



DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)



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NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached for the information of the Members of the Development Committee is a Note from the President of the World Bank, James D. Wolfensohn, for the Committee's September 25, 2000 meeting.

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President's Note to the Development Committee

Let me take this opportunity to express my gratitude to Tarrin Nimmanahaeminda, Minister of Finance from Thailand, who served so skillfully as Chairman of the Development Committee this past term. May I also offer a warm welcome to our new Chairman, Yashwant Sinha, Minister of Finance from India. I would also like to say how pleased I am to welcome Horst Koehler with whom I am looking forward to continued close collaboration.

Since this is the first occasion I have had to report to you in my second term, I wanted in this note to review developments over the entire last five years, highlighting a few, although of course not all, key areas of our work over this period.

This five year period has seen a broadening of the development agenda to reflect our improved understanding of poverty and its causes. Our "Voices of the Poor" study underscored that the experience and determinants of poverty are multi-dimensional. A better quality of life for poor people requires not only higher incomes; it also calls for individual security and empowerment; improved and more equitable opportunities for education and jobs; better health and nutrition; a cleaner and more sustainable natural environment; a well-functioning judicial and legal system; greater civil and political liberties and freedom; and a richer cultural life. We are now using this understanding to implement our core mission of reducing poverty.

This is an extensive agenda both for developing countries and the international community. The key to giving it focus is the approach that underlies the Comprehensive Development Framework (CDF) – which encompasses these lessons and brings the agenda together at the country level, helping each country identify its priorities. It places countries at the center of the development process, with the Bank and other partners assisting with financial resources, knowledge and information. This enormous task also requires close partnership with other key actors to divide our labor, avoid duplication, and exercise selectivity to work in our areas of comparative advantage.

Since 1996, the Bank has gone through an intense process of change and renewal, which has focused on internal efficiency and external effectiveness. The efforts to become more streamlined and client-oriented have required tremendous personal commitments from both management and staff. I am grateful to both for their devotion and efforts. I would also like to thank the Executive Directors for their support.

I. Poverty Reduction, Comprehensive Development, and Debt Relief

A Sharper Focus on Poverty Reduction

Over the last five years, we have made great strides in making our mission of reducing poverty absolutely central to our work. Our knowledge base on poverty is strong, with 58 poverty assessments completed in five years, and survey data on income poverty is now available for 113 countries. Our World Development Report 2000/2001, released this month, shows how poverty can be reduced through a comprehensive approach that promotes opportunity, enhances security, and facilitates empowerment. We are also listening attentively to poor people themselves; we have conducted participatory poverty studies in 81 countries, including 23 countries covered by our 'Voices of the Poor' study. Our Country Assistance Strategies (85 percent of which are now or soon to be disclosed) have a stronger poverty focus now than in the past, with better links between analysis and strategy, design and implementation.

Although the Bank has become more focused on its objective of reducing poverty, the track record is mixed. Where committed governments have acted decisively with support from donors, including the Bank, the incidence of income poverty has declined and social indicators have improved. But many other countries have experienced little or no progress in meeting their poverty reduction goals: most notably the transition countries of the former Soviet Union; those countries enmeshed in conflict; and those countries whose growth has been stalled by natural disasters.

Countries hit by the financial crisis of 1997 and its ripple effects have experienced an increase in income poverty and a deterioration in living standards. However, the impact was less catastrophic than feared, in part, due to the safety net mechanisms set in place by governments, with support from development partners.

And the global poverty challenge moving forward is a daunting one. Of the population of 4.8 billion in developing countries, 1.2 billion live on less than \$1 a day. Approximately 2.8 billion live on less than \$2 a day, and in Sub-Saharan Africa, that translates to 75 percent of the population. The expected population growth of 2 billion in the next 25 years (97 percent of that growth in developing countries) compounds the poverty challenge.

