THE WORLD BANK ANNUAL REPORT 2007

THE WORLD BANK

OPERATIONAL SUMMARY | FISCAL 2007

IBRD MILLIONS OF DOLLARS	2007	2006	2005	2004	2003
Commitments	12,829	14,135	13,611	11,045	11,231
Of which development policy lending	3,635	4,906	4,264	4,453	4,187
Number of projects	112	113	118	87	99
Of which development policy lending	22	21	23	18	21
Gross disbursements	11,055	11,833	9,722	10,109	11,921
Of which development policy lending	4,096	5,406	3,605	4,348	5,484
Principal repayments (including prepayments)	17,231	13,600	14,809	18,479	19,877
Net disbursements	(6,176)	(1,767)	(5,087)	(8,370)	(7,956)
Loans outstanding	97,805	103,004	104,401	109,610	116,240
Undisbursed loans	35,440	34,938	33,744	32,128	33,031
Operating income[a]	1,659	1,740	1,320	1,696	3,021
Usable capital and reserves	33,754	33,339	32,072	31,332	30,027
Equity-to-loans ratio	35%	33%	31%	29%	27%

a. Reported in IBRD's financial statements as net income before Board of Governors–approved transfers and net unrealized (losses) gains on nontrading derivatives and borrowings measured at fair value, per Financial Accounting Standard No. 133 as amended.

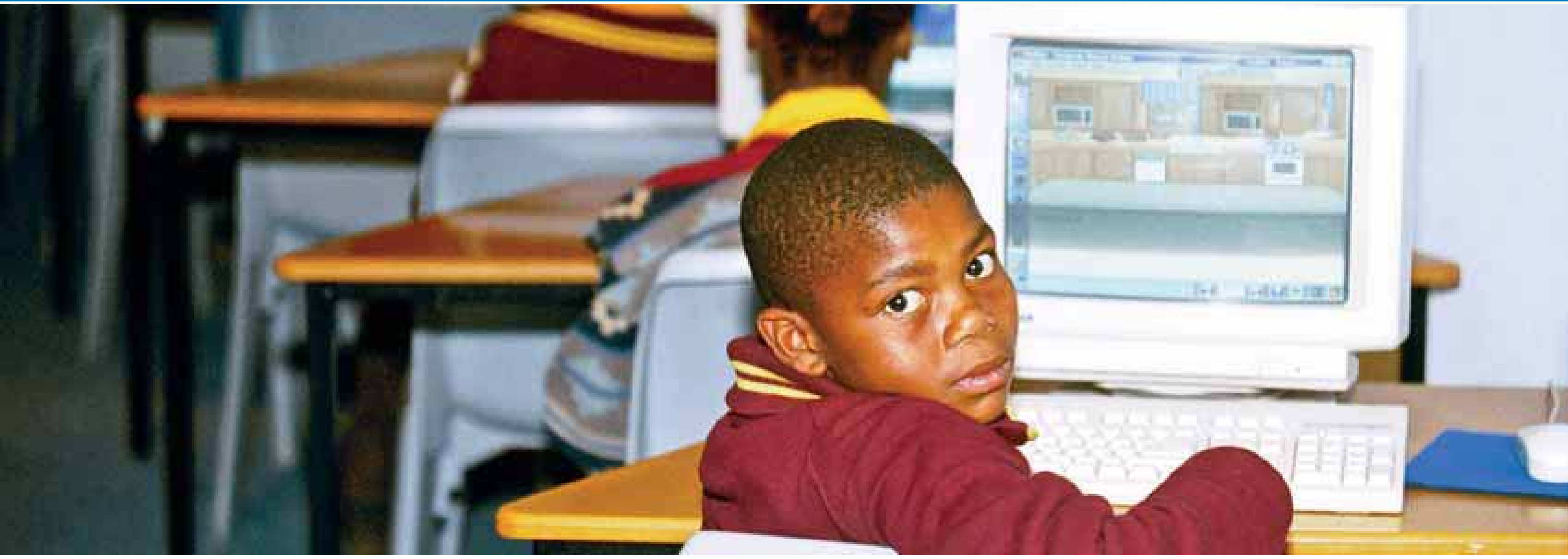
IDA MILLIONS OF DOLLARS	2007	2006	2005	2004	2003
Commitments	11,867	9,506	8,696	9,035	7,283
Of which development policy lending	2,645	2,425	2,331	1,698	1,831
Number of projects	189	173	165	158	141
Of which development policy lending	35	30	33	23	24
Gross disbursements	8,579	8,910	8,950	6,936	7,019
Of which development policy lending	2,399	2,425	2,666	1,685	2,795
Principal repayments	1,753	1,680	1,620	1,398	1,369
Net disbursements	6,826	7,230	7,330	5,538	5,651
Credits outstanding	102,457	127,028	120,907	115,743	106,877
Undisbursed credits	24,517	22,026	22,330	23,998	22,429
Undisbursed grants	4,642	3,630	3,021	2,358	1,316
Development grant expenses	2,195	1,939	2,035	1,697	1,016

Note: Projects scaled up through additional financing are included in the total number of operations.

LETTER OF TRANSMITTAL

This *Annual Report*, which covers the period from July 1, 2006, to June 30, 2007, has been prepared by the Executive Directors of both the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—collectively known as the World Bank—in accordance with the respective bylaws of the two institutions. Robert B. Zoellick, President of IBRD and IDA, and Chairman of the Board of Executive Directors, has submitted this report, together with the accompanying administrative budgets and audited financial statements, to the Board of Governors.

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



CONTENTS

CD-ROM Contents

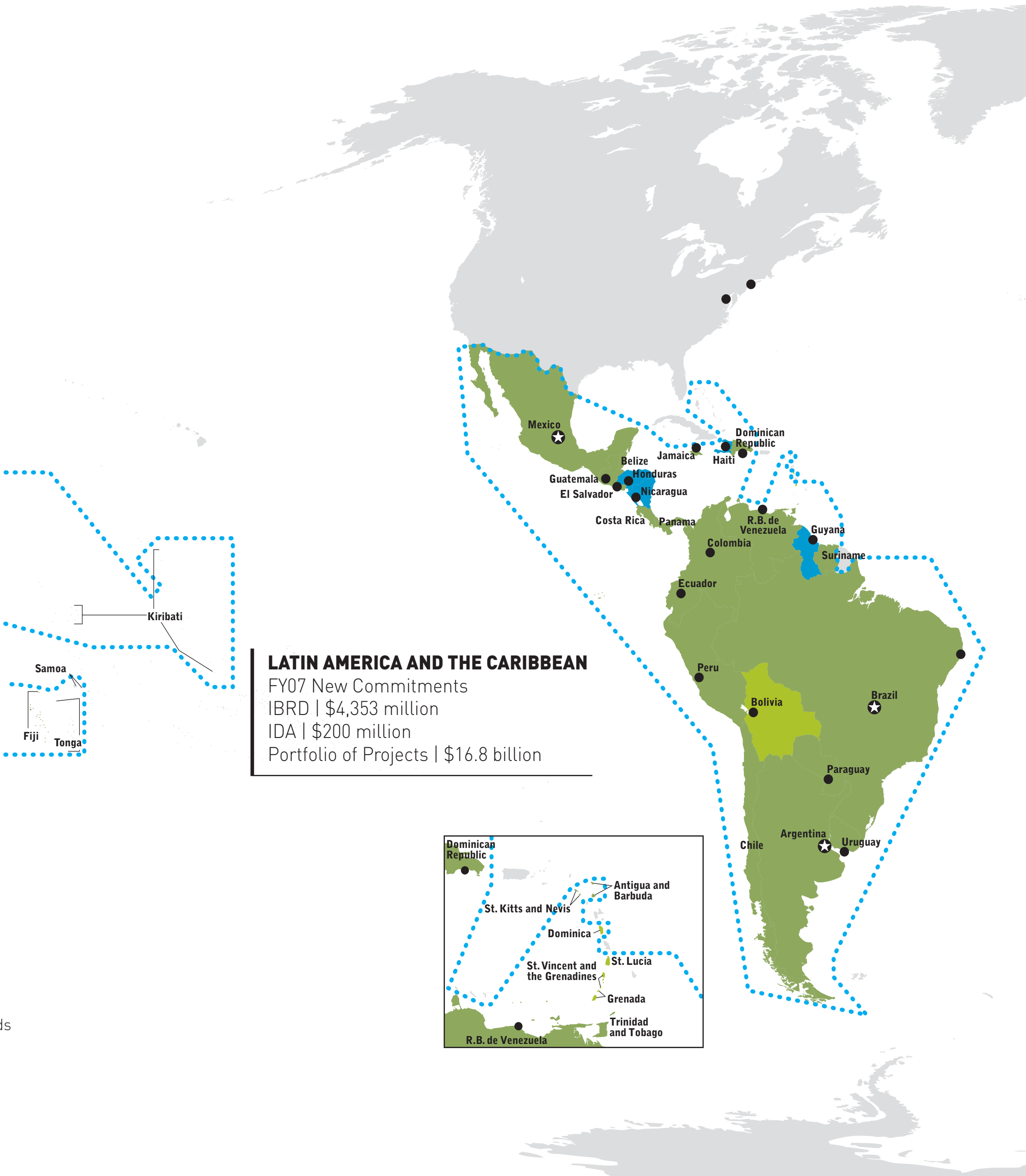
This CD-ROM also contains the complete contents of the book in Arabic, Chinese, English, French, Hindi, Japanese, Portuguese, Russian, and Spanish.

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. As a result of rounding, numbers in tables may not add to totals and percentages in figures may not add to 100. Throughout this report, the terms "World Bank" and "Bank" refer to IBRD and IDA. "World Bank Group" refers to IBRD, IDA, IFC, MIGA, and ICSID.

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-three percent of staff are now based in country offices.

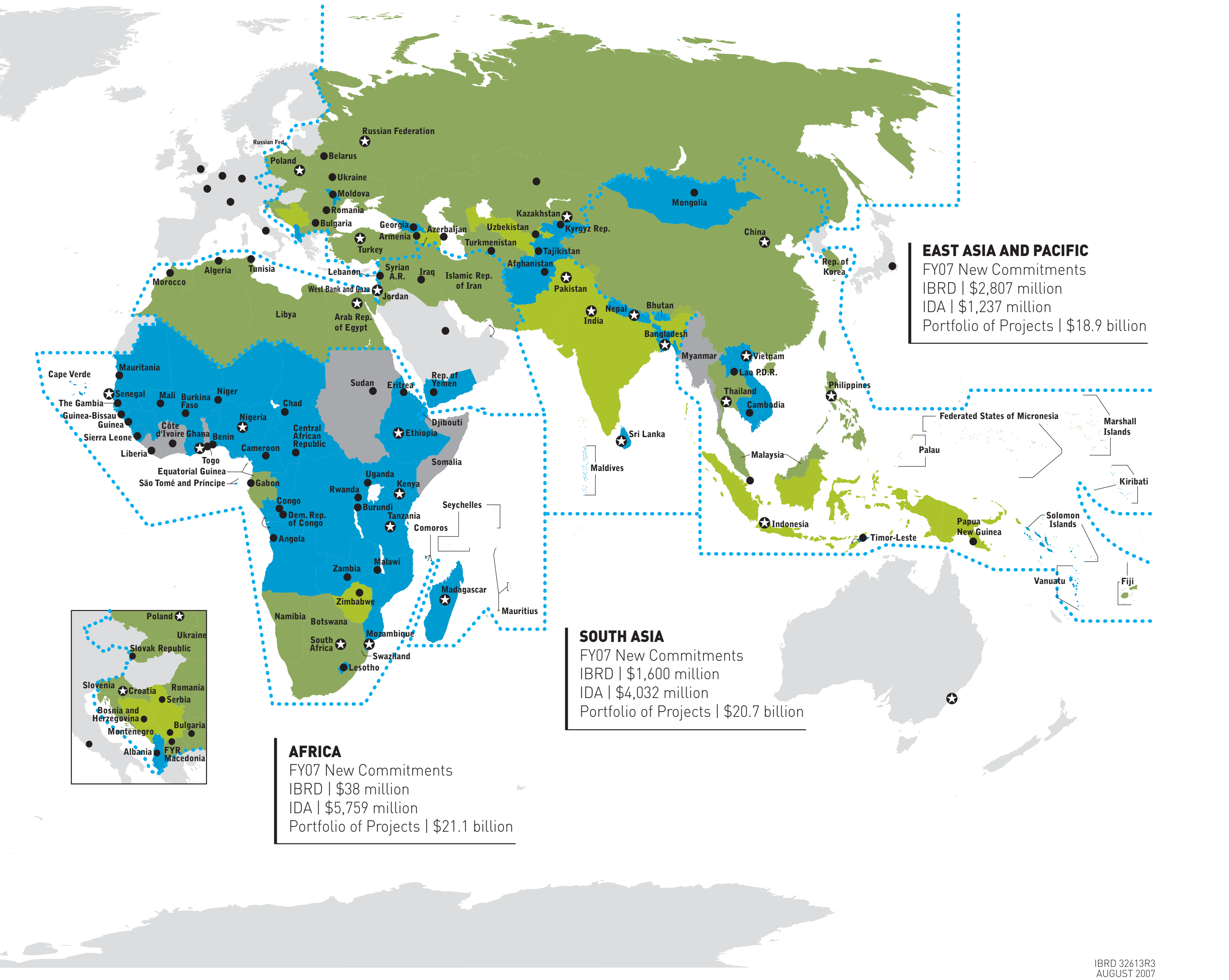


- Countries eligible for IBRD funds only
- Countries eligible for blend of IBRD and IDA funds
- Countries eligible for IDA funds only
- Inactive IDA-eligible countries
- Countries not receiving Bank funds
- Offices of the World Bank
- Offices with the Country Director present
- Bank region boundaries

MIDDLE EAST AND NORTH AFRICA
FY07 New Commitments
IBRD | $692 million
IDA | $216 million
Portfolio of Projects | $6.1 billion

EUROPE AND CENTRAL ASIA
FY07 New Commitments
IBRD | $3,340 million
IDA | $422 million
Portfolio of Projects | $16.7 billion

EAST ASIA AND PACIFIC
FY07 New Commitments
IBRD | $2,807 million
IDA | $1,237 million
Portfolio of Projects | $18.9 billion



SOUTH ASIA
FY07 New Commitments
IBRD | $1,600 million
IDA | $4,032 million
Portfolio of Projects | $20.7 billion

AFRICA
FY07 New Commitments
IBRD | $38 million
IDA | $5,759 million
Portfolio of Projects | $21.1 billion

ABOUT THE WORLD BANK

The World Bank comprises two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). These institutions—along with the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID)—make up the World Bank Group. Each institution specializes in a different aspect of development, but they all have the same goal: a world free of poverty.

The World Bank exchanges ideas with countries on which policies are best suited to achieving their development goals and provides them with technical and financial assistance. IBRD's clients are middle-income and creditworthy poorer countries, while IDA focuses exclusively on the poorest countries.

The World Bank operates like a cooperative, with developing and developed country members functioning as shareholders. Their representatives, the Executive Directors, set Bank policies and oversee its operations.

IBRD has 185 member countries. Since its inception in 1944, it has made loans amounting to $433 billion. IDA has 166 member countries. Since its inception in 1960, it has made commitments amounting to $181 billion.

World Bank programs give high priority to sustainable human and social development and to strengthened economic management, with an emphasis on inclusion, governance, and institution building. Grants and loans obtained from cofinanciers and partnerships often complement government funds and World Bank lending to make up the total package of assistance to a country.

For additional information please see **www.worldbank.org,** as well as the *Guide to the World Bank* at **www.worldbank.org/reference**.

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

Throughout this Report you will see what the work of the World Bank Group means for countries and people striving to overcome poverty in all regions, especially in Africa. The World Bank Group is working with partners on more than 620 projects: to give both boys and girls a chance to learn; offer health services to those in need of care; promote the development of the private sector so as to put local savings to work creating jobs and property for the poor; and build infrastructure and secure, sustainable energy sources that are prerequisites for growth. We also strive to strengthen governance, institutions, and the rule of law so people have a fair opportunity to forge a future for their families and their countries.

The face of the World Bank is the rural electrification project I visited in Vietnam that frees time for a girl to go to school because she can now grind rice and maize with a machine—and gives her light to study by. It is the public-private water partnership we helped finance in Senegal, which pipes safe water and removes wastes, that is cutting waterborne diseases and malaria while saving a valuable resource that now meets the needs of almost a million people. And it is the irrigation project we backed in Armenia that enables a farmer to expand his apple orchards while promoting transparency in payments for government services.

During fiscal year 2007, the World Bank Group committed $34.3 billion in loans, grants, equity investments, and guarantees to its members and to private businesses in member countries—up $2.7 billion (7.8 percent) from fiscal year 2006.

The World Bank Group institutions contributing to this financial outcome are: the International Bank for Reconstruction and Development (IBRD), which provides financing, risk management products, and other financial services to members; the International Development Association (IDA), which provides interest-free loans and grants to the poorest countries; the International Finance Corporation (IFC), which makes equity investments, and provides loans, guarantees and advisory services to private-sector business in developing countries; and the Bank Group's political risk insurance agency, the Multilateral Investment Guarantee Investment Agency (MIGA).

IDA commitments were $11.9 billion, 25 percent higher than the previous year, and the highest in IDA's history. IBRD commitments in fiscal year 2007 totaled $12.8 billion. IFC committed $8.2 billion for private sector development in developing countries, an all-time high, which topped last year's total by $1.5 billion—and $3 billion of the total went to IDA countries. Of MIGA's $1.4 billion in guarantees, $387 million went to projects in IDA countries. MIGA's exposure in IDA countries now stands at 41 percent of its portfolio.

In addition, IBRD carried out $5.4 billion in interest rate and currency risk management transactions on behalf of its members. This is an increase of more than three-fold over totals for the past several years and highlights the expanding portfolio of financial services we offer. Furthermore, IFC mobilized an additional $3.9 billion through loan participations, structured finance, and parallel loans.

The World Bank Group can and should do much more. Given the great needs among diverse developing countries, the World Bank Group can make its capital, knowledge, and expertise work for people by creating customized development solutions for all. We will be investing in practical plans to move from poverty to prosperity. Working with partners and supporters from around the world, guided by a commitment to results, we will strive to achieve the Millennium Development Goals by 2015. This is the way we can advance an inclusive and sustainable globalization.

The world has changed enormously since the World Bank was created some 60 years ago. This unique and accomplished institution of development, reconstruction, and finance not only needs to adapt: it must find the ways to help all countries, particularly the poorest, to seize the benefits of changes in the world economy while better managing the risks.

The World Bank Group needs to be a strategic partner to clients, donors, and those that are both. It should be a development innovator in fragile states and those struggling to come out of conflicts. It can be a designer and implementer of local solutions to global challenges of the environment and disease, while serving as a steward of our natural environment and a first responder to climate change. It must be a facilitator of rules, institutions, and markets that can tap trade and finance for people in developing countries seeking hope, opportunity, and the dignity of personal enterprise.

This year has not been an easy one. Yet we are regaining momentum and building energy. I have seen that the World Bank Group's most valuable resource—the talented and dedicated people who bring its work to life—are highly motivated by the Bank's core mission: to end poverty. They are moving forward. It is a privilege to get to know them and to work with them.

Robert B. Zoellick

Robert B. Zoellick

THE BOARD OF EXECUTIVE DIRECTORS

The Executive Directors are responsible for the conduct of the Bank's general operations. They perform 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 single 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. The resident Board of Executive Directors (the Board) represents the evolving perspectives of member countries on the role of the Bank as well as its operational experience.

The Board considers and decides on the IBRD loan and guarantee proposals and IDA credit, grant, and guarantee proposals made by the Bank's President. Executive Directors fulfill an important role in guiding the general operations of the Bank and its strategic direction. They are also responsible for presenting to the Board of Governors audited accounts, an administrative budget, and an annual report (this report) on the operations and policies of the Bank, as well as any other matters that, in their judgment, require submission to the Board of Governors. The Independent Evaluation Group (IEG) reports directly to the Board with independent advice on the relevance, sustainability, efficiency, and effectiveness of operations.

Executive Directors serve on one or more standing committees: Audit; Budget; Committee on Development Effectiveness (CODE); Committee on 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. The Executive Directors' Steering Committee, an informal advisory body, also meets regularly.

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. In March 2007, the Bank President initiated a broader look at the Bank's long-term strategy. This review, which will be the first sustained review since the current twin pillars strategy was adopted in January 2001, will be led by the Chief Economist.

The papers and reports that the Board considered in fiscal 2007 included such topics as trends in official development assistance; progress in the Bank's Africa Action Plan; progress with the Clean Energy for Development Investment Framework; implementation issues surrounding debt relief, including development of a comprehensive framework for the settlement of protracted arrears cases; and progress on global trade, specifically the Doha Development Agenda and Aid for Trade. The Board also discussed the Bank's policy for rapid response to crises and endorsed a new framework for strengthening the Bank's engagement in fragile states. On the governance and anticorruption (GAC) agenda, Executive Directors supported the principles of transparency, predictability, consistency, and equity of treatment across member countries. They also reaffirmed their engagement and oversight during implementation of the GAC agenda. With respect to the External Review Committee on Bank-Fund Collaboration, Directors noted the importance of effective collaboration between the Bank and the International Monetary Fund.

OVERSIGHT AND FIDUCIARY RESPONSIBILITY

The Board exercises oversight and fiduciary responsibilities, in part through its Audit Committee. The Audit Committee has a mandate to assist the Board in overseeing and making decisions regarding the World Bank Group's financial condition, its risk management and assessment processes, the adequacy of its governance and controls, and its reporting and accounting policies and procedures.

From left to right: (standing) Samy Watson, Svein Aass, Alexey Kvasov, Terry O'Brien, Eli Whitney Debevoise, Tom Scholar (end of service June 27, 2007), Pierre Duquesne, Herman Wijffels, Michel Mordasini, Eckhard Deutscher, Gino Alzetta, Makoto Hosomi, Jorge Familiar, Merza Hasan, Dhanendra Kumar, Felix Alberto Camarasa, Jorge Botero; (seated) Sid Ahmed Dib, Giovanni Majnoni, Abdulrahman Almofadhi, Mulu Ketsela, Mat Aron Deraman, Louis Philippe Ong Seng, Zou Jiayi.

ADMINISTRATIVE BUDGET

The total administrative budget for fiscal 2007, reviewed by the Budget Committee and approved by the Executive Directors, was $2,119 million, net of reimbursements, including $171.8 million for the Development Grant Facility and the Institutional Grant Programs. The net administrative budget of $1,591.3 million represented a 3.1 percent nominal increase over the fiscal 2006 budget. In June 2007, the Executive Directors approved a total administrative budget, net of reimbursements, of $2,148.3 million for fiscal 2008.

INSPECTION PANEL

In fiscal 2007, the Inspection Panel received six requests for inspection involving Bank projects in five countries. Since the panel's establishment, 46 requests for inspection have been received: 14 from Africa, 15 from Latin America and the Caribbean, 11 from South Asia, 4 from East Asia and Pacific, and 2 from Europe and Central Asia. Of the 46 requests, 41 were registered, and the panel has recommended investigations in 22 cases, 6 under the rules that applied before the April 1999 clarifications to the resolution that established the panel, and 16 since those clarifications were adopted. As of June 2007, the panel was conducting three investigations.

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

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**.

RESIGNATION OF PRESIDENT AND SELECTION OF NEW PRESIDENT

In April 2007, the Board was faced with a leadership crisis that led to the resignation of the World Bank Group's President, Paul D. Wolfowitz. The Board has since unanimously confirmed Robert B. Zoellick as the Bank's 11th President, as of July 1, 2007, for a five-year term.

THE INDEPENDENT EVALUATION GROUP

The Independent Evaluation Group (IEG) is an independent unit within the World Bank Group that assesses the relevance and impact of the Bank Group's work to reduce poverty and improve people's lives in a sustainable manner. It reports directly to the Executive Directors. IEG's goals are to contribute to the objective basis for assessing results, to provide accountability in the achievement of development objectives, and to share learning gained from experience. IEG makes its findings available to the broader development community and the public at large.

Summary highlights of IEG's activities in fiscal 2007—in areas such as infrastructure, clean energy, fragile states, rapid response, education, governance, and anticorruption—are provided throughout this report. (See **www.worldbank.org/ieg**.)

