and modernize the banking system. In the Pacific Island states and the Philippines, measures to strengthen remittance and labor migration systems are being developed with the Bank's support and advice.

Governance continues to be a major emphasis for the Bank in East Asia. In fiscal 2005 the Bank conducted a regional study on decentralization that focuses on ways frontline officials can make local governments more effective. The findings were published by the Bank in *East Asia Decentralizes: Making Local Government Work*. In selected countries the Bank sought ways to identify and minimize fraud and corruption at various stages of the Bank project cycle. It is supporting judicial reform at the local level in Indonesia and systemic reform in the Philippines. Governance is also a cornerstone of the Country Assistance Strategies for Cambodia and the Philippines.

FOSTERING PARTICIPATION IN DEVELOPMENT

Community development initiatives are at the core of the Bank's work to increase social stability in the region. In Aceh, Indonesia, where tsunami reconstruction work is being carried out alongside efforts to bring peace and stability to the region, the Kecamatan Development Program is bringing communities together to plan for the future with the help of trained local facilitators.

Fighting communicable diseases, increasing access to education, and improving the environment are the focus of Bank efforts to help countries in the region achieve the

FIGURE 2.3

EA T A IA AND PACIFIC

IBRD AND IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL OF \$2.9 BILLION

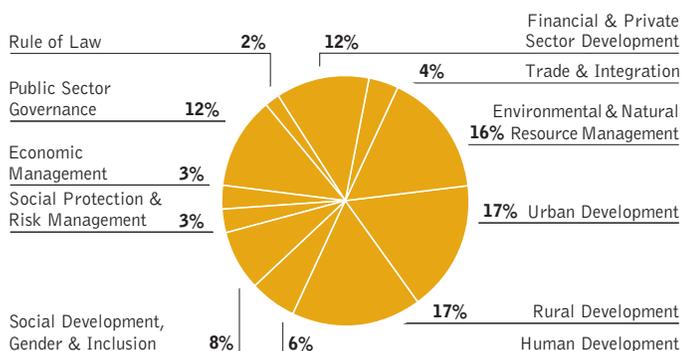
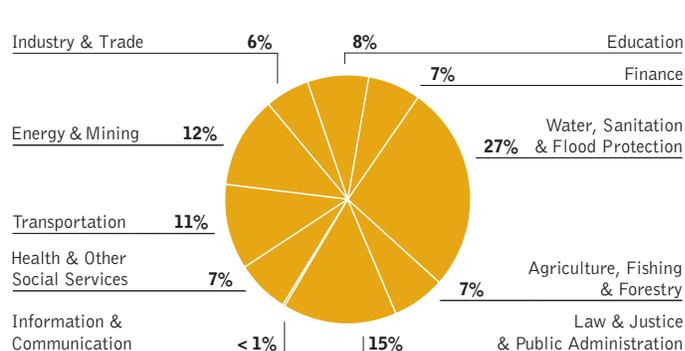


FIGURE 2.4

EA T A IA AND PACIFIC

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL OF \$2.9 BILLION



Millennium Development Goals. In Papua New Guinea and Vietnam, the Bank is working to arrest the spread of HIV/AIDS. In the Philippines it is helping the government improve access to clean water and sanitation with an IFC investment for drinking water and a World Bank project for wastewater treatment in Manila.

As countries comply with the Kyoto Protocol, the demand for carbon finance is growing, particularly in China but also in the Philippines, Vietnam, and other countries in the region. In China the Bank and the Global Environment Facility are cofinancing a Renewable Energy Scale-Up Program, and the Bank is financing the China Heat Reform and Building Energy Efficiency Project, which will improve indoor and outdoor air quality.



BOX 2.1

CONNECTING EAST ASIA: ADDRESSING THE INFRASTRUCTURE CHALLENGE

“Connecting East Asia: A New Framework for Infrastructure,” the first joint study by the World Bank, the Asian Development Bank, and the Japan Bank for International Cooperation, proposes a new framework for infrastructure development. The approach seeks to ensure that infrastructure development allows more people to share in the benefits of economic growth. It promotes accountability and manages risks, particularly the risk of corruption. Launched in Tokyo this year, the study is being discussed throughout the region in consultations with policy makers, companies, official financiers, and other stakeholders.

The Nam Theun 2 Hydropower Project was approved in fiscal 2005 after more than a decade of study. It will provide the Lao People’s Democratic Republic with much-needed revenues for poverty reduction programs. The private sector project, which is being guaranteed by the World Bank and MIGA and supported by the Asian Development Bank, the European Investment Bank, the Agence Française de Développement, and the Nordic Investment Bank, will enable Lao PDR to sell electricity to Thailand.

TABLE 2.2

WORLD BANK LENDING TO BORROWERS IN EAST ASIA AND PACIFIC BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	0.0	0.0	4.8	29.7	0.0	87.0
Environmental and Natural Resource Management	880.4	399.3	102.3	232.3	432.2	446.9
Financial and Private Sector Development	627.6	310.9	512.8	458.8	553.9	340.6
Human Development	81.1	52.6	226.4	152.7	164.6	184.6
Public Sector Governance	556.2	65.1	127.4	341.5	299.0	344.5
Rule of Law	9.3	3.8	20.3	7.3	67.3	45.8
Rural Development	430.3	341.6	360.9	411.7	400.9	484.1
Social Development, Gender, and Inclusion	72.1	248.0	173.0	143.7	167.2	241.1
Social Protection and Risk Management	55.2	239.4	138.7	161.5	5.5	88.7
Trade and Integration	36.2	40.0	43.3	138.0	82.9	126.5
Urban Development	230.6	433.1	63.6	233.6	399.2	493.5
Theme Total	2,979.1	2,133.8	1,773.6	2,310.8	2,572.7	2,883.3
SECTOR						
Agriculture, Fishing, and Forestry	118.4	109.7	151.2	106.7	290.4	207.9
Education	84.4	14.8	134.6	225.7	118.6	228.0
Energy and Mining	640.5	142.2	314.5	254.3	67.2	359.1
Finance	34.4	87.5	219.2	22.7	49.0	213.1
Health and Other Social Services	118.4	217.3	243.8	184.1	84.3	204.3
Industry and Trade	28.8	151.8	9.4	32.5	78.7	159.1
Information and Communication	20.0	12.5	11.1	6.6	0.0	5.0
Law and Justice and Public Administration	592.2	257.4	115.2	385.1	257.5	436.6
Transportation	584.4	729.7	540.2	684.3	1,209.9	306.7
Water, Sanitation, and Flood Protection	757.7	410.8	34.4	408.7	417.1	763.6
Sector Total	2,979.1	2,133.8	1,773.6	2,310.8	2,572.7	2,883.3
Of which IBRD	2,495.3	1,136.1	982.4	1,767.1	1,665.5	1,809.8
Of which IDA	483.8	997.7	791.2	543.7	907.2	1,073.5

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.



SOUTH ASIA

South Asia has the opportunity to reduce poverty significantly in the coming decades. Gross domestic product in the region grew an average of 5.6 percent a year between 1995 and 2004 and is expected to grow 6.2 percent in 2005.

With increased foreign reserves and stable macroeconomic policies, prospects for continued growth in the region remain strong. Bangladesh, Sri Lanka, and some states in South India have already made substantial progress in human development. But South Asia still faces enormous challenges. Of the region's 1.4 billion people, 500 million live on less than \$1 a day—about half the world's poor. Human deprivation is severe, particularly for disadvantaged populations and children. The rate of illiteracy, at 44 percent, is the highest in the world, and the region accounts for one-third of all maternal deaths.

Extraordinary events took place in South Asia in late 2004 and early 2005. Sri Lanka, southern India, and the Maldives were devastated by the tsunami (see box 2.2); Bangladesh was plagued by floods and a rise in political

violence; and Nepal continues to face a volatile political situation. At the same time, elections in Afghanistan created conditions for improved governance and development, changes in elected governments in India and Sri Lanka resulted in a shift toward policies that benefit the rural poor, and Pakistan enjoyed significant growth for the fourth consecutive year.

Dialogue among members of the South Asian Association for Regional Cooperation is providing new opportunities for economic integration—together with new challenges. Infrastructure needs to be developed within and between countries, and a private sector that can respond to new demands needs to be fostered.

WORLD BANK ASSISTANCE

The World Bank approved lending of nearly \$5 billion to South Asia in fiscal 2005, \$2.1 billion from IBRD and \$2.9 billion from IDA. This assistance seeks to help meet the region's vast urban and rural infrastructure needs and address the deficiencies in its investment climate. Bank

SOUTH ASIA FAST FACTS

Total population:	1.4 billion
Population growth:	1.6%
Life expectancy at birth:	63 years
Infant mortality per 1,000 births:	66
Female youth literacy:	62%
2004 GNI per capita:	\$590
Number of people living with HIV/AIDS:	5.2 million

TOTAL FISCAL 2005

New Commitments
IBRD \$2,095.9 million
IDA \$2,897.4 million

TOTAL FISCAL 2005

Disbursements
IBRD \$1,067.3 million
IDA \$3,034.6 million

Portfolio of projects under implementation as of June 30, 2005: \$18.2 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
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support fosters accelerated human development in the region by focusing on four cross-cutting issues: equity and inclusion, public accountability, HIV/AIDS, and regional integration.

A strong component of the Bank's strategy is its analytic and advisory work (see chapter 3). A recent report on fiscal decentralization to rural governments in India reviewed panchayat council finances and made recommendations for improving the system. The Bank discussed a poverty and vulnerability study on Afghanistan, completed a study on persistent malnutrition in India, and completed a gender assessment of Pakistan, which is under discussion with the government. (See www.worldbank.org/sar.)

Partnerships with other development agencies are playing an increasing role in the Bank's assistance in the region. Support for human development is strong. Sectorwide approaches, as well as development policy loans, are becoming the norm for health and education operations in Bangladesh, India, Nepal, and Pakistan.

A new Country Assistance Strategy for India was discussed by the Bank in fiscal 2005. The strategy underscores equity and inclusion by signaling a shift in emphasis toward lagging regions, such as Orissa, one of the country's poorest states.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

The Bank completed several investment climate assessments in South Asia in fiscal 2005. These included the Bank's first postconflict assessment of Afghanistan, a third assessment of India, the first subnational assessment (for the Indian state of Orissa), and a rural and urban assessment of Sri Lanka. Together with IFC and MIGA, the Bank held workshops for stakeholders on this work throughout the region.

The Bank approved \$100 million to support the reform of tax administration and \$300 million to support banking sector reforms in Pakistan. It also approved a \$400 million loan to support India's rural roads program and a \$620 million loan to improve part of the national highway system in the states of Uttar Pradesh and Bihar. It approved a \$120 million loan to India to support the development of small and medium enterprises and a \$53 million credit to Sri Lanka

to develop information technology that will improve public service delivery, increase private sector competitiveness, and bridge the digital divide.



FIGURE 2.5

O T H A I A

IBRD AND IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL OF \$5 BILLION

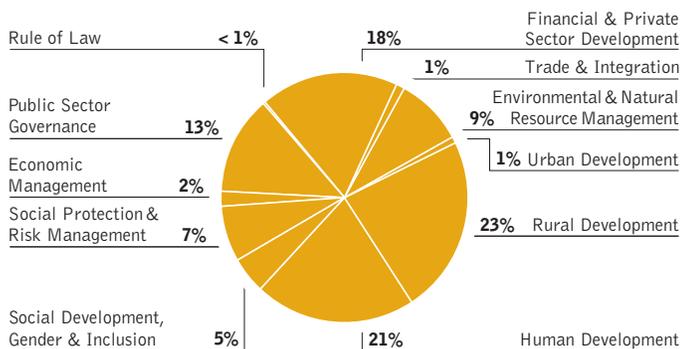
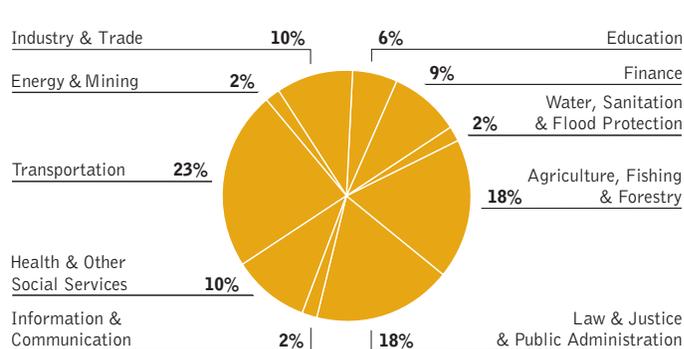


FIGURE 2.6

O T H A I A

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL OF \$5 BILLION



FOSTERING PARTICIPATION IN DEVELOPMENT

Central to the Bank's strategy in the region is the principle that South Asia's main resource is its people. Bank assistance is geared toward helping improve the standard of living across all tiers of society and removing obstacles that prevent people from participating in development and sharing in its benefits.