So, the fight against poverty is, in part, a race against time. We are better fortified now than we were five years ago, thanks to some of the new approaches and initiatives we have initiated to support country development.

Supporting Country Development: The Comprehensive Development Framework

At the center of our work is the holistic, country-driven approach to development presented in the Comprehensive Development Framework (CDF). As maintained in the paper, "Supporting Country Development," Bank Group support for countries is now based primarily on CDF principles: that is, asking countries to take the driver's seat and promoting cooperation and coordination among donors, the private sector, and civil society. This coordination allows for strategic selectivity which reduces wasteful competition, supports prioritization and emphasizes concrete results. The CDF approach recognizes the broad spectrum of change necessary for successful development and acknowledges that support for the structural, human, environmental, and socially-sustainable aspects of development is as essential as sound macroeconomic policies.

The World Bank Group has thus focused on helping partner governments enhance growth and improve the well-being of poor people through: (a) support for a well-functioning and supervised financial system, (b) good and clean governance (including corruption control), (c) an effective legal and justice system, (d) social safety nets and social programs, (e) education and knowledge institutions, (f) health and population policies, (g) infrastructure, and (h) creating a sustainable environment. The CDF approach also recognizes that private sector-led growth is a key driver of poverty reduction. As a public institution, we can help client countries build a solid social and structural foundation, creating a policy environment that attracts private sector investment and allows governments to borrow on a sustainable basis on appropriate terms from private markets. It is through these efforts, on which I will report to you in the following pages, that we continue to support the fight against poverty.

The Comprehensive Development Framework is now being implemented on a pilot basis in 12 countries. Even more encouraging is the way that this broad-based approach is being followed in additional, non-pilot countries. The report I presented to you, "Comprehensive Development Framework- Country Experience March 1999 – July 2000" shows that although the

pace of progress inevitably varies from country to country for what is a demanding process, it is clear that success also hinges on political and social circumstances, including the willingness of key development agencies (as well as the Bank) to change their culture and practices.

In low income countries eligible for IDA assistance, the CDF/PRSP approach represents the core of our strategy at the country level. Now, based on the CDF principles of government ownership and partnership, countries draw up Poverty Reduction Strategy Papers (PRSPs), which puts poverty reduction squarely at the center of countries' development strategies and partners' assistance programs. The PRSP Initiative emphasizes the strengthening of poverty-related public expenditures. Consistent with the notion that a country should design, execute and monitor its poverty reduction strategy, tracking of poverty-related expenditures should be the responsibility of the country which, for most PRSP countries, will require improvements across budgetary and financial management practices. The World Bank and the IMF will work jointly with other development partners to help countries establish country-specific mechanisms to track budget allocations and execution on the basis of existing systems.

There has been good support for the program in the one year since its inception, and as of mid-September 2000, the Boards of the Bank and the Fund have considered 13 country-owned Interim PRSPs (I-PRSPs) and two full PRSPs (Burkina Faso and Uganda). By the end of fiscal 2001, we tentatively expect that over 35 more countries will have completed I-PRSPs and 9 or more will have prepared full PRSPs.

Debt Relief: Highly Indebted Poor Countries Initiative (HIPC)

One year ago, this Committee endorsed an ambitious new approach to end the debt crisis in Heavily Indebted Poor Countries (HIPCs) by making debt relief under the HIPC Initiative “deeper, broader and faster” and by ensuring that debt relief in HIPCs, and concessional assistance to all poor countries, is effective in reducing poverty.

Although challenges remain, the program is evolving effectively: 10 countries have reached their decision point under the enhanced HIPC Initiative, thereby qualifying to begin receiving relief. Moreover, while much will depend on internal country factors, work is progressing favorably to enable us to meet our objective of having agreements in place for 20 countries by the end of the year. These packages are projected to result in combined debt service relief (original and enhanced HIPC assistance) for well over \$30 billion, or more than 60 percent of the entire program.