EXECUTIVE DIRECTORS, ALTERNATES, AND COMMITTEE MEMBERSHIP | JUNE 30, 2007

EXECUTIVE DIRECTOR	ALTERNATE	CASTING VOTES OF
APPOINTED		
E. Whitney Debevoise[a, e]	(vacant)	United States
Makoto Hosomi[b, c (VC)]	**Masato Kanda**	Japan
Eckhard Deutscher	**Ruediger Von Kleist**	Germany
Alex Gibbs[b]	**Caroline Sergeant**	United Kingdom
Pierre Duquesne[a (C)]	**Alexis Kohler**[h]	France
ELECTED		
Gino Alzetta[d (VC), e] (Belgium)	**Melih Nemli** (Turkey)	Austria, Belarus, Belgium, Czech Republic, Hungary, Kazakhstan, Luxembourg, Slovak Republic, Slovenia, Turkey
Jorge Familiar[c, e, i] (Mexico)	**Jose Alejandro Rojas Ramirez**[h] (República Bolivariana de Venezuela)	Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela (República Bolivariana de)
Herman Wijffels[a, c, i] (Netherlands)	**Claudiu Doltu**[h] (Romania)	Armenia, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Macedonia (former Yugoslav Republic of), Moldova, Netherlands, Romania, Ukraine
Samy Watson[b, c] (Canada)	**Ishmael Lightbourne** (The Bahamas)	Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Guyana, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines
Rogerio Studart[b] (Brazil)	**Jorge Humberto Botero**[h] (Colombia)	Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Trinidad and Tobago
Giovanni Majnoni[a, c] (Italy)	**Nuno Mota Pinto**[h] (Portugal)	Albania, Greece, Italy, Malta, Portugal, San Marino, Timor-Leste
Joon-Kyung Choi[a (VC), c] (Republic of Korea)	**Terry O'Brien**[h] (Australia)	Australia, Cambodia, Kiribati, Korea (Republic of), Marshall Islands, Micronesia (Federated States of), Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Vanuatu
Dhanendra Kumar[d, e (VC)] (India)	**Zakir Ahmed Khan**[h] (Bangladesh)	Bangladesh, Bhutan, India, Sri Lanka
Mulu Ketsela[a, c, i (C)] (Ethiopia)	**Mathias Sinamenye** (Burundi)	Angola, Botswana, Burundi, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Seychelles, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe
Svein Aass[e (C)] (Norway)	**Pauli Kariniemi**[h] (Finland)	Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden
Shuja Shah[b, d] (Pakistan)	**Sid Ahmed Dib** (Algeria)	Afghanistan, Algeria, Ghana, Iran (Islamic Republic of), Morocco, Pakistan, Tunisia
Michel Mordasini[b, d, f] (Switzerland)	**Jakub Karnowski**[h] (Poland)	Azerbaijan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, Uzbekistan
Merza H. Hasan[a, e] (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[c (C)] (China)	**Yang Jinlin** (China)	China
Abdulrahman M. Almofadhi[a, d] (Saudi Arabia)	**Abdulhamid Alkhalifa** (Saudi Arabia)	Saudi Arabia
Alexey G. Kvasov[d (C)] (Russian Federation)	**Eugene Miagkov** (Russian Federation)	Russian Federation
Mat Aron Deraman[b, d] (Malaysia)	**Chularat Suteethorn**[h] (Thailand)	Brunei Darussalam, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Singapore, Thailand, Tonga, Vietnam
Felix Alberto Camarasa[d, e] (Argentina)	**Francisco Bernasconi**[h] (Chile)	Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay
Louis Philippe Ong Seng[b, e, f] (Mauritius)	**Agapito Mendes Dias**[h] (São Tomé and Principe)	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 Principe, Senegal, Togo

Committees

a. Audit Committee
b. Budget Committee
c. Committee on Development Effectiveness
d. Personnel Committee
e. Committee on Governance and Executive Directors' Administrative Matters
f. Pension Benefits and Administration Committee
g. Pension Finance
h. CODE Subcommittee (formed Jan. 31, 2007)
i. Ethics Committee (formed March 29, 2007)

C = Chairman
VC = Vice Chairman

REMUNERATION OF EXECUTIVE MANAGEMENT, EXECUTIVE DIRECTORS, AND STAFF

To recruit and retain highly qualified staff, the World Bank Group has developed a compensation and benefits system designed to be internationally competitive, to reward performance, and to take into account the special needs of a multinational and largely expatriate staff. The Bank Group's staff salary structure is reviewed annually by the Executive Directors and, if warranted, is adjusted on the basis of a comparison with salaries paid by private financial and industrial firms and by representative public sector agencies in the U.S. market. After analyses of updated comparator salaries, the Board approved an average increase in the salary structure of 3.5 percent for fiscal 2007, effective July 1, 2006, for Washington-based staff.

Executive Management

On June 25, 2007, the Executive Directors unanimously selected Robert B. Zoellick as President to take effect as of July 1, 2007. His annual salary (net of taxes) is $420,930.* As of June 30, 2007, the annual salaries (net of taxes) of executive management of the World Bank Group were as follows:

NAME AND POSITION	SALARY ($)
Paul Wolfowitz, President	407,880[a]
Graeme Wheeler, Managing Director	324,610
Vincenzo La Via, Chief Financial Officer	324,610
Lars Thunell, Executive Vice President, IFC	324,610
Juan Jose Daboub, Managing Director	311,000
Marwan Muasher, Senior Vice President, External Affairs	295,000
Vinod Thomas, Director General, IEG	293,720
Ana Palacio, Senior Vice President and World Bank Group General Counsel	293,700
Yukiko Omura, Executive Vice President, MIGA	261,910

a. In addition, a supplemental allowance of $73,010 was paid to cover expenses. Effective July 1, 2006, the remuneration was adjusted by the May–May Consumer Price Index for the Washington metropolitan area (4.2 percent).

Executive Directors

Upon the recommendation of the Board of Governors' Committee on the Remuneration of Executive Directors, the Governors approved the remuneration of Executive Directors and their Alternates effective July 1, 2006, to be as follows: the remuneration of Executive Directors is $212,980 (net of tax); the remuneration of Alternate Executive Directors is $184,240 (net of tax).**

Staff Salary Structure (Washington, DC)

During the period July 1, 2006, to June 30, 2007, the salary structure (net of tax) for World Bank Group staff was as follows:

GRADES	MINIMUM ($)	MARKET REFERENCE ($)	MAXIMUM ($)	REPRESENTATIVE JOB TITLES	STAFF AT GRADE LEVEL (%)
A	23,290	30,270	39,340	Office Assistant	0.1
B	28,330	36,830	51,560	Team Assistant, Information Technician	1.1
C	34,830	45,280	63,400	Program Assistant, Information Assistant	12.0
D	40,290	52,370	73,320	Senior Program Assistant, Information Specialist, Budget Assistant	9.4
E	53,920	70,090	98,120	Analyst	10.1
F	71,910	93,480	130,870	Professional	18.2
G	95,210	123,780	173,290	Senior Professional	29.2
H	132,390	172,120	232,360	Manager, Lead Professional	16.5
I	182,000	236,800	275,400	Director, Senior Advisor	2.8
J	236,040	264,360	304,020	Vice President	0.4
K	260,260	295,140	324,610	Managing Director, Executive Vice President	0.1

Note: Because World Bank Group (WBG) staff, other than U.S. citizens, usually are not required to pay income taxes on their WBG compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the comparator organizations and firms from which WBG salaries are derived. Only a few staff will reach the upper third of the salary range.

*A supplemental allowance of $75,350 is paid to cover expenses.

**These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

FISCAL YEAR OVERVIEW

The number of people living in extreme poverty was estimated to have dipped below one billion for the first time since the World Bank began measuring poverty in 1990.

World Bank commitments totaled $24.7 billion in fiscal 2007. This amount included loans, credits, guarantees, and grants, and was 4 percent higher than total lending in fiscal 2006. For details, see chapter 3 and the accompanying CD-ROM.

- IBRD committed $12.8 billion for 112 projects in fiscal 2007. This was a decline of 9 percent in the dollar amount of commitments from fiscal 2006. For details, see chapters 2 and 3 and the accompanying CD-ROM.
- IDA committed $11.9 billion for 189 operations in fiscal 2007. This was a record high for IDA, with commitments 25 percent higher in dollar terms than in fiscal 2006. For details, see chapters 2 and 3 and the accompanying CD-ROM.
- Africa received the highest funding, at $5.8 billion, which is a record for the region. For details, see chapter 2 and the accompanying CD-ROM.
- India was the single largest borrower, with $3.8 billion in commitments. Commitments to South Asia overall were nearly 50 percent higher than in fiscal 2006. For details, see chapter 2 and the accompanying CD-ROM.

The Bank delivered 531 economic and sector work and 430 technical assistance (nonlending) products in fiscal 2007. For details, see chapter 3.

In its "Annual Report on Portfolio Performance," the Quality Assurance Group found that the share of well-performing Bank projects at completion reached 81 percent in fiscal 2006, a level unmatched in the past 25 years. For details, see chapter 3.

The Independent Evaluation Group produced 13 major evaluations reviewing the Bank's performance on a range of activities, including transport, agriculture in sub-Saharan Africa, the *Annual Review of Development Effectiveness*, and reviews of country assistance programs in Mali and Ukraine. For details, see **www.worldbank.org/ieg**.

Representatives of donor countries, borrower countries, and observers from other multilateral banks met to discuss the fifteenth replenishment of IDA in Paris in March 2007, and again in Maputo in June 2007. For details, see chapter 3.

The Executive Directors approved new strategies for financial and private sector development; health, nutrition, and population; and governance and anticorruption. For details, see chapter 1.

A leadership crisis led to the resignation of the World Bank's President, Paul D. Wolfowitz, effective June 30, 2007.

On June 25, 2007, the Board of Executive Directors unanimously selected Robert B. Zoellick as President to take effect as of July 1, 2007.

1 ADDRESSING POVERTY WORLDWIDE

A CHANGING ENVIRONMENT

The World Bank's client countries experienced a remarkable year, with average per capita gross domestic product (GDP) rising an estimated 6 percent in 2006. Even more significant, trends of sustained growth are emerging: annual per capita GDP growth in developing countries has averaged 3.9 percent since 2000, and 16 African countries—home to more than a third of the region's population—have enjoyed annual growth of more than 4.5 percent over the past decade. This growth has benefited the poor, with the number of people living in extreme poverty dipping below 1 billion for the first time since the Bank began measuring poverty, in 1990.

Clearly, developing economies are performing. Now is the time to meet that performance with increased aid. Donor countries have committed billions in debt relief and have met emergencies with well-timed assistance, thereby making an important contribution to the ability of poor countries to achieve their development goals. Further support could go beyond mitigating the burden of debt and disaster to enable performers to invest more in priority areas such as infrastructure, education, and health.

For many low-income countries, the development finance landscape has been transformed by unprecedented access to private capital—though that access is still uneven, with the poorest 51 countries receiving just 8 percent of the total in 2006. Meanwhile, traditional aid now comes from an abundance of donors, including some countries newly arrived at lending, and still others, such as foundations or even individuals, with highly specific goals. Taken as a whole, these are encouraging signs, especially when support aligns readily with national priorities.

This transformation underscores the vital convening role of the International Development Association, which serves as a cornerstone of the international aid system in many poor countries. IDA provides such countries with reliable aid support and leverages the assistance of other donors for coherent, country-owned programs and projects. IDA's efforts forge stronger partnerships between aid providers and recipient countries, leading to better outcomes for the poor.

The coming year will be crucial for IDA's clients, as donors will be confirming their commitments to the 15th replenishment of IDA. IDA15 will provide resources to assist the world's poorest countries from July 2008 through June 2011—critical years for developing countries trying to achieve the Millennium Development Goals (MDGs). Given the long lag time before development projects yield measurable results, IDA15 may be the last major opportunity for donors to support developing-country efforts to make significant progress toward achieving the MDGs by 2015.

For middle-income countries, access to market-based financing and risk-management tools continued to improve in fiscal 2007, as their costs of borrowing declined to near all-time lows. These countries require development partners that are flexible and responsive and that can provide a broad array of financing, risk-management, and credit-enhancement products, provided quickly and at lower transaction costs. International financial institutions, including the World Bank, must adapt to such changes in client complexion and outlook and to the constant changes in the global economic environment.

The World Bank uniquely must adapt to these changes while staying loyal to its vision: a world free of poverty. It pursues this end by focusing on its areas of comparative advantage, supporting client countries' pursuit of sustained and equitable economic growth. The Bank's support includes knowledge services, financial services, and strategy and coordination services. Additionally, the Bank advocates the adoption of prodevelopment policies around the world, particularly in relation to trade.

This report looks at the activities undertaken in the past fiscal year in the fight against poverty. The report pays special attention to Africa and focuses on five critical areas where the Bank can have a distinct impact: health, education, and gender; infrastructure and clean energy; financial and private sector development; governance and anticorruption; and in developing its strategy for middle-income countries.

HEALTH, EDUCATION, AND GENDER

Improvements in the areas of health, education, and gender are fundamental to achieving the Bank's mission: six of the eight MDGs address them, and complex interrelationships exist among the three. Progress in these areas requires vigilance, especially in Africa, where each has been highlighted as a flagship area for Bank support, in accordance with client country priorities.

Health, Nutrition, and Population

Across the world, poor people face high mortality rates, malnutrition, and limited access to reproductive and other basic health services. At the same time, millions fall into poverty every year as a result of illness. Health conditions are particularly dire in Africa, where no country is on track to meet the child mortality MDG.

Recent years have seen massive increases in international aid for health, with much of it targeted to specific diseases, such as HIV/AIDS (human immunodeficiency virus/acquired immune deficiency syndrome), tuberculosis, and malaria. However, relatively few resources have been provided to support health systems, and few institutions are in a position to bring donors, single-cause funds, and other sources together to help countries improve health outcomes. This is an area to which the World Bank is strongly committed and in which it has a comparative advantage. The Bank's updated strategy in health, nutrition, and population (HNP), discussed by the Board in April 2007, draws on the Bank's long experience in health financing, health systems, and cross-sectoral investments (box 1.1). Under the new strategy, lending in HNP will be even more closely tied to results than it has been in the past. The Bank will work across sectors and engage with a diverse group of actors to strengthen health systems and interventions, a necessary step for achieving improved treatment and prevention of any single disease. The Bank will also work

THE MILLENNIUM DEVELOPMENT GOALS

1. Eradicate Extreme Poverty and Hunger
Halve the number of people in extreme poverty, and the number of people who suffer from hunger, by 2015.

2. Achieve Universal Primary Education
Ensure by 2015 that all children will be able to complete a full course of primary education.

3. Promote Gender Equality and Empower Women
Eliminate gender disparity in primary and secondary education by 2005, and in all levels of education by 2015.

4. Reduce Child Mortality
Reduce by two-thirds the under-five mortality rate by 2015.

5. Improve Maternal Health
Reduce by three-quarters the maternal mortality rate by 2015.

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

7. Ensure Environmental Sustainability
Halve the proportion of people without sustainable access to safe drinking water by 2015.

8. Develop a Global Partnership for Development
Further develop an open, rule-based, predictable, nondiscriminatory trading and financial system.

(See **www.developmentgoals.org** and **www.un.org/millenniumgoals**.)

to prevent poverty resulting from illness and to improve governance, accountability, and transparency in the health sector.

Lending for HNP, including health financing, reached $1.83 billion in fiscal 2007. Health systems performance was a dominant theme in fiscal 2007, representing $739 million in new lending. Support to population and reproductive health programs totaled $303 million, and support to the treatment and prevention of HIV/AIDS reached $300 million.

The Bank has long supported health-related projects in countries such as Argentina, Ghana, Mozambique, and Tanzania, where a wide range of lending approaches has been used over time. Bank assistance has also had a positive effect in postconflict countries (box 1.2). For example, in Afghanistan and Timor-Leste, armed conflict resulted in huge losses in health personnel, infrastructure, and management capacity. Consequently, the countries turned to civil society organizations to provide basic health services. As conflict died down, both governments developed new strategies to integrate public and nonstate health service providers using robust monitoring and contracting approaches. Bank financing for HNP and other sectors, as well as support for public financing reforms, helped the governments implement these strategies. In Afghanistan, the immediate result has been a fourfold increase in the use of health services in target provinces. In Timor-Leste, the average use of health services increased from one annual visit per person to at least two-and-a-half visits. Measles immunizations rose from 26 percent to 73 percent of children, and skilled attendance at birth increased from 26 percent to 41 percent.

Most of the analytic work and technical assistance the Bank provided in fiscal 2007 concentrated on health systems issues. Two reports, *Health Financing Revisited* and *Beyond Survival,* summarize global lessons in health financing and provide policy recommendations based on the specific economic, political, and institutional conditions countries face.

Education

The World Bank is the world's largest source of external investment support for improving education in middle- and low-income countries, having transferred about $40 billion in loans and credits for education since it started lending to the sector in 1963. This represents nearly 7 percent of total lending over that 44-year period. As with health, the Bank has a unique ability to consult with national governments, United

BOX 1.1 HEALTHY DEVELOPMENT: THE WORLD BANK'S STRATEGY FOR ACHIEVING HEALTH, NUTRITION, AND POPULATION RESULTS

The World Bank's new strategy for health, nutrition, and population aims squarely at helping developing countries strengthen their health systems and ensure synergies between those systems and priority programs (for example, programs focused on HIV/AIDS, malaria, tuberculosis, nutrition, and reproductive health). By strengthening health systems, the strategy aims to boost economic growth, reduce poverty caused by catastrophic illness, and provide cohesion among the multiple health-related programs within client countries.

The strategy underwent an extensive consultative process with 9 client countries and 65 global partners, including civil society organizations and bilateral and multilateral organizations. The following strategic objectives emerged from that process:

- Improve measurement and outcomes of health-related MDGs
- Prevent poverty caused by illness by improving financial protection
- Support the contribution that good health and sound health-system policy can make to economic growth
- Improve governance, accountability, and transparency in the health sector

The new strategy maintains the Bank's unswerving commitment to achieving results on the ground and to improving the health conditions of people in client countries, particularly the poor and the vulnerable. (See **www.worldbank.org/hnp**.)

Nations (UN) agencies, bilateral agencies, donors, civil society organizations, and other stakeholders to support developing countries in their efforts to provide education to all their citizens as a means to empower them and to boost economic growth.

Education lending in fiscal 2007 reached $2 billion. The Bank provided about $1.6 billion in IDA funding, an all-time high. Aid to Africa—which had declined steadily over the past five years to a low of $339 million in fiscal 2006—reached $707 million, nearly all from IDA, in fiscal 2007.

The Bank approved 28 education projects in fiscal 2007. These included $280 million for vocational and technical education in India; nearly $250 million for two projects in Nigeria aimed at increasing access and learning in primary schools and at improving the quality of higher education;

BOX 1.2 RAPID RESPONSE

The Bank has responded to a growing number of emergency situations in recent years. It has helped countries recover from natural disasters, such as the 2004 tsunami in the Indian Ocean and the 2005 earthquake in Pakistan; it has supported reconstruction in postconflict situations; it has helped to avert outbreaks of pandemics, such as the avian flu; and it has responded to manmade disasters, such as oil spills. The 2006 report by the Independent Evaluation Group, *Hazards of Nature, Risks to Development,* noted that although there have been many successes, the Bank's response has often lacked the speed and effectiveness that emergencies demand.

To address these issues, the Board approved a new policy framework in February 2007 for rapid response to emergency and crisis situations. The new framework allows the Bank to act more quickly by acknowledging the wide range of situations encompassed by the terms *crisis* and *emergency* and by simplifying procedures and requirements in emergency operations. The new framework addresses constraints faced in the early (and often critical) stages of recovery and establishes a basis for the Bank to work with countries to reduce the risk of crises and disasters in the first place.

To support implementation of the new policy, the Bank drew on staff from across the institution with experience in emergency work. As soon as the new policy framework took effect, task teams began to implement it. The new policy was first applied to imminent crises. The Emergency Social and Urban Rehabilitation Project, in the Democratic Republic of Congo, was the first project to receive approval under the new policy. The project addresses the escalating risk of crisis in that country. Four other projects were subsequently approved under the new policy in fiscal 2007.

At the global level, the Bank is working with the United Nations on a framework fiduciary agreement to facilitate World Bank–United Nations collaboration during crises and emergencies. In addition, as part of the effort to reduce the risk of disaster in high-risk countries, the Bank has joined with other donors and the United Nations in creating the Global Facility for Disaster Reduction and Recovery, which will help countries develop and implement disaster risk–mitigation strategies and will provide funds for reconstruction. (See **www.worldbank.org/hazards**.)

$150 million for postconflict support for education in the Democratic Republic of Congo; and $80 million for decentralizing education in Kenya.

Because education's role in broadly shared growth is complex and pervasive, 79 investment projects or development policy operations approved in fiscal 2007 contain funding to support education. For this same reason, the Bank's approach to education has often involved addressing problems outside education that hinder development of the sector. Reducing or eliminating school fees, addressing HIV/AIDS in schools, and devolving decision making and funding to schools and parents are examples of reform priorities that require a cross-cutting approach.

Seven low-income countries—Benin, Cambodia, Mali, Mauritania, Mongolia, Mozambique, and Sierra Leone—received a total of $265 million in grant support under the Education for All Fast-Track Initiative (FTI) in fiscal 2007. The FTI is a global partnership between donor and developing countries that helps to provide increased, better coordinated, and more effective aid to countries with sound education plans. These grants were made under the FTI Catalytic Fund, a multidonor trust fund managed by the Bank that provides transitional financial assistance to countries whose education sector plans have been endorsed under the FTI process but that have difficulty mobilizing sufficient external funding. Thirty-one countries are now endorsed by the FTI.

Fiscal 2007 saw other encouraging results. Worldwide, the number of primary-school-age children out of school has fallen from about 100 million in 2000 to an estimated 77 million in 2006, and the ratio of girls to boys in primary schools is rising rapidly in many countries (box 1.3). The greatest increases

BOX 1.3 PUTTING 550,000 MORE CHILDREN IN PRIMARY SCHOOL IN BURKINA FASO

Burkina Faso's primary school enrollment rate was among the lowest in the world in the 1990s. Enrollment was very low in rural areas, where children, particularly girls, were kept at home because of the distance to school, the high cost of schooling, and the high opportunity costs for poor families whose children contributed significantly to family income.

To address the problem, IDA brought $32.6 million to a $110 million program supporting the government's Basic Education 10-Year Program. Just as significantly, it provided a framework that harmonized support from all partners—Belgium, Canada, Denmark, the European Commission, France, the Netherlands, Sweden, UNICEF, and nongovernmental organizations—through a common-basket fund that allowed effective allocation of project resources.

The first phase of the program, completed in fiscal 2007, improved access to primary education in rural areas by constructing and rehabilitating schools and financing equipment and facilities. It also supported curriculum development, teacher training, and capacity building within the Ministry of Basic Education, paying particular attention to financial management, budgeting, procurement, monitoring, evaluation, and donor coordination.

As a result of the program, an additional 550,000 children have since been enrolled in primary school. Gross enrollment rates nationwide increased to 62 percent (55 percent for girls) in 2006, up from 42 percent (36 percent for girls) in 2000. In the 20 most underprivileged provinces, enrollment rose to 47 percent (41 percent for girls) from 30 percent (24 percent for girls) over the same period.

IDA will continue to support the government's 10-year program to ensure that the foundations laid for the reform will be strengthened over time. A Post-Primary Education Project that builds on the current operation is being implemented to address access and equity in secondary education. (See **www.worldbank.org/burkinafaso**.)

in enrollments have occurred in South Asia. Bangladesh has raised gross primary enrollment rates to almost 100 percent and has already met the MDG on gender parity in school enrollment. These hopeful signs suggest that globalization can work in support of shared growth in the countries that continue to invest in education.

In addition to investment support, the Bank continues to produce sector analyses and cross-cutting analytical reports that raise local awareness and increase global knowledge. More than 30 education sector papers or strategy documents were prepared in fiscal 2007, and numerous Poverty Reduction Strategy Papers addressed education. Feedback from governmental counterparts and nongovernmental actors indicates that the Bank's policy advice and global knowledge base are at least as important as its financial support.

A redoubling of efforts will be required in education in fiscal 2008 and beyond. Only 25 of 81 IDA-eligible countries have achieved or are on track to achieve universal completion of primary school by 2015 (the second MDG). Bank support for reaching this goal, including support through the interagency FTI, has mostly emphasized increased access, according to an Independent Evaluation Group (IEG) analysis from fiscal 2007. Although the Bank was widely successful in increasing enrollment and access, problems with student dropout and learning outcomes remained. IEG recommended that future Bank support increase the emphasis on learning outcomes and on improved system management and governance and that the Bank work with FTI partners to reorient the initiative. Since that evaluation, all new primary education projects have been reviewed for attention to learning outcomes; programs of analysis, training, and policy dialogue have been organized around the theme of learning outcomes and assessment; and the Bank has engaged its FTI partners in building learning outcomes into the initiative. Measuring learning results and benchmarking them against local and international standards will help link countries to the global economy. (See **www.worldbank.org/education**.)