During fiscal 2005 the Bank increased its support to rural development, education, and health, with an emphasis on improving the delivery of social services. In Afghanistan the Bank provided a \$35 million credit to improve the quality of education and a \$40 million grant to fund higher education. In Bangladesh it provided \$100 million to improve access to and the quality of secondary education. In Nepal it approved a \$50 million credit in support of the country's Education for All goals. In health the Bank provided \$50 million to fund essential health care services for underserved populations in Nepal, \$21.5 million to help Pakistan fight polio, \$110 million

to the Indian state of Tamil Nadu to support development of its health system, and \$300 million to Bangladesh to improve the quality of and access to health care.

In India the Bank approved a \$125 million loan to support development in Orissa. The credit will help reduce fiscal stress and debt, freeing up resources for poverty reduction. The Bank approved a \$200 million Development Support Credit to help Bangladesh pursue broad reforms to accelerate growth and reduce poverty. A similar operation was approved for Pakistan, making \$300 million available to support that country's poverty reduction strategy.

An area of ongoing concern is HIV/AIDS, which has infected about 5 million people in South Asia. The Bank has stepped up its assistance to national programs to prevent the spread of the disease among highly vulnerable population groups, youth, and the general population. It is also facilitating dialogue between countries to share lessons learned and effective intervention practices.

BOX 2.2

RESPONDING TO THE TSUNAMI DISASTER IN THE INDIAN OCEAN

The tsunami in the Indian Ocean in December 2004 was one of the worst natural disasters in modern times. In Sri Lanka the tsunami killed more than 31,000 people and destroyed almost 100,000 homes. In parts of India the tsunami caused enormous loss of assets along some 2,260 kilometers of coastline and widespread loss of livelihoods, especially from fishing. In the Maldives the tsunami inflicted severe damage on the entire country, equal to nearly two-thirds of the annual domestic economic output of the country.

The Bank, in collaboration with the Asian Development Bank, the Japan Bank for International Cooperation, and the United Nations, helped to rapidly prepare assessments of damage and reconstruction needs and provide substantial analytical and advisory support for preparation of reconstruction and recovery programs.

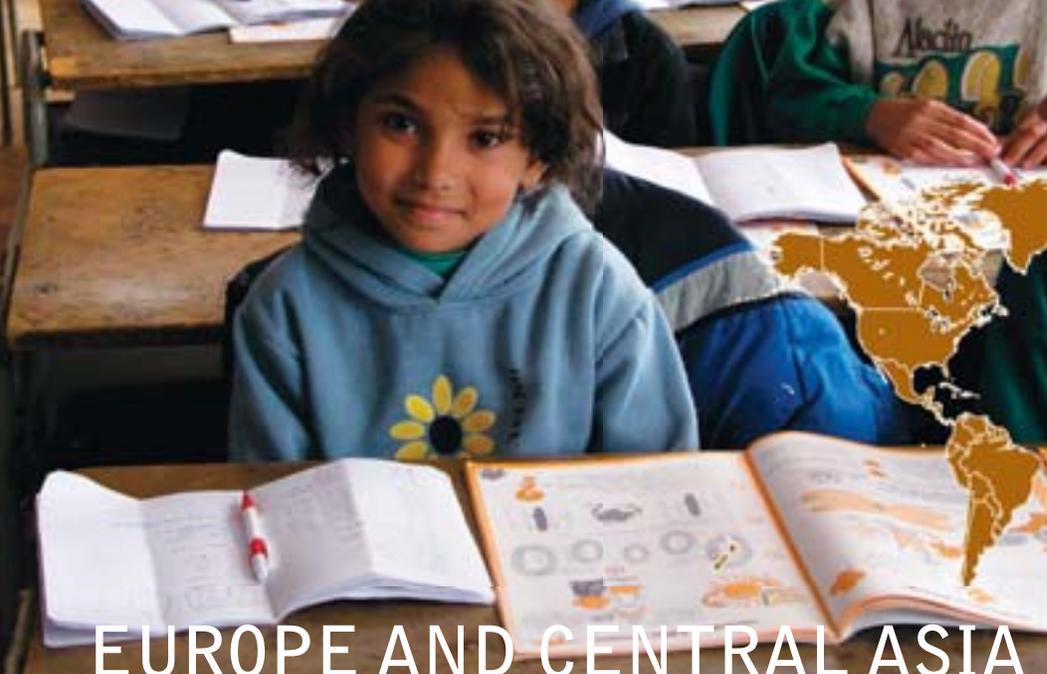
The Maldives received emergency support of \$14 million (a \$5.6 million IDA grant and an \$8.4 million IDA credit), and the program requires an estimated \$188 million of additional financing. In Sri Lanka and India sufficient resources have been mobilized to sustain the initial phases of reconstruction and recovery. The Bank provided emergency support of \$150 million to Sri Lanka, including a \$30 million IDA grant, a \$45 million IDA credit, and a reallocation of \$75 million under ongoing IDA-financed projects. Bank assistance approved for tsunami recovery in India was \$528.5 million, including a \$465 million emergency IDA credit. To help reduce future losses, the Bank will continue to fund projects that improve disaster preparedness and risk mitigation in the region.

TABLE 2.3

WORLD BANK LENDING TO BORROWERS IN SOUTH ASIA BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	35.2	47.4	232.5	123.5	7.7	87.5
Environmental and Natural Resource Management	80.8	587.8	295.2	94.2	94.8	433.9
Financial and Private Sector Development	265.4	865.9	381.6	689.1	689.9	923.0
Human Development	276.2	124.8	30.2	546.9	760.6	1,041.6
Public Sector Governance	212.7	261.0	678.0	467.3	669.8	639.5
Rule of Law	56.5	36.1	59.3	12.5	2.9	10.5
Rural Development	426.1	379.5	417.2	403.7	314.1	1,132.5
Social Development, Gender, and Inclusion	261.5	240.5	414.2	197.3	642.8	265.3
Social Protection and Risk Management	168.0	118.4	164.0	184.4	98.6	337.0
Trade and Integration	29.4	398.3	70.0	197.3	52.7	63.7
Urban Development	300.7	186.8	766.2	2.6	87.8	59.0
Theme Total	2,112.4	3,246.6	3,508.4	2,918.7	3,421.6	4,993.3
SECTOR						
Agriculture, Fishing, and Forestry	65.0	116.1	328.1	212.6	251.9	940.8
Education	171.4	206.4	95.9	364.6	665.8	286.4
Energy and Mining	277.8	746.2	504.8	150.6	130.8	83.6
Finance	46.0	209.7	310.0	185.8	331.4	461.8
Health and Other Social Services	393.3	188.1	278.7	369.0	334.6	493.2
Industry and Trade	85.3	34.0	443.1	144.9	46.1	485.2
Information and Communication	54.6	17.7	12.4	11.5	16.9	91.9
Law and Justice and Public Administration	407.0	377.4	632.5	372.3	925.5	885.7
Transportation	590.6	1,294.3	758.1	1,067.6	444.8	1,181.0
Water, Sanitation, and Flood Protection	21.4	56.8	144.9	40.0	273.7	83.7
Sector Total	2,112.4	3,246.6	3,508.4	2,918.7	3,421.6	4,993.3
Of which IBRD	934.3	2,035.0	893.0	836.0	439.5	2,095.9
Of which IDA	1,178.1	1,211.6	2,615.4	2,082.7	2,982.1	2,897.4

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.



EUROPE AND CENTRAL ASIA

The Europe and Central Asia region enjoyed another good year, with economic growth of 7.2 percent in 2004, reflecting strong growth in several countries. The Russian Federation grew 7.2 percent, Turkey grew 8.9 percent, and Ukraine grew 12.1 percent. As another mark of progress, the Czech Republic announced its intention to transition from being a recipient of Bank financial and technical assistance to being an important partner and provider of development assistance.

Most countries in the region have put in place the basic institutions and framework of open market economies. Poverty has declined significantly—40 million people moved out of poverty between 1999 and 2003—but it remains widespread in Central Asia and the South Caucasus, where many countries confront development challenges similar to those faced by poor countries in Africa.

At the other end of the spectrum, the middle-income countries in the region face the same challenge as such countries everywhere—convergence with rich countries.

Per capita income in the eight newest members of the European Union is 40–60 percent that of the countries they joined, and convergence is expected to take 20–30 years. Middle-income countries such as Azerbaijan, Kazakhstan, and Russia struggle with policy issues similar to those faced by other resource-rich countries, including the need to ensure good governance of oil revenues and reduce economic dependence on extractive industries.

Although countries are in various stages of transition, the legacy of central planning remains. On the positive side, human development indicators in education and health are relatively good. On the negative side, many towns are located in far-flung and unviable locations, especially in Russia; state bureaucracies are bloated and overextended; and serious environmental issues remain. Less than full recovery from the recession at the onset of transition and the emergence of new challenges mean that countries in the region face an uphill task in meeting the Millennium Development Goals, especially those related to health and the environment.

EUROPE AND CENTRAL ASIA FAST FACTS

Total population:	0.5 billion
Population growth:	0.1%
Life expectancy at birth:	68 years
Infant mortality per 1,000 births:	29
Female youth literacy:	99%
2004 GNI per capita:	\$3,290
Number of people living with HIV/AIDS:	1.3 million

TOTAL FISCAL 2005

New Commitments
IBRD \$3,588.6 million
IDA \$504.9 million

TOTAL FISCAL 2005

Disbursements
IBRD \$2,748.1 million
IDA \$617.4 million

Portfolio of projects under implementation as of June 30, 2005: \$15.8 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING This section also reports on Kosovo, Serbia and Montenegro.

Albania	Bulgaria	Kazakhstan	Moldova	Slovak Republic	Uzbekistan
Armenia	Croatia	Kyrgyz Republic	Poland	Tajikistan	
Azerbaijan	Estonia	Latvia	Romania	Turkey	
Belarus	Georgia	Lithuania	Russian Federation	Turkmenistan	
Bosnia and Herzegovina	Hungary	Macedonia, former Yugoslav Republic of	Serbia and Montenegro	Ukraine	The Czech Republic graduated from borrower status in fiscal 2005.

Particularly worrisome is the rapid spread of tuberculosis and HIV/AIDS: the region has one of the fastest-growing epidemics in the world.

The Bank's Country Assistance Strategies, tailored to meet the needs of each subregion, are organized around two broad themes: fostering growth and competitiveness by building a climate for investment, and fostering social inclusion. The Bank is also addressing global issues, such as HIV/AIDS—which goes hand in hand with youth issues in Europe and Central Asia—and key environmental challenges associated with biodiversity, water, carbon emissions, and renewable energy.

WORLD BANK ASSISTANCE

Lending approved during fiscal 2005 reached \$4.1 billion, including IBRD lending and guarantees of \$3.6 billion and IDA commitments of \$0.5 billion. The Bank delivered 98 pieces of economic and sector work and completed 68 technical assistance assignments. The Board was presented with Country Assistance Strategies for Bosnia and Herzegovina, Croatia, Moldova, and Serbia and Montenegro; Country Partnership Strategies for Kazakhstan and Poland; a Country Assistance Strategy Progress Report for Russia; and Poverty Reduction Strategy Papers or updates for Albania, Armenia, Azerbaijan, Georgia, Moldova, and Uzbekistan.

These products and services incorporate many innovative and cutting-edge features. Examples of innovative lending instruments are the sectorwide Poland Road Maintenance and Rehabilitation Project, which relies on country fiduciary systems; multicountry operations, such as the adaptable program loan for the electricity community of South Eastern Europe and the umbrella technical assistance facility for the eight new members of the European Union; and the Partial Risk Guarantee operation for Romania, which will reduce the regulatory risk of privatizing electricity. In nonlending services, the Joint Economic Research Program with Kazakhstan is proving to be a promising model for shared analytic work in middle-income countries where demand outstrips Bank resources.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

The climate for investment is improving in the region, albeit gradually and unevenly. *Doing Business in 2005* ranked Lithuania and the Slovak Republic among the top 10 reformers in the world. But other countries in the region featured among the 10 worst in the world in the number of procedures required to start a business.

To support improvements in the investment climate, the Bank is focusing on the reform of policies and the development of institutions to maintain macroeconomic stability, promote competition and trade, improve private and public sector governance, reduce corruption, enhance financial intermediation, and improve physical infrastructure. A Poverty Reduction Support Credit to Armenia focuses on improving competition by liberalizing trade in air and rail services and enhancing the regulatory framework for utilities. In Poland the First Hard Coal Mine Closure Project is helping improve the efficiency of the sector by shutting down uneconomic mines and dealing with postclosure environmental issues.