In May 2000, the Bank and the Fund established the Joint Implementation Committee to improve Bank/Fund coordination for the HIPC Initiative and PRSP program. In addition, a new Poverty Reduction Support Credit is being developed for low income countries as a counterpoint to the Fund's Poverty Reduction and Growth Facility.

Close coordination among HIPC creditors has been crucial. The majority of bilateral creditors have confirmed their participation and many have pledged relief beyond that required under the enhanced HIPC framework. At the same time, a number of other creditors have yet to confirm their participation in the Initiative. It is important that all bilateral creditors provide the needed debt relief in order for eligible HIPCs to achieve a lasting exit from unsustainable debt.

There has been steady progress regarding the participation of multilateral HIPC creditors. To date, multilateral development banks representing over 95 percent of the multilateral exposure to HIPCs have confirmed their participation in principle in the enhanced HIPC Initiative. To help

meet the costs of multilateral creditors, bilateral donors have pledged or contributed approximately \$2.6 billion to the HIPC Trust Fund—of which nearly \$750 million has already been paid-in. In addition, in August Executive Directors recommended the transfer of an additional \$250 million to the World Bank component of the HIPC Trust Fund; this comes on top of the \$1,050 million already contributed by IBRD to help finance the provision of relief on IDA debts.

II. Institutional and Policy Framework

Improving Governance and Fighting Corruption

Fighting corruption and improving governance have become central themes of the Bank's work over the past five years. The Bank's overall strategy, "Helping Countries Combat Corruption: The Role of the World Bank," was approved by the Board in September 1997. The progress to date is summarized in a new publication entitled "Helping Countries Combat Corruption: Progress at the World Bank Since 1997." The challenge of anticorruption and public sector reform spans many sectors. Working in cooperation with stakeholders from civil society, the media, parliament, reformists from the executive and the private sector, our contributions include diagnostic work and agenda-setting, toolkits, training and learning programs, and financial and technical support for institutional and public sector reform.

Since 1996, the Bank has begun over 600 governance-related programs and initiatives in over 95 countries, and we are currently supporting significant programs of governance and public sector reform in over 50 client countries.

Legal and Judicial Reform

Over the past five years, the Bank has significantly increased its support for the development of fair and efficient legal and judicial systems, deemed vital for sustainable economic development and equitable poverty alleviation. We are assisting numerous member countries, particularly in transition or in financial crisis, in making their laws, in such areas as corporate governance, insolvency and capital markets, sound and transparent. To foster fair and effective enforcement of the laws on the books, we are also helping countries to develop an independent judiciary, free of corruptive influences, administered with professionalism and backed by enforcement powers. Recognizing that there is no one-size-fits-all solution, there are now 15 free-standing projects in four regions, and nearly 20 more in the pipeline, each relying on the long-term and unwavering political commitment of the client government.

This year, the Bank has initiated a Law and Justice Network that will bring renewed intellectual leadership and allow us to consolidate and coordinate the experience, knowledge and programs across the Bank and among our many external partners in this growing area. We launched the Network with the Bank's first-ever global conference on Comprehensive Legal and Judicial Development, in which more than 80 countries were represented by ministers of justice, supreme court judges, civil society and other key stakeholders in the building of a fair and just society.

Strengthening the International Financial Architecture

The Bank's effort at strengthening the international financial architecture has been inextricably linked to increasing the robustness of the underlying financial and economic systems of its client countries. The Bank is contributing to this effort in three ways: (a) supporting the

development and dissemination of international accounting standards and best practices relevant for developing countries; (b) helping countries to identify sources of vulnerability; and (c) strengthening countries' capacity to benefit from integration with the international financial system.