Gender Equality

The Bank has a strong comparative advantage in the promotion of gender equality. The Bank's analytical capacity puts it in a good position to make the business case for gender equality and to document how increased gender equality can accelerate shared growth. Operationally, the wide sectoral scope of the Bank's lending means that it is able to take advantage of many entry points—ranging from health and education to financial markets and infrastructure—to promote gender equality.

During fiscal 2007, the Bank adopted an action plan to empower women economically. The plan, "Gender Equality as Smart Economics," launched operations in all developing regions. These operations included new activities targeting agriculture, private sector development, financial services, and infrastructure to help increase the productivity and earnings of women producers.

In Tanzania, where women have very poor access to financial services, the plan has established a line of commercial credit for women through a local bank. The program is providing training to women to increase their "bankability," and it is supporting regulatory reforms to give women better access to credit. This project and others under the gender action plan can facilitate women's transition to good-quality employment; can increase the number of women starting agribusinesses and engaging in high-value agriculture; and can boost women's access to essential infrastructure services, particularly transport, water, and energy.

The Multi-Country AIDS Project for Africa has focused particular attention on addressing gender dynamics in its response to the pandemic. In Chad, IDA funds a project to reduce the transmission and socioeconomic impact of

HIV/AIDS by supporting education and income-generating activities for women. In Rwanda, IDA has financed access to antiretroviral care for 5,000 poor rural people, most of them women. In Africa generally, IDA has financed services to prevent mother-to-child HIV transmission for more than 1.5 million women and has helped distribute 1.3 billion male and 4 million female condoms.

The focus of the Bank's *Global Monitoring Report 2007* was on gender equality and on the progress of member countries in meeting the related official MDGs. The report identified gaps and developed a set of complementary indicators to strengthen gender-equality monitoring.

Financial support from the governments of Canada, Denmark, Germany, Norway, Sweden, and the United Kingdom continues to encourage innovation in the mainstreaming of gender issues in the Bank's work. (See **www.worldbank.org/genderequality**.)

INFRASTRUCTURE AND CLEAN ENERGY

Infrastructure

Improving infrastructure in developing countries is key to reducing poverty, increasing growth, and achieving the MDGs. Leaders of developing countries often say they need not only more and better infrastructure facilities and services but infrastructure that is environmentally sound, socially accepted, and financially sustainable.

By building on the increased investment opportunities available under the Infrastructure Action Plan and by integrating the lessons learned in its long involvement in infrastructure worldwide, the World Bank has remained a leader in working with developing countries in this area. It assists them in providing the basic sustainable infrastructure capacity and services needed for permanent poverty reduction.

The Bank increased commitments involving infrastructure to $9.9 billion in fiscal 2007, a 24 percent increase over the previous year. Transport remained the largest component, with $4.9 billion in lending (50 percent of the total), followed by new water and sanitation commitments of $3.1 billion (31 percent of the total).

The Bank supports activities in a wide range of infrastructure services, including energy, transport, water supply and sanitation, urban services, land use management, and information and communication technologies. A key area of involvement in the last year has been the promotion of clean energy investments to help the international community deal with growing threats from global warming and climate change (see "Clean Energy," below, and box 1.4).

The Bank provides financial assistance for investment projects; leverages financing from donors and the private sector; and engages in policy dialogue and provides advice

on sector reforms, working with country partners to build and strengthen institutions. The Bank's infrastructure agenda is particularly relevant to Africa, where 300 million people lack access to improved water sources, 450 million people lack adequate sanitation services, and transport costs are among the highest in the world.

The continued growth in lending was accompanied by an organizational realignment that saw infrastructure units within the Bank integrated with units working on the environment, agriculture and rural development, and social development. The result was the creation of a robust Sustainable Development Vice Presidency charged with ensuring that Bank infrastructure programs yield the kinds of environmentally and socially sustainable programs that countries need and request.

A report produced by the former infrastructure unit—*Infrastructure at the Crossroads: Lessons from 20 Years of World Bank Experience*—foreshadowed the integration by exploring the importance of integrating environmental and social dimensions into project identification, preparation, appraisal, and supervision, and of allocating sufficient resources to mitigate any adverse impacts of development.

IEG has been actively reviewing the Bank's work in infrastructure in fiscal 2007. A recent IEG evaluation of Bank assistance to the transport sector concluded that past performance has generally been effective but that the focus on rural and intercity roads is insufficient because of the rapidly growing impact of urbanization and globalization. More emphasis needs to be given to the reduction of urban

BOX 1.4 ADDRESSING THE RISK OF CLIMATE CHANGE IN KENYA

The number of people affected by droughts and floods in Kenya is doubling every decade. To help poor people deal with the impact of such climatic shocks, IDA funded two phases of the Arid Lands Resource Management Program. The program has been successful in addressing short-term impacts of climate variability and is now focusing on addressing the longer-term impacts of climate change.

Climate models project a substantial increase of up to 5 degrees Celsius in the annual average temperature for Kenya by the end of the century. While uncertainties remain regarding the changes in average rainfall, projections clearly indicate a growing risk of both dry spells and intense precipitation events. Recognizing this, IDA provided an additional $60 million in financing in fiscal 2007 to deepen and broaden the government's efforts to address climate variability, and the Global Environment Facility is contributing an additional $5 million in fiscal 2008 to deal with these risks. The next phase aims to increase institutional capacity to plan for climate change by improving information flows and analytical capacity; to promote public and private investment through incentives for appropriate investment; and to increase community resilience by piloting and demonstrating alternative livelihood options through community-based microprojects. (See **www.worldbank.org/kenya**.)

traffic congestion, vehicle emissions, and accidents. IEG also looked at management of agricultural water. Effective management is vital for feeding growing populations and for managing competition from urban regions for limited water resources. IEG called for greater attention to the role of agricultural policy and trade in alleviating regional water shortages, and it encouraged the Bank to demonstrate the impact of sound agricultural water management on poverty reduction, employment, and health. (See **www.worldbank .org/infrastructure**.)

Clean Energy

Increasing access to safe, modern, and economical energy in developing countries, and working to ensure that this energy is as clean as possible, is a major and growing field of activity for the Bank. As a leading international organization with the financial, technical, and human capacity to work throughout the developing world, the Bank is in a unique position to help countries accelerate their use of clean energy for sustainable development. The Bank has consistently surpassed the target it set for itself in 2004 to increase its annual investments in energy efficiency and new renewable energy by an average of 20 percent between fiscal years 2005 and 2009. In the first two years of that commitment, investments in new renewable energy and energy efficiency totaled $1.13 billion, more than double the target of $552 million over the two years.

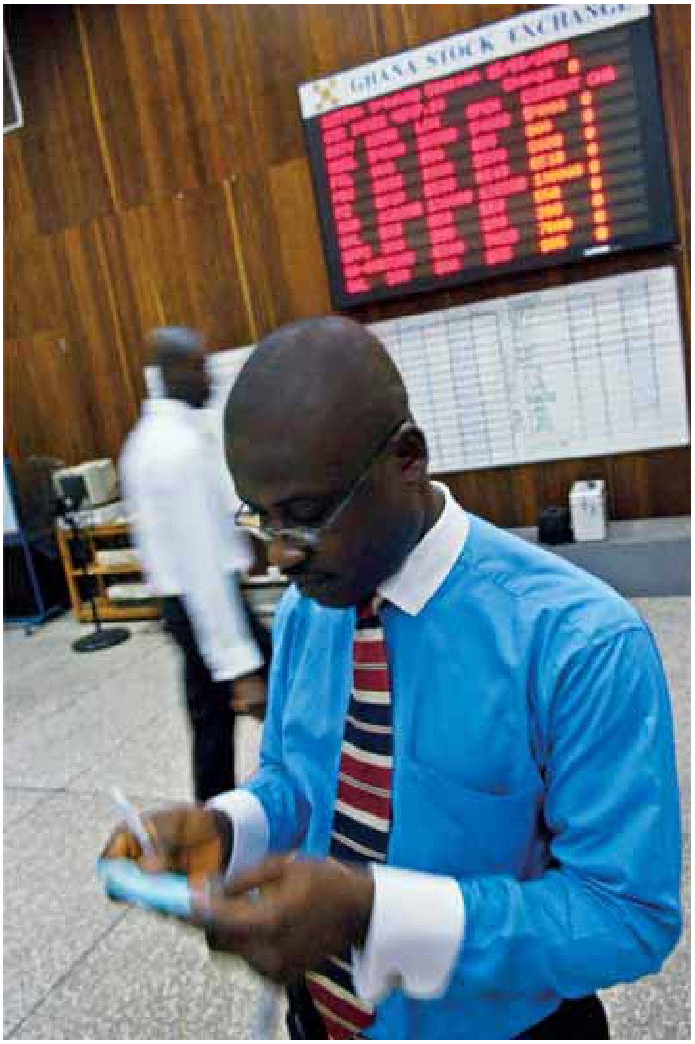
Additionally, the Bank is developing a Clean Energy Investment Framework, which addresses three interrelated issues: accelerating investments that help increase supplies of clean energy for development and improve access to affordable energy for the poor, particularly in Africa; promoting the transition to a low-carbon economy; and assisting developing countries as they adapt to the inevitable impact of climate variability and change.

Total energy support from all sources—including the Bank Group, the Carbon Finance Unit, and the Global Environment Facility—is expected to exceed $10 billion in the three-year period beginning in fiscal 2006, up from $7 billion over the previous three years. Furthermore, an action plan in support of the Clean Energy Investment Framework will encourage the expansion of African initiatives that aim to increase the number of households with access to modern energy from 25 percent today to 35 percent by 2015 and to 47 percent by 2030. The plan also aims to support the transition to a low-carbon economy—especially in Brazil, China, India, Mexico, and South Africa—by increasing analytical, knowledge, and investment support. The plan also seeks to assist countries as they adapt to climate variability and change by providing for analytical work and for development of risk-management instruments and other tools and methodologies. The goal is not just to increase investments but to "climate proof" them as well.

IEG assessed a subset of the Bank's clean energy portfolio—that is, new and renewable energy—in fiscal 2007 and found its work responsive to the needs of developing countries and in agreement with the Bank's overall energy strategy. In its review, IEG recommended that the Bank continue to support investment climates conducive to commercialization of new and renewable energy and to make allowances for the long periods often required for adoption of renewable energy sources. IEG further recommended that the Bank strengthen the monitoring and evaluation of its renewable energy projects. The review encouraged the Bank to support new and renewable energy in country and energy sector strategies. (See **www.worldbank.org/ infrastructureandcleanenergy**.)

FINANCIAL AND PRIVATE SECTOR DEVELOPMENT

The financial and private sectors play a central role in meeting the World Bank Group's development mission. Deep, efficient, and well-regulated financial markets and a good legal and regulatory environment for the private sector give firms—from microenterprises to multinationals—the opportunity to invest productively, create jobs, and grow. Well-functioning markets play a key role in helping poor people rise out of poverty by leveling the playing field of opportunity for would-be entrepreneurs and employers and by providing poor households with improved opportunities to earn incomes, save, obtain credit, and buffer themselves against hard times. Efficient markets are especially needed



in Africa, where financial and private sector development is uneven; the burden of business regulation is excessive; access to finance is limited, especially in rural areas; and financial intermediation is less widespread than in any other region in the world.

Until this year, the Bank maintained separate networks for private sector and financial sector development. In view of the close ties between the two, the networks were merged in fiscal 2007 to create a central vice presidency for Financial and Private Sector Development (FPD). FPD is a joint Bank-IFC-MIGA vice presidency, and the Vice President leads the coordination of Bank and IFC technical assistance to governments in support of financial and private sector development. The new vice presidency focuses on creating the institutional foundations for effective markets, promoting open and competitive markets, and supporting social safety nets using market-based approaches.

The Board discussed a new financial strategy in April 2007. The strategy identifies important changes in the Bank Group's business environment that necessitate changes in its strategic focus, in the model for its advisory services, and in the allocation of Bank and IFC support. The Bank Group has extensive country and global knowledge of the microfoundations of effective financial markets and institutions. Its investments and advisory work offer unique insights on how financial issues play out in sectors ranging from agriculture to health care. The Bank Group is thus well-placed to see all aspects of financial reform within the broader economic development agenda. This expertise enables it to engage at a practical level with countries in reform and to provide a development voice in international standard-setting bodies. In keeping with this comparative advantage, areas of special focus going forward are the development of market infrastructure (such as contract rights and enforcement, payments systems, credit information systems, and disclosure standards); prudential oversight (compatible with better risk management and wider access to financial services); and targeted initiatives to improve access to finance for the underserved and to develop domestic capital markets.

Using information—rather than loans or conditionality—to promote change, the *Doing Business* report, a joint Bank-IFC publication that is published annually, informs governments in 175 economies on how regulations help or hinder businesses in their countries. Since the project's inception in 2003, more than 70 regulatory reforms have been inspired or informed by *Doing Business*, making it easier to start, run, or close down businesses around the world. In addition to the *Doing Business* report, a series of subnational reports published in fiscal 2007 covered states and cities in Bangladesh, Brazil, India, Mexico, and Pakistan.

Complementing the *Doing Business* analysis are enterprise surveys, through which the Enterprise Analysis unit seeks to obtain firm-level views on constraints to doing business. By the end of fiscal 2007, the unit had surveyed 65,000 firms in more than 90 countries. Additionally, the unit piloted a new instrument in fiscal 2007 to survey businesspeople in the retail, microenterprise, and information technology sectors in India.

The Bank continues to assess corporate governance and to assist countries in improving their corporate governance practices. In fiscal 2007, it completed nine corporate governance reviews, including four corporate governance Reports on the Observance of Standards and Codes, four

reviews of governance at state-owned enterprises, and one review of corporate governance in the banking sector.

Fourteen financial sector assessments were completed under the joint World Bank–International Monetary Fund Financial Sector Assessment Program in fiscal 2007, including six second-round assessments (updates). To perform assessments, staff from the Bank and the Fund—assisted by experts from cooperating official agencies—conduct a comprehensive peer review of a country's financial system. This review helps countries prioritize appropriate policy responses to discovered vulnerabilities. The assessment teams also highlight opportunities for improving the sector's ability to promote sound economic development. The pipeline for fiscal 2008 indicates that demand for the program continues unabated.

During fiscal 2007, FPD established a program to develop financial markets that would help households deal with risk. The program—Financial Markets for Social Safety Nets—addresses housing finance, funded pensions, and insurance. The housing finance unit helped increase access to housing finance for lower-income households and expanded residential mortgage markets through loans, grants, and advisory services in all regions. The pension unit prepared reports on the Brazilian and Czech pension systems, which the relevant governments can use to strengthen the case for reform. The insurance unit supports the provision of health, life, livestock, and crop insurance to the poor; such programs are already active in Africa, East Asia, and South Asia. The Financial Markets for Social Safety Nets Program is currently supervising $2.5 billion in Bank loans and is supporting preparation of new loans worth $1.5 billion.

FPD continues to invest in Web sites, training programs, case studies, and how-to guides in order to share knowledge. Five practitioner toolkits were published in fiscal 2007 on licensing, alternative dispute resolution, public-private dialogue, inspections, and business registration.

FPD also partners with institutions outside the World Bank Group to further its mission. The Foreign Investment Advisory Service (FIAS)—funded by the Bank, IFC, and MIGA, together with several donors—helps developing countries improve their business environments in order to increase private sector activity and investments with positive development impact (also see page 62). The Consultative Group to Assist the Poor—a 33-member, independent institution housed at the World Bank—works with financial institutions, ratings agencies, governments, funders, and others to promote microfinance. FPD also promotes better corporate governance in private sector companies through the Global Corporate Governance Forum. This multidonor trust fund was cofounded by the World Bank Group and the Organisation for Economic Co-operation and Development (OECD) to promote local, regional, and global initiatives that improve the institutional framework and practices of corporate governance. FPD manages the Financial Sector Reform and Strengthening Initiative (FIRST), which donors pledged to continue supporting through 2012. FIRST promotes stable, deep, and diverse financial sectors by providing grants. Since it was set up in 2002, the initiative has supported about 220 technical assistance projects in the financial sector.

The Bank sharpened its focus on fighting money laundering and the financing of terrorism in Africa this fiscal year. A parliamentarian forum, organized with the Global Organization of Parliamentarians Against Corruption, provided parliamentarians—the majority from Africa—with a forum in which to discuss challenges associated with fighting corruption, money laundering, and terrorist financing. The Bank also funded several multiyear comprehensive technical assistance programs in Africa that seek to develop systems that protect market integrity without hampering access to finance. (See **www.worldbank.org/finance**.)

STRENGTHENING GOVERNANCE AND REDUCING CORRUPTION

Improving governance and fighting corruption helps countries to better deliver basic services and to create growth and employment opportunities for the benefit of the poor. This work is therefore fundamental to the Bank's mission. In March 2007, the Board unanimously endorsed a new strategy on Bank engagement on governance and anticorruption. Under this strategy, the Bank will expand and strengthen its support for improving governance and curbing corruption in order to fight poverty; improve the delivery of services; strengthen the environment for private investment; and foster economic growth at the project, country, and global levels (box 1.5).

Activities at the Project Level

Governance and anticorruption are being addressed at the project level across the Bank's portfolio, including in public sector reform, infrastructure, health, extractive industries, and the financial sector. In fiscal 2007, World Bank support to governance was $3.8 billion—$3.4 billion to public sector governance and $424 million to support the rule of law. This comprised 15 percent of Bank lending.

BOX 1.5 THEMES OF THE BANK'S NEW GOVERNANCE AND ANTICORRUPTION STRATEGY

Agreement on the Bank's governance and anticorruption strategy was the result of a systematic consensus-building process. A draft strategy was presented to the World Bank–International Monetary Fund Development Committee at the Annual Meetings in Singapore in September 2006. Between November 2006 and January 2007 the Bank held consultations with a range of stakeholders—including governments, civil society, the private sector, and multilateral and bilateral development partners—in 35 developing countries and 12 donor countries. The Bank also participated in four global events and solicited online feedback, reaching more than 3,200 stakeholders worldwide.

Key messages from these consultations included the following:

- Stay engaged, even in poorly governed settings
- Engage not just with governments but with a range of stakeholders, including legislatures and the judiciary, the private sector, civil society, and the media
- Strengthen country systems—such as public financial management, procurement, regulatory, legal, and administrative frameworks—to fight corruption
- Increase the emphasis on disclosure, participation, and third-party monitoring of Bank operations
- Harmonize the Bank's actions with those of donors and other actors
- Enhance monitoring and evaluation of the Bank's governance and anticorruption activities through the use of disaggregated or "actionable" indicators of governance

This process brought about a strategy that identifies mechanisms to build transparent, accountable, and capable states; outlines instruments to improve monitoring and curb corruption in projects the Bank funds; harmonizes the Bank's efforts with those of other development partners; and encourages collaboration with the range of development actors. (See **www.worldbank.org/governance**.)

Assistance for governance includes support for increasing transparency in public financial management, strengthening tax and customs administration, enhancing civil service performance, supporting legal and judicial reforms, and enabling local and central governments to deliver services more effectively and with greater accountability to local communities. A project in Afghanistan is funding improvements in procurement and financial management. In Cambodia, the Bank is supporting more transparent civil service pay structures. In the difficult postconflict environment of Liberia, the Bank, under the multidonor Governance and Economic Management Action Plan, helped streamline budget execution processes and fiduciary controls while building capacity. By providing Institutional Development Fund (IDF) grants, the Bank has helped strengthen the capacity of Mexico's Federal Institute for Access to Information. IDF grants have also allowed the Slovak Republic to redesign and streamline the judicial system and increase access to justice.

The Department of Institutional Integrity (INT) investigates allegations of corruption involving Bank operations and possible staff misconduct. The Bank offers multiple outlets for reporting allegations of fraud, corruption, and other misconduct in Bank-financed projects, including an international hotline (+1-800-831-0463). In fiscal 2007, INT released the *Integrity Report of the World Bank Group, Fiscal Years 2005–2006*, which details actions the Bank has taken in investigating fraud, corruption, and other misconduct over that period. The programmatic elements of a new Voluntary Disclosure Program were approved by the Board in August 2006 to elicit voluntary cooperation in the fight against corruption from firms that have previously engaged in wrongdoing. Information on the companies and individuals the Bank has sanctioned is publicly available on the Bank's Web site.

An independent panel was established to review INT's roles, responsibilities, and working relationships as part of the Bank's governance and anticorruption strategy.

Activities at the Country Level

Improving governance has become a component of the Bank's country assistance strategies (CASs) in most countries, and it is a central element in some, including those of Albania, Bangladesh, Indonesia, and several countries in Africa. Bank support for governance is channeled through a mix of lending, grant, analytical, and advisory instruments.

Consistent with its heightened focus on governance, IDA makes its allocations based in large part on country performance ratings, and two-thirds of the value of this rating is based on a country's governance. Research over the past two decades has shown that governance has a strong impact on both development performance and aid effectiveness. The global commitment to reducing poverty by increasing aid—supported by IDA—is based on the principle of mutual accountability: more aid is provided the greater the effectiveness of how aid is used. Aid is best increased using recipient country systems for public policy making, budgeting, and service provision.

The World Bank Institute, the knowledge-sharing and learning arm of the World Bank, promotes the Bank's governance and anticorruption agenda through its Global Governance Program. The program delivers courses and seminars, provides governance advisory services, and carries out operational research on various aspects of governance. These activities and diagnostic tools help support action planning for in-country reform. In fiscal 2007, the program published an updated set of governance indicators for 213 countries and territories. In partnership with bilateral agencies, local authorities, and civil society, the program is supporting in-depth governance and anticorruption diagnostic studies in Benin, Burundi, El Salvador, and Haiti; it is planning to complete studies in Kenya and Nigeria; and it has received preliminary requests for diagnostic-related assistance from 11 other client countries.

IEG finds that the bulk of the Bank's assistance in governance and anticorruption has taken the form of reform programs in public administration and public financial management. This assistance has often improved the quality of public sector management processes without translating into improvements in the perceived quality of governance. Yet recent progress in Eastern and Central Europe shows that it is possible to raise perceived quality in a limited time when there is strong country commitment to doing so. The IEG evaluation suggests that public sector reform initiatives have not always been aligned with political circumstances, focusing on new legislation and institutions while overlooking the enforcement dimension. Reform initiatives have also tended to overlook the interface between the public and the private sectors even though regulatory reforms have often been effective against corruption.

Activities at the Global Level

The Bank is expanding partnerships in a number of joint initiatives to strengthen governance. It is an active participant in promoting the OECD Convention on Combating Bribery of Foreign Public Officials (1997), the Forest Law Enforcement and Governance Ministerial Processes (from 2001), the Extractive Industries Transparency Initiative (2002), and the United Nations Convention against Corruption (2003). It works closely with several international anticorruption organizations and networks, including the Financial Action Task Force, the Partnership for Transparency Fund, the OECD Development Assistance Committee (DAC), and Transparency International. In fiscal 2007, the Bank collaborated with OECD-DAC Govnet to prepare an issues paper that sets out an agenda for engaging in global collective action to improve poor governance, for conducting joint corruption assessments, and for leveraging comparative strengths for a coordinated response to addressing corruption. (See **www.worldbank.org/governance** and **www.worldbank.org/integrity**.)

THE STRATEGY FOR MIDDLE-INCOME COUNTRIES

The 79 IBRD-eligible countries, most of them middle-income countries, are home to more than 70 percent of the world's population living on less than $2 a day. Improving assistance to these countries is thus critical to reducing poverty. For this reason, at its September 2006 Annual Meetings, the World Bank—with the encouragement of its shareholder governments—made a commitment to strengthening IBRD's effectiveness in partnering with middle-income countries to achieve better development outcomes and to collectively address regional and global concerns.

Middle-income countries have substantially improved the quality of their economic management in recent years. Access to market-based financing and risk-management tools has increased, and sovereign financing costs have declined to near all-time lows. But challenges remain. Capital market access remains concentrated in a few countries, and the cost of borrowing is typically much higher than that offered by multilateral development banks. Income inequality and large pockets of poverty persist, exacerbated by unevenness in access to education, physical infrastructure, and other public services. Many middle-income countries also face other persistent problems that cannot be solved in the short term. Solving these problems will require strengthening public institutions and improving the business environment and competitiveness of these countries.