Nonlending activities are also supporting the investment climate. The Bank completed investment climate assessments of the Kyrgyz Republic, Lithuania, Tajikistan, and Turkey. In Serbia and Montenegro, establishment of a registration agency outside of the court system, which the Bank recommended, has reduced waiting times and procedures for starting a business. The Bank also undertook analytic work on the knowledge economy in Romania and cohosted the fourth Knowledge Economy Forum in Turkey.

FOSTERING PARTICIPATION IN DEVELOPMENT

To foster participation in the development process, Bank operations emphasize improving access to and the quality of public services and increasing the economic and social integration of vulnerable groups.

The Azerbaijan Pilot Reconstruction Credit has helped reconstruct transport, energy, and other infrastructure in post-conflict areas of the Upper Garabagh region and has financed 190 microprojects designed to improve the livelihoods of 160,000 beneficiaries. A follow-on project, the Azerbaijan Internally Displaced Persons Economic Development Support

FIGURE 2.7

E ROPE AND CENTRAL A IA

IBRD AND IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL OF \$4.1 BILLION

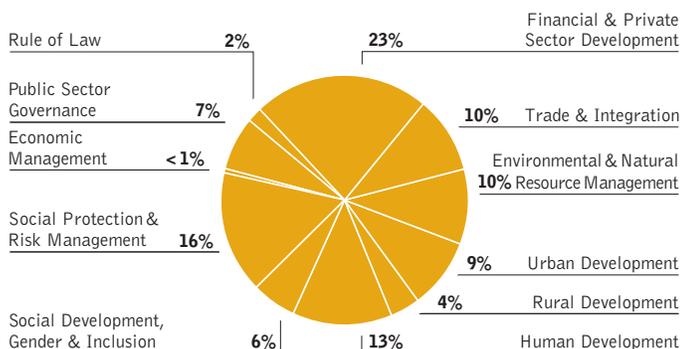
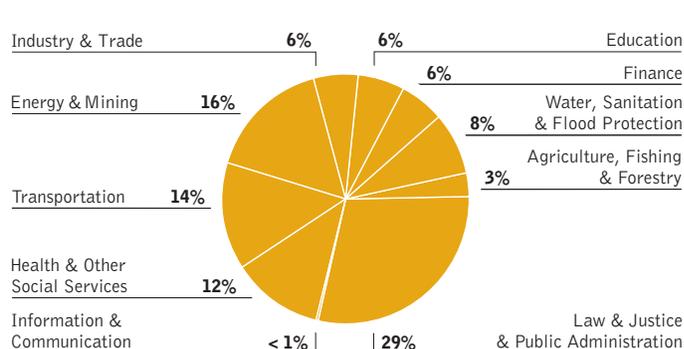


FIGURE 2.8

E ROPE AND CENTRAL A IA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL OF \$4.1 BILLION



Project, will improve the living conditions of displaced people and enhance their economic opportunities and prospects for social integration. The Kyrgyz Rural Education Project will improve incentives for teacher performance and provide textbooks and other learning materials. The Second Health Project in Uzbekistan, an expansion of the pilot reforms supported under the First Health Project, is designed to increase access to and the quality of primary health care in eight regions. The Bank has also helped to raise awareness of poverty and human development issues of the Roma population and has secured the long-term commitment of various actors to improving opportunities for them (see box 2.3).



Small and medium enterprises are key to growth in the Europe and Central Asia region.

BOX 2.3

LAUNCH OF THE DECADE OF ROMA INCLUSION

A groundbreaking initiative to end centuries of isolation and discrimination against Europe’s Roma population was launched on February 2, 2005, when government leaders from eight countries in Europe and Central Asia pledged to include the Roma as full and equal citizens of Europe. The Open Society Institute and the World Bank were the two principal sponsoring organizations of the initiative.

Roma, once known as gypsies, are one of the largest, poorest, and fastest-growing minorities in Europe. The Decade of Roma Inclusion Initiative aims to improve the economic and social status of the 7–9 million Roma in the region by improving their education, health care, housing, and job opportunities. Under the

initiative, each government will implement a national action plan for improvement that includes precise targets to be met by 2015. The initiative also provides a mechanism for annually monitoring the implementation of the action plans.

Before the launch of the Roma Decade, donors, including the World Bank, pledged \$42 million toward the Roma Education Fund, which aims to help countries improve education outcomes for the Roma.

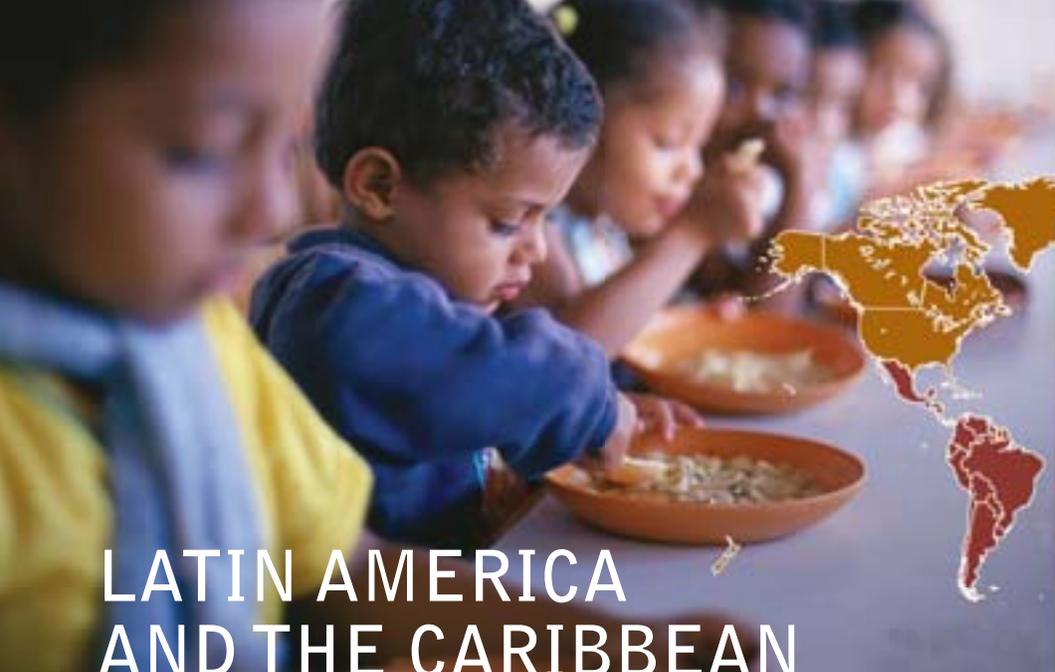
For more information on the World Bank’s work on the Roma, please visit www.worldbank.org/roma. The Web site of the Decade of Roma Inclusion is www.romadecade.org.

TABLE 2.4

WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	98.6	127.4	636.1	19.5	242.0	17.4
Environmental and Natural Resource Management	301.7	161.3	157.5	122.7	309.4	394.4
Financial and Private Sector Development	890.7	1,074.0	2,210.8	483.3	950.2	933.9
Human Development	278.9	51.1	138.3	550.4	297.1	539.4
Public Sector Governance	227.8	95.6	1,313.7	317.7	895.1	272.3
Rule of Law	160.2	77.4	106.6	289.8	132.3	66.8
Rural Development	213.4	137.6	309.9	194.9	117.4	161.5
Social Development, Gender, and Inclusion	43.6	65.1	188.8	55.9	33.9	246.6
Social Protection and Risk Management	530.1	381.2	363.9	288.5	305.3	668.8
Trade and Integration	143.5	138.4	32.5	130.6	182.6	424.4
Urban Development	153.6	383.9	65.4	216.7	93.6	368.0
Theme Total	3,042.2	2,693.1	5,523.6	2,670.0	3,559.1	4,093.5
SECTOR						
Agriculture, Fishing, and Forestry	317.8	139.0	470.4	335.4	168.6	107.0
Education	22.7	62.5	83.2	395.0	164.0	263.8
Energy and Mining	398.6	336.6	218.0	262.9	352.2	657.9
Finance	175.8	802.3	1,284.9	195.8	836.9	259.1
Health and Other Social Services	277.8	281.9	524.7	415.3	244.3	484.9
Industry and Trade	604.7	296.5	552.1	269.0	126.3	253.5
Information and Communication	151.9	8.7	9.6	1.0	7.0	10.9
Law and Justice and Public Administration	797.2	446.4	2,181.9	698.9	1,176.8	1,160.6
Transportation	207.1	118.3	67.1	30.6	321.2	557.9
Water, Sanitation, and Flood Protection	88.5	200.7	131.7	66.3	162.0	337.9
Sector Total	3,042.2	2,693.1	5,523.6	2,670.0	3,559.1	4,093.5
Of which IBRD	2,733.1	2,154.0	4,894.7	2,089.2	3,012.9	3,588.6
Of which IDA	309.1	539.0	628.9	580.8	546.2	504.9

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.



LATIN AMERICA AND THE CARIBBEAN

The Latin America and the Caribbean region experienced its strongest economic growth in 24 years in 2004, growing 6 percent, up from 2 percent in 2003. This performance reflects high demand for the region's exports, booming commodity prices, ample global liquidity, and improved domestic policies, such as floating exchange rate arrangements and adjustments in fiscal and current accounts. In line with global output and trade, growth in the region is expected to slow moderately to about 4.3 percent in 2005.

The region has abundant natural resources and average incomes in the middle-income range, but it is marked by high inequality and entrenched poverty and exclusion. Development challenges facing the region's 30 countries include increasing investment and productivity; reducing economic volatility; broadening access to services, credit, and land; and strengthening infrastructure, institutions, and governance.

WORLD BANK ASSISTANCE

World Bank support to the region aims to reduce poverty through sustained, equitable growth and a focus on the poorest

and most vulnerable people. Priorities include improving the investment climate and competitiveness in order to foster job creation; strengthening education and creating innovative systems for enhancing human capital and increasing productivity; improving public sector governance and institutions; fostering social equity and inclusion; achieving an inclusive but affordable welfare system; strengthening environmental institutions and promoting the effective use of natural resources; consolidating macroeconomic and financial stability; and using fiscal resources for infrastructure investments.

Bank lending approved for Latin America and the Caribbean reached \$5.2 billion in fiscal 2005, \$4.9 billion in IBRD lending and \$0.3 billion in IDA credits and grants. This financing was designed to support innovative solutions that integrate technical knowledge with customized local approaches.

During fiscal 2005 the Bank made its first development policy loans to the region. The loans support the strengthening of social sectors in Bolivia, fiscal reform and housing sector policy in Brazil, broad-based growth in El Salvador, debt relief and the development of the financial sector in Honduras, and

LATIN AMERICA AND THE CARIBBEAN FAST FACTS

Total population:	0.5 billion
Population growth:	1.4%
Life expectancy at birth:	71 years
Infant mortality per 1,000 births:	28
Female youth literacy:	95%
2004 GNI per capita:	\$3,600
Number of people living with HIV/AIDS:	2.1 million

TOTAL FISCAL 2005

New Commitments
IBRD \$4,904.4 million
IDA \$261.3 million

TOTAL FISCAL 2005

Disbursements
IBRD \$3,557.6 million
IDA \$440.3 million

Portfolio of projects under implementation as of June 30, 2005: \$19 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

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

social programs in Uruguay. New results-focused Country Assistance Strategies were prepared for the Dominican Republic, El Salvador, Guatemala, Jamaica, and Uruguay. In Haiti the Bank supported development of a needs assessment (the Interim Cooperation Framework), endorsed a Transitional Support Strategy, and provided a first package of IDA credits and grants totaling \$75 million.

The Bank's analytic and advisory support to the region in fiscal 2005 included a flagship study of the rural sector (see box 2.4) and analytic work on building the climate for investment and fostering participation in development.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

Across the region the Bank is assisting countries in their efforts to reduce the red tape that hinders private sector development and to address the poor logistics that make products costly and businesses unprofitable. Major financing to the region in fiscal 2005 included a \$658 million loan to Brazil for programmatic fiscal reform and social security reform; a \$250 million loan to Mexico to support innovation for competitiveness; a \$200 million loan to Argentina for sustainable investment in infrastructure; a \$200 million loan to Colombia for labor reform and social structural adjustment; a \$100 million loan to Peru for improving decentralization and competitiveness, along with a \$200 million guarantee facility; and a \$150 million loan to the Dominican Republic for strengthening the power sector.