Through partnerships, progress has been achieved on a range of activities. With the Fund, the Bank is involved in (a) the Financial Sector Assessment Program (expanded from 12 countries a year in the pilot phase to 24 today); (b) a Report on the Observance of Standards and Codes; (c) preparing and finalizing detailed methodologies for the assessment of corporate governance and accounting; and (d) draft guidelines for public debt management. The Bank is collaborating with the Organization for Economic Co-Operation and Development (OECD), through a series of roundtables and a global forum, to foster dialogue and strengthen support for good corporate governance.

In addition, the Bank is concerned with managing the social dimension of economic crises, and how to mitigate the social costs of economic shocks. The Bank is contributing to Asia-Pacific Economic Cooperation (APEC) initiatives, which involve formulating the principles and guidelines on social safety nets and enhancing the private-public partnership to promote sound accounting and auditing practices.

III. Human Development

Health, Nutrition, and Population (HNP)

The Bank continues to make human development central, reflected by our increased lending in the social sectors. In particular, the health and nutrition of poor people is a high priority. We are the single largest source of health financing for low- and middle-income countries: new commitments average over \$1 billion a year, with over \$16 billion invested in HNP since the 1970s. In 2001, much of our new lending will be directed towards the battle against communicable diseases. We continue to support a wide range of partnerships, such as Roll Back Malaria, Stop TB, the Tobacco Free Initiative, the International AIDS Vaccine Initiative, and the Global Alliance on Vaccines and Immunization (GAVI). In addition, the Bank collaborated with WHO, UNFPA, and UNICEF last year to raise awareness and mobilize resources to ensure the safety of pregnancy and childbirth for all women, and to dramatically reduce maternal mortality rates from their present rate of one maternal death every minute.

HIV/AIDS

In the last five years, the Bank has assumed an important leadership role in the global fight against HIV/AIDS. During fiscal 1996-00, the Bank committed approximately \$493 million for new HIV/AIDS components and stand-alone projects in 39 countries. The Bank Board of Directors recently approved a Multi-Country HIV/AIDS Program (MAP) for Africa, to commit an initial amount of US\$500 million in flexible and rapid funding over the next three years for individual HIV/AIDS projects developed by countries, using standard IDA credit agreements. Equally important is the provision of technical and policy advice to our clients, and knowledge-sharing through modern technologies.

Education

Since the first Global Education Conference in Jomtien, Thailand, in 1990, the number of children in school in developing countries increased from 600 to 700 million. Yet, providing

universal basic education has proven more difficult than we had assessed it would be. Ten years after Jomtien, there are still 125 million children out of school and more than one billion adults who are illiterate, two thirds of whom are women. Reasons for this shortfall are many – lack of government commitment, resource constraints, population growth outpacing governments’ ability to expand education provision. The Bank is strengthening its commitment to education by proactively supporting those governments that are committed and ready.

Accelerating Education For All (EFA) in a more integrated education system, with synergies between its different levels, means we can no longer do business as usual. The quality and quantity of this investment with clear outcomes should be a priority, national plans matched by global initiatives have to be pursued. The entire development community must support education reform to strengthen action that would accelerate the achievement of educational goals as agreed at the World Conference on Education for All held in Dakar, Senegal in April 2000.

Social Protection

Social protection has proved to be one of the most dynamic and best performing sectors. Lending for social protection-related activities increased significantly from fiscal 1992 to fiscal 1996-98, with a crisis-induced peak of \$3.5 billion in fiscal 1999 (or 12 percent of the Bank’s lending). Its explosive lending growth, the rise in analytical work, and the demand for knowledge products is the result of the increased emphasis that client countries are giving to social issues, and to the recent financial crisis that required rapid responses to cushion the adverse affects on society’s most vulnerable.

IV. Environment and Socially Sustainable Development

Social Development

In striving for social inclusion -- ensuring the consideration of all people, their cultures, and their organizations and institutions in the development process -- the Bank has strengthened its capacity to address social development. Through a process of social analysis and participation conducted in about half of the Bank’s investment operations, we are assessing social risks and opportunities. Through technical and financial assistance, we are supporting efforts to maintain cultural diversity and cultural heritage; we have financed over 50 projects in the past three years, including stand-alone projects on culture and those projects with cultural components.