Middle-income countries are repositories of extensive knowledge about and experience with development issues,

and they increasingly view themselves as partners, rather than as clients, of the Bank. Many promote development in other countries through foreign direct investment, bank lending, remittances, and even development assistance. Some contribute to IDA and may also partner in arrears clearance and debt-reduction exercises that benefit the world's poorest countries.

Some middle-income countries are also playing an increasingly important role in the governance of the global economy, helping develop the global agenda on issues such as trade and climate change. Some are delivering global public goods: combating infectious diseases, reducing greenhouse gas emissions, and preserving biodiversity.

Middle-income countries want the Bank to be more flexible and responsive; to offer a broader array of financing, risk-management, and credit-enhancement products; and to reduce turnaround times and transaction costs. Although lending and knowledge products have traditionally been offered together, these countries want more sharply focused and higher-quality knowledge services that are not tied to financing. They also want to make more extensive use of the Bank's convening capacity and experience in framing strategy and assembling portfolios of expertise and finance from multiple sources to help address collective issues.

To meet client countries' needs, the Development Committee strongly endorsed a new strategy crafted by the Bank that will improve performance in each of the Bank's three business lines: knowledge services, financial services, and strategy and coordination services.

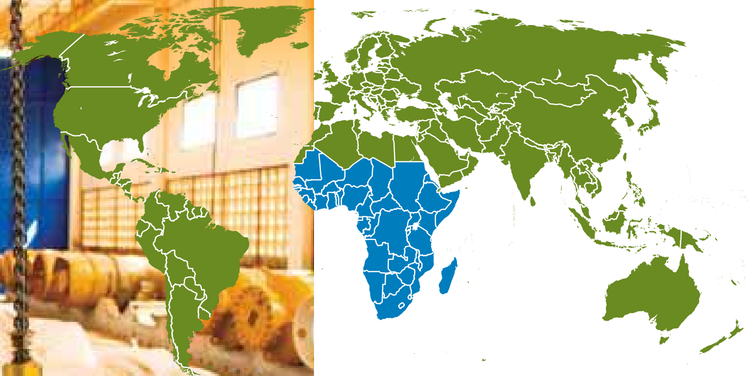
In knowledge services, the Bank is seeking to leverage its research and expert services at the sectoral, country, and global levels through project cycle work, analytic work, training, institutional capacity building, technical assistance, and other advisory activities. It is also seeking to engage closely with national think tanks and other international organizations on knowledge exchange.

In financial services, the Bank is considering a full menu of financing and credit-enhancement and risk-management tools that can be offered to sovereign and nonsovereign entities.

In strategy and coordination services, the Bank will continue to offer its convening capacity and global reach to support country strategy work, including policy dialogue and delivery of expertise to promote growth and reduce poverty, and to address the provision of priority global and regional public goods. (See **www.worldbank.org/middleincomecountries**.)

2 REGIONAL PERSPECTIVES

AFRICA



The past decade has witnessed growing diversity in income levels and growth across Africa. Sixteen countries grew by more than 4.5 percent a year over this period, and several of them (including Ghana, Mozambique, Senegal, Tanzania, and Uganda) also diversified their economies and exports. The fastest-growing group of non-oil-producing African countries, which together represent 36 percent of the population in Africa, grew at an average rate of 5.5 percent. In contrast, the 13 slowest-growing countries, which represent 20 percent of the region's population, saw average growth of only 1.3 percent. Growth for the region as a whole reached an estimated 5.3 percent in 2006.

Solid growth has helped to improve human development outcomes, especially in primary education. Gross primary school enrollment rates in the region rose from 72 percent in 1991 to 96 percent in 2004. Health outcomes are more varied, but they, too, are improving in many countries, and progress in preventing and treating malaria and HIV/AIDS has accelerated.

Despite these positive signs, Africa is not growing rapidly enough to substantially reduce income poverty. The World Bank is well positioned to mobilize private and public development finance to increase annual growth to 7 percent, the minimum necessary to have a significant impact on poverty reduction.

WORLD BANK ASSISTANCE

The Bank is the largest provider of development assistance to Africa, with a record $5.8 billion in credits, grants, and guarantees in fiscal 2007. In total, the Bank approved 93 projects, up more than 20 percent from fiscal 2006. It also continued its nonlending activities, completing 194 analytic and advisory services. Sixteen African countries benefited from the Multilateral Debt Relief Initiative in fiscal 2007, and another 17 will become eligible when they reach their completion points under the Heavily Indebted Poor Countries Initiative (see "Debt Relief," chapter 3).

Over the past two years, the Bank's strategy for assisting Africa has been implemented under the Africa Action Plan (box 2.1). The plan—based on accelerating shared growth, building capable states, sharpening the focus on results, and

AFRICA FAST FACTS

Total population:	0.8 billion
Population growth:	2.3%
Life expectancy at birth:	47 years
Infant mortality per 1,000 births:	96
Female youth literacy:	64%
2006 GNI per capita:	$842
Number of people living with HIV/AIDS:	24.8 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

TOTAL FISCAL 2007	TOTAL FISCAL 2007
New Commitments	**Disbursements**
IBRD $38 million	IBRD $32 million
IDA $5,759 million	IDA $3,852 million

Portfolio of projects under implementation as of June 30, 2007: $21.1 billion

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Angola	Chad	Gabon	Malawi	São Tomé and Principe	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	

strengthening the development partnership—has already had positive impacts. For example, in fiscal 2007, Ghana and Tanzania were ranked among the top 10 countries reforming the climate for doing business; with Bank Group support, Madagascar moved up eight places in the global rankings for ease of starting a business. Such successes result primarily from strengthened commitment by African countries to reforms, as well as from strengthened collaboration among IDA, IFC, and MIGA in private sector development, infrastructure, and skills development.

Nearly 40 percent of Africa's population lives in landlocked countries, many of which are also resource rich. The continent is also highly segmented geographically, and it has the highest density of countries of any developing region. Regional projects are therefore needed to close the infrastructure gap. The West Africa gas pipeline and the Eastern Africa Submarine Cable System—both of which are public-private partnerships supported by the Bank Group—are landmarks in regional approaches to relieving infrastructure bottlenecks. The Multi-Country AIDS Project for Africa, another Bank-supported regional program, operates in 31 African countries. It has reached 173 million people with prevention messages and has helped prevent mother-to-child transmission of HIV/AIDS among 1.5 million women.

The Africa Catalytic Growth Fund (ACGF), which the World Bank established in March 2006, provides rapid, targeted support to countries with credible programs for accelerating growth, reducing poverty, and attaining the Millennium Development Goals (MDGs). The fund is highly selective, focusing on a few countries at a time in which an infusion of capital can augment the impact of IDA assistance to produce results. The Trust Fund Agreement for the ACGF was signed in August 2006. Three projects were selected to begin in fiscal 2007. Each project falls within one of three work areas supported by ACGF—high-performing countries, transformation countries, and regional integration—and each addresses a hard-to-reach MDG—water supply and sanitation in Mozambique, child mortality in Sierra Leone, and HIV/AIDS prevention and treatment in the Horn of Africa.

OUTLOOK FOR AFRICA

African policies and institutional arrangements have improved substantially over the past decade, particularly in

BOX 2.1 THE AFRICA ACTION PLAN

In March 2007, the World Bank's Executive Directors discussed an assessment of the first 18 months of implementing the Africa Action Plan. Progress was rated broadly satisfactory, with results appearing faster than expected in developing the private sector, closing the infrastructure gap, and addressing HIV/AIDS and malaria, areas in which the Bank Group has also increased its support.

Despite the plan's general success, however, its impact would have been even greater if it had aimed to achieve fewer objectives and had focused more sharply on results. Going forward, the Bank will therefore concentrate on eight key "flagship" business lines: strengthening the private sector, increasing the economic empowerment of women, building skills for increased competitiveness, raising agricultural productivity, improving access to and the reliability of clean energy, expanding and upgrading road networks and transit corridors, increasing access to safe water and sanitation, and strengthening health systems to prevent and treat malaria and HIV/AIDS. The country-based model that guides IDA partnership efforts and country strategies will be strengthened. Three cross-cutting areas will support this effort: building more capable and accountable governments, improving environmental management, and strengthening the development partnership.

FIGURE 2.1

AFRICA

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $5.8 BILLION

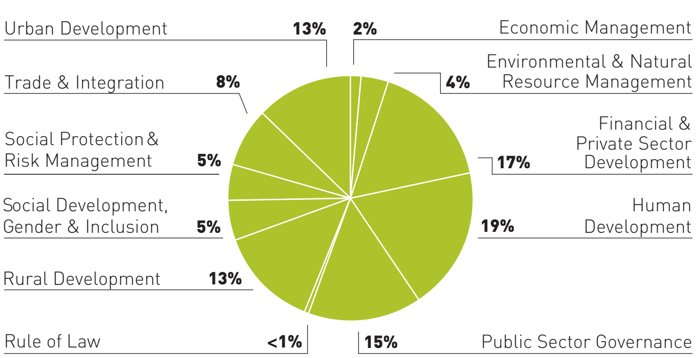
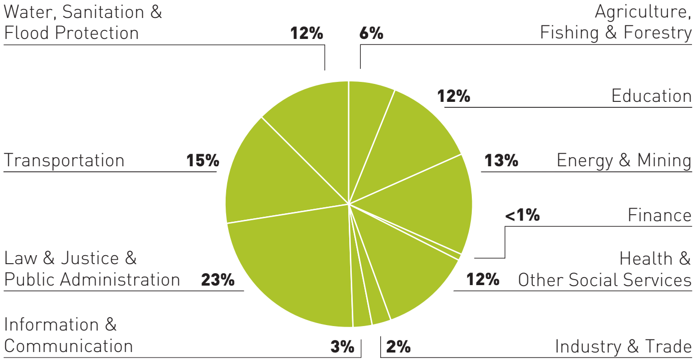


FIGURE 2.2

AFRICA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $5.8 BILLION



macroeconomic management and trade policy, according to the World Bank's Country Policy and Institutional Assessment ratings. Africa now needs to sustain such gains by continuing to improve the policy environment, in particular by ensuring macroeconomic stability and improved market efficiency. Doing so will require greater openness to trade as well as the formation of strong market institutions. Removing behind-the-border constraints and establishing a procompetitive domestic business environment would enhance international competitiveness and strengthen domestic capacity to respond to the changing demands of the global economy (box 2.2).

African countries continue to benefit from increased aid effectiveness, in keeping with the March 2005 Paris Declaration. The declaration calls on all development partners to ensure that aid is coordinated among donors, that donor agencies harmonize their requirements to minimize transaction costs, and that aid matches the country's development needs. Countries have taken the lead in developing baselines and action plans for implementing the declaration with development partners.

Africa has shown that it can sustain shared economic growth. In supporting African governments and people, the World Bank continues to play a pivotal role in advocating the need to increase aid flows to Africa and for African goods to have better access to world markets. The Bank will increase the leverage of IDA by using the Bank Group's analytic skills and operational and country knowledge to identify areas in which an infusion of sequenced and predictable financing can help support results-oriented national programs. (See **www.worldbank.org/afr**.)

BOX 2.2 **TAKING ADVANTAGE OF NEW SOUTH-SOUTH CHANNELS OF TRADE AND INVESTMENT**

Trade and investment flows between Africa and Asia—South-South commerce—have risen dramatically since 2000. According to *Africa's Silk Road*, published by the World Bank in 2007, Africa's exports to Asia today are almost on par with Africa's traditional commerce with the United States and the European Union. Asia's exports to Africa—which are increasing at a rate of about 18 percent a year—are growing more rapidly than exports to any other region. Asian foreign direct investment in Africa is also soaring.

With this newest phase in world trade and investment, Africans cannot afford to be left behind, especially if opportunities for trade and investment with traditional partners continue to be limited. Trade between Africa and Asia's two largest countries, China and India, represents an enormous opportunity because it involves far more than natural resources and is opening the way for Africa to become a competitive processor of goods and services to these countries. But for Africa to proactively seize these opportunities within the developing world, it is imperative that countries pursue rigorous reforms not only at their borders but, more important, "behind their borders." In particular, they must adopt reforms that strengthen domestic governance, foster competition among domestic businesses, and create flexible and mobile labor and capital markets.

TABLE 2.1

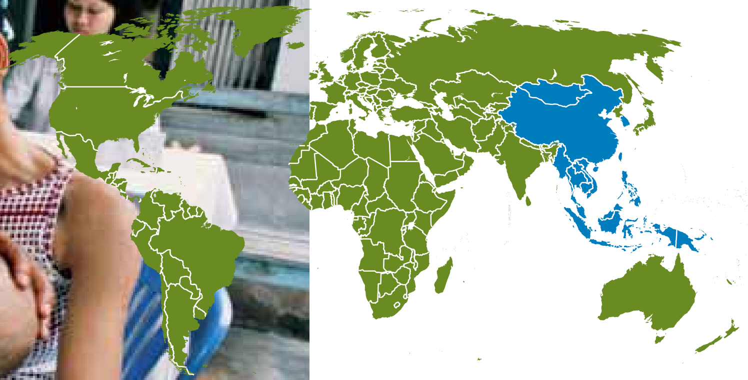
WORLD BANK LENDING TO BORROWERS IN AFRICA BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

THEME	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Economic Management	138.7	37.8	68.0	46.5	31.4	94.6
Environmental and Natural Resource Management	159.9	227.0	195.2	217.2	250.6	212.0
Financial and Private Sector Development	780.7	383.6	810.9	768.2	979.1	962.7
Human Development	739.0	811.4	618.2	620.2	673.3	1,104.5
Public Sector Governance	851.9	432.4	818.4	708.0	964.7	859.2
Rule of Law	22.5	34.5	28.3	30.9	179.7	13.1
Rural Development	329.2	384.1	360.7	537.2	528.6	780.0
Social Development, Gender, and Inclusion	347.4	420.0	374.3	221.8	198.5	314.3
Social Protection and Risk Management	98.3	543.7	209.2	294.3	262.7	272.3
Trade and Integration	46.4	37.2	371.5	232.0	413.1	449.7
Urban Development	279.6	425.5	261.1	211.4	304.9	734.5
Theme Total	**3,793.5**	**3,737.2**	**4,115.9**	**3,887.5**	**4,786.6**	**5,796.9**
SECTOR						
Agriculture, Fishing, and Forestry	210.4	303.4	268.5	215.3	585.5	369.7
Education	472.6	423.6	362.9	369.0	339.3	706.6
Energy and Mining	490.3	324.4	365.8	509.5	524.5	773.0
Finance	192.8	67.2	165.7	68.6	142.3	26.3
Health and Other Social Services	616.6	775.9	723.1	590.3	614.0	687.3
Industry and Trade	266.7	92.7	95.4	253.8	348.4	144.2
Information and Communication	33.8	41.4	52.9	20.0	5.0	146.0
Law and Justice and Public Administration	906.9	721.8	1,004.2	1,077.5	1,263.0	1,352.5
Transportation	491.1	690.5	716.6	507.2	602.7	870.8
Water, Sanitation, and Flood Protection	112.2	296.3	360.8	276.2	361.9	720.5
Sector Total	**3,793.5**	**3,737.2**	**4,115.9**	**3,887.5**	**4,786.6**	**5,796.9**
Of which IBRD	41.8	15.0	0.0	0.0	40.0	37.5
Of which IDA	3,751.6	3,722.2	4,115.9	3,887.5	4,746.6	5,759.4

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

EAST ASIA AND PACIFIC



Growth in the World Bank's active client countries in the East Asia and Pacific region accelerated from 9 percent in 2005 to 9.5 percent in 2006. The most rapidly growing country in the region is China, which grew 10.7 percent in 2006—the fourth consecutive year it has grown more than 10 percent. Cambodia, the Lao People's Democratic Republic, Mongolia, and Vietnam also grew rapidly, increasing their output by 7.5–10.5 percent. Indonesia, Malaysia, the Philippines, and Thailand grew at more moderate but still healthy annual rates of 5–6 percent. Papua New Guinea and some of the Pacific Islands also saw a pickup in growth, in part as a result of higher commodity prices. Political or civil unrest undermined the outlook in Timor-Leste and Tonga.

Poverty continued to decline in the region, with the number of people living on less than $2 a day falling to 550 million in 2006, or less than 30 percent of the region's population. Since 2001, the number of people living below the $2-a-day line has been reduced by some 225 million, an even larger reduction than in the previous "boom" of 1991–96.

The Bank's strategy in the region is to support broad-based economic growth, promote trade and integration, enhance the environment for good governance, increase social stability, and help countries achieve the MDGs. To meet these goals, the Bank approved $4 billion for the region in fiscal 2007, including $2.8 billion in IBRD loans and $1.2 billion in IDA credits and grants. Carbon Finance contracts totaling $29 million were signed in 2007.

IMPROVING GOVERNANCE AND THE CLIMATE FOR INVESTMENT

Groundbreaking work on governance and corruption continues in the East Asia and Pacific region, with an emphasis placed on building country capacity and strengthening public institutions. A $600 million development policy loan to Indonesia is allowing the government to deepen reforms in four main areas: macroeconomic stability and creditworthiness, public financial management and governance, the investment climate, and services for the poor. The operation brings together the World Bank, the government of Japan, and the Asian Development Bank around a common policy framework.

In the Philippines, a $250 million development policy loan supports the country's significant achievements and further

EAST ASIA AND PACIFIC FAST FACTS

Total population:	1.9 billion
Population growth:	0.8%
Life expectancy at birth:	71 years
Infant mortality per 1,000 births:	26
Female youth literacy:	98%
2006 GNI per capita:	$1,863
Number of people living with HIV/AIDS:	2.4 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

TOTAL FISCAL 2007

New Commitments
IBRD $2,807 million
IDA $1,237 million

TOTAL FISCAL 2007

Disbursements
IBRD $2,358 million
IDA $853 million

Portfolio of projects under implementation as of June 30, 2007: $18.9 billion

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

actions in reducing public sector deficit and debt by strengthening tax administration, improving budget execution and fiduciary performance, and strengthening the finances of the power sector. This is the first development policy operation for the Philippines in eight years.

In Indonesia, a second generation of measures is being developed to combat corruption at the sectoral and project levels. Under the Strategic Roads Improvement Project, the Bank is working with the government to strengthen fiduciary safeguards; enhance coordination with government agencies, including the supreme audit and national anticorruption agencies; and introduce oversight by civil society groups.

In China, an Investment Climate Assessment of 120 cities found that cities vary widely in local governance, investment climate, and progress toward achieving a "harmonious society"—the objective of China's 11th National Five-Year Plan. The report concluded that cities with the weakest investment climates stand to gain most by making their local governments more efficient, transparent, and investor friendly.

INVESTING IN HEALTH AND HUMAN DEVELOPMENT

The emergence of avian influenza in Southeast Asia in 2003 placed the region at the forefront of a global response to the disease. Vietnam, where the Bank assisted in developing the first Avian Influenza Emergency Response Project, continues to inform global practice with a second operation, the Avian and Human Influenza Control and Preparedness Project. In fiscal 2007, avian flu projects were delivered for Indonesia and China using the Avian and Human Influenza Facility. Similar projects have been proposed for Cambodia and Mongolia.

The region is making good progress toward meeting the challenge of increasing access to basic education. In more rapidly growing Asian economies, such as Vietnam, the focus is on expanding tertiary education, which can increase competitiveness in the global economy.

PROMOTING SUSTAINABLE DEVELOPMENT

The creation of the new Sustainable Development Vice Presidency underscores the Bank's commitment to responding to client demand for more integrated assistance in support of infrastructure, rural, and social development projects.

In natural resource management, the Guangxi Integrated Forestry Project in China aims to introduce sustainable management of forestry resources to a country that has significantly increased forest cover but continues to face

FIGURE 2.3

EAST ASIA AND PACIFIC

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $4 BILLION

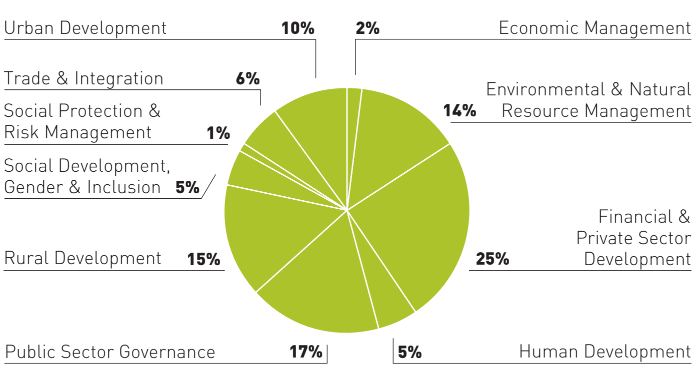
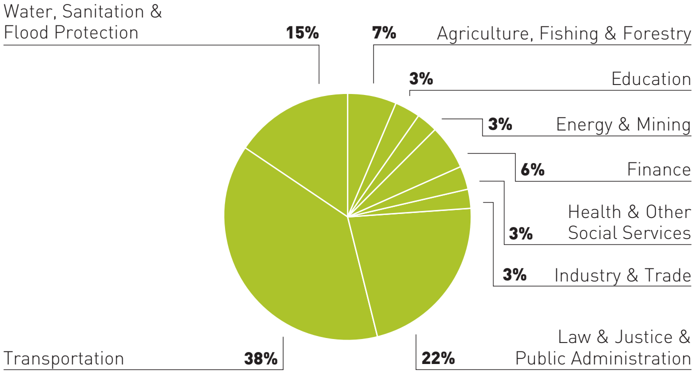


FIGURE 2.4

EAST ASIA AND PACIFIC

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $4 BILLION



growing demand for timber. The Renewable Energy for Rural Access Project will help provide off-grid rural herders in Mongolia with access to regular and affordable electricity.

On climate change, the Carbon Finance portfolio, which grew rapidly in the past two years as a result of China's participation, is supporting research and policy work across the region. One of the portfolio's projects is in Kiribati—a low-lying Pacific Island state—where the Bank is working with the government to adapt to risks from storm surges and a rise in sea level. On a larger scale, the study *Sustainable Energy in China: The Closing Window of Opportunity* proposes a path toward a comprehensive energy policy as the Chinese economy continues to grow and energy demand surges.

BUILDING PARTNERSHIPS

The Bank has strong relationships with other regional donors, including the Asian Development Bank, the Australian Agency for International Development, the Japan Bank for International Cooperation, the government of the Netherlands, and the U.K. Department for International Development. East Asia and Pacific is the largest regional user of trust funds in the World Bank, with a portfolio of $2.6 billion in fiscal 2007.

Multidonor trust funds have been successfully used to support reconstruction in Aceh following the 2004 tsunami, to take measures against the spread of avian flu, and to provide emergency relief and reconstruction assistance following the 2006 earthquake in Yogyakarta.

FOSTERING PARTICIPATION IN DEVELOPMENT

In an innovative study released in August 2006, the World Bank highlighted the need to allow unskilled workers from the Pacific Islands greater access to seasonal employment in neighboring developed economies. The report advocates greater labor mobility in the Pacific Islands to help overcome the challenges of small economies, remoteness, growing youth populations, and low job growth. Following publication of the report, the government of New Zealand announced a temporary pilot labor mobility scheme with a number of Pacific Island countries.

To better involve youth in the development agenda, the Bank and more than 30 development partners—including UNICEF, local civil society organizations, and relevant government ministries—held Youth Open Space dialogue sessions across the region. Forums in Lao PDR, Mongolia, Papua New Guinea, Singapore, Thailand, and Timor-Leste allowed young people, many of them from marginalized groups, to articulate their concerns and suggest approaches to development that they see as relevant and workable. (See **www.worldbank.org/eap**.)