To help identify priorities for public expenditure reform, the Bank carried out public expenditure reviews of Guatemala, Mexico, Paraguay, St. Lucia, St. Vincent and the Grenadines, and Uruguay in fiscal 2005. It completed investment climate surveys for Brazil, Ecuador, El Salvador, and Guatemala and launched surveys for Costa Rica and Jamaica. The results of the survey for El Salvador were used to design the first development policy loan for the country and provide benchmarks for monitoring and evaluating the loan. The Bank conducted other analytic work on growth and competitiveness, trade reform and labor market risk, labor competitiveness, migration (in the context of the North

American Free Trade Agreement), the Central America Free Trade Agreement, and innovation.

FOSTERING PARTICIPATION IN DEVELOPMENT

The Bank is promoting efforts to reduce poverty, improve poor people's access to basic services, and increase the participation of excluded groups by funding programs in health, education, environmental protection, social inclusion, and social protection. In Mexico, northern Peru, and the Southern Cone countries, Development Marketplaces have encouraged innovation and have promoted young people's participation in development.

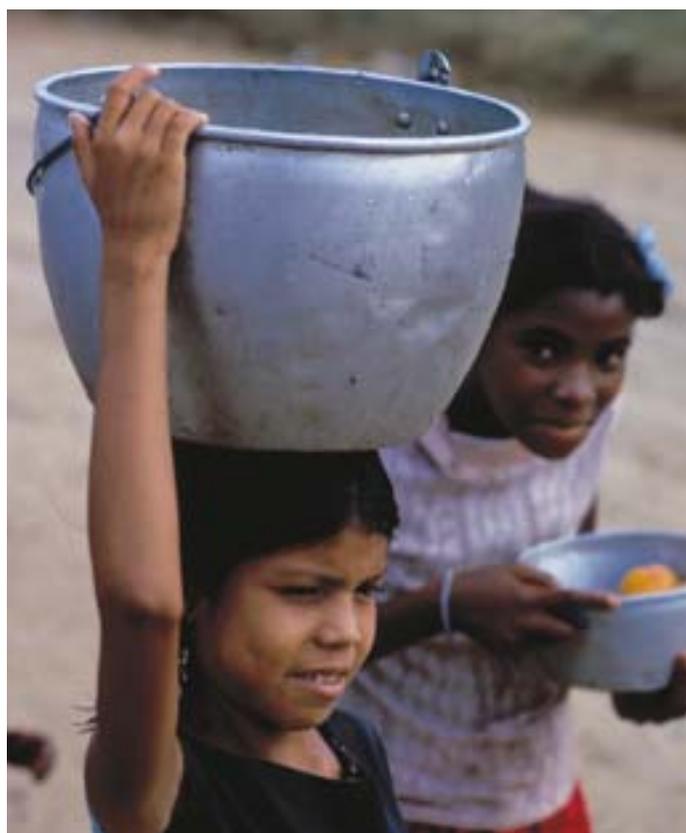
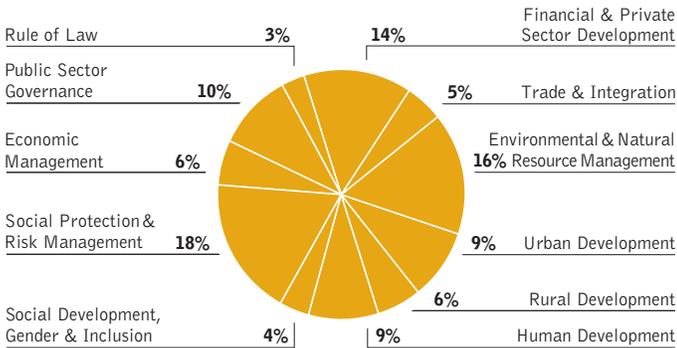


FIGURE 2.9

LATIN AMERICA AND THE CARIBBEAN
 IBRD AND IDA LENDING BY THEME | FISCAL 2005
 SHARE OF TOTAL OF \$5.2 BILLION

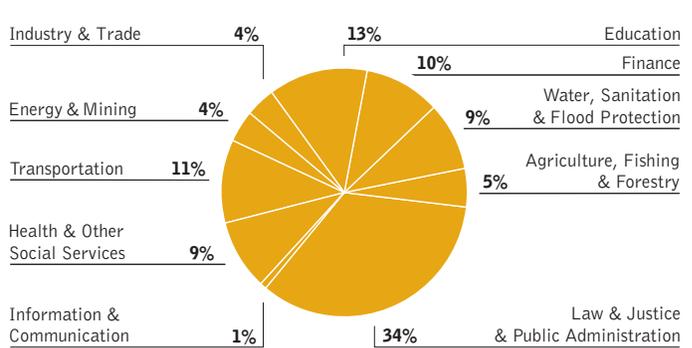


Bank lending in fiscal 2005 included \$503 million for environmental sustainability and \$503 million for housing reform in Brazil, \$300 million for basic education in Mexico, \$260 million for disaster vulnerability reduction in Colombia, \$100 million for social reform in Peru, and \$40 million for land administration in El Salvador.

The Bank supported countries' national antipoverty plans by endorsing Poverty Reduction Strategy Paper Progress Reports for Guyana and Honduras. The Bank's analytic and advisory support included poverty assessments for Bolivia, the Dominican Republic, Mexico, and Peru, and studies of youth development in Brazil, social protection in Central America,

FIGURE 2.10

LATIN AMERICA AND THE CARIBBEAN
 IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
 SHARE OF TOTAL OF \$5.2 BILLION



and poverty, inequality, and economic growth in Argentina. Regional studies were conducted on social security, service delivery reform, urban poverty, health care reform, education reform, and indigenous people, poverty, and human development.

To increase access to information about the Bank's activities and foster informed debate on development issues, the Bank extended its public information services to 12 Latin American and Caribbean countries. It also contributed to knowledge sharing and capacity building through the Global Development Learning Network, which offers programs on health, small and medium enterprises, rural development, and education (see chapter 1).

BOX 2.4 HOW IMPORTANT ARE RURAL ACTIVITIES TO DEVELOPMENT?

According to a new Bank report, *Beyond the City: The Rural Contribution to Development*, the economic contribution of the region's rural activities to national development is twice as large as officially reported. This is because these activities have forward linkages to other economic activities and their contribution to exports is high. The report also finds that the region's rural population is twice the official figure, indicating that the scale of rural problems has been underestimated. The implication: the countries of Latin America and the Caribbean need to make larger—and better—investments in rural communities.

On the trade side, the report finds, countries throughout the region are likely to benefit from increased market access once the industrial nations reduce their subsidies to agricultural producers. But the benefits will go mainly to net agricultural exporters, especially in the Southern Cone, while food-importing nations in the region will see prices rise. To avoid price increases for poor

consumers, net importers will need to reduce their own high tariffs on agricultural products.

The study concludes that countries need to put in place programs that support the restructuring of small domestic producers in sectors that are unable to compete once tariffs are reduced. At the same time, to sustain growth and reduce poverty, rural public expenditure needs to be diverted away from producer subsidies toward investments in public goods, including health and social protection, rural education, rural infrastructure, research and development, environmental protection, and targeted antipoverty programs.

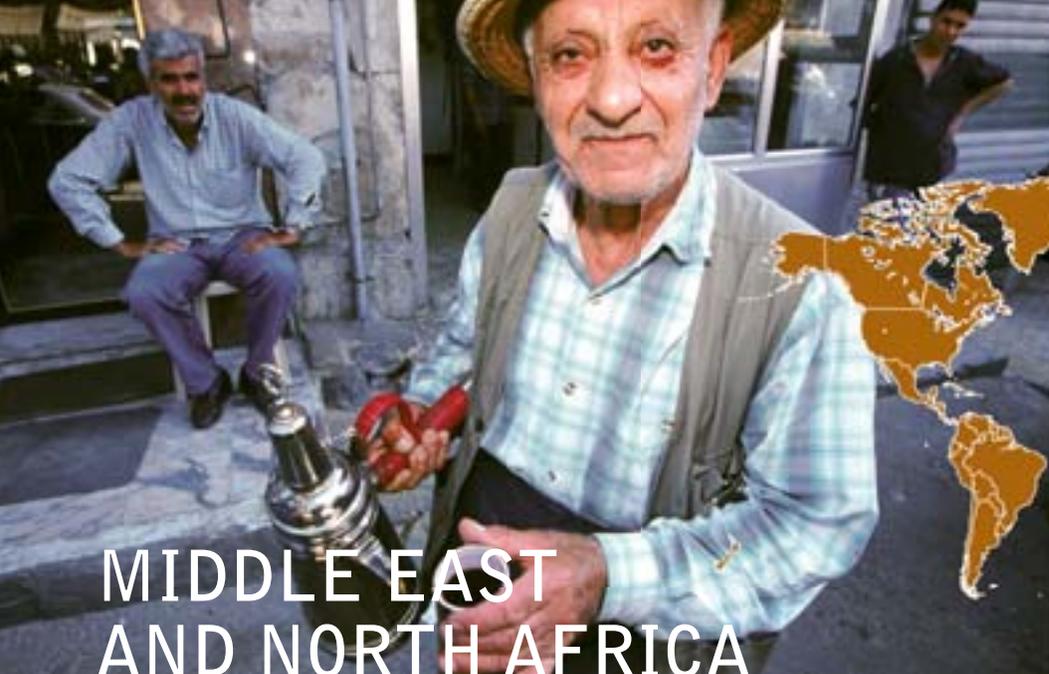
Poverty in rural areas, the report finds, is associated not only with agriculture but also with specific regions, such as southern Mexico, northeastern Brazil, and Colombia's Caribbean coast. Moreover, nearly half of rural income in the region comes from off-farm activities. These findings highlight the need for better integration of sectoral and regional policies.

TABLE 2.5

WORLD BANK LENDING TO BORROWERS IN LATIN AMERICA AND THE CARIBBEAN BY THEME AND SECTOR | FISCAL 2000–2005
MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	587.6	570.1	391.0	567.2	111.2	310.4
Environmental and Natural Resource Management	270.8	68.8	187.4	240.3	159.1	841.2
Financial and Private Sector Development	1,056.1	985.4	965.4	819.8	912.4	729.6
Human Development	157.7	471.2	560.4	1,171.7	1,046.7	469.8
Public Sector Governance	519.9	1,099.7	1,182.8	798.6	672.0	506.2
Rule of Law	111.7	202.2	15.5	138.8	270.9	147.9
Rural Development	103.0	580.8	168.3	415.9	249.6	331.7
Social Development, Gender, and Inclusion	141.5	371.7	248.9	123.1	268.9	187.9
Social Protection and Risk Management	901.2	530.0	310.4	1,050.3	926.9	950.4
Trade and Integration	160.7	218.3	83.9	59.6	364.6	233.4
Urban Development	53.3	202.0	251.9	435.2	337.6	457.1
Theme Total	4,063.5	5,300.1	4,365.8	5,820.5	5,319.8	5,165.7
SECTOR						
Agriculture, Fishing, and Forestry	104.1	72.3	85.0	58.4	379.6	233.4
Education	62.8	529.1	560.4	785.5	218.3	680.0
Energy and Mining	79.3	107.6	445.6	96.2	50.5	212.6
Finance	1,191.8	946.7	593.5	973.0	405.1	530.0
Health and Other Social Services	360.2	904.7	660.5	1,574.1	1,558.9	443.4
Industry and Trade	165.3	38.3	51.4	183.4	428.0	199.9
Information and Communication	28.7	97.8	16.5	52.4	14.0	44.7
Law and Justice and Public Administration	1,791.0	1,726.7	1,440.0	1,564.9	1,521.3	1,776.0
Transportation	11.6	650.3	463.1	146.4	675.7	556.4
Water, Sanitation, and Flood Protection	268.7	226.6	49.8	386.2	68.4	489.5
Sector Total	4,063.5	5,300.1	4,365.8	5,820.5	5,319.8	5,165.7
Of which IBRD	3,898.1	4,806.7	4,188.1	5,667.8	4,981.6	4,904.4
Of which IDA	165.4	493.4	177.8	152.7	338.2	261.3

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.



MIDDLE EAST AND NORTH AFRICA

The Middle East and North Africa region grew an average of 4.7 percent a year from 2002 through 2004, a marked increase from the 3.7 percent average of the 1990s. This strong economic performance was accompanied by job creation that reduced the unemployment rate from 15 percent in 2000 to 13.4 percent in 2004.

This recent economic upturn notwithstanding, the region remains highly vulnerable to fluctuating global energy prices. Providing jobs for today's unemployed and tomorrow's job-seekers will require creating 5 million new jobs a year for the next 20 years. To do so, the region will need to develop a stronger private sector, diversify its markets, and increase global trade.