Environment

Over the last five years, the World Bank Group has adopted a fresh approach to the environmental agenda. We are moving forward particularly in natural resources management with a new forest policy and a water resources working group; we are mobilizing funds for activities under the Desertification Convention (through the so-called Global Mechanism); and we will present a new corporate environment strategy to the Board in early 2001 after thorough consultations with civil society, governments, and other stakeholders.

We are currently approaching 100 percent satisfactory quality-at-entry on environmental aspects of projects, and over the past two years we have made strides in promoting new partnerships with nongovernmental groups (NGOs) through such initiatives as the World Bank-Worldwide Fund for Nature (WWF), Alliance for Forest Conservation and Sustainable Use, and through drawing up good practice guidelines to help Bank borrowers deal with pollution. Also, in our effort to protect developing countries from the impact of climate change, the Bank

launched the Prototype Carbon Fund (\$145 million consisting of 6 governments and 17 major private corporations) in April 2000 to create a global market in project-based greenhouse gas emission reductions in the framework of the United Nations Framework Convention on Climate Change (UNFCCC) and its Kyoto Protocol.

Urban and Rural Strategy

Our urban strategy over the past several years has had to respond to increasing pressure from the concentration in urban areas of 50 percent of the world's population; almost half of those living in urban areas in developing countries are poor. In fiscal 1995-99, urban annual commitments averaged \$0.9 billion (4 percent of total Bank lending), for about 14 projects a year. The pipeline for fiscal 2001-02 anticipates an increase to \$1.7 billion (22 projects) per year. Nonlending (advisory, capacity-building, and technical assistance) products have grown from an annual average of 13 in fiscal 1995--99 to 28 in fiscal 2000.

To meet this operational challenge, our urban staff and their Thematic Groups created a new Global Urban and Local Government Strategy (Cities in Transition); a Cities Without Slums Action Plan, which is a call for the improvement of conditions of over 100 million slum residents in the next 20 years; the Cities Alliance in partnership with the United Nations Center for Human Settlements UNCHS/Habitat (the City Development Strategies (CDS)); and knowledge sharing through the mayors' page for the Global Development Gateway.

In terms of our rural strategy, our starting point is the fact that 70 percent of all people living on less than \$1 a day live in rural areas. In 1997, the Bank began to refocus its support for agricultural development to encompass a broader approach to rural development. With an emphasis on building thriving agricultural economies, the rural strategy, which was laid out in a book entitled "From Vision to Action," helped to revitalize the Bank's support for agricultural development. Bank lending for agriculture remained steady at about 15 percent of the Bank's lending from fiscal 1990-94, but declined to about 10 percent in fiscal 1995-96. After recovering to 19 percent in fiscal 1997, it dropped again to 7 percent of Bank lending in fiscal 2000.

Supporting our approach to rural and urban issues, there has been a shift in infrastructure sector activities over the past five years to extend beyond system expansion that supports economic growth. Infrastructure projects increasingly embrace linkages to poverty reduction of access and affordability, fiscal sustainability, reliability, improved governance and regulation as well as reducing adverse environmental and health impacts.

V. Response to Post-Conflict Situations and Natural Disasters

Post-Conflict Situations

Over the last five years, our work in post-conflict related activities has grown significantly, as exemplified by our role in West Bank and Gaza, Sierra Leone, Bosnia and Herzegovina, and, more recently, East Timor. To coordinate policy and quality in this area, the Bank has established a Post-Conflict Unit (PCU) and a Post-Conflict Fund (PCF) that forges new partnerships with key organizations active in the nexus between relief and development.