TABLE 2.2

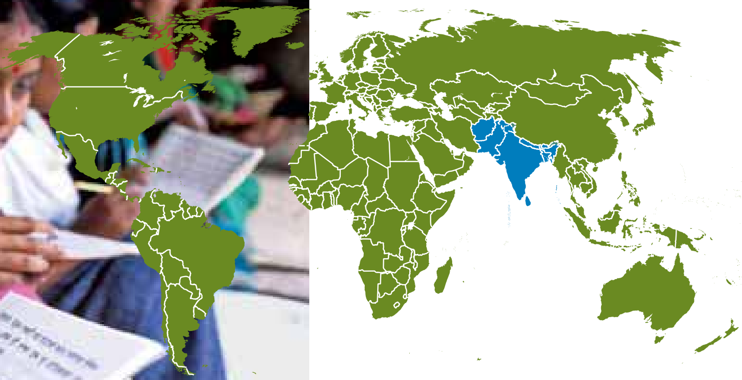
WORLD BANK LENDING TO BORROWERS IN EAST ASIA AND PACIFIC BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

THEME	2002	2003	2004	2005	2006	2007
Economic Management	4.8	29.7	0.0	87.0	78.7	82.5
Environmental and Natural Resource Management	102.3	232.3	432.2	446.9	396.4	565.0
Financial and Private Sector Development	512.8	458.8	553.9	340.6	720.7	999.1
Human Development	226.4	152.7	164.6	184.6	543.7	213.4
Public Sector Governance	127.4	341.5	299.0	344.5	385.9	705.4
Rule of Law	20.3	7.3	67.3	45.8	13.4	0.0
Rural Development	360.9	411.7	400.9	484.1	465.7	608.2
Social Development, Gender, and Inclusion	173.0	143.7	167.2	241.1	83.3	189.9
Social Protection and Risk Management	138.7	161.5	5.5	88.7	144.9	43.8
Trade and Integration	43.3	138.0	82.9	126.5	112.1	233.0
Urban Development	63.6	233.6	399.2	493.5	456.9	403.7
Theme Total	**1,773.6**	**2,310.8**	**2,572.7**	**2,883.3**	**3,401.6**	**4,043.9**
SECTOR						
Agriculture, Fishing, and Forestry	151.2	106.7	290.4	207.9	373.3	268.6
Education	134.6	225.7	118.6	228.0	287.9	125.3
Energy and Mining	314.5	254.3	67.2	359.1	425.2	118.5
Finance	219.2	22.7	49.0	213.1	197.6	230.1
Health and Other Social Services	243.8	184.1	84.3	204.3	160.6	132.7
Industry and Trade	9.4	32.5	78.7	159.1	29.3	102.0
Information and Communication	11.1	6.6	0.0	5.0	5.3	0.0
Law and Justice and Public Administration	115.2	385.1	257.5	436.6	693.6	887.7
Transportation	540.2	684.3	1,209.9	306.7	652.3	1,554.7
Water, Sanitation, and Flood Protection	34.4	408.7	417.1	763.7	576.5	624.3
Sector Total	**1,773.6**	**2,310.8**	**2,572.7**	**2,883.3**	**3,401.6**	**4,043.9**
Of which IBRD	982.4	1,767.1	1,665.5	1,809.8	2,344.3	2,806.6
Of which IDA	791.2	543.7	907.2	1,073.6	1,057.2	1,237.4

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

SOUTH ASIA



Rapid economic growth and progress in human development have raised the possibility that the region with the greatest number of poor people could end mass poverty within a generation. Following domestic reforms and external assistance, gross domestic product (GDP) in South Asia has grown an average of nearly 6 percent a year for the past decade. Growth in the two largest countries, India and Pakistan, reached 7 percent in the past two years. In 2006, GDP in South Asia is estimated to have expanded at the very rapid pace of 8.2 percent.

With growth has come an impressive reduction in poverty. During the 1990s, poverty rates fell 7 percent in India, 9 percent in Bangladesh, and 11 percent in Nepal. Pakistan's poverty rate declined 5 percent in the first half of this decade. But to end poverty in a generation, South Asian economies must sustain an economic growth rate of 8–10 percent a year.

South Asia still has some of the worst human deprivation in the world. Levels of child malnutrition in India are nearly twice those in Africa. In Pakistan, one child in ten dies before the age of five, and only one in three completes primary school. About one person in five in South Asia lacks access to water services, and some two-thirds lack access to sanitation.

But perhaps the most fundamental challenge is the need for improved governance. Several South Asian countries suffer from endemic corruption, with Bangladesh scoring near the bottom of Transparency International's Corruption Perceptions Index for the past six years. Weak governance and corruption—reflected, for example, in high levels of teacher absenteeism or rampant procurement problems at power plants—are key bottlenecks to human development and growth. Confrontational and often personality-based politics plague Bangladesh, Sri Lanka, and some Indian states, sometimes to the point of political violence. In parts of Afghanistan, Nepal, and Pakistan, conflict between state and nonstate actors plays out regularly.

The World Bank is working closely with partner countries to strengthen their core governance processes and institutions at the country level as well as to strengthen governance and anticorruption at the sector level; it is also strengthening risk mitigation in Bank-financed operations.

SOUTH ASIA FAST FACTS

Total population:	1.5 billion
Population growth:	1.5%
Life expectancy at birth:	63 years
Infant mortality per 1,000 births:	62
Female youth literacy:	63%
2006 GNI per capita:	$766
Number of people living with HIV/AIDS:	6.2 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

TOTAL FISCAL 2007

New Commitments
IBRD $1,600 million
IDA $4,032 million

TOTAL FISCAL 2007

Disbursements
IBRD $1,206 million
IDA $3,043 million

Portfolio of projects under implementation as of June 30, 2007: $20.7 billion

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka

While all the country strategies in the region cover governance and anticorruption to varying degrees, the strategy for Bangladesh stands out in making governance a core, cross-cutting theme that is integrated into all of the Bank's work in the country.

Although the challenges facing South Asia can seem daunting, the region's ability to grow and to reduce poverty suggests that they can be overcome, and the World Bank is well equipped to support that effort (see box 2.3).

WORLD BANK ASSISTANCE

The Bank approved nearly $5.6 billion for South Asia in fiscal 2007, with $1.6 billion in loans from IBRD and $4 billion in IDA commitments, including $445 million in grants.

A new interim strategy note for Nepal was discussed by the Bank's Executive Directors in fiscal 2007. The strategy emphasizes flexibility in helping Nepalis respond to historic opportunities in the transition to peace.

During fiscal 2007, the Bank continued its support for rural development, education, and health. Girls, members of formerly low-caste groups, and ethnic minorities in Nepal will benefit from a $60 million grant for the Second Higher Education Project. The Bank also supported India's health sector with $672 million to improve reproductive and child health services, reduce mortality and morbidity from tuberculosis, and increase the use of essential health services in Karnataka. It also continued its support of India's efforts to curb the spread of HIV/AIDS with a $250 million credit for the Third National HIV/AIDS Control Project. The project will assist the government in increasing prevention, care, and treatment interventions nationwide.

In conflict-ridden Sri Lanka, a new project will meet housing needs, provide safe drinking water and sanitation, improve drainage facilities, and regularize land titles for the 60,000 internally displaced people currently living in refugee camps. In Pakistan, a recently approved Bank project aims to improve the security of land tenure, which will increase access to land and credit, especially for the poor, whose rights remain largely unprotected.

Besides lending, a strong component of the Bank's strategy is its analytic and advisory work. A recent report on Afghanistan's poppy economy concluded that actions against drug traffickers have been marred by corruption and have failed to prevent the consolidation of the drug industry around fewer, more powerful, and politically connected actors. The Bank also undertook a regional HIV/AIDS study, a report on progress toward reaching the MDGs in Bangladesh, and a study on access to finance in Nepal.

BUILDING THE CLIMATE FOR INVESTMENT

The 2006 edition of *Doing Business in South Asia* covered all eight countries in the region as well as major cities in Bangladesh, India, and Pakistan. Although doing business became easier in the region's two largest countries—India and Pakistan—no other South Asian economies improved business regulations in 2005–06, causing the region to place last in the pace of global reforms.

The World Bank is working to address deficiencies in the region's investment climate, such as weak infrastructure, excessive regulation, and corruption. In Afghanistan, the Bank provided a $25 million grant to improve the country's investment climate and infrastructure facilities in key sectors such as electricity, water, and telecommunications. In Bangladesh, the Bank gave a $40 million credit to support the government's plans to transform Bangladesh Railway into a well-managed, customer-focused organization.

Progress continues in reforming infrastructure policies in South Asia. India is reforming its port and road systems using $8 billion in public-private partnerships. The Bank supported this agenda in Punjab with a $250 million loan for the rehabilitation and expansion of the road network.

FOSTERING PARTICIPATION IN DEVELOPMENT

The World Bank's approach to participation in South Asia is to empower community groups to make development decisions, direct resources, and play a role in projects that affect them. The emphasis is on equity and the inclusion of poorer regions, communities, and households in development projects.

Under the Pakistan Poverty Alleviation Fund, some 10,000 community infrastructure projects have been completed that touch the lives of more than 2.5 million people in about 5,000 villages. More than half of these projects provide safe drinking water or access to sanitation. In fiscal 2007, the fund received additional financing of $138 million to address housing

FIGURE 2.5

SOUTH ASIA

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $5.6 BILLION

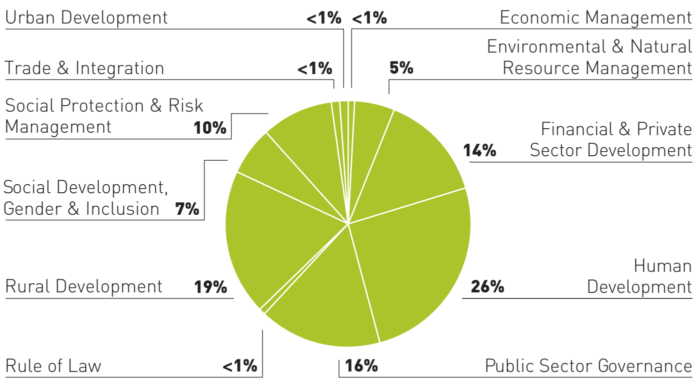
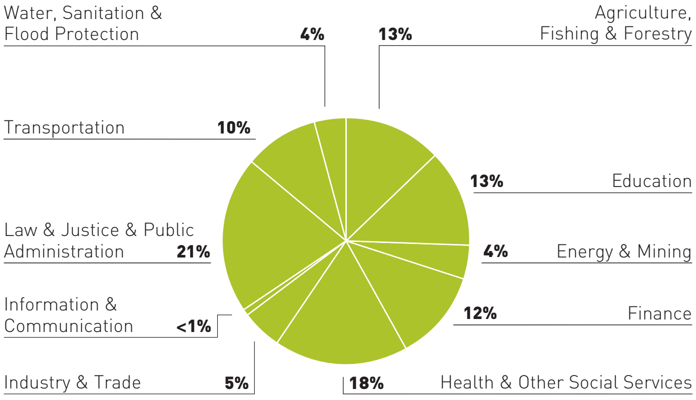


FIGURE 2.6

SOUTH ASIA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $5.6 BILLION



reconstruction in areas devastated by the earthquake that struck on October 8, 2005.

In Afghanistan, the Bank approved a $120 million grant for the Second National Solidarity Program, a community-led reconstruction and rural infrastructure initiative that has reached about 14 million rural people—74 percent of Afghanistan's rural population—since its inception in 2002. More than 9,000 community development committees have received block grants to fund about 17,000 projects in water supply and sanitation, irrigation, rural energy, livelihoods, and transport infrastructure at the village level.

In India and Pakistan, the Bank is supporting livelihood programs that provide microfinance and self-employment opportunities to millions of poor women. In Andhra Pradesh, India, Bank-funded projects have helped some 8 million women build incomes, improve living standards, and even gain political influence by banding together in some 630,000 self-help groups. A similar operation—the $63 million Bihar Rural Livelihoods Project—was approved in fiscal 2007. The project is designed to support the social and economic empowerment of rural poor people in the state and is expected to directly benefit about 2.9 million people. (See **www.worldbank.org/sar**.)

BOX 2.3 THE PROMISE OF REGIONAL INTEGRATION

South Asia is sitting on a rich potential source of growth: regional integration. Increasing integration within the least integrated region in the world could yield huge benefits for its people. Annual trade between India and Pakistan, currently estimated at $1 billion, could potentially reach $9 billion. Unfortunately, progress on trade integration within South Asia has been slow. While it continues to make the case for more open trade in goods and services within the subcontinent, especially with private sector entities such as national federations of chambers of commerce and industry, the World Bank is also focusing on regional cooperation in energy and water, where the win-win benefits are likely to be even higher.

The Independent Evaluation Group's review of the Bank's regional programs around the world found that they have the potential to deliver big development results, yet account for less than 1 percent of total lending and are not closely linked to country programs. The IEG noted that the Bank has been effective in fostering country interest in regional programs and in mobilizing resources, but has been less so in helping countries resolve conflicting interests and plan for the sustainability of programs after external support ends. A more strategic approach will help countries identify the regional approaches of greatest promise and will strengthen the international aid architecture in support of multicountry efforts. Greater support for these programs, coupled with the application of the lessons of experience, could have a strong development impact.

TABLE 2.3

WORLD BANK LENDING TO BORROWERS IN SOUTH ASIA BY THEME AND SECTOR | FISCAL 2002–2007

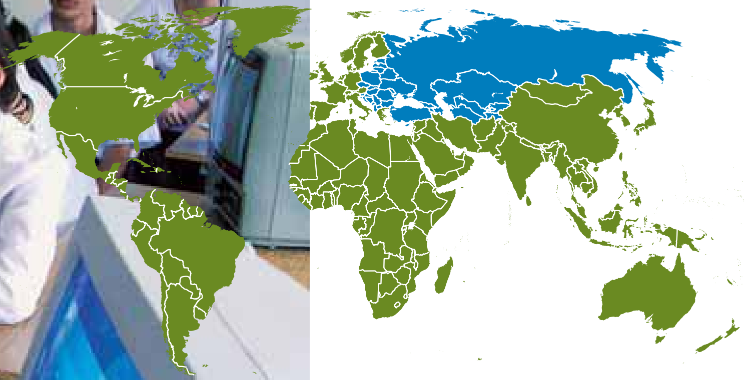
MILLIONS OF DOLLARS

THEME	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Economic Management	232.5	123.5	7.7	87.5	56.6	11.2
Environmental and Natural Resource Management	295.2	94.2	94.8	433.9	93.0	309.7
Financial and Private Sector Development	381.6	689.1	689.9	923.0	550.4	809.9
Human Development	30.2	546.9	760.6	1,041.6	391.7	1,476.3
Public Sector Governance	678.0	467.3	669.8	639.5	597.9	916.6
Rule of Law	59.3	12.5	2.9	10.5	7.2	50.4
Rural Development	417.2	403.7	314.1	1,132.5	568.6	1,095.5
Social Development, Gender, and Inclusion	414.2	197.3	642.8	265.3	366.9	372.5
Social Protection and Risk Management	164.0	184.4	98.6	337.0	472.3	550.5
Trade and Integration	70.0	197.3	52.7	63.7	138.8	31.3
Urban Development	766.2	2.6	87.8	59.0	553.7	7.7
Theme Total	**3,508.4**	**2,918.7**	**3,421.6**	**4,993.3**	**3,797.2**	**5,631.6**

SECTOR						
Agriculture, Fishing, and Forestry	328.1	212.6	251.9	940.8	368.9	733.6
Education	95.9	364.6	665.8	286.4	377.2	724.7
Energy and Mining	504.8	150.6	130.8	83.6	483.0	243.7
Finance	310.0	185.8	331.4	461.8	73.0	678.1
Health and Other Social Services	278.7	369.0	334.6	493.2	195.9	1,006.2
Industry and Trade	443.1	144.9	46.1	485.2	306.5	292.9
Information and Communication	12.4	11.5	16.9	91.9	50.0	2.8
Law and Justice and Public Administration	632.5	372.3	925.5	885.7	1,101.4	1,165.8
Transportation	758.1	1,067.6	444.8	1,181.0	520.1	559.9
Water, Sanitation, and Flood Protection	144.9	40.0	273.7	83.7	321.3	223.9
Sector Total	**3,508.4**	**2,918.7**	**3,421.6**	**4,993.3**	**3,797.2**	**5,631.6**
Of which IBRD	893.0	836.0	439.5	2,095.9	1,231.0	1,599.5
Of which IDA	2,615.4	2,082.7	2,982.1	2,897.4	2,566.2	4,032.1

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

EUROPE AND CENTRAL ASIA



The Europe and Central Asia region has largely succeeded in overcoming the early challenges of transition. In 2006, most countries experienced solid economic growth, with the region as a whole growing by a robust 7.3 percent. Oil revenues were a major driver of growth in Azerbaijan (34.5 percent) and Kazakhstan (10.6 percent), while Armenia grew 13.4 percent thanks to the implementation of an ambitious reform agenda.

Structural reforms in most countries have driven the region's continuing success. According to the 2007 *Doing Business* survey, Europe and Central Asia was the best-reforming region in the world for the third consecutive year, and three of its countries—Croatia, Georgia, and Romania—were among the top 10 performers (box 2.4). Integration with the European Union (EU) has been key to the reform process in many of the region's countries. Bulgaria and Romania joined the EU in January 2007, bringing the number of member countries to 27. Slovenia joined the Euro Area as the bloc's 13th member state, and reforms motivated by integration led Estonia, Hungary, Latvia, and Lithuania to graduate from IBRD in fiscal 2007, meaning that these countries have grown from being beneficiaries of international assistance to becoming active partners in development cooperation.

Despite strong growth the region faces difficult challenges, including large income disparities within countries; rapidly aging and declining populations; persistent youth unemployment; lack of scientific and technical innovation; and weak public and corporate governance, especially in low-income countries. Rapid growth is increasing vulnerability to macroeconomic imbalances. Driven to different degrees by soaring private demand and credit expansion, higher oil prices, and buoyant capital flows, current account deficits in a number of countries have increased those countries' vulnerability to sudden reversals in market sentiment. Several regional currencies have appreciated as a result of the large influx of external funds (including remittances) and banking system borrowing. This appreciation, if not accompanied by productivity growth, will reduce competitiveness. Countries must also work to mitigate the threats posed by HIV/AIDS, drug addiction, human trafficking, natural disasters, and environmental degradation.

EUROPE AND CENTRAL ASIA FAST FACTS

Total population:	0.5 billion
Population growth:	0%
Life expectancy at birth:	69 years
Infant mortality per 1,000 births:	27
Female youth literacy:	99%
2006 GNI per capita:	$4,796
Number of people living with HIV/AIDS:	1.5 million

TOTAL FISCAL 2007

New Commitments
IBRD $3,340 million
IDA $422 million

TOTAL FISCAL 2007

Disbursements
IBRD $2,457 million
IDA $480 million

Portfolio of projects under implementation as of June 30, 2007: $16.7 billion

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING
This section also reports on Kosovo.

Albania	Bulgaria	Latvia*	Poland	Turkey	* Hungary and Latvia graduated at the 2007 Spring Meetings.
Armenia	Croatia	Lithuania**	Romania	Turkmenistan	** Lithuania graduated in September 2006.
Azerbaijan	Georgia	Macedonia, former Yugoslav Republic of	Russian Federation	Ukraine	
Belarus	Hungary*	Moldova	Serbia	Uzbekistan	
Bosnia and Herzegovina	Kazakhstan	Montenegro	Slovak Republic		
	Kyrgyz Republic		Tajikistan		

WORLD BANK ASSISTANCE
The World Bank delivered $3.8 billion in lending in fiscal 2007 ($3.3 billion from IBRD and $422 million from IDA). Lending is down slightly from fiscal 2006 levels because of political uncertainty in several countries. In addition, a significant number of advisory and analytic products were delivered: 100 economic and sector reports and policy notes and a further 84 technical assistance activities.

A substantial amount of World Bank assistance is channeled through policy-based lending, technical assistance, and sector programs on regional core issues—migration and remittances, demography, labor mobility, governance, and innovation and technology absorption. The World Bank is also engaged in supporting the transition of countries such as the Russian Federation and the new EU members from being recipients of World Bank assistance to becoming donors.

In order to work across this diverse set of countries, the Bank offers both traditional and innovative product lines. In IDA countries, the Bank continues to be a vital development partner. The $1,012.5 million it has provided to Armenia since 1991 was crucial in propelling the country out of severe economic paralysis after Soviet rule. Extraordinarily rapid growth—of about 10 percent a year over the past decade—has helped Armenia reduce the number of poor people from more than 55 percent at the beginning of the transition to about 30 percent today. In Bosnia and Herzegovina, IDA worked with the European Commission and other donors to mobilize unprecedented levels of assistance for the war-torn country. IDA supported the country's reconstruction with about $1 billion in investments. It also acted as a catalyst and facilitator, bringing together different local parties for joint projects and endeavors. In this way, IDA has contributed not only to the implementation of specific projects but also more generally to social reconciliation within the country.

In middle-income countries, the Bank Group is providing integrated product lines based on client demand, as many of these countries are increasingly moving from borrower to donor status and from knowledge receiver to knowledge provider. A Joint Economic Research Program with Kazakhstan, for example, has been expanded to include project preparation support on a cost-sharing basis. In Russia, the World Bank provided technical assistance on a fee-for-service basis to a public-private partnership that collaborated on a tolled motorway project in St. Petersburg. Meanwhile, the Bank's engagement in subsovereign lending in the country has drawn strong support from federal and regional authorities for strengthening the capacity of regional and municipal actors to manage their financial affairs and promote private sector development.

TACKLING CORE ISSUES
The Bank's analytic work is increasing knowledge and sparking debate on high-priority development topics through in-depth studies and advisory activities on such crucial issues as employment, trade, regional labor migration, and corruption. The most recent flagship report, *Migration and Remittances: Eastern Europe and the Former Soviet Union*, shows that migration within and from the transition economies of Europe and Central Asia has been significant and will likely continue to increase. The report, which focuses on circular migration patterns, also looks at migration policies in the region and makes recommendations for improving them.

Governance and corruption continue to be top concerns in the region. To help policy makers address these problems, World Bank experts conduct enterprise surveys to gauge perceptions of corruption. What they have found is encouraging. The report *Anticorruption in Transition 3: Who is Succeeding . . . and Why* reveals that extensive reforms are reducing the opportunities for corruption and are showing real results in many countries, with firms reporting a reduction in both the size of bribes and the frequency of bribery. Still, corruption is not receding in all countries or across all sectors, and even the most successful reformers tend to have higher levels of corruption than exist in Western Europe. The Bank supports regional governments in reinforcing and accelerating the reform process within the framework of its governance and anticorruption strategy.

The Bank's annual Knowledge Economy Forum is supporting countries in Europe and Central Asia in their transition to becoming increasingly knowledge-based. Improving knowledge, innovation, and technology absorption is vital if the region is to reduce the competitive gap with Western Europe, the United States, and South and East Asia. While the region benefits from a strong science and technology tradition that

FIGURE 2.7

EUROPE AND CENTRAL ASIA

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $3.8 BILLION

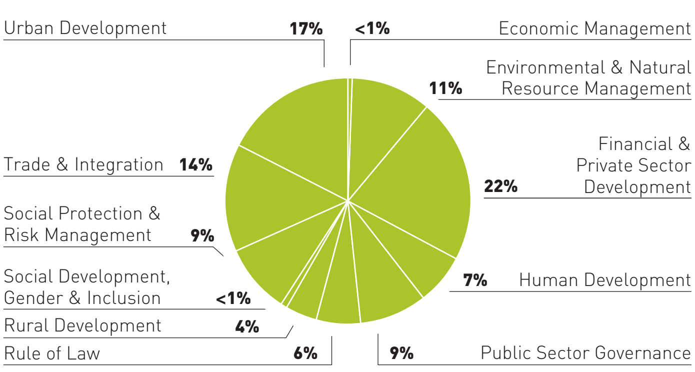
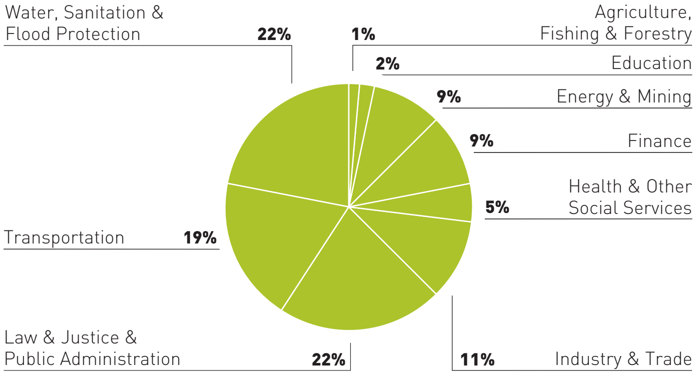


FIGURE 2.8

EUROPE AND CENTRAL ASIA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $3.8 BILLION



should offer a key comparative advantage, that capacity does not translate into innovation. With average spending on research and development under 1 percent of GDP in most of the region—well below the European Union's target of 3 percent—the existing innovation infrastructure is inefficient and underused and is not targeting private sector needs.

THE WAY FORWARD

Looking ahead, countries in the region still face challenging development agendas, and the World Bank will provide assistance in a number of areas. The Bank's support to new and candidate EU countries is expected to focus on the convergence agenda against the backdrop of demographic changes (aging, youth employment, and migration) as well as issues associated with productivity growth and financial sustainability. In the rest of the region, the Bank will focus broadly on helping move the poorer countries to middle-income status and on supporting countries that are no longer eligible for IDA financing but lack the necessary creditworthiness to borrow at nonconcessional terms (gap countries). It will also help countries face the unique challenges of resource wealth (such as "Dutch Disease"). At the regional level, the Bank will focus on financial systems, climate change, and communicable diseases, and it will help societies take advantage of globalization. (See **www.worldbank.org/eca**.)