WORLD BANK ASSISTANCE

Recognition of the urgent need for jobs underpins the Bank's strategy in the region. The regional strategy focuses on five challenges: strengthening governance and public sector management, promoting private sector development and employment, enhancing the quality of education so the region can better

compete in the global economy, ensuring equal opportunities for men and women (see box 2.5), and managing and conserving scarce water resources.

In support of these priorities, the Bank approved lending of \$1.3 billion in fiscal 2005. The bulk of this assistance, \$1.2 billion, was channeled through IBRD financing to middle-income countries; \$0.1 billion was provided as IDA concessional financing to low-income countries.

The Bank also delivered more than 60 pieces of economic and sector work in fiscal 2005. This work tackled a variety of issues, including pensions, education, public spending, and labor markets. In addition, the Bank produced a regional report, *Middle East and North Africa Region 2005 Economic Developments and Prospects*, which examines prospects for growth and measures progress toward structural reforms.

For countries in the region that are not eligible for borrowing, the Bank continues to provide advisory services under the Reimbursable Technical Cooperation Program. In fiscal 2005, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab

MIDDLE EAST AND NORTH AFRICA FAST FACTS

Total population:	0.3 billion
Population growth:	1.7%
Life expectancy at birth:	68 years
Infant mortality per 1,000 births:	45
Female youth literacy:	80%
2004 GNI per capita:	\$2,000
Number of people living with HIV/AIDS:	0.1 million

TOTAL FISCAL 2005

New Commitments
IBRD \$1,212.1 million
IDA \$71.5 million

TOTAL FISCAL 2005

Disbursements
IBRD \$487.8 million
IDA \$178.3 million

Portfolio of projects under implementation as of June 30, 2005: \$5.9 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

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

Emirates received advice on policy reforms in areas such as the investment climate, education, and human resources planning.

In conflict-affected areas, the Bank administered trust funds on behalf of international donors to address emergency needs and strengthen local institutions. Nine trust fund operations were launched in Iraq to restore essential infrastructure and services, and extensive training was provided to help Iraqi ministries take ownership of reconstruction projects. In the West Bank and Gaza, the Bank helped develop an economic plan that outlines measures the Palestinian Authority and the government of Israel need to take in order to rebuild the Palestinian economy as part of the disengagement process.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

In fiscal 2005 the Bank conducted investment climate assessments, which identify key barriers to doing business, for the Arab Republic of Egypt, Iraq, Morocco, Oman, the Syrian Arab Republic, Tunisia, the United Arab Emirates, and the Republic of Yemen. It also conducted analyses of trade logistics in Syria and the Republic of Yemen and funded an export development project in Tunisia.

Efforts to improve the investment climate go beyond reducing business costs and ensuring enforcement of contracts. The Bank is working to foster good corporate governance in Egypt. In Iraq it is supporting capacity building to manage the transition to a market-based economy.

Improving infrastructure services requires providing a better investment climate for service providers. The Bank is helping governments to better manage their public resources through competition and to improve regulation to facilitate private participation. Egypt is leading the way in this area, with the Airports Development Project. In Algeria, Iraq, and Tunisia, the Bank is supporting the modernization of information infrastructure services through private investment.

In countries struck by natural disaster, restoring basic infrastructure is critical to reviving the local economy. In response to the 2004 earthquake in Bam, Iran, the Bank is supporting the reconstruction of telecommunication and transport infrastructure.

FOSTERING PARTICIPATION IN DEVELOPMENT

The region has made remarkable progress in increasing access to education. But it continues to face challenges in developing a high-quality education system that can respond to the needs of the future job market.

A Bank-supported education reform program in Morocco seeks to increase access to basic education for most school-age children by 2008, improve learning, and reduce dropout and repetition rates. In Egypt a Bank loan is helping the government provide good-quality early education, particularly for disadvantaged children. In Iraq, where nearly one-third of schools have to hold double or triple sessions daily, the Bank is working through a multidonor trust fund to finance the construction of new buildings for more than 100 schools and urgent repairs to 140 others.



FIGURE 2.11

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL OF \$1.3 BILLION

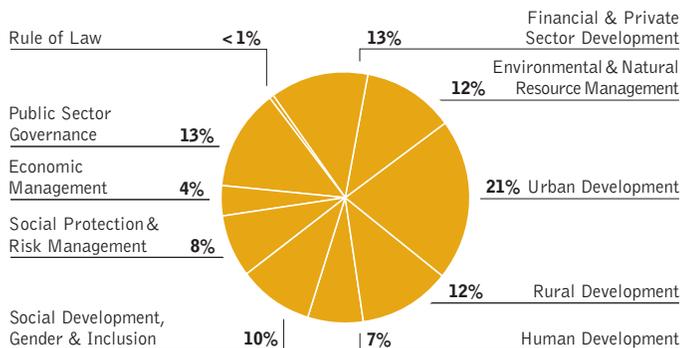
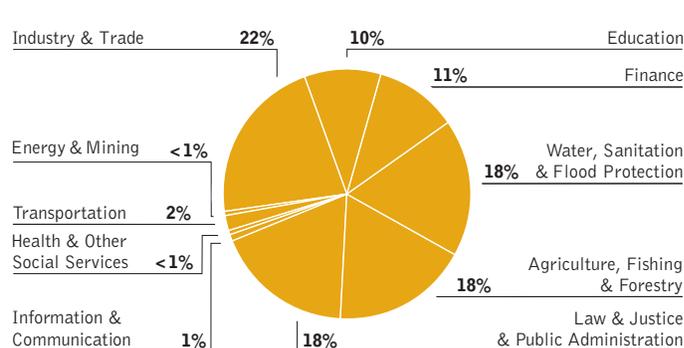


FIGURE 2.12

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL OF \$1.3 BILLION



In the Republic of Yemen, where less than half the adult population is literate, the Bank is assisting national efforts to meet the Millennium Development Goals of universal primary education and gender equality by 2015. It is supporting reforms designed to create an education system in which vulnerable groups—including girls, children with special needs, and rural children—will benefit from investments in education. The Social Fund in Yemen is involving the local population in community-based projects. More than 9 million Yemenis benefited from some 400 projects in education, health, water and sanitation, and roads, which created millions of temporary employment opportunities.

Access to information is key to promoting participation and ensuring transparency and accountability. In partnership with universities and local organizations, the Bank helped

establish Public Information Centers in Algeria, Egypt, Lebanon, Morocco, the West Bank and Gaza, and the Republic of Yemen. These centers provide people with access to information, including the Internet.

As part of an ongoing effort to engage with civil society in the region, the Bank launched Development Marketplace competitions in Lebanon and the Republic of Yemen. Hundreds of proposals were submitted for innovative grassroots projects to fight poverty. Winners were given seed money to transform development ideas into projects.

In Egypt and Lebanon, the Bank held consultations with civil society on Country Assistance Strategies, engaging stakeholders in a dialogue on the development challenges they face and how best to address them.

BOX 2.5

INCREASING BUSINESS OPPORTUNITIES FOR WOMEN

Women and girls have made great strides in education in most countries in the region. Gender gaps in primary and secondary education are likely to be eliminated as early as 2005, and nearly as many women are graduating from universities as men. Women lag behind in labor and political participation, however, due to social norms and traditions. High unemployment and discrimination in the workplace have led women to become entrepreneurs, investors, and producers. But they face significant barriers in the business world.

To support the creation of more work opportunities for women, the Bank is adapting its investment climate assessments to better respond to the needs of women entrepreneurs. This pilot initiative examines gender discrepancies in access to financing, networks, and markets.

Preliminary findings from Morocco, Oman, and Syria suggest that women and men face similar constraints related to land, electricity, legal systems, and economic uncertainty. But corruption affects women more than men, and women face network-related barriers that make it difficult for them to enter business circles dominated by men. Focus groups conducted with owners of microenterprises and small businesses suggest that women have less access to capital, market knowledge, and the skills needed to succeed. As a result, women-owned businesses are generally less formal, smaller, and less profitable than those owned by men.

The Bank, in collaboration with IFC's Gender-Entrepreneurship-Markets Program, is looking to use these findings to identify how gender-related business constraints can be overcome through technical assistance and policy reform. A pilot project is now being carried out in Egypt and the Republic of Yemen.

TABLE 2.6

WORLD BANK LENDING TO BORROWERS IN MIDDLE EAST AND NORTH AFRICA BY THEME AND SECTOR | FISCAL 2000–2005
MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	0.0	11.9	5.0	0.0	0.0	45.8
Environmental and Natural Resource Management	123.3	27.5	21.7	186.0	113.8	160.2
Financial and Private Sector Development	61.8	78.8	204.1	48.3	259.3	166.6
Human Development	187.9	35.7	61.9	140.9	192.1	95.4
Public Sector Governance	130.6	102.6	93.3	106.6	19.6	166.0
Rule of Law	9.3	56.5	49.1	48.0	1.7	1.8
Rural Development	89.2	86.4	14.5	100.6	65.1	155.3
Social Development, Gender, and Inclusion	71.6	52.5	13.4	63.1	70.7	123.0
Social Protection and Risk Management	100.0	5.6	11.0	96.1	31.6	98.5
Trade and Integration	3.0	3.4	24.8	3.6	158.3	0.0
Urban Development	143.5	46.7	55.8	262.7	178.7	271.1
Theme Total	920.0	507.5	554.5	1,056.0	1,091.0	1,283.6
SECTOR						
Agriculture, Fishing, and Forestry	120.6	46.5	2.9	196.7	27.2	229.2
Education	197.1	72.3	38.0	154.3	154.9	124.0
Energy and Mining	0.0	0.0	1.3	0.0	0.0	0.0
Finance	5.3	0.0	110.5	1.9	20.8	142.5
Health and Other Social Services	158.9	39.3	41.7	124.2	52.0	0.3
Industry and Trade	47.9	27.0	71.7	74.3	23.4	277.9
Information and Communication	1.3	59.2	69.9	2.3	0.0	18.5
Law and Justice and Public Administration	108.9	161.5	74.7	213.6	93.6	232.9
Transportation	59.6	82.8	70.9	107.9	409.6	29.0
Water, Sanitation, and Flood Protection	220.5	19.0	73.1	180.9	309.5	229.3
Sector Total	920.0	507.5	554.5	1,056.0	1,091.0	1,283.6
Of which IBRD	760.2	355.2	451.8	855.6	946.0	1,212.1
Of which IDA	159.8	152.3	102.7	200.4	145.0	71.5

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.

3

SUMMARY OF FISCAL YEAR ACTIVITIES



SHARING KNOWLEDGE

The Bank's store of development knowledge has always been an important element of its assistance to client countries. Knowledge activities range from carrying out country research, to developing analytic and conceptual frameworks for country assistance, to capacity building that enables client countries to build the skills necessary for development.

Research

The *World Development Report 2006: Equity and Development* (to be published in September 2005) examines the relationship between equity and the development process. The report maintains that increasing equality of opportunity and preventing extreme deprivation are tools for increasing prosperity, and that, in the long run, equity and efficiency are complementary. (See www.worldbank.org/wdr2006 and <http://econ.worldbank.org>.)

Economic Growth in the 1990s: Learning from a Decade of Reforms, published during fiscal 2005, is a flagship study on development lessons learned from the 1990s. The study reviews the impact on growth of the main policy and institutional reforms introduced in the 1990s; it presents a broad perspective on the events, country experiences, academic research, and controversies of the decade; and it reflects on how the lessons from the 1990s have altered thinking about economic growth.

Analytic and Advisory Services

The Bank augments its lending activities by creating, sharing, and applying knowledge. Most of its analytic and advisory services consist of economic and sector work and nonlending technical assistance.

The Bank delivered 694 economic and sector work products and 351 technical assistance products in fiscal 2005. Financial and private sector development and public sector governance were the leading themes for both economic and sector work and technical assistance. Analytic activities are being better integrated into overall country assistance programs, with increasing emphasis on country ownership, participatory processes, capacity building, and partnerships.

In fiscal 2005 the Bank hosted its fifth annual Country Analytic Work workshop, attended by 40 representatives from more than 20 development agencies and governments. These workshops aim to avoid duplication of analytic work, reduce transaction costs for clients, and establish common standards for key sector-specific analytic products. More than 30 donor agencies participate in knowledge sharing through the Country Analytic Work Web site, www.countryanalyticwork.net.