We have provided technical and financial assistance to some 35 countries, and we have mobilized \$21 million in grants (65 projects in 25 countries) since the inception of PCF in 1998. At the policy level, the Bank is currently revising its operational policy for conflict-affected countries to enhance the effectiveness and flexibility of country teams in such contexts. We all

recognize, however, that conflict continues to take a terrible toll, and that the international community needs to find stronger ways of preventing conflict and reinforcing the transition to peace and reconstruction. Together with our colleagues in the Fund, we are therefore taking a fresh look at issues of financing in particular, and expect to be able to report back to you in the Spring.

Natural Disasters

Since 1980, the number and scale of natural and technological disasters have increased, resulting in significant human and physical loss. In five years, we have lent more than \$5 billion to help countries rebuild after disasters; the twenty years of lending for reconstruction and disaster mitigation since 1980 totals more than \$23 billion: The Bank is the largest provider of reconstruction assistance.

In 1998, we established the Disaster Management Facility (DMF) to promote proactive disaster prevention and mitigation. We have forged partnerships and coalitions through the ProVention Consortium (launched in February 2000), that have enabled us to begin to generate evidence and analysis of the economic and financial impacts of disasters on long-term development; to develop methodologies and standards for conducting damage and needs assessments following a disaster; and to examine innovations in risk transfer and financing to see how they can help poor people.

VI. Knowledge, Learning and Information Communication Technology

Knowledge and information communication technologies (ICTs) are central to the expansion of any economy, especially to those of poorer countries where knowledge and connectivity gaps are so large. We at the Bank have embraced the knowledge and computer revolution, and we are now working to design a digital development architecture to harness knowledge and connectivity to leverage development. We continue to work to become a Knowledge Bank with an efficient internal and external communications network.

In our vision of knowledge for all, we are realigning our development efforts and forging new global partnerships in a four-pronged program: (1) supporting an enabling environment with pressing analytical, policy reform, and investment; (2) building human capacity to meet the requirements of the knowledge revolution; (3) expanding connectivity and access; and (4) supporting research, networking, and communities of practice.

We are fostering policy, regulatory, and network readiness through our grant facility, infoDev. We are linking students and teachers in secondary schools in developing countries with their counterparts in industrialized countries through our World Links for Development program. We are using modern ICTs to spread learning and access to global academic faculty and learning resources through our African Virtual University. Through the World Bank Institute, the reach and impact of the learning program has gone from 7000, direct participants in 1996 to 37,000 in 2000. And we are sharing information and building communities of development practice through the Global Development Gateway and the Global Development Network. All of this technological expansion rests on the foundation of human capacity that we continue to support through our education, training and research programs.

And finally in terms of our research activities, we are studying the process of development, building an understanding of the key factors that determine poverty, and identifying effective policies for overcoming poverty. The development ideas that the Bank generates grow

out of our experience in scores of countries over fifty-five years, while also drawing on the best of outside development research from around the world. Our position of intellectual leadership has enabled us to engage vigorously in the global debate on development -- whether on strategies for poverty reduction, causes of social conflict, or approaches to confronting AIDS.

VII. Partnerships and Participation at the Global, National, and Local Levels.

At the global level, our single most important partnership remains with our fellow Bretton Woods institution, the IMF. In recent years we have steadily strengthened our partnership and developed new ways to work together; for example, in the financial sector, our support of debt relief, and the strengthening of the global financial architecture. Horst Koehler and I recently presented our joint vision of how these two institutions can enhance our partnership, based on shared objectives and principles, separate but interlinked mandates, and a clear sense of the complementarities of our two institutions. We are committed, as partners, to increasing our effectiveness in reducing world poverty, to increasing growth, and to strengthening global financial stability.

During the past five years, the World Bank has also joined with many other global partners in the fight against poverty in order to divide our labor, avoid duplication and exercise selectivity in our areas of comparative advantage. We are not only working with the other multilateral development banks and the U.N., but also, for example, with the World Wildlife Fund (WWF) to protect forests; with Conservation International (C.I.) to protect the world's biodiversity; with donors, multilateral financial institutions and the microfinance industry through the CGAP – the Consultative Group to Assist the Poorest with microcredit; with FAO and UNDP through the Consultative Group on International Agricultural research; and with WHO and the Global Alliance for Vaccines and Immunizations (GAVI) on the fight against HIV/AIDS and communicable diseases.