BOX 2.4 DOING BUSINESS IN GEORGIA AND ROMANIA BECOMES EASIER

According to *Doing Business 2007: How to Reform*, Georgia was the world's number one reformer in 2006. It reduced the minimum capital required to start a new business from about $850 to about $85, it increased business registrations by 20 percent, it simplified border procedures, and it reduced the number of days needed to meet all administrative requirements for export from 54 days in 2004 to 13 in 2006. Romania, the runner-up, simplified the procedures for obtaining building permits, set up a single office to process applications, reduced the time required to obtain construction documents by 49 days, adopted new labor regulations allowing term contracts to extend up to six years, and eased trade across borders.

TABLE 2.4

WORLD BANK LENDING TO BORROWERS IN EUROPE AND CENTRAL ASIA BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

THEME	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Economic Management	636.1	19.5	242.0	17.4	4.6	5.7
Environmental and Natural Resource Management	157.5	122.7	309.4	394.4	148.8	397.6
Financial and Private Sector Development	2,210.8	483.3	950.2	933.9	1,461.1	823.6
Human Development	138.3	550.4	297.1	539.4	360.3	258.3
Public Sector Governance	1,313.7	317.7	895.1	272.3	589.1	328.8
Rule of Law	106.6	289.8	132.3	66.8	401.6	230.4
Rural Development	309.9	194.9	117.4	161.5	238.5	150.1
Social Development, Gender, and Inclusion	188.8	55.9	33.9	246.6	95.1	23.2
Social Protection and Risk Management	363.9	288.5	305.3	668.8	335.9	346.7
Trade and Integration	32.5	130.6	182.6	424.4	226.6	539.5
Urban Development	65.4	216.7	93.6	368.0	183.0	658.2
Theme Total	**5,523.6**	**2,670.0**	**3,559.1**	**4,093.5**	**4,044.6**	**3,762.2**
SECTOR						
Agriculture, Fishing, and Forestry	470.4	335.4	168.6	107.0	117.9	53.4
Education	83.2	395.0	164.0	263.8	126.7	81.9
Energy and Mining	218.0	262.9	352.2	657.9	1,108.3	337.6
Finance	1,284.9	195.8	836.9	259.1	374.5	353.5
Health and Other Social Services	524.7	415.3	244.3	484.9	339.9	192.9
Industry and Trade	552.1	269.0	126.3	253.5	274.8	395.5
Information and Communication	9.6	1.0	7.0	10.9	0.0	0.0
Law and Justice and Public Administration	2,181.9	698.9	1,176.8	1,160.6	1,271.7	812.6
Transportation	67.1	30.6	321.2	557.9	416.7	712.3
Water, Sanitation, and Flood Protection	131.7	66.3	162.0	337.9	14.2	822.4
Sector Total	**5,523.6**	**2,670.0**	**3,559.1**	**4,093.5**	**4,044.6**	**3,762.2**
Of which IBRD	4,894.7	2,089.2	3,012.9	3,588.6	3,531.9	3,340.1
Of which IDA	628.9	580.8	546.2	504.9	512.8	422.1

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

LATIN AMERICA AND THE CARIBBEAN

Latin America and the Caribbean grew 5.4 percent in 2006, continuing the trend of the past three years, which have seen the highest growth rates since the late 1970s. This recovery has been accompanied by strong job creation, and most countries are taking advantage of the good times to reduce macroeconomic vulnerabilities. Growth of 4.7 percent is expected in 2007 as a result of an anticipated slowdown in the global economy and a likely decline in the price of some commodities. There is cautious optimism about longer-term growth prospects.

The region continues to struggle with the challenge of ensuring both that growth accelerates and that its benefits reach the poorest citizens. Inequality in this mainly middle-income region is among the highest in the world, with the richest 10 percent of the population holding 41 percent of total income and the poorest 10 percent owning just 1 percent. Poverty reduction has stagnated, with 47 million people in the region—more than 8 percent of the population—still living in extreme poverty.

World Bank financing for Latin America and the Caribbean reached $4.6 billion in fiscal 2007. It consisted of $4.4 billion in IBRD lending, $132 million in IDA credits, and $68 million in IDA grants. Argentina, Brazil, Colombia, and Peru were the largest borrowers, receiving Bank lending of $3.6 billion for 26 projects in areas such as public health, infrastructure, education, and rural development. Haiti reached the decision point of the enhanced Heavily Indebted Poor Countries Initiative in fiscal 2007, thereby qualifying for about $212.9 million in debt relief (see "Debt Relief," chapter 3).

TAILORING ASSISTANCE TO THE REGION'S DIVERSE NEEDS

The World Bank has adapted its regional strategy to meet the increasingly diverse and sophisticated needs of its partner countries in Latin America and the Caribbean. For middle-income countries, the Bank offers an integrated package of services, including analysis and advice, country dialogue, financing, and implementation support. For IDA countries, the Bank provides concessional financing, donor coordination, and specialized support for fragile states.

In Mexico, in response to a shift in demand, the Bank adjusted its partnership strategy from provision of traditional lending services to provision of nonlending products such as

LATIN AMERICA AND THE CARIBBEAN FAST FACTS

Total population:	0.6 billion
Population growth:	1.3%
Life expectancy at birth:	72 years
Infant mortality per 1,000 births:	26
Female youth literacy:	96%
2006 GNI per capita:	$4,767
Number of people living with HIV/AIDS:	1.9 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

TOTAL FISCAL 2007	TOTAL FISCAL 2007
New Commitments	**Disbursements**
IBRD $4,353 million	IBRD $3,525 million
IDA $200 million	IDA $158 million

Portfolio of projects under implementation as of June 30, 2007: $16.8 billion

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		

policy analysis and grants for environmental projects. It also found new ways to support subnational governments. In Bolivia, Haiti, and Honduras—low-income countries facing specific challenges—the Bank's new strategies will support programs to strengthen economic governance, create jobs for the poor, and improve basic services.

BOOSTING GROWTH AND JOB CREATION

To achieve high and sustainable growth and create employment, the region needs to stimulate investment and remain globally competitive. Priorities for Bank support therefore include improving the business climate, deepening financial systems, diversifying export structures, and encouraging innovation.

New lending in fiscal 2007 included a $300 million loan to Colombia to promote business productivity and investment, a $207 million loan to Colombia to improve transport systems in medium and large cities, a $200 million loan to Argentina to help unemployed and poor workers acquire the skills they need to find jobs, and a $200 million loan to Peru to help improve fiscal management. In Brazil, the Bank helped the state of Minas Gerais achieve a major fiscal turnaround, an experience that is being studied and adapted by other Brazilian states.

Key to the region's competitiveness is improved infrastructure, an area in which the Bank provided $1.7 billion in fiscal 2007. As part of an expanded investment partnership with Argentina, the Bank approved approximately $0.7 billion in loans to improve road infrastructure across the country.

Research in fiscal 2007 addressed key concerns of citizens in the region, such as job security, poverty, and crime and violence. A report on informality in Latin America examined the nature of the informal sector and its implications for workers, firms, and policy makers. A study on remittances found that for each 1 percent increase in remittances as a share of GDP, the fraction of the population living in poverty falls by a modest 0.4 percent. A report on the region's response to the growth of China and India found that competition from Asia has a positive effect on the region as a whole despite adverse effects on some countries and industries. Another report identified the economic impacts of crime and violence on countries in the Caribbean and suggested policy responses. Research on competitiveness in Mexico contributed to the debate on "Equity and Competition for High Growth in Mexico," a conference cosponsored by Harvard University.

REDUCING POVERTY AND INEQUALITY

Creating equal opportunities for all citizens is crucial to achieving faster poverty reduction in Latin America and the Caribbean. Therefore, the World Bank is working with countries across the region to develop universal and affordable social protection; to support programs that reduce poverty directly; and to increase access to education, health, and public infrastructure.

Major new lending in fiscal 2007 included a $300 million loan to Argentina to expand the government's health care program, Plan Nacer, which is helping reduce infant mortality by increasing access to basic health services for uninsured mothers and children. A $200 million loan to Colombia is helping to extend health insurance coverage to 13.7 million poor people and to provide access to nutrition programs for 400,000 children. A $150 million development policy loan in Peru will help define standards and set goals in primary education, health, and nutrition so that families can better measure their children's progress. The program builds on the recommendations of the Bank's RECURSO report, which fostered a lively debate about the need for greater accountability in the social sectors during the run-up to Peru's presidential elections.

The World Bank is also supporting equal opportunities at the local level. A Bank-sponsored workshop on child malnutrition in Central America, for example, stimulated debate on improving the results of community-based child nutrition programs. The most impressive gains were achieved in the Atlantic region, a poor region with a large indigenous population.

STRENGTHENING GOVERNANCE

The World Bank is helping countries in Latin America develop effective and sustainable ways to promote good governance and reduce corruption through support for strengthening country systems, improving accountability for service delivery, and monitoring and evaluating results. In Guatemala, the Bank is supporting the government's efforts to make public procurement and financial management more transparent and efficient with a $100 million development policy loan.

FIGURE 2.9

LATIN AMERICA AND THE CARIBBEAN

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $4.6 BILLION

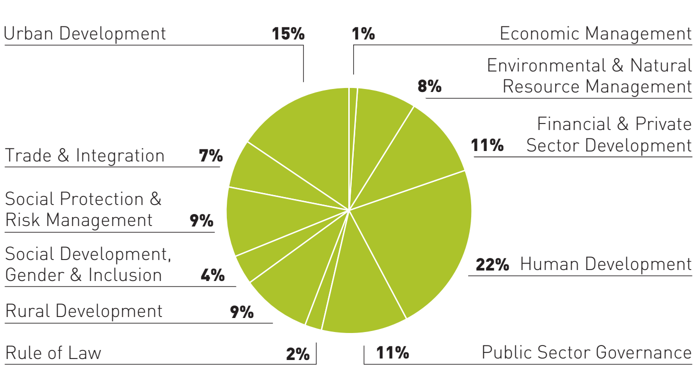
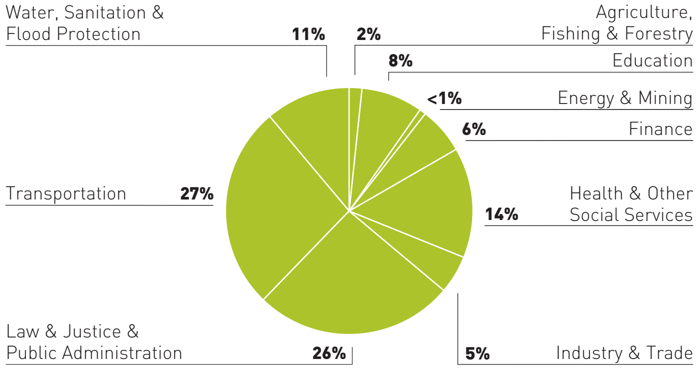


FIGURE 2.10

LATIN AMERICA AND THE CARIBBEAN

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $4.6 BILLION



In Honduras, the Bank is helping improve accountability for health care delivery through decentralized clinics and performance-based contracts.

TACKLING GLOBAL ISSUES

Countries in Latin America and the Caribbean are increasingly playing a leadership role in efforts to address issues such as climate change, renewable energy, and global health threats. World Bank assistance in this area took a variety of forms in fiscal 2007. The active portfolio supporting countries' efforts to prevent and treat HIV/AIDS totaled $150.1 million in 13 projects. The Bank prepared a report on biofuels for Brazil and coordinated with other international and regional agencies to prepare for a possible avian flu epidemic. It worked with local partners to create the world's first multicountry catastrophe insurance pool in the Caribbean, the Caribbean Catastrophe Risk Insurance Facility, which will help participating countries recover more quickly from hurricanes and earthquakes. And it provided $23.2 million in IDA funding to help poorer Caribbean states participate in the facility.

To address the challenge of environmental sustainability in the region, the World Bank is supporting both country-specific projects and international initiatives. In Colombia, the Bank provided a $200 million loan to help address environmental issues affecting the urban poor in general and children under five in particular. In Mexico and Central America, the Mesoamerican Biological Corridor is helping raise income levels for local communities, many of which are indigenous, while preserving the region's unique biodiversity. (See **www.worldbank.org/lac**.)

TABLE 2.5

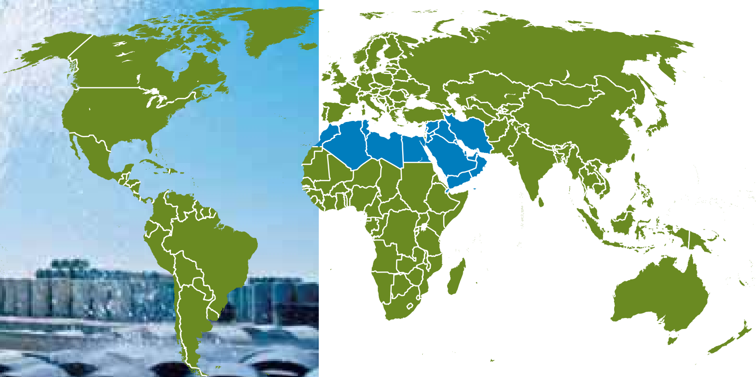
WORLD BANK LENDING TO BORROWERS IN LATIN AMERICA AND THE CARIBBEAN BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

THEME	2002	2003	2004	2005	2006	2007
Economic Management	391.0	567.2	111.2	310.4	42.5	54.3
Environmental and Natural Resource Management	187.4	240.3	159.1	841.2	454.0	353.0
Financial and Private Sector Development	965.4	819.8	912.4	729.6	1,518.7	498.9
Human Development	560.4	1,171.7	1,046.7	469.8	502.6	1,022.5
Public Sector Governance	1,182.8	798.6	672.0	506.2	1,054.2	519.9
Rule of Law	15.5	138.8	270.9	147.9	108.8	97.5
Rural Development	168.3	415.9	249.6	331.7	236.5	415.4
Social Development, Gender, and Inclusion	248.9	123.1	268.9	187.9	282.6	175.4
Social Protection and Risk Management	310.4	1,050.3	926.9	950.4	606.2	419.0
Trade and Integration	83.9	59.6	364.6	233.4	720.3	300.5
Urban Development	251.9	435.2	337.6	457.1	384.1	696.9
Theme Total	**4,365.8**	**5,820.5**	**5,319.8**	**5,165.7**	**5,910.5**	**4,553.3**
SECTOR						
Agriculture, Fishing, and Forestry	85.0	58.4	379.6	233.4	291.0	83.4
Education	560.4	785.5	218.3	680.0	712.7	369.1
Energy and Mining	445.6	96.2	50.5	212.6	172.8	19.5
Finance	593.5	973.0	405.1	530.0	907.3	286.4
Health and Other Social Services	660.5	1,574.1	1,558.9	443.4	821.8	649.1
Industry and Trade	51.4	183.4	428.0	199.9	569.2	236.3
Information and Communication	16.5	52.4	14.0	44.7	20.8	0.0
Law and Justice and Public Administration	1,440.0	1,564.9	1,521.3	1,776.0	1,278.8	1,187.8
Transportation	463.1	146.4	675.7	556.4	785.4	1,223.9
Water, Sanitation, and Flood Protection	49.8	386.2	68.4	489.5	350.7	497.8
Sector Total	**4,365.8**	**5,820.5**	**5,319.8**	**5,165.7**	**5,910.5**	**4,553.3**
Of which IBRD	4,188.1	5,667.8	4,981.6	4,904.4	5,654.1	4,353.3
Of which IDA	177.8	152.7	338.2	261.3	256.4	200.0

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

MIDDLE EAST AND NORTH AFRICA



Growth in the Middle East and North Africa was robust in 2006, with real GDP rising 6.3 percent. This extraordinary growth—the strongest in more than 10 years—occurred despite the difficult conditions affecting many countries, particularly the conflict-affected areas of Iraq, Lebanon, and the West Bank and Gaza. Strong oil revenues and the ongoing European recovery provided the momentum for growth, allowing per capita GDP to rise 4.2 percent despite large increases in the population. Sustaining growth at current rates will depend primarily on advances in the structural reform agenda and on a more even distribution of resources to reduce the high vulnerability to poverty.

The overall environment for business in the region improved during fiscal 2007 as a result of reforms undertaken in several countries, including the Arab Republic of Egypt, Jordan, and Morocco. Despite some initial steps toward public administration and civil service reforms, however, governance remains a challenge, and the participation of civil society, including parliamentarians, remains weak.

Job creation in the private sector is increasing, but large differences exist across the region, with unemployment declining in some countries and rising in others. Women and youth continue to be overrepresented among the unemployed. Employment rates for women and youth average about 47 percent, the lowest in the world (box 2.5).

WORLD BANK ASSISTANCE

The World Bank approved nearly $692 million in IBRD loans and $216 million in IDA commitments for the region. In addition, the Bank provided $85 million in special financing to Lebanon and to the West Bank and Gaza; Iraq received $100.5 million in grants from the Iraq Trust Fund. Knowledge services and policy advice continue to represent a significant portion of the Bank's support for the region. Synergies within the World Bank Group and partnerships with civil society, the private sector, and other development partners continue to play a key role in the Bank's effectiveness.

The Bank's regional strategy addresses five key areas: governance, private sector development, water, education, and inclusion.

MIDDLE EAST AND NORTH AFRICA FAST FACTS

Total population:	0.3 billion
Population growth:	1.7%
Life expectancy at birth:	70 years
Infant mortality per 1,000 births:	43
Female youth literacy:	84%
2006 GNI per capita:	$2,481
Number of people living with HIV/AIDS:	0.4 million

Note: Life expectancy at birth, infant mortality rate per 1,000 live births, and female youth literacy are for 2005; HIV/AIDS data are from the May UNAIDS *2006 Report on the Global AIDS Epidemic*; other indicators are for 2006 from the World Development Indicators Database.

TOTAL FISCAL 2007

New Commitments
IBRD $692 million
IDA $216 million

TOTAL FISCAL 2007

Disbursements
IBRD $1,477 million
IDA $194 million

Portfolio of projects under implementation as of June 30, 2007: $6.1 billion

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING This section also reports on the West Bank and Gaza.

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

IMPROVING GOVERNANCE

World Bank support to governance and anticorruption programs in fiscal 2007 was $59.8 million. In addition to lending, governance support was provided through recipient-executed trust funds and reimbursable technical assistance to strengthen public sector management and fiduciary systems in Algeria, Jordan, Lebanon, Morocco, Tunisia, the West Bank and Gaza, and the Republic of Yemen; improve results monitoring in Algeria and Jordan; and build capacity in procurement in Djibouti, Tunisia, and the West Bank and Gaza.

PRIVATE SECTOR DEVELOPMENT

Across the region, the World Bank continued its efforts to improve the investment climate and increase trade competitiveness. In Egypt, Bank-supported reform of the business environment resulted in the creation of a "one-stop shop" at the General Authority for Investment. By bringing together 20 government entities under one roof, the time and cost of obtaining licenses for investment projects is reduced in order to match international best practices and thereby boost investment. The Bank is also supporting the privatization of banks in Egypt. In Morocco, the Bank is supporting financial sector reforms. In the Republic of Yemen, where Bank support encouraged adoption of the Extractive Industries Transparency Initiative guidelines and enactment of a good-practice procurement law, the Bank is providing technical assistance to strengthen the regulatory framework against corruption.

The Bank is also supporting key infrastructure to enable private sector development, especially in energy. In Morocco, energy sector reform was supported by a $100 million energy

BOX 2.5 ADDRESSING CHALLENGES AND OPPORTUNITIES ON THE YOUTH AGENDA

About 60 percent of the population in the Middle East and North Africa is under age 24. Despite declining fertility rates, the region will continue to have one of the highest percentages of youth in the world.

The Bank is addressing the challenges and opportunities posed by these demographics in several ways. In fiscal 2007, it completed "Voices of Youth," which interviewed young people in Egypt, Morocco, the West Bank and Gaza, and the Republic of Yemen. Young people expressed their concerns about the quality of education and training and their relevance to the needs of employers. They also indicated their desire for meaningful political and social participation.

The Bank intensified its efforts to address the needs of youth in a multisectoral manner. In fiscal 2007, its lending program funded projects in Egypt, Jordan, and Tunisia that focused on entrepreneurship, training, employment, and higher education. The Bank is also preparing a youth policy note for the region that identifies current gaps, sets priorities, and makes policy recommendations for mainstreaming the youth agenda across sectors.

FIGURE 2.11

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL OF $0.9 BILLION

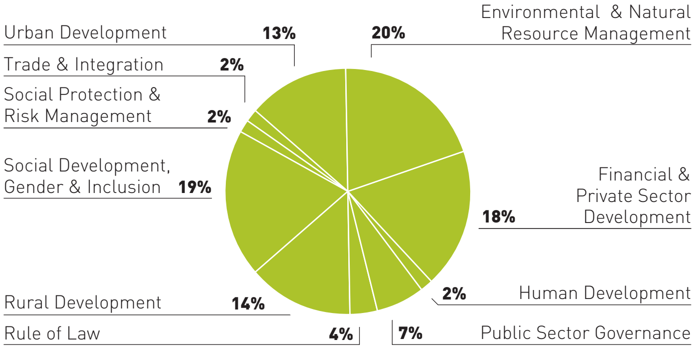
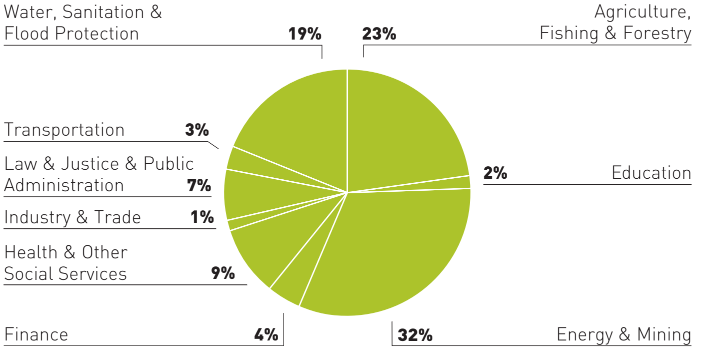


FIGURE 2.12

MIDDLE EAST AND NORTH AFRICA

IBRD AND IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL OF $0.9 BILLION



development policy loan. Iraq's severe power shortages were addressed by a $124 million project in the south and a $40 million hydropower project in the Kurdish region.

STRENGTHENING WATER MANAGEMENT

Private sector participation is one of the main thrusts for World Bank Group assistance in the sector. In Egypt, the $145 million West Delta project is supporting a partnership alternative with the private sector to manage scarce water resources more efficiently. The Bank is also supporting cross-border cooperation on water management through support to the Nile Basin Initiative, the Arab Water Council, and the Arab Water Management Institute. In February 2007, the Bank released the study *Making the Most of Scarcity*, which emphasizes options for improving water management and services. (See **www.worldbank.org/mna**.)

EDUCATION AND INCLUSION

The World Bank's approach in the Middle East and North Africa focuses on empowering communities to play a more effective role in supporting development, particularly women's economic rights and opportunities. The Bank is financing several community-driven projects, including the Municipal Infrastructure Project in Lebanon and three projects in the West Bank and Gaza that focus on rehabilitating municipal services, strengthening the capacity of nongovernmental organizations (box 2.6), and empowering community-based networks to support the sustainability of service delivery.

The Bank is providing policy advice to strengthen and improve the targeting of social safety nets in Egypt, the Islamic Republic of Iran, Jordan, the Syrian Arab Republic, and the Republic of Yemen. In Tunisia, the Bank is supporting higher education reform with a $76 million loan. In Jordan, the World Bank completed the $34 million Higher Education Development Project to improve the quality, relevance, and efficiency of higher education. In Morocco, the Bank approved a $100 million IBRD loan to finance the National Initiative for Human Development Support Project, which supports access of vulnerable groups to social and economic services and promotes inclusiveness, accountability, and transparency of local decision-making and implementation processes.

In Egypt, Jordan, and Morocco, the Bank is collaborating with IFC to expand women's economic opportunities through business networking and training. In Iraq, the Bank is assessing the viability of implementing microfinance initiatives that would benefit and support the needs of households headed by women, particularly low-income women.