The Bank's Quality Assurance Group conducted assessments of the Bank's country analytic and advisory services for 17 countries in fiscal 2005. Two of these were pilot country program assessments that looked at the lending and portfolio performance over the entire Country Assistance Strategy cycle. These assessments provided greater insight into synergies among tasks that could not be captured by task-by-task assessments alone. Building on earlier assessments for nine countries conducted in fiscal 2002 and 2003, this year's assessments focused on new directions such as the Bank's results initiative, programmatic lending, multisector teams, and capacity building. The Bank has conducted 36 assessments of its country analytic and advisory services to date.

Sector Strategies

The Bank produced two important sector strategy papers in fiscal 2005. "Empowering People by Transforming Institutions: Social Development in World Bank Operations" is the Bank's action plan for social development (see chapter 1). "Achieving the MDGs, Broadening Our Perspective, Maximizing Our Effectiveness" suggests how a client country can attain the Education for All goals and the Millennium Development Goals (MDGs) for education, thus strengthening its education sector as the basis for a dynamic knowledge economy. The Bank also produced the first Sector Strategy Implementation Update, an integrated assessment of all Bank sector and thematic strategies.

Capacity Development

The World Bank Institute (WBI) provides client countries with a capacity development program comprising technical assistance, thematic learning programs, cabinet-level

FIGURE 3.1

TOTAL IBRD-IDA LENDING BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION

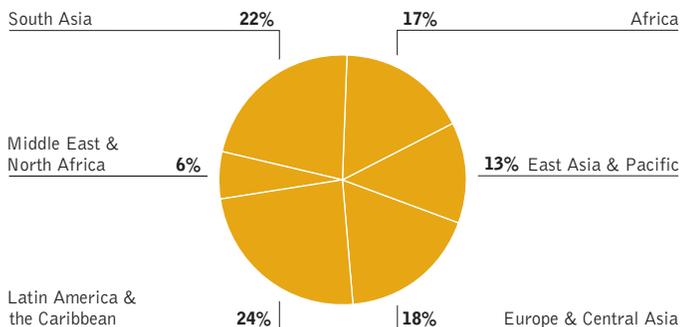


FIGURE 3.2

TOTAL IBRD-IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION

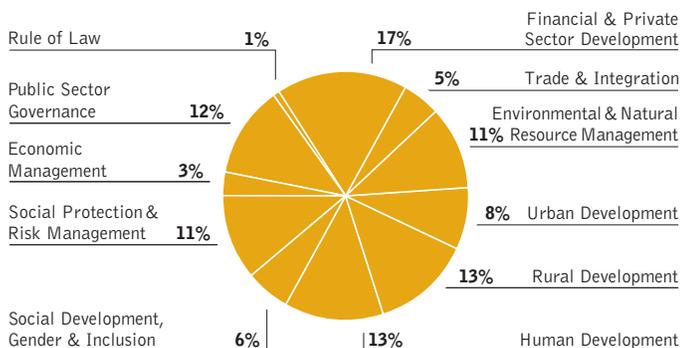
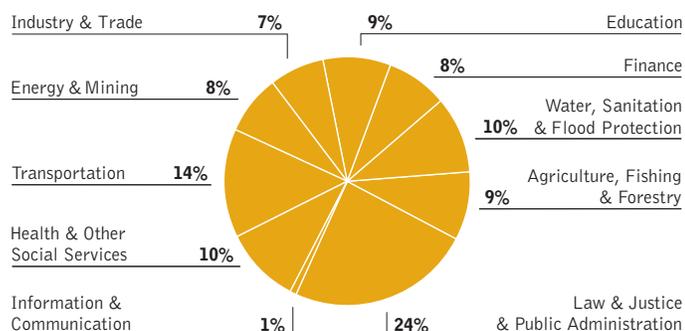


FIGURE 3.3

TOTAL IBRD-IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION



retreats, and other leadership development programs. It uses knowledge economy, governance, and other diagnostic tools for assessing critical country capacities in its economic and sector work. Since the Institute's inception in 1955 more than 500,000 people have participated in WBI activities.

In fiscal 2005 nearly 110,000 clients participated in more than 900 WBI activities, many through distance and e-learning. (See box 1.2, "The World in One Room," in chapter 1.) Since 2002 WBI has been transforming itself from a training institute into a more broadly based provider of services, focusing its attention on a group of 36 countries representing all regions. During the year, WBI contributed substantively to 11 Country Assistance Strategies.

WBI's global Knowledge for Development Program works closely with Bank country teams to assess the preparedness of a country or region to compete in the global knowledge economy based on its Knowledge Assessment Methodology diagnostic tool. (See www.worldbank.org/kam.) The program's most recent book, *India and the Knowledge Economy: Leveraging Strengths and Opportunities*, makes specific recommendations for economic and institutional reforms.

A WBI "knowledge hub" in Marseilles, France, serves as the focal point for program development in the Middle East and North Africa. WBI staff are also placed in country offices. In response to demand from the Bank's South Asia region, WBI is creating a regional unit in New Delhi. (See www.worldbank.org/wbi.) WBI's other global program, focused on governance and anticorruption, is described in chapter 1.

WORLD BANK LENDING

The World Bank comprises cooperative institutions that mobilize financing from member shareholder equity by borrowing from international capital markets (for IBRD) and by means of outright contributions from the richer member countries (for IDA). It channels these resources to benefit poor people in borrowing countries. Figures 3.1–3.3 and table 3.1 provide a summary of this year's IBRD-IDA lending.

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

The Country Assistance Strategy (CAS) guides World Bank Group activities within borrowing member countries. Starting from a country's vision of its development goals, the CAS is prepared in consultation with the government, civil society organizations, development partners, and other stakeholders. It assesses the country's development situation and suggests a program of support tailored to meet the country's needs. The objective is to identify areas in which Bank Group

TABLE 3.1

WORLD BANK LENDING BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

THEME	2000	2001	2002^a	2003	2004	2005
Economic Management	799.6	895.3	1,408.0	777.8	428.6	594.6
Environmental and Natural Resource Management	1,829.4	1,354.6	924.0	1,102.6	1,304.6	2,493.8
Financial and Private Sector Development	3,368.4	3,940.9	5,055.4	2,882.9	4,176.6	3,862.0
Human Development	1,190.3	1,134.7	1,756.1	3,374.0	3,079.5	2,951.0
Public Sector Governance	2,142.5	2,053.7	4,247.2	2,464.1	3,373.9	2,636.4
Rule of Law	373.6	410.0	273.2	530.9	503.4	303.8
Rural Development	1,413.7	1,822.3	1,600.0	1,910.9	1,507.8	2,802.2
Social Development, Gender, and Inclusion	800.8	1,469.7	1,385.7	1,003.1	1,557.8	1,285.8
Social Protection and Risk Management	1,895.0	1,651.0	1,086.4	2,324.5	1,577.0	2,437.6
Trade and Integration	426.4	1,059.9	300.9	566.3	1,212.7	1,079.9
Urban Development	1,036.6	1,458.6	1,482.4	1,576.3	1,358.1	1,860.0
Theme Total	15,276.2	17,250.6	19,519.4	18,513.2	20,079.9	22,307.0
SECTOR						
Agriculture, Fishing, and Forestry	837.5	695.5	1,247.9	1,213.2	1,386.1	1,933.6
Education	728.1	1,094.7	1,384.6	2,348.7	1,684.5	1,951.1
Energy and Mining	1,572.4	1,530.7	1,974.6	1,088.4	966.5	1,822.7
Finance	1,571.6	2,246.3	2,710.8	1,446.3	1,808.9	1,675.1
Health and Other Social Services	1,491.7	2,521.2	2,366.1	3,442.6	2,997.1	2,216.4
Industry and Trade	1,036.7	718.3	1,394.5	796.7	797.9	1,629.4
Information and Communication	273.8	216.9	153.2	115.3	90.9	190.9
Law and Justice and Public Administration	4,534.6	3,850.2	5,351.2	3,956.5	4,978.6	5,569.3
Transportation	1,717.2	3,105.2	2,390.5	2,727.3	3,777.8	3,138.2
Water, Sanitation, and Flood Protection	1,512.6	1,271.7	546.0	1,378.3	1,591.6	2,180.2
Sector Total	15,276.2	17,250.6	19,519.4	18,513.2	20,079.9	22,307.0
Of which IBRD	10,918.6	10,487.0	11,451.8	11,230.7	11,045.4	13,611.0
Of which IDA	4,357.6	6,763.6	8,067.6	7,282.5	9,034.4	8,696.1

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.

a. Due to a recoding of a Lao People's Democratic Republic project there is a discrepancy between these figures and the figures in the 2002 *Annual Report* (table 2.2). This discrepancy of \$2.2 million shows up in the commitment amounts in fiscal 2002 for Social Protection and Risk Management and Rural Development (with the two themes showing \$2.2 million higher and \$2.2 million lower respectively).

support can best assist the country's own efforts to achieve sustainable development and reduce poverty.

During fiscal 2005 the Bank prepared 36 Country Assistance Strategies and CAS Progress Reports, including 22 for IDA-eligible borrowers and blend-eligible borrowers and 14 for IBRD-eligible borrowers. Fourteen of these were prepared jointly with IFC. The Bank also prepared eight Interim Strategy Notes, which are drafted for countries that are not yet ready for a full CAS.

The results-based CAS is now being adopted for all full Country Assistance Strategies. Under this approach, expected links between the Bank's interventions and a country's long-term development goals are presented, in matrix format, and indicators of progress that can be tracked throughout CAS implementation are included. The approach is expected to improve the development effectiveness of the Bank's country strategies. (See www.worldbank.org/cas.)

LOW-INCOME COUNTRIES

The Bank's mission of poverty reduction is vital in low-income countries, where the incidence of poverty is the highest, the institutional constraints are most severe, the investment climate may not be conducive to sustainable growth, and access to resources is most limited. Bank strategy for attacking poverty in low-income countries is based on the Poverty Reduction Strategy Paper (PRSP) approach, introduced at the end of 1999. PRSPs are country-authored, results-oriented, comprehensive road maps based on broad country consultation with internal and external partners and stakeholders. The PRSP identifies a country's macroeconomic, structural, and social policies and serves as the framework for cross-sectoral programs that promote growth and reduce poverty. It acts as the basis for development aid, including IDA credits.

During fiscal 2005 the Bank's Executive Directors considered eight full PRSPs, including one fully revised second PRSP, and two interim PRSPs. Forty-seven countries now have full PRSPs. In addition, 20 countries provided annual progress reports on their poverty reduction strategies. Jointly with the International Monetary Fund, the Bank reviewed the poverty reduction strategy process to consider progress and challenges. The review assessed the experiences of countries, donors, and other stakeholders, including civil society organizations; identified lessons learned from those experiences; and made recommendations for enhancing the process.

PRSP-based IDA assistance to low-income countries includes Poverty Reduction Support Credits, which support country-owned poverty reduction priorities as reflected in government budgets. In fiscal 2005 the Executive Directors of the World Bank approved 17 credits in 17 countries.

The Role of IDA

IDA is the largest source of concessional financial assistance for the world's poorest countries. In fiscal 2005 countries with annual per capita income of up to \$895 were eligible for IDA assistance. IDA also supports some countries, including several small island economies, that are above the income cutoff but lack the creditworthiness needed to borrow from IBRD. The amount of IDA resources countries receive depends on the quality of their policies to promote growth and reduce poverty, which are assessed annually.

IDA recipient countries face complex challenges in meeting the MDGs. Policy priorities include promoting growth and reducing poverty; enhancing public sector governance and transparency; helping countries recover from conflicts, crises, and disasters; developing infrastructure; improving the quality of basic education and poor people's access to it; strengthening the fight against HIV/AIDS and other communicable diseases; and building a healthy investment climate as a prerequisite for private sector investment. (See chapter 1.)

Traditionally, IDA provided assistance in the form of highly concessional credits. Since fiscal 2003 it has expanded the use of grants, which will be used to finance projects in the most debt-vulnerable IDA countries beginning in fiscal 2006. (See IDA at www.worldbank.org.)

IDA Commitments

IDA commitments in fiscal 2005 reached \$8.7 billion for 160 operations, consisting of \$6.7 billion in credits, \$2 billion in grants, and \$0.1 billion in guarantees. This is slightly below last year's record high.

Africa received the largest commitment of IDA resources with \$3.9 billion, constituting 45 percent of total IDA commitments. South Asia and East Asia and Pacific followed with \$2.9 billion and \$1.1 billion, respectively. Fiscal 2005 marked the last year of the IDA13 replenishment, and the limits on IDA13 resources had an impact on Africa figures in particular. Among countries, India, Vietnam, Bangladesh, Pakistan, and Ethiopia represented the largest single recipients.