Through these partnerships at the global level, we are working with others to provide “global public goods,” in a number of key areas: promoting improved economic governance; curbing the spread of communicable diseases; preserving and protecting environmental resources; and creating and sharing knowledge. A note on global public goods has been distributed to the development committee.

At the country level, we continue to strive for greater stakeholder participation in our Country Assistance Strategies (CASs); in fiscal 2000, all full CASs were prepared with civil society consultation. Today, civil society is involved in more than 70% of our projects compared to less than 50% in 1996. The same applies to country-owned PRSPs that draw involvement at the local, national, and international levels, and will provide the framework for our concessional assistance.

Finally, over the last five years, we have worked in partnership with different levels of society forging a more participatory approach to our work. We now have 63 Bank NGO/Civil Society Specialists in 60 countries, which has given us a better understanding, and better collaboration, with other multilaterals, the private sector, foundations, religious groups, governments, donors, NGOs, and other civil society organizations. Despite this progress, however, we still face major challenges in partnering with others and we will continue to strive to do more.

Community-Driven Development

In the last five years, the Bank has expanded its work in community-driven development programs and projects in an effort to enable poor people to be drivers in their own development. The Bank has facilitated this effort by transferring funds to community groups so that they can invest in their own development priorities, by providing access to information so that citizens can make informed investment decisions and engage in entrepreneurial activities.

VIII. Supporting Private Sector Development

In the past five years, we have expanded our work with the private sector, who plays a key role in helping developing countries accelerate the transition from public sector--led to private investment--driven development growth and development. This transition requires an enabling environment for private sector development, support of the privatization process, the presence of programs in support of private enterprises (in particular, Small and Medium Enterprises and microenterprises), efficient domestic capital markets, external capital flows, and the prevention of financial crises.

In order to promote this transition more effectively, we have implemented, since January 2000, far reaching structural reforms aimed at improving the internal coordination of our private sector development activities and at broadening our impact by partnering with others and improving internal coordination. To improve our advisory services on frontier issues, we have set up a new Private Sector Advisory Services Department, which integrates IFC's Corporate Financial Services Department, the Bank's Private Sector Development (PSD) Department, and the joint Foreign Investment Advisory Service. And to deepen our PSD impact, a new joint IFC/Bank SME Department has been established.

IFC

The IFC continues to encourage private sector investment by providing the private sector with information, knowledge, and support. The IFC has been pivotal in attracting smaller enterprises to higher risk markets, where entrepreneurs typically find it difficult to raise long-term finance.

The IFC, now present in 70 countries compared to just 25 in 1995, has sought to scale up its development impact through greater selectivity, enhanced partnership, and a stronger catalytic role. In five years, the number of operations approved for the IFC increased from 183 to 255, increasing the investment commitments from \$2.1 billion to \$2.8 billion. For the first time, clearly defined environmental, social, and disclosure policies and procedures have been established.

MIGA

In 1995, MIGA was still a small agency with an annual gross coverage of \$672 million, a capital base of \$1 billion, and a reserve base of \$9.9 million. Since then, MIGA's operations and capital base have expanded significantly. In 1997, the Development Committee approved a \$1 billion recapitalization package for MIGA, which was finalized with the Council of Governors in 1998.

Over the past five years, MIGA has focused more on IDA-eligible and African countries. In fiscal 1995, MIGA's gross exposure in Africa was 7.1 percent compared to 12 percent in 2000,

and the Agency had provided coverage to 39 projects in IDA-eligible and blend countries compared to a total of 105 projects today. Infrastructure projects, which accounted for 9.5 percent of the gross portfolio in 1995, have now grown to 27.9 percent of the portfolio.