BOX 2.6 STRENGTHENING LOCAL NGOs IN THE WEST BANK AND GAZA

As social conditions deteriorated in the West Bank and Gaza, access to critical public services was significantly impacted, and NGOs (nongovernmental organizations) stepped in to meet basic needs. In December 2006, the Executive Directors approved the Third Palestinian NGO Project, continuing the Bank's decade-long strategic partnership with Palestinian NGOs. The project aims to build the capacity of Palestinian NGOs by focusing on issues of good governance, accountability, and transparency and by helping them empower and mentor community-based institutions so that these institutions can better respond to the needs of vulnerable groups on a sustainable basis and can become reliable platforms for leveraging funds from other donors. A participatory monitoring and evaluation system is being set up as a critical feature of the project. The system will track and document the flow and use of funds, the efficiency and effectiveness of utilization, responsiveness to priority needs, and the impact on recipients.

TABLE 2.6

WORLD BANK LENDING TO BORROWERS IN THE MIDDLE EAST AND NORTH AFRICA BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

THEME	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Economic Management	5.0	0.0	0.0	45.8	0.0	0.0
Environmental and Natural Resource Management	21.7	186.0	113.8	160.2	44.5	179.7
Financial and Private Sector Development	204.1	48.3	259.3	166.6	907.8	166.7
Human Development	61.9	140.9	192.1	95.4	128.5	14.3
Public Sector Governance	93.3	106.6	19.6	166.0	229.0	59.8
Rule of Law	49.1	48.0	1.7	1.8	46.9	33.0
Rural Development	14.5	100.6	65.1	155.3	177.9	126.6
Social Development, Gender, and Inclusion	13.4	63.1	70.7	123.0	67.8	174.9
Social Protection and Risk Management	11.0	96.1	31.6	98.5	69.7	15.4
Trade and Integration	24.8	3.6	158.3	0.0	0.0	16.0
Urban Development	55.8	262.7	178.7	271.1	28.5	121.6
Theme Total	**554.5**	**1,056.0**	**1,091.0**	**1,283.6**	**1,700.6**	**907.9**
SECTOR						
Agriculture, Fishing, and Forestry	2.9	196.7	27.2	229.2	15.3	208.5
Education	38.0	154.3	154.9	124.0	146.8	14.3
Energy and Mining	1.3	0.0	0.0	0.0	316.5	291.6
Finance	110.5	1.9	20.8	142.5	625.0	39.2
Health and Other Social Services	41.7	124.2	52.0	0.3	0.0	84.3
Industry and Trade	71.7	74.3	23.4	277.9	14.0	10.3
Information and Communication	69.9	2.3	0.0	18.5	0.0	0.0
Law and Justice and Public Administration	74.7	213.6	93.6	232.9	249.2	61.9
Transportation	70.9	107.9	409.6	29.0	237.6	27.4
Water, Sanitation, and Flood Protection	73.1	180.9	309.5	229.3	96.4	170.5
Sector Total	**554.5**	**1,056.0**	**1,091.0**	**1,283.6**	**1,700.6**	**907.9**
Of which IBRD	451.8	855.6	946.0	1,212.1	1,333.6	691.9
Of which IDA	102.7	200.4	145.0	71.5	367.0	216.0

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

3

SUMMARY OF FISCAL YEAR ACTIVITIES

WORLD BANK LENDING

The World Bank mobilizes financing from member shareholder equity by borrowing from international capital markets (for IBRD) and by allocating grants and credits using contributions from richer member countries (for IDA). It channels these resources to benefit poor people in borrowing member countries.

Lending is tailored to individual country needs and utilizes lending instruments that are becoming increasingly flexible. Figures 3.1–3.3 and table 3.1 summarize combined IBRD-IDA lending in fiscal 2007.

LOW-INCOME COUNTRIES

The Role of IDA

IDA is the largest source of concessional financial assistance for the world's poorest countries. In fiscal 2007, countries with annual per capita income of up to $1,025 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. Since its inception, IDA has provided assistance in the form of highly concessional credits. Since fiscal 2003, it has expanded its use of grants, which are used to finance projects in the countries that are most vulnerable to debt.

IDA assistance helps recipient countries address complex challenges. Priorities include promoting growth and reducing poverty; enhancing public sector governance and transparency; helping countries recover from conflict; developing infrastructure; improving the quality of basic education and poor people's access to it; strengthening the fight against HIV/AIDS, avian flu, and other communicable diseases; and building a healthy investment climate as a prerequisite for private sector investment. IDA financing is not earmarked to specific sectors or themes: it responds to the priorities and needs as identified by recipient countries themselves. The amount of IDA resources a country receives depends largely on various performance factors, which are assessed annually.

The poverty reduction strategy (PRS) approach is key to the Bank's support for low-income countries. PRSs are country-authored, results-oriented, comprehensive road maps that articulate a country's development priorities and then specify the steps necessary to address them. The PRS approach empowers governments to set their own priorities (and to be accountable for the results) and it encourages donors to provide predictable, harmonized assistance aligned with those priorities. Fifty-four countries have prepared national PRSs, and 41 of them have also produced at least one annual progress report. Twelve countries (Burkina Faso, Ghana, the Kyrgyz Republic, Madagascar, Malawi, Mauritania, Mozambique, Nicaragua,

FIGURE 3.1

TOTAL IBRD-IDA LENDING BY REGION | FISCAL 2007

SHARE OF TOTAL LENDING OF $24.7 BILLION

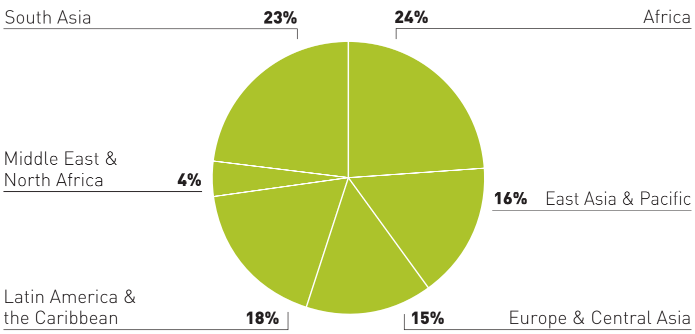


FIGURE 3.2

TOTAL IBRD-IDA LENDING BY THEME | FISCAL 2007

SHARE OF TOTAL LENDING OF $24.7 BILLION

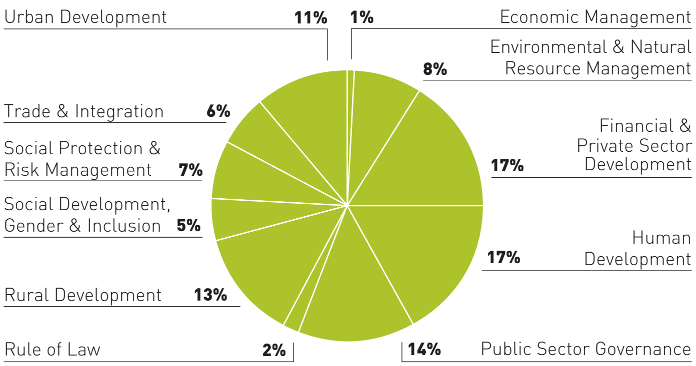


FIGURE 3.3

TOTAL IBRD-IDA LENDING BY SECTOR | FISCAL 2007

SHARE OF TOTAL LENDING OF $24.7 BILLION

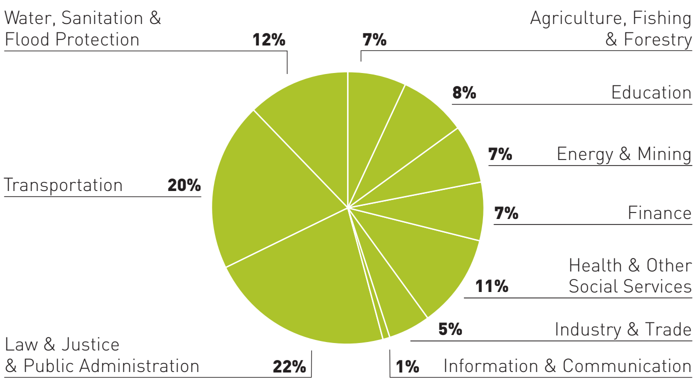


FIGURE 3.4

TOTAL IDA COMMITMENTS BY REGION | FISCAL 2007

SHARE OF TOTAL LENDING OF $11.9 BILLION

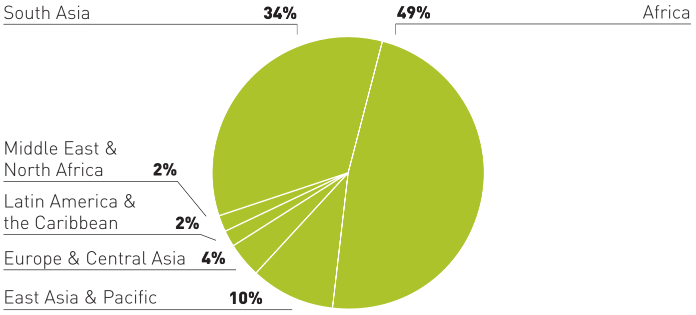
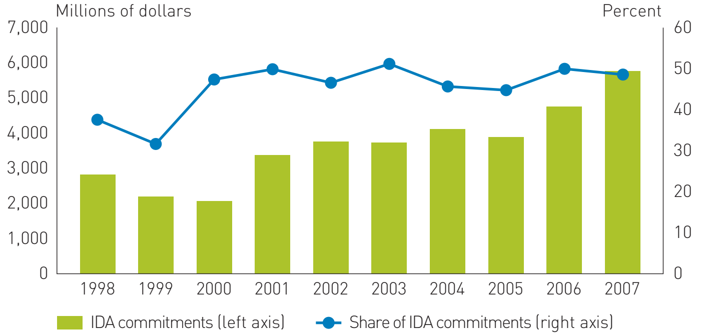


FIGURE 3.5

IDA COMMITMENTS TO AFRICA | FISCAL 1998–2007



Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

Senegal, Tanzania, Uganda, and Vietnam) prepared their second full national PRSs; many others are in the process of doing so.

IDA Commitments

IDA commitments in fiscal 2007 reached $11.9 billion. This funding, including $9.6 billion in credits, $2.2 billion in grants, and $0.1 billion in guarantees, supported 189 operations. The volume of IDA commitments was 25 percent higher than in fiscal 2006 and the highest in IDA's history. Figures 3.4–3.8 summarize IDA lending.

The largest share of IDA resources was committed to Africa, which received a record $5.8 billion, or 49 percent of total IDA commitments. South Asia ($4 billion) and East Asia and Pacific ($1.2 billion) also received large shares of total funding. India ($2.3 billion), Pakistan ($0.9 billion), and Nigeria ($0.8 billion) were the largest single recipients of funding.

Among sectors, the largest share of commitments went to Law and Justice and Public Administration, which received $2.7 billion in funding (23 percent of the total). IDA has become a major source of financing for infrastructure (see figure 3.8), a sector whose share in total official development assistance flows has declined in recent years despite enormous need. Significant support was also provided to the Health and Other Social Services ($1.9 billion) and Education ($1.6 billion) sectors.

The themes receiving the most funding were Human Development ($2.6 billion) and Public Sector Governance ($1.8 billion). Major attention was also paid to Rural Development ($1.7 billion); Financial and Private Sector Development ($1.7 billion); Urban Development ($980 million); Social Development, Gender, and Inclusion ($919 million); and Social Protection and Risk Management ($896 million).

FIGURE 3.6

TOTAL IDA COMMITMENTS BY THEME | FISCAL 2007

SHARE OF TOTAL LENDING OF $11.9 BILLION

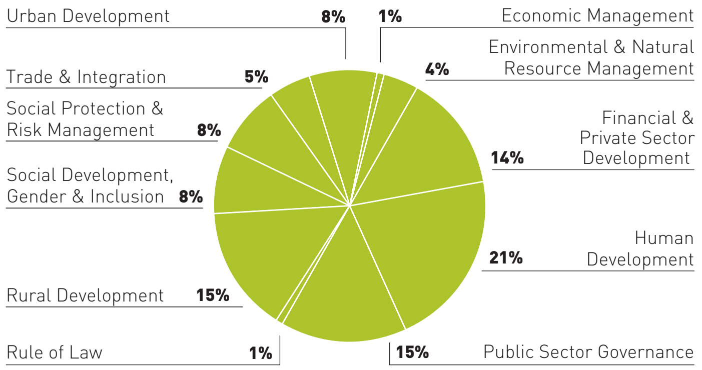


FIGURE 3.7

TOTAL IDA COMMITMENTS BY SECTOR | FISCAL 2007

SHARE OF TOTAL LENDING OF $11.9 BILLION

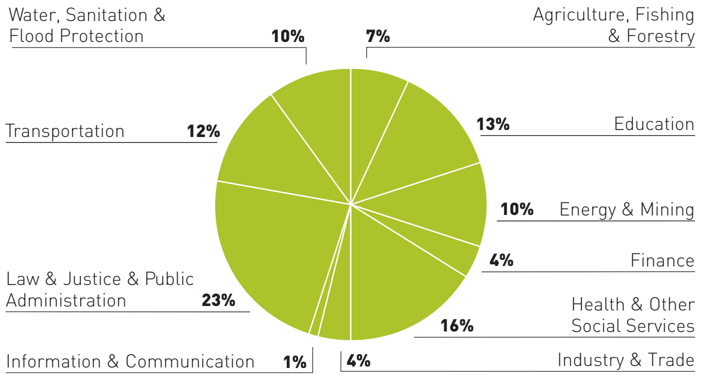


TABLE 3.1

WORLD BANK LENDING BY THEME AND SECTOR | FISCAL 2002–2007

MILLIONS OF DOLLARS

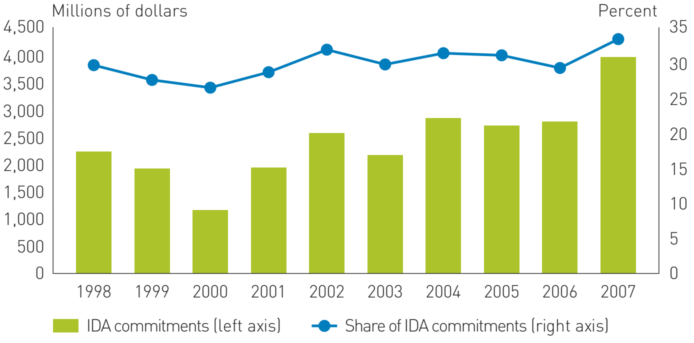
THEME	2002	2003	2004	2005	2006	2007
Economic Management	1,408.0	777.7	428.8	594.6	213.8	248.3
Environmental and Natural Resource Management	924.0	1,102.6	1,304.6	2,493.8	1,387.3	2,017.0
Financial and Private Sector Development	5,055.4	2,882.9	4,176.6	3,862.0	6,137.8	4,260.8
Human Development	1,756.1	3,374.0	3,079.5	2,951.0	2,600.1	4,089.4
Public Sector Governance	4,247.2	2,464.1	3,373.9	2,636.4	3,820.9	3,389.7
Rule of Law	273.2	530.9	503.4	303.8	757.6	424.5
Rural Development	1,600.0	1,910.9	1,507.8	2,802.2	2,215.8	3,175.7
Social Development, Gender, and Inclusion	1,385.7	1,003.1	1,557.8	1,285.8	1,094.1	1,250.3
Social Protection and Risk Management	1,086.4	2,324.5	1,577.0	2,437.6	1,891.7	1,647.6
Trade and Integration	300.9	566.3	1,212.7	1,079.9	1,610.9	1,569.9
Urban Development	1,482.4	1,576.3	1,358.1	1,860.0	1,911.2	2,622.7
Theme Total	**19,519.4**	**18,513.2**	**20,080.1**	**22,307.0**	**23,641.2**	**24,695.8**
SECTOR						
Agriculture, Fishing, and Forestry	1,247.9	1,213.2	1,386.1	1,933.6	1,751.9	1,717.4
Education	1,384.6	2,348.7	1,684.5	1,951.1	1,990.6	2,021.8
Energy and Mining	1,974.6	1,088.4	966.5	1,822.7	3,030.3	1,784.0
Finance	2,710.8	1,446.3	1,808.9	1,675.1	2,319.7	1,613.6
Health and Other Social Services	2,366.1	3,442.6	2,997.1	2,216.4	2,132.3	2,752.5
Industry and Trade	1,394.5	796.7	797.9	1,629.4	1,542.2	1,181.3
Information and Communication	153.2	115.3	90.9	190.9	81.0	148.8
Law and Justice and Public Administration	5,351.2	3,956.5	4,978.8	5,569.3	5,857.6	5,468.2
Transportation	2,390.5	2,727.3	3,777.8	3,138.2	3,214.6	4,949.0
Water, Sanitation, and Flood Protection	546.0	1,378.3	1,591.6	2,180.3	1,721.0	3,059.4
Sector Total	**19,519.4**	**18,513.2**	**20,080.1**	**22,307.0**	**23,641.2**	**24,695.8**
Of which IBRD	11,451.8	11,230.7	11,045.4	13,610.8	14,135.0	12,828.8
Of which IDA	8,067.6	7,282.5	9,034.6	8,696.2	9,506.2	11,866.9

Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

FIGURE 3.8

IDA's CONSISTENT COMMITMENT TO INFRASTRUCTURE

| FISCAL 1998–2007

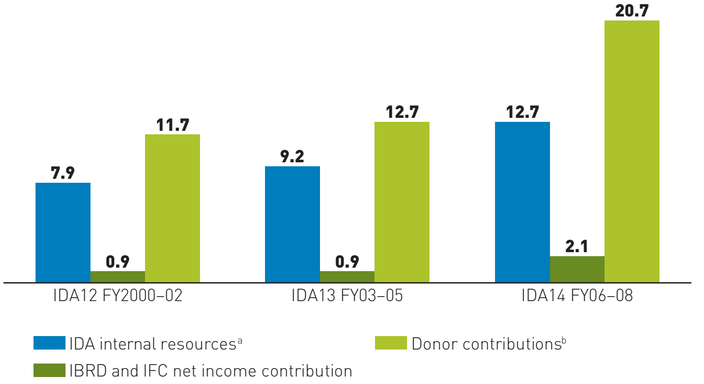


Note: Effective fiscal 2005, lending includes guarantees and guarantee facilities.

FIGURE 3.9

SOURCES OF IDA FUNDING

BILLIONS OF DOLLARS



a. IDA internal resources include principal repayments, charges less administrative expenses, and investment income. For IDA14, this amount includes principal repayments that are no longer available due to IDA's implementation of the MDRI as of July 1, 2006. These lost reflows will be replaced by additional donor contributions under the MDRI replenishment.

b. Includes structural financing gap.

IDA Resources

IDA is financed by its own resources and by donor governments (figure 3.9). It also receives annual transfers from IBRD net income and, for the first time in fiscal 2007, it received a grant from IFC to support private sector development in IDA countries.

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 its lending program over the following three years. Historically, the major industrial nations have been the largest contributors to IDA, but donor nations also include developing countries and transition economies—some of them current IBRD borrowers and former IDA borrowers.

The 14th replenishment of IDA (IDA14) will fund commitments for fiscal years 2006–08. During this period, IDA expects to provide concessional financing commitments of 22.2 billion special drawing rights (SDRs) to eligible countries (the equivalent of about $32.5 billion). During fiscal 2007, this amount increased from the original IDA14 framework of SDR 21.9 billion (about $32.1 billion) as the result of an additional transfer to IDA of SDR 0.2 billion (about $0.3 billion) from the IBRD surplus and the designation for grants of SDR 0.1 billion (about $0.15 billion) from IFC's retained earnings. Total IDA14 resources for financing commitments consist of SDR 12.1 billion (about $17.7 billion) in new donor contributions (excluding the structural financing gap); SDR 8.7 billion (about $12.7 billion) in internal resources, consisting primarily of repayments of principal from past credits and investment income; SDR 1.3 billion (about $1.9 billion) in IBRD net income transfers, subject to annual approval by IBRD's Board of Governors; and SDR 0.1 billion (about $0.15 billion) in grants from IFC. With the implementation of the Multilateral Debt Relief Initiative (MDRI), some internal resources are no longer available and will be replaced by donor contributions under the MDRI replenishment. Under the MDRI, donors have committed to providing additional resources of SDR 25 billion (about $37 billion) over 40 years to ensure that IDA's future financial support for poor countries is not reduced as a result of debt cancellation.

Negotiations for the 15th replenishment of IDA (IDA15) were launched in Paris in March 2007. The main issues under discussion included the global aid architecture, IDA's performance-based allocation system, and IDA's financial position (box 3.1).

Debt Relief

To date, IDA has provided about $4 billion under the Heavily Indebted Poor Countries (HIPC) Initiative, the process through which heavily indebted poor countries can gain debt relief from their external creditors to bring their debts down to the HIPC threshold levels, and $28 billion in debt forgiveness under the MDRI, which was introduced in 2006 and built on the HIPC Initiative. In aggregate, IDA will provide about $18 billion under HIPC and $36 billion under MDRI. To help countries maintain debt sustainability, IDA has developed a system for allocating grants based on countries' risk of debt distress. This approach, also adopted by some other multilateral development banks, helps mitigate the risk of debt distress in the future. IDA also works with partners to support countries' management of their external debts.

Fragile States

The past three years have seen increasing international interest in strengthening donor engagement in and response to challenges facing fragile states (figure 3.10). In 2002, the Bank's Task Force on Low-Income Countries Under Stress (LICUS), in its final report, recommended the need for stronger political analysis, innovative operational approaches, closer donor partnerships, and a series of institutional reforms to improve the Bank's responsiveness. Since then, the Bank has made significant advances in deepening its understanding of the particular challenges facing these fragile states and in developing a differentiated approach to strengthen its support and assistance. The Bank has recently adopted a framework for rapid response in crises and emergencies (see page 15), which is supported by organization and staffing measures designed to ensure greater field presence and to mobilize the most experienced people across the institution to advance the fragile states agenda.

In 2006, the Bank provided intensive strategic and operational support to country programs facing crises or new opportunities. The emphasis was on bridging operational gaps in programs in Afghanistan, the Central African Republic, and the Democratic Republic of Congo and on supporting strategy formulation in Liberia, Sudan, and Timor-Leste.

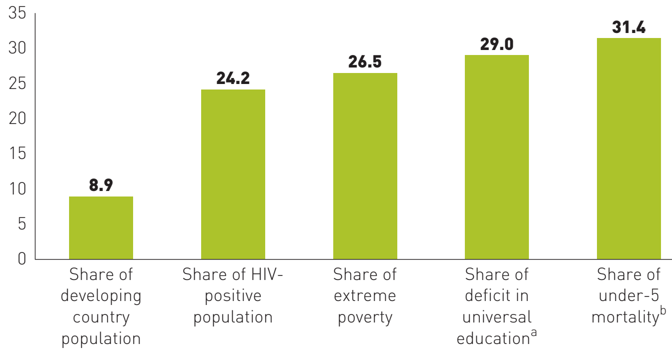
The LICUS trust fund, established in March 2004 through a $25 million transfer from IBRD surplus, targets the most marginalized and fragile states in nonaccrual status. The Bank replenished the LICUS trust fund with $25 million in 2006 and with another $30 million in January 2007.

The Bank has maintained old and created new relationships, including partnerships with the UN system, the new UN Peace-Building Commission, and the Organisation for

FIGURE 3.10

FRAGILE STATES FACE THE LARGEST DEFICIT IN MOST MDGs

PERCENT



Source: World Bank estimates.

a. Children of relevant age that did not complete primary school in 2005.

b. Children born in 2005 not expected to survive to age five.

BOX 3.1 THE 15TH REPLENISHMENT OF IDA

IDA is a revolving fund in which donor contributions are complemented by reflows from IDA's highly concessional credits. IDA provides $10 billion to $11 billion a year in interest-free loans and grants. It needs additional resources to maintain this level of financial support for poor countries, particularly since debt relief has reduced IDA's available credit reflows, thus increasing the reliance of both IDA and poor countries on future donor contributions.

Adequate replenishment of IDA is critical because of the enormity of the challenges facing the 2.5 billion people who live in IDA-recipient countries. These countries face a variety of conditions—some are emerging from conflict, some are in the midst of economic transition, some are vulnerable to crisis, and some are experiencing rapid and sustained growth. IDA's ability to address the complex and diverse needs of these countries can help them achieve their development goals.

IDA donors convened in Paris in March 2007 and in Maputo in July 2007 to discuss IDA's 15th replenishment. During the negotiations, they identified three special themes for further discussion. The first is the role of IDA in the global aid architecture at the sectoral, country, regional, and global levels, including its support for debt sustainability. The second is the effectiveness of IDA's assistance at the country level, including analysis of resource allocation and development outcomes, achievement and measurement of results, and progress in harmonizing and aligning assistance. The third encompasses IDA's strategy, instruments, and operational response in supporting fragile states; its financing for fragile states; and a systematic approach to arrears clearance. Two more meetings will be held to discuss the 15th replenishment, at which donors will be expected to confirm their contributions.