In fiscal 2005 about 21 percent of total IDA financing was provided in the form of grants to the following clients and projects: debt-vulnerable poorest countries, \$897 million; postconflict countries, \$463 million; poorest countries, \$316 million; HIV/AIDS projects, \$133 million; and natural disaster reconstruction projects, \$49 million.

Public administration, including law and justice, was the leading sector receiving IDA support, with \$2.2 billion, or 26 percent of the total. Significant support was also provided to the health and social services and transportation sectors, representing \$1.3 billion and \$1.1 billion, respectively.

The two most prominent themes were human development and rural development, accounting for 19 and 17 percent of IDA commitments, respectively. Major attention was also paid to financial and private sector development (16 percent), public sector governance (16 percent), and social protection and risk management (8 percent). Figures 3.4, 3.5, and 3.6 show IDA commitments by region, theme, and sector.

IDA Resources

IDA is financed by its own resources and by donor governments. Every three years donor governments and representatives of borrower countries meet to discuss IDA's policies and priorities and to agree on the amount of new resources required to fund IDA's lending program. Historically, the major industrial nations have been the largest contributors to IDA. Donor nations also include developing countries and transition economies—some of them current IBRD borrowers and former IDA borrowers.

Negotiations for the 14th Replenishment of IDA (IDA14) concluded in February 2005. The IDA14 agreement, which governs the use of IDA resources for fiscal years 2006-8, provides 24.2 billion in special drawing rights (SDRs) (about \$35.3 billion). This amount includes SDR14.1 billion (about \$20.7 billion) in new donor contributions; SDR8.7 billion (about \$12.7 billion) in internal resources, including repayments of principal from past credits and investment income; and SDR1.1 billion (about \$1.5 billion) in IBRD net income transfers, subject to approval by IDA's Board of Governors. Donor countries made firm financial commitments to the replenishment, but some are still exploring the possibility of increasing pledges to reach the 30 percent target increase in commitment authority supported by IDA donors. (See figure 3.7 for the sources of IDA funding, and figure 3.8 for IDA's impact on social sector efforts.)

Low-Income Countries under Stress

Effective engagement with low-income countries under stress (LICUS) is essential for long-term development and global security. Work continued this year on increasing the effectiveness of aid, with the Bank providing close oversight of progress in the 25 most fragile states. Heightened operational readiness and close partnerships with other donors allowed fast and flexible support in postconflict countries such as Haiti, Liberia, and Sudan. To improve links between security and development, the Bank and the United Nations Development Group developed the Transitional Results Matrix, a planning tool that helps countries prioritize and enhance the coherence of international support across political, security, economic, development, and humanitarian arenas.

FIGURE 3.4

TOTAL IDA COMMITMENTS BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

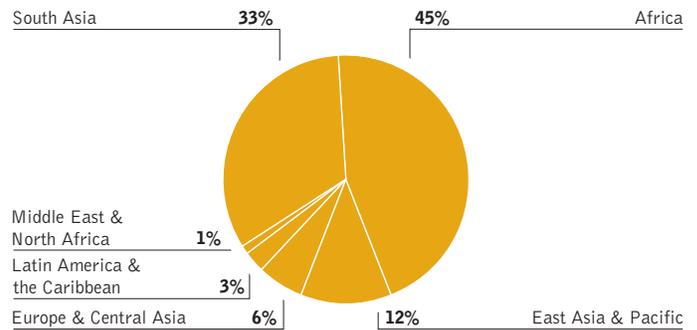


FIGURE 3.5

TOTAL IDA COMMITMENTS BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

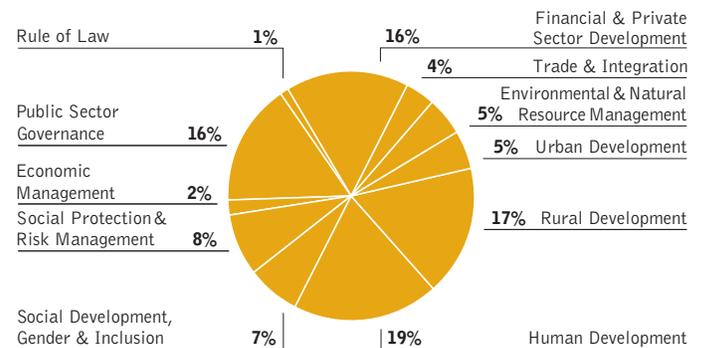


FIGURE 3.6

TOTAL IDA COMMITMENTS BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

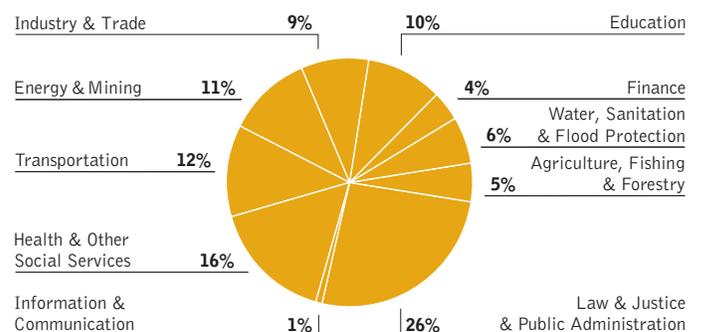
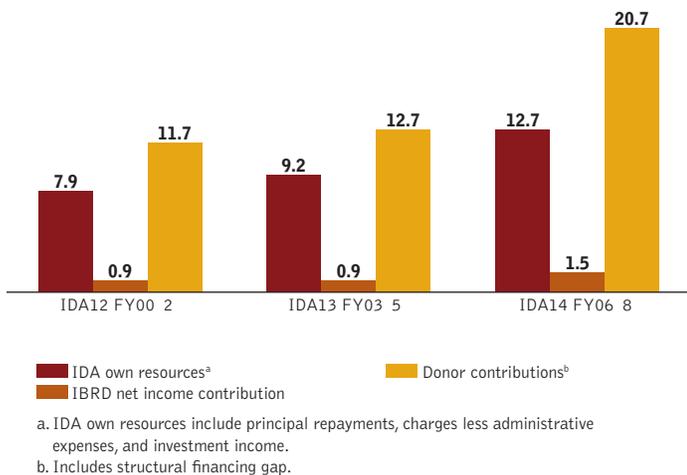


FIGURE 3.7

SOURCES OF IDA FUNDING | BILLIONS OF DOLLARS



Bank research demonstrated the high costs fragile states impose on their neighbors and the inequity of aid allocations between “aid darlings” and “aid orphans.” This led to an agreement for the Development Assistance Committee of the Organisation for Economic Co-operation and Development to develop a watching brief system for these countries. The Bank also cosponsored a senior-level forum, “Development Effectiveness in Fragile States,” which helped develop common principles for good international engagement in these countries.

The Bank implemented several institutional reforms to improve its response in LICUS. The Country Policy and Institutional Assessment rating system was amended to recognize performance improvements at the bottom of the spectrum. Aggregate budgets for analytic work were maintained, and the LICUS Trust Fund committed \$20 million to support reengagement in the most fragile countries in nonaccrual with the Bank. (See www.worldbank.org/licus.)

Debt Relief and Debt Sustainability

The Bank continued to provide debt relief to the world’s poorest and most heavily indebted countries in fiscal 2005. It also worked to improve debt sustainability in an effort to help these countries meet the MDGs.

Under the Heavily Indebted Poor Countries (HIPC) Initiative (www.worldbank.org/debt), 27 countries are now receiving debt relief that is expected to total more than \$54 billion over time. Eighteen countries have reached the “completion point,” where debt relief becomes irrevocable. In fiscal 2005 the boards of the Bank and the International Monetary Fund voted to extend the HIPC Initiative through December 31, 2006. Unlike previous extensions, this one applies only to countries that satisfied HIPC income and indebtedness criteria as of the end of 2004.

The debt relief program has significantly reduced debt stock in HIPCs (see figure 3.9) and has allowed poverty-reducing spending in those countries to rise (figure 3.10).

Together with the International Monetary Fund, the Bank has developed a framework for assessing debt sustainability in low-income countries that will guide lending decisions in a way that balances a country’s need for funds with its ability to service debt, and in a manner tailored to the country’s circumstances. The framework reflects feedback from extensive consultations with government officials, multilateral and bilateral donors, academics, and civil society organizations.

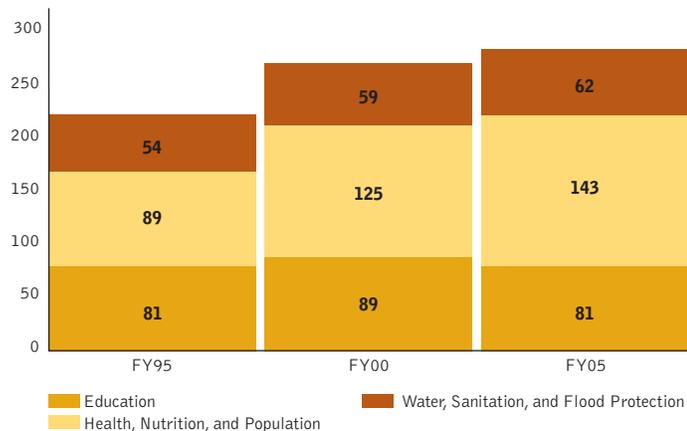
MIDDLE-INCOME COUNTRIES

Middle-income countries continue to face substantial development challenges: achieving sustained growth that provides

FIGURE 3.8

IDA’S STEPPED-UP EFFORTS IN THE SOCIAL SECTORS

285 PROJECTS ONGOING (COMPARED WITH 225 A DECADE AGO)



Note: Number of projects under implementation includes projects in both IDA-only and blend countries. IDA commitment value of ongoing social sector projects: 1995, \$12.2 billion; 2000, \$14.2 billion; 2005, \$15.0 billion.

productive employment; reducing poverty and inequality; reducing volatility, particularly in their access to private financial markets; and strengthening the institutional and governance structures that underpin viable market-based economies. The Bank is uniquely placed to help these countries craft institutional reforms, attract infrastructure investment across the public-private spectrum, improve social service delivery, and cope with volatility.

To support the development efforts of middle-income countries, the Bank began implementing an action plan in fiscal 2005 designed to strengthen the ability of its staff to respond to these countries' borrowing needs. Initiatives include piloting the use of countries' own environmental and social safeguards and fiduciary systems, where applicable; streamlining policy conditionality; and making greater use of the flexibility of Country Assistance Strategies to customize support to country circumstances, respond quickly to emerging opportunities, and realign investment lending instruments and disbursement mechanisms with the evolving needs of clients. The plan leverages Bank resources and skills to provide timely, relevant, and high-quality knowledge services that draw on Bank Group synergies and partnerships with bilateral and multilateral agencies.

The Role of IBRD

IBRD is a AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments, each of which has a voice in setting its policies and many of which are eligible to borrow from it. IBRD's main goal is to reduce poverty by promoting sustainable economic development in middle-income and creditworthy low-income borrowing countries. It provides financing (loans, guarantees, and related risk management tools) and expertise in development-related technical disciplines.

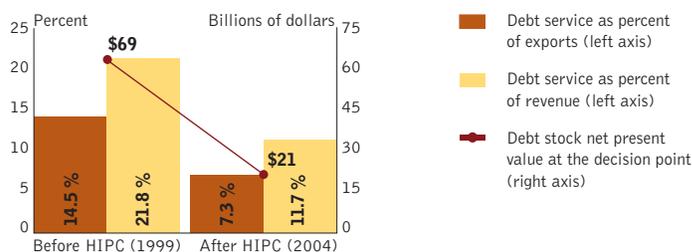
It helps clients gain access to capital and financial risk management tools in larger volumes, on better terms, at longer maturities, and in a more sustainable manner than they could receive from other sources. Unlike commercial banks, IBRD is driven by development impact rather than profit maximization.

Eligibility to Borrow from IBRD

In fiscal 2005 countries with a per capita income of less than \$5,295 that were not IDA-only borrowers were eligible to borrow from IBRD. Countries with higher per capita incomes were able to borrow from IBRD under special circumstances or as part of a graduation strategy. The amount IBRD is willing to lend eligible countries depends on their creditworthiness; some countries with poor creditworthiness may not have

FIGURE 3.9

HEAVILY INDEBTED POOR COUNTRIES DEBT RELIEF REDUCED DEBT STOCK AND IMPROVING DEBT SERVICE RATIOS

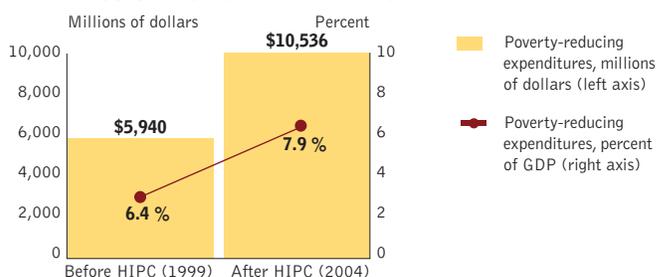


Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2005.