MIGA has also increased its guarantee coverage from \$0.6 to \$1.6 billion, and has reviewed and implemented key operational policies including labor standards and environmental assessment and disclosure. MIGA has also developed cutting-edge Internet information dissemination services, along with a practical toolkit for the hands-on delivery of investment promotion skills, which has been deployed largely in Africa.

IX. IBRD Financial Capacity

During the last five years, the Bank has focused on reacting to rapidly changing development challenges (especially in times of financial market crises) while keeping its financial status sound. In response to unprecedented demand for financial support to protect development gains in the wake of financial crisis, we increased annual loan commitments by 50 percent in fiscal 1998 and fiscal 1999, to about \$21.5 billion. This was approximately \$7 billion higher than the levels recorded in fiscal 1996 and fiscal 1997. Although net disbursement quadrupled during the period, the Bank managed to live within its capital constraints. The Bank also rapidly developed new lending instruments (eg. ERLs, SSALs, LILs, APLs) to meet urgent client needs, and, adopted new loan prices to cover costs of doing business.

Since 1996, the Bank has revamped its entire line of financial instruments to better meet the needs of its borrowers. Between 1996 and 1998, the Bank helped borrowers convert \$67.2 billion of currency pool loans, or 58 percent of the total eligible for conversion, to the currency of their choice. Between 1997 and 2000, the Bank committed \$68.7 billion in new loans; and borrowers have selected new product terms on \$65.4 billion (95 percent of the total), meaning that they had full choice of currency and interest rate terms.

X. Operational Efficiency and Internal Organization

The Strategic Compact

Since 1997, the Strategic Compact, the Bank's plan for renewal and greater development effectiveness, has led to an increased emphasis on providing quality services, building partnerships, acting as a catalyst for public-private collaboration, and building capacity and knowledge for the institution--and for the entire development community. To perform these functions, we have instituted a wide range of policy reforms, human resources reforms, and a renewed focus on results in everything we do. As you know, I have reported regularly to the Board and to Ministers on progress under the Compact.

Today, at the end of the Compact period, there is no question that we represent a more decentralized (the number of staff in the field has nearly doubled in five years), diverse (increase in % of female higher level staff) and multi-skilled group of people. In addition, our operational quality has improved in terms of products and services.

Five years ago, a third of our projects and programs were not measuring up to the stringent standards expected from Bank-supported operations. By contrast, in 1999, according to the Quality Assurance Group (QAG), -- the watchdog we created in 1996 to help drive the Bank's quality agenda -- nine out of ten newly approved operations had sound designs, and eight out of ten were deemed satisfactory in terms of project supervision. Overall, the share of projects at risk

of not delivering "results on the ground" has been halved since the mid-1990s. With a portfolio of \$120 billion associated with some 1,800 ongoing operations, these improvements translate into billions of dollars in more effective lending.

At the same time, we have strived to respond to demands from clients for new projects and programs and have introduced an array of additional products and services—some of which are mentioned elsewhere in this note. For example: new lending instruments (e.g. Adaptable Program Loans, Learning and Innovation Loans); new financial products (e.g. Single-Currency Loans); and new diagnostic and analytical tools (Social and Structural Reviews, Country Policy and Institutional Assessments).

All this has been achieved within the Strategic Compact budgetary envelope, with the net administrative budget coming back down to FY97 levels in FY01. Given the large additional agenda that the Bank has taken on during the Compact period to respond to client needs and demands, meeting this budgetary objective is a major challenge—especially as we continue to strive for further improvements in the overall quality of our performance. Our staff have been magnificent in responding to the challenge posed by the Compact—to raise our game—and we strongly believe that it has helped to make the Bank a much more effective development institution. A full evaluation of the Compact is under preparation and will be discussed at the Board by the end of this year.