Economic Co-operation and Development's Development Assistance Committee (OECD-DAC), to address the need for integrated approaches in fragile and conflict-affected countries. The Bank continues to cochair and actively participate in meetings of the OECD-DAC Fragile States Group.

The Bank also continues to invest in increasing the stock of knowledge on fragile states. In 2006, this investment resulted in two reports: *Aid that Works: Successful Development in Fragile States*, published in December 2006, and *The Economic Impact of Peacekeeping*, published in March 2006.

The Bank's Independent Evaluation Group (IEG) found that the Bank's work in fragile states has contributed to improving macroeconomic stability and to delivering significant amounts of physical infrastructure, especially in postconflict environments. Substantial progress has also been made on donor coordination at the international policy level. However, reforms in some fragile states have lacked selectivity and prioritization. While the Bank has made state-building a central focus, it has not adequately demonstrated how past weaknesses will be avoided or how better capacity development and governance outcomes will be ensured, according to the IEG. The Bank has yet to address the allocation of aid for fragile states in a way that reflects its objectives for these countries and ensures that fragile states are not under- or over-aided.

MIDDLE-INCOME COUNTRIES

Middle-income countries face substantial development challenges. They must sustain growth that provides productive employment while reducing poverty and inequality. They must manage macroeconomic risks stemming from volatile capital flows, contingent liabilities, financial markets, and pensions. They must build crisis-management capability to deal with global pandemics, such as avian flu. They must enhance their competitiveness, adopt clean energy, ensure environmental sustainability, and strengthen the institutional and governance structures that underpin viable market-based economies. The Bank is uniquely placed to help middle-income countries deal with all of these challenges through IBRD.

The Role of IBRD

IBRD is an AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments, each of which has a voice in setting IBRD's policies. Many of them are eligible to borrow from it. IBRD provides financing (loans, guarantees, and related risk-management tools); expertise in development-related technical disciplines; and assistance in gaining access

FIGURE 3.11

TOTAL IBRD LENDING BY REGION | FISCAL 2007
SHARE OF TOTAL LENDING OF $12.8 BILLION

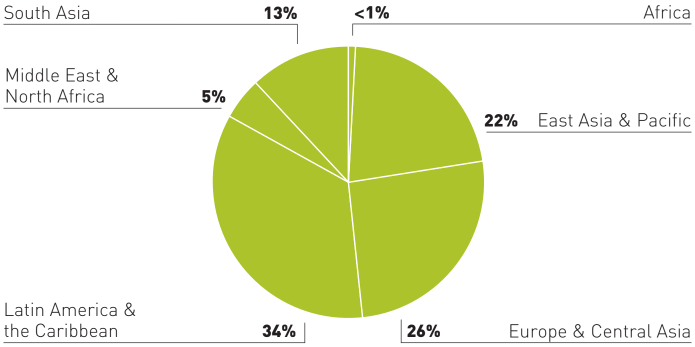


FIGURE 3.12

TOTAL IBRD LENDING BY THEME | FISCAL 2007
SHARE OF TOTAL LENDING OF $12.8 BILLION

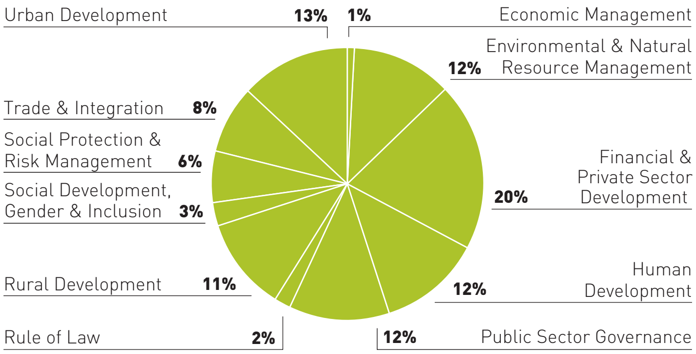
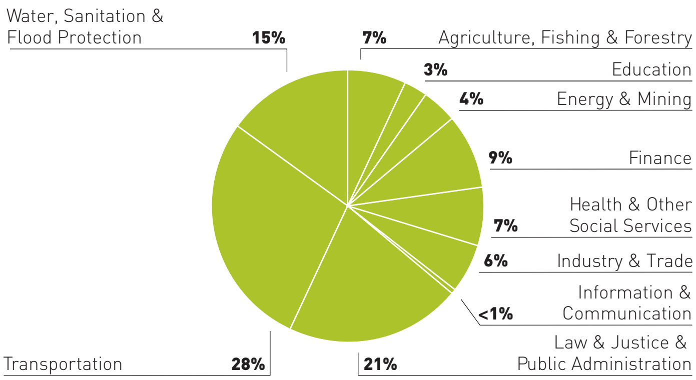


FIGURE 3.13

TOTAL IBRD LENDING BY SECTOR | FISCAL 2007
SHARE OF TOTAL LENDING OF $12.8 BILLION



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

IBRD Lending

New lending commitments by IBRD fell in fiscal 2007, to $12.8 billion for 112 operations. Development policy lending represented 28 percent of total lending.

Latin America and the Caribbean received the most IBRD lending, with $4.4 billion (34 percent of total IBRD commitments). It was followed by Europe and Central Asia, which received $3.3 billion (26 percent) in funding, and East Asia and Pacific, which received $2.8 billion (22 percent). Lending was more concentrated than in fiscal 2006. Whereas in fiscal 2006, 52 percent of total lending went to the five largest borrowers, in fiscal 2007, combined commitments amounting to 56 percent of total lending went to the five largest borrowers—Argentina, China, India, Turkey, and Colombia.

Transportation received the highest volume of IBRD lending ($3.6 billion); followed by Law and Justice and Public Administration ($2.7 billion); and Water, Sanitation, and Flood Protection ($1.9 billion). The thematic composition of lending was led by Financial and Private Sector Development ($2.6 billion), followed by Urban Development ($1.6 billion).

Figures 3.11–3.13 show IBRD lending by region, theme, and sector. Development policy lending commitments are shown on the accompanying CD-ROM.

IBRD Resources

IBRD obtains most of its funds by selling bonds in international capital markets. In fiscal 2007, it raised $11 billion at medium- to long-term maturities. Debt securities, with a wide range of maturities and structures, were issued in 11 currencies.

IBRD is able to borrow high volumes on very favorable terms. IBRD's financial strength is based on its prudent financial policies and practices, which help 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 to sustain its development activities.

IBRD maintained adequate liquidity in fiscal 2007 to ensure its ability to meet its obligations. As of June 30, 2007, it held about $22.2 billion in liquid assets. Also as of June 30, 2007, IBRD's outstanding borrowings from capital markets were about $81.1 billion (net of swaps) (figure 3.14). Borrowings exceeded equity by a factor of about three. Total disbursed and outstanding loans were $97.8 billion.

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

FIGURE 3.14

IBRD'S BORROWINGS AND INVESTMENTS | AS OF JUNE 30, 2007

BILLIONS OF DOLLARS

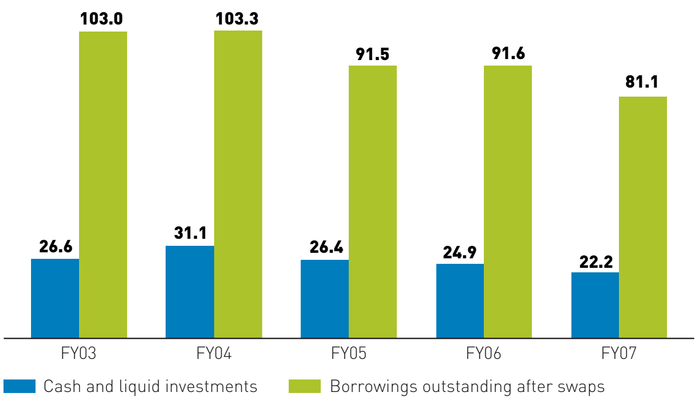
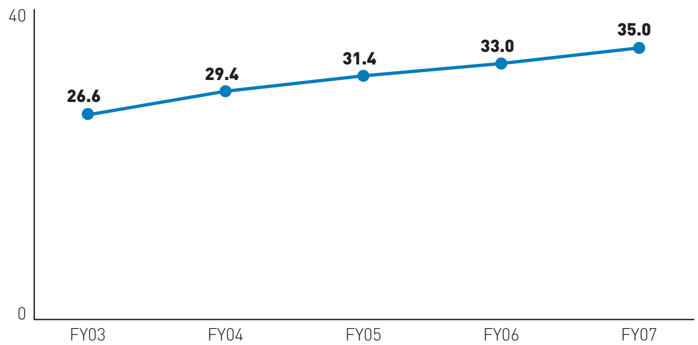


FIGURE 3.15

EQUITY-TO-LOANS RATIO | AS OF JUNE 30, 2007

PERCENT



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 ratio, excluding the reserve allocation from allocable net income in fiscal 2007, stood at 35 percent as of June 30, 2007 (figure 3.15).

NONLENDING ACTIVITIES

Country Assistance Strategies

A country assistance strategy (CAS) guides Bank Group activities within a borrowing member country. Starting with a country's vision of its development goals, a 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 to meet its needs. During fiscal 2007, the Bank prepared 38 CAS products, including 10 CAS progress reports and 12 interim strategy notes, which are prepared when a country assistance strategy cannot be completed because of specific country circumstances. Of these, 19 were prepared jointly with IFC, and several were prepared collaboratively with other donors.

Strategy Development

In fiscal 2007, the World Bank produced two sector strategy papers: *Healthy Development: The World Bank's Strategy for Health, Nutrition, and Population Results*, and *Financial Sector Strategy for the World Bank*. In addition, other strategy-related papers, including a paper on the strategy for strengthening the World Bank's engagement with IBRD partner countries, were discussed in fiscal 2007 by the Development Committee. In February 2007, the Executive Directors approved a new policy framework for strengthening the World Bank's rapid response to crises and emergencies, which was accompanied by a new strategy for strengthening the Bank's institutional support and long-term engagement in fragile states. The Bank also produced a governance and anticorruption strategy that was endorsed by the Executive Directors.

Analytic and Advisory Services

Analytic and advisory activities are an integral part of the Bank's nonlending client services. The core group of products consists of economic and sector work and technical assistance (nonlending). Economic and sector work aims to influence client-country policies and programs. Technical assistance helps client countries implement policies and programs. To strengthen outcome orientation, ensure country ownership, and work within a harmonized donor approach, analytic and advisory activities are increasingly prepared in close collaboration with client countries and other multilateral and bilateral donors.

The Bank delivered 531 economic and sector work and 430 technical assistance products in fiscal 2007.

Research

The Bank's research group investigates a wide range of development issues. Its studies are designed to inform and influence researchers, academics, and the policy community—and to lead to better outcomes for poor people.

In fiscal 2007, the group produced new data sets on poverty, international migration, and access to finance. These data sets include new household surveys conducted as part of the Living Standards Measurement Study; an interactive tool (PovcalNet) that allows users to access data from 600 household surveys to replicate the Bank's global $1-a-day poverty measure; and a Poverty Analysis Toolkit. Other products developed in fiscal 2007 include a database that provides estimates of international migration of skilled workers, and a cross-country data set on financial indicators that shows the extent to which enterprises and households use financial services.

In September 2006, an independent panel released the results of its review of Bank research conducted between 1998 and 2005. After examining more than 200 research projects and reports, it concluded that 61 percent of its sample was of above-average or superior quality, and it singled out the Bank's role as collector of development data as especially valuable. The report offered two main recommendations for strengthening research at the Bank: statistical capacity needs to be reinforced, and the borderline between advocacy and research needs to be carefully respected. Further discussion by the Board stressed the importance of enhancing data collection and management capacity.

World Bank Institute

The World Bank Institute (WBI) focuses on knowledge sharing and learning. It identifies countries' capacity development needs and provides relevant services and

QUALITY ASSURANCE GROUP FINDINGS

In its annual review of the Bank's active lending portfolio, the Quality Assurance Group estimated that the share of well-performing Bank projects at completion reached 81 percent in fiscal 2006, a level unmatched in the past 25 years. From fiscal 2003 through fiscal 2006, Transportation was the top performer among sectors, with more than 90 percent of outcomes rated as satisfactory. East Asia and Pacific was the top-performing region, with 83 percent of projects rated as satisfactory. And whereas IDA's share of World Bank commitments in 2001 was about one-third of the total, today it makes up 42 percent of the portfolio.

The report cautioned that underreporting of portfolio risks remained a serious concern: while Bank staff report problems in 11 percent of projects in the active portfolio, the actual share may be closer to 25 percent. Fragile states continue to represent critical challenges for the Bank, with a low satisfactory outcome rating of 56 percent during the four-year period from fiscal 2003 through fiscal 2006. Bank performance in terms of quality at entry and of quality of supervision in these countries, which are fully within the Bank's control, remain areas of concern. Bank management is taking a number of actions to enhance the Bank's organizational response to fragile states.

products, including technical assistance, thematic learning activities, cabinet-level retreats, and other programs.

In addition to providing critical knowledge and educational programs, WBI supports long-term capacity development by delivering multiyear programs, particularly in 45 focus countries specially designated for capacity development and to which 70 percent of WBI's annual budget is dedicated. Fourteen of these countries are in Africa, where WBI plays a key role in implementing the Bank's Africa Action Plan.

In fiscal 2007, WBI delivered some 700 learning activities and reached more than 75,000 participants, 33 percent of whom were women and 26 percent of whom were from Africa. WBI also increased its attention to organizational strengthening and reform. As part of a long-term program with the Central Bank of Bangladesh, it helped set up a policy analysis unit in the Central Bank's research department. That unit published its first-ever financial sector review. In response to a request from the newly elected government of Liberia, WBI and the United Nations Development Programme organized two seminars on the budget process for the executive branch and the legislature. WBI has been engaged in a long-term program with the government of Sudan to meet the country's postconflict transitional needs. This work is integrated with ongoing technical assistance funded by multidonor trust funds.

WBI has been supporting the Bank's strategy on middle-income countries by facilitating knowledge exchanges between developing countries, leveraging the expertise of countries that are world leaders in areas such as clean energy, HIV/AIDS, conditional cash transfers, and agricultural research. It has also facilitated the exchange of knowledge among European Union (EU) accession countries. In Bosnia and Herzegovina and in Turkey, for example, WBI has been bringing leaders from EU countries together with leaders from non–EU countries to share their experiences with developing plans for the EU accession or convergence process.

WBI's most prominent global programs are in governance and anticorruption and in knowledge for development (K4D). The K4D program assesses the preparedness of a country or region to compete in the global knowledge economy on the basis of WBI's Knowledge Assessment Methodology (KAM). The 2007 KAM identifies sectors or specific areas where policy makers may need to focus more attention or increase investments.

GLOBAL CONNECTIONS

Partnerships

Global partnerships are increasing because of the growing integration of the world's economies and the existence of development challenges that cross national boundaries. These partnerships promote efforts in areas of common concern such as combating communicable diseases, preserving the environment, acquiring and sharing knowledge, integrating trade, addressing international migration issues, and developing infrastructure. The Bank is also continuing its work with development partners on cooperative measures that minimize the cost of delivering aid and thereby increase aid effectiveness. The Bank participates in some 170 global and regional partnerships, for which it committed more than $170 million from its own resources in fiscal 2007.

The Bank plays different roles in these initiatives, including trustee of donor funds, financial contributor, and implementing agency.

The Global Development Learning Network

Launched in 2000, the Global Development Learning Network (GDLN) is a partnership of more than 110 learning centers (known as Affiliates) in 60 developing countries. GDLN Affiliates collaborate in holding events that connect people across countries and regions for learning and dialogue on development issues. Offering a combination of distance-learning tools, such as interactive videoconferencing and the Internet, and expert facilitation and learning techniques, GDLN Affiliates enable individuals, teams, and organizations anywhere in the world to communicate, share knowledge, and learn from each others' experiences in a timely and cost-effective manner.

The GDLN hosted approximately 1,000 videoconferences in fiscal 2007, reaching some 90,000 people worldwide. A majority of these conferences were organized by small government agencies and nongovernmental organizations.

Trust Funds

The World Bank has been mobilizing concessional resources for poverty reduction and sustainable development for nearly 50 years. IDA continues to be the primary channel for such resources. However, in recent years there has been strong growth in complementary channels that are also administered by the Bank, both at the country level and in support of global priorities. The Bank takes on this role largely in response to the international community's desire that it help leverage donor resources for a broad range of development initiatives. These initiatives vary significantly in size and complexity, ranging from multibillion dollar arrangements—such as Carbon Finance; the Global Environment Facility; the Heavily Indebted Poor Countries Initiative; and the Global Fund to Fight AIDS, Tuberculosis, and Malaria—to much smaller and simpler freestanding ones. These activities are further described in the World Bank's Trust Funds Annual Report. Table 3.2 lists the top 10 trust fund donors.

TABLE 3.2

TOP TEN TRUST FUND DONORS

MILLIONS OF DOLLARS

DONOR	2006	2007
United Kingdom	654	1,190
Netherlands	514	766
United States	735	747
European Commission	493	652
Canada	217	533
Japan	392	412
World Bank Group	421	408
Germany	165	332
France	177	288
Serbia	—	234
Others	1,446	1,772
Total cash contributions	**5,214**	**7,334**

Note: All figures are reported on a cash basis, unlike previous reports in which some were reported on an accrual basis. Fiscal 2006 figures have been restated accordingly.

Cofinancing

Cofinancing is any arrangement under which funds from the Bank are associated with funds provided by sources outside the recipient country for a specific lending project or program. In fiscal 2007, 130 Bank projects leveraged $6.3 billion in cofinancing. Major cofinanciers were the United Kingdom's Department for International Development ($1 billion) and the African Development Bank ($0.6 billion). The regions that benefited the most were Africa ($3 billion), the Middle East and North Africa ($1.1 billion), and South Asia ($1 billion). Energy and Mining; Health, Nutrition, and Population; and Transportation received $1.8 billion, $1.1 billion, and $0.8 billion, respectively. Multilateral agencies contributed $2.4 billion in cofinancing.

Enhancing World Bank–IMF Collaboration

Although there are many examples of good collaboration between the Bank and the International Monetary Fund, room remains for further improvement according to a report released in February 2007 by the External Review Committee on IMF–World Bank Collaboration. Its main recommendations are to strengthen the culture of collaboration between the two institutions, to promote cooperation in crisis management, to improve integration and harmonization of work on fiscal issues, to better coordinate technical assistance undertaken by the institutions, and to continue to improve collaboration and clarify roles in financial sector development.

COOPERATION ACROSS THE WORLD BANK GROUP: IMPROVING THE INVESTMENT CLIMATE

The Foreign Investment Advisory Service (FIAS) plays a lead role in the Bank Group's work on the business environment. In February 2007, FIAS welcomed MIGA's team and technical assistance programs as part of an integration approved by MIGA's Board of Directors. Funded by IFC, MIGA, the World Bank, and external donors, FIAS promotes investment (domestic and foreign) by helping countries improve their business climates.

Due in part to FIAS' efforts in Sierra Leone, average business registration costs there were reduced from $1,500 to about $50. In Kenya, 110 business licenses were eliminated in 2006, and the government has committed to eliminating over 300 more following advice from FIAS. After three years of collaboration with FIAS and IFC, China and Vietnam each passed legislation that will improve access to credit for small businesses.

The Aceh Investor Outreach Office, a joint IFC and FIAS project launched in March 2007, has assisted more than a dozen potential investors to date. The outreach office acts as a gateway to Aceh for foreign and domestic investors, providing companies with information, contacts, advice on regulatory requirements, and policy advocacy. (See **www.fias.net**.)

THE WORLD BANK GROUP

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Established 1944 | 185 Members

Cumulative lending: $433 billion*

Fiscal 2007 lending: $12.8 billion for 112 new operations in 34 countries

*Effective fiscal 2005, includes guarantees.

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 to offer clients good borrowing terms.

IBRD KEY FINANCIAL INDICATORS | FISCAL 2003–2007

MILLIONS OF DOLLARS

	2003	2004	2005	2006	2007
Operating income[a]	3,021	1,696	1,320	1,740	1,659
Loans outstanding	116,240	109,610	104,401	103,004	97,805
Total assets	230,062	228,910	222,008	212,326	208,030
Total equity	37,918	35,463	38,588	36,474	39,926

a. Reported in IBRD's financial statements as net income before Board of Governors–approved transfers and net unrealized (losses) gains on nontrading derivatives and borrowings measured at fair value, per Financial Accounting Standard No. 133 as amended.

THE INTERNATIONAL DEVELOPMENT ASSOCIATION

Established 1960 | 166 Members

Cumulative commitments: $181 billion*

Fiscal 2007 commitments: $11.9 billion for 189 new operations in 64 countries

*Effective fiscal 2005, includes guarantees.

IDA provides highly concessional financing to the world's 82 poorest countries. IDA's interest-free, long-term credits and grants—financed by contributions to IDA from donor countries, IBRD's net income transfers, and IDA's credit reflows—are vital because these countries have little or no capacity to borrow on market terms. IDA's resources help support country-led poverty reduction strategies in key policy areas, including raising productivity, providing accountable governance, building a healthy investment climate, and improving access to basic services, such as education and health care.

IDA KEY FINANCIAL INDICATORS | FISCAL 2003–2007

MILLIONS OF DOLLARS

	2003	2004	2005	2006	2007
Operating income (loss)	108	(1,684)	(986)	(2,043)	(2,075)
Development credits outstanding	106,877	115,743	120,907	127,028	102,457
Total sources of development resources	119,454	127,930	130,378	102,871	111,330

THE INTERNATIONAL FINANCE CORPORATION

Established 1956 | 179 Members

Committed portfolio: $25.4 billion (IFC's account), plus $5.5 billion in syndicated loans

Fiscal 2007 commitments: $8.2 billion committed and $3.9 billion mobilized for 299 projects in 69 countries

IFC invests in sustainable private enterprises in developing and transition countries without accepting government guarantees, thereby helping to reduce poverty and improve people's lives. It provides equity, long-term loans, advisory services, and structured finance and risk-management products to clients. IFC seeks to reach businesses in regions and countries that have limited access to capital. It provides financing in markets deemed too risky by commercial investors in the absence of IFC participation, and it adds value to the projects it finances through its corporate governance, environmental, and social expertise. IFC partners with IBRD, IDA, and MIGA on private sector initiatives.

IFC KEY FINANCIAL INDICATORS | FISCAL 2003–2007
MILLIONS OF DOLLARS

	2003	2004	2005	2006	2007
Operating income[a]	528	982	1,953	1,409	2,611
Liquid assets, net of associated derivatives	12,952	13,055	13,325	12,730	13,269
Loans, equity investments, and debt securities, net	9,377	10,279	11,489	12,731	15,812
Total capital	6,789	7,782	9,798	11,076	14,130

a. Effective 2005, income after expenditures for advisory services, performance-based grants, and grants to IDA and before net gains (losses) on nontrading financial instruments.

THE MULTILATERAL INVESTMENT GUARANTEE AGENCY

Established 1988 | 171 Members

Cumulative guarantees issued: $17.4 billion*

Fiscal 2007 guarantees issued: $1.4 billion

*Amounts include funds leveraged through the Cooperative Underwriting Program.

MIGA provides political risk insurance (guarantees) to encourage foreign direct investment in developing countries. MIGA's guarantees protect investments against noncommercial risks, including expropriation, currency inconvertibility, breach of contract, and war and civil disturbance (including terrorism). The agency helps investors and governments resolve disputes that may adversely impact MIGA-backed investments, thus keeping projects on track. MIGA also advises countries on attracting foreign direct investment, and it provides a suite of online services offering free information on investment opportunities, business operating conditions, and political risk insurance. MIGA specializes in facilitating investments in high-risk, low-income countries, supporting complex infrastructure projects, and promoting investments between developing countries.

MIGA KEY FINANCIAL INDICATORS | FISCAL 2003–2007
MILLIONS OF DOLLARS

	2003	2004	2005	2006	2007
Operating income	38	26	24	17	49
Operating capital[a]	766	811	830	863	950
Net exposure	3,204	3,259	3,138	3,310	3,209
Net exposure in IDA-eligible countries	1,255	1,139	1,341	1,435	1,411

a. Shareholders equity plus insurance liability and prudential reserves.

THE INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

Established 1966 | 144 Members

Total cases registered: 236

Fiscal 2007 cases registered: 26

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.

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