Source: World Bank. September 2004. *Heavily Indebted Poor Countries (HIPC) Initiative—Status of Implementation*. Washington, DC: World Bank. April 2005. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update*. Washington, DC.

FIGURE 3.10

TRENDS IN POVERTY-REDUCING EXPENDITURES BEFORE AND AFTER ASSISTANCE UNDER THE HIPC INITIATIVE

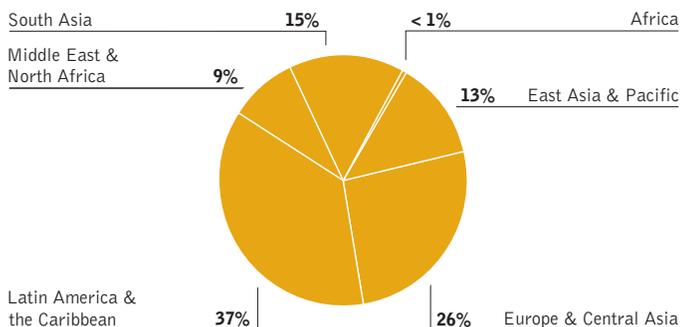


Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2005.

Source: World Bank. April 2005. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update*. Washington, DC.

FIGURE 3.11

TOTAL IBRD LENDING BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



access to IBRD resources. Some countries that are eligible for IDA lending as a result of their low per capita incomes are also able to borrow from IBRD. IBRD loans outstanding to any individual borrowing country may not exceed \$13.5 billion.

IBRD Lending

At \$13.6 billion for 118 operations, new loans, guarantees, and guarantee facilities by IBRD in fiscal 2005 exceeded the previous year's level by over \$2 billion. This represents the highest volume of IBRD lending in the past six fiscal years. The share of development policy-based lending was slightly lower than in fiscal 2004.

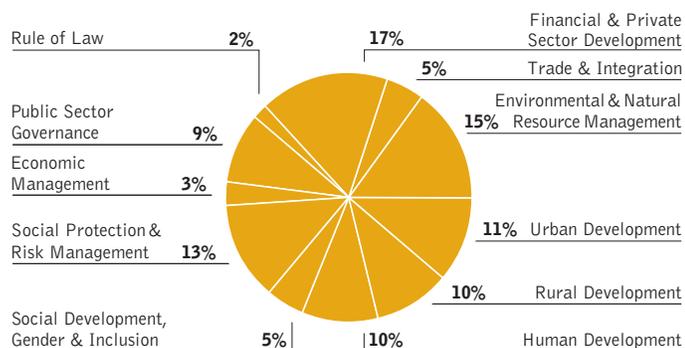
Latin America and the Caribbean received the highest level of IBRD loans and guarantees, with \$4.9 billion or 36 percent of total IBRD commitments, followed by Europe and Central Asia with \$3.6 billion and South Asia with \$2.1 billion. Lending was slightly less concentrated than it was in fiscal 2004. Whereas five countries received roughly 57 percent of total lending in fiscal 2004, five countries—Brazil, China, Colombia, India, and Turkey—received a combined commitment volume equaling 53 percent of total IBRD lending in fiscal 2005.

Among sectors, public administration, including law and justice, received the highest volume of IBRD lending (\$3.4 billion), followed by transportation (\$2.1 billion), and water, sanitation, and flood protection (\$1.6 billion).

The thematic composition of lending in fiscal 2005 was led by financial and private sector development, followed by environmental and natural resource management and social protection and risk management. Figures 3.11, 3.12, and 3.13 show IBRD lending by region, theme, and sector. Development policy-based lending commitments are shown on the accompanying CD-ROM.

FIGURE 3.12

TOTAL IBRD LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



IBRD Resources

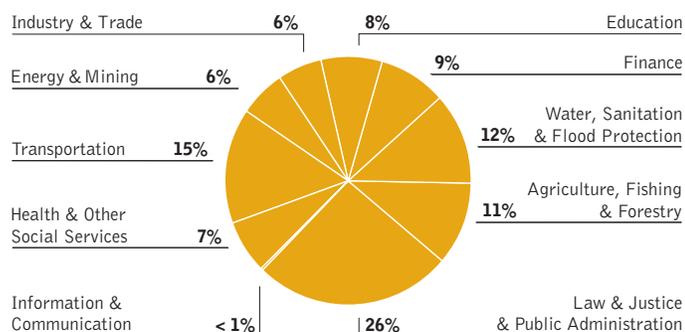
IBRD obtains most of its funds by selling bonds in international capital markets. In fiscal 2005 it raised \$13 billion at medium- to long-term maturities, roughly the same as in fiscal 2004. Debt securities, with a wide range of maturities and structures, were issued in 13 currencies.

IBRD is able to borrow high volumes for long maturities on very favorable terms. IBRD's financial strength is based on its prudent financial policies and practices. These help IBRD maintain its high credit rating.

As a cooperative institution, IBRD seeks not to maximize profit but to earn enough income to ensure its financial strength and sustain its development activities. IBRD's net income, excluding net unrealized gains (losses) on nontrad-

FIGURE 3.13

TOTAL IBRD LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



ing (borrowings related) derivative instruments, as required by Financial Accounting Standard 133 and International Accounting Standard 39, was \$1,320 million in fiscal 2005. IBRD retained \$589.5 million in its general reserve and \$68 million in its pension reserve, added \$52.5 million to the surplus account, and transferred \$400 million to IDA and \$210 million to the HIPC Trust Fund. (See Financial Statements on the accompanying CD-ROM.)

IBRD maintained adequate liquidity in fiscal 2005 to ensure its ability to meet its obligations. As of June 30, 2005, it held about \$26.4 billion in liquid assets.

As of June 30, 2005, IBRD's outstanding borrowings from capital markets were about \$91.5 billion (net of swaps) (see figure 3.14). Total disbursed and outstanding loans were \$104.4 billion. Borrowings exceeded equity by a factor of about three.

Consistent with IBRD's development mandate, the principal risk it takes is the country credit risk inherent in its portfolio of loans and guarantees. Risks related to interest and exchange rates are minimized. One summary measure of the Bank's risk profile is the ratio of balance sheet equity to outstanding net loans, which is closely managed in line with the Bank's financial and risk outlook. This stood at 31.4 percent as of June 30, 2005 (see figure 3.15).

PARTNERSHIPS

Globalization has brought about dramatic changes that require collective action by public, private, and civil society stakeholders. The Bank works with partners to manage global, regional, and country programs where partners share knowledge and play a joint role in funding, governance, or management. These programs have become an important line of business for the Bank. During fiscal 2005 the Bank worked in consultation with key partners to develop a strategic framework that will improve the Bank's selectivity and guide its support to high-priority programs with potential for strong development impact. (See "Evaluating the Bank's Work" in chapter 1.)

Trust Funds

World Bank-administered trust funds foster partnerships by mobilizing and directing concessional resources to support poverty reduction across a wide range of sectors and regions, supporting clients in achieving development results at the global, regional, and country levels. Much of the recent growth in these funds reflects the international community's desire for the Bank to help manage broad global initiatives through multilateral partnerships, such as the Global Fund to Combat AIDS, Tuberculosis and Malaria; the Global Environment

FIGURE 3.14

IBRD'S BORROWINGS AND INVESTMENTS | AS OF JUNE 30, 2005
BILLIONS OF DOLLARS

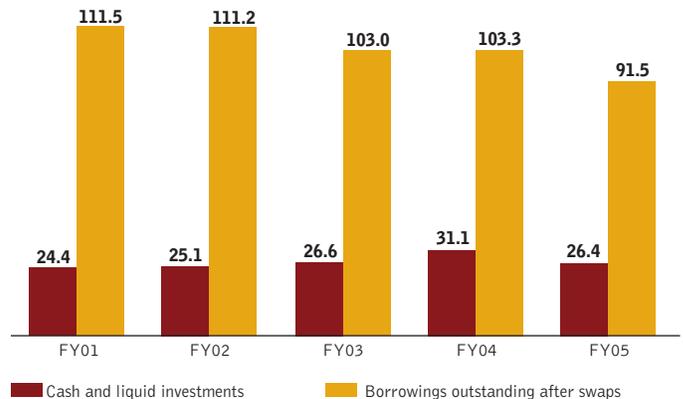
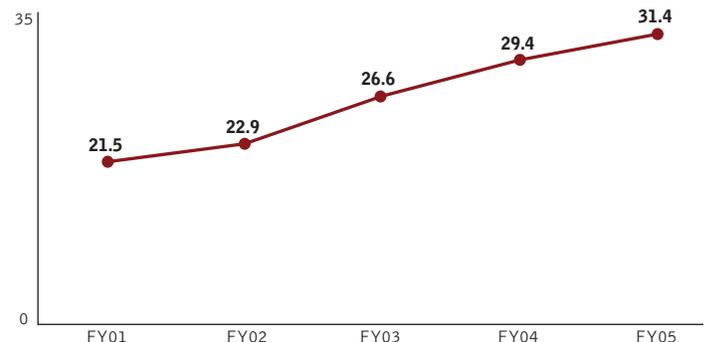


FIGURE 3.15

EQUITY-TO-LOANS RATIO | AS OF JUNE 30, 2005
PERCENT



Facility; and the HIPC Initiative. Trust funds also support the World Bank Group's own development operations and work programs. Many of these activities are described in the World Bank's *Trust Funds Annual Report*. (See site index at www.worldbank.org.)

Contributions, Funds Held in Trust, and Disbursements

Contributions from donors in fiscal 2005 totaled \$4.8 billion, a decrease of 2 percent from fiscal 2004. Funds held in trust rose to \$9.3 billion, an 8 percent increase. The top 10 donors accounted for 78 percent of all contributions (see table 3.2). Disbursements during fiscal 2005 totaled \$4.2 billion, an increase of 29 percent over fiscal 2004.

New Trust Fund Programs

In response to emerging development challenges, the donor community agreed to establish several new major trust fund programs during fiscal 2005.

Indonesia—Multidonor Trust Fund for Aceh and North

Sumatra The trust fund will support the rehabilitation and reconstruction of this area in the wake of the earthquake and tsunami that struck in December 2004. Eight donors, including the Bank, have indicated their intention to contribute a total of \$444 million.

Sudan—Postconflict Multidonor Trust Funds Funds were pledged toward Sudan's identified reconstruction and development needs through the creation of two multidonor trust funds—one for the north and one for the south of the country. A total of \$508 million was pledged for the 2005–7 period.

Vietnam—Poverty Reduction Support Credit Program

Combined funding by five donors for \$169 million cofinances an IDA grant of \$100 million to provide a series of annual Poverty Reduction Support Credits from fiscal 2004 to 2006. These credits are aligned with Vietnam's reform agenda and are aimed at transition to a market economy, social policies, and programs that are equitable and inclusive, and at the adoption of modern public administration and governance systems.

Newly Established Carbon Finance Arrangements Three new major carbon finance arrangements were established this year. The Danish Carbon Fund, with contributions totaling \$40 million, and the Spanish Carbon Fund, with contributions of \$213 million, are designed to stimulate capital flows for sustainable development through the purchase of eligible

TABLE 3.2

TOP TEN TRUST FUND DONORS

MILLIONS OF DOLLARS

	FY04	FY05
United Kingdom	585	552
World Bank Group	466	462
Netherlands	400	411
European Community	880	408
Japan	508	405
France	136	373
United States	594	358
Canada	198	321
Germany	226	251
Italy	187	211
Other donors	724	1,059
Total contributions	4,904	4,811

Note: Donor ranking shown above is based on fiscal 2005 contributions.

carbon emission reductions under the Kyoto Protocol. The Carbon Finance Assistance Trust Fund was set up as an \$11 million multidonor facility supporting technical assistance in recipient countries.

Cofinancing

Cofinancing is any arrangement under which funds from the Bank are associated with funds provided by sources from outside the recipient country for a specific lending project or program. Typical cofinanciers include official bilateral and multilateral agencies, and foundations, which provide mostly concessional funding to recipient countries. In fiscal 2005, 123 Bank projects leveraged \$9.3 billion in cofinancing. Major cofinanciers were the Inter-American Development Bank (\$2.2 billion) and the United Kingdom's Department for International Development (\$0.6 billion). Regions with the highest cofinancing were Latin America and the Caribbean (\$3.3 billion), Africa (\$1.7 billion), and South Asia (\$1.7 billion).

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