Office of the Executive Director
For:

Australia, Cambodia, Kiribati, Korea (Rep. of),
Federated States of Micronesia,
Marshall Islands (Rep. of), Mongolia,
New Zealand, Palau (Rep. of), Papua New Guinea,
Samoa, Solomon Islands and Vanuatu

Annual Report
Financial Year 2008-2009

September 2009
# Executive Summary


## CONSTITUENCY OFFICE

Office Developments

## POLICY ISSUES OF SPECIAL INTEREST TO THE CONSTITUENCY

- **Small States**
- **Fragile States**
- **Voice and Participation**
- **New Framework for Development**
- **IFC’s Strategic Directions – Creating Opportunity**
- **Financial Sector Strategy Implementation**

## BANK GROUP STRATEGY AND LEADERSHIP

- **World Bank Group Strategy**
- **Responding to the World Financial and Economic Crisis**
- **Vulnerability Framework**
- **Climate Change**
- **Medium-Term Strategy and Finances for FY10-12**

## OPERATIONAL AND STRATEGY ISSUES

- **Whistle-Blowing Policy**
- **Sustainable Infrastructure Action Plan and Implementation**
- **Internal Reforms**
- **Use of Developing Country Procurement Systems for Word Bank Procurement**
- **State-and Peace-Building Fund**
- **The World Bank Department of Institutional Integrity**
- **IFC Performance-Based Grant Initiative – Progress Report**
- **Changes in Senior Management**

## DEVELOPMENT RESULTS

- **Annual Review of Portfolio Performance FY09**
- **2009 Annual Review of Development Effectiveness**

## FUNDING DEVELOPMENT

- **Funding Envelopes**
- **IBRD – Net Income Allocation**
- **IBRD – Loan Pricing and New Instruments**
- **Capital Adequacy**

## IBRD/IDA FINANCES

- **Trends in the IBRD/IDA Lending Portfolios**
- **FY09 WB Administrative Budget**

## International Finance Corporation (IFC)

- **Operational Results**
- **FY10 Business Plan and Administrative Budget**
- **Crisis Response Initiatives**

## Multilateral Insurance Guarantee Agency (MIGA)

- **Operational Results**
- **FY10 Business Plan and Administrative Budget**
CONSTITUENCY COUNTRY DEVELOPMENTS
Australia ................................................................. 33
Cambodia ........................................................................ 33
Korea ............................................................................. 34
Mongolia ........................................................................ 35
New Zealand ............................................................. 36
Pacific Island Member Countries ............................... 37
Papua New Guinea ..................................................... 39

ANNEX 1
Constituency Office
Constituency Office Strategic Goals ........................................ 40

ANNEX 2
Constituency Office Staff & Travel
2008-2009 Constituency Office Staff ................................. 41
Constituency Office Travel: July 1, 2008 – July 31, 2009 .......... 42

ANNEX 3
Constituency Statements
- Hon. Wayne Swan, Mp Treasurer of the Commonwealth of Australia
  Development Committee Meeting, Washington, DC, October 12, 2008 ........... 43
- Mr. Michael Callaghan Executive Director of Macroeconomic Group,
  Australian Treasury, Development Committee Meeting, Washington, DC,
  April 26, 2009 ........................................................................................................ 44

ANNEX 4
Constituency Projects
Project Descriptions ................................................................. 46
Table of WBG Financed Projects to June 30, 2008 ...................... 49

ANNEX 5
Constituency Membership
Constituency Voting Share and Membership ............................. 50
Constituency Voting Record ......................................................... 51

Organizational Charts, World Bank, IFC and MIGA ................. end of report

Glossary ................................................................................. end of report

All monies expressed in US$ unless indicated otherwise
FY09 – refers to 1 July 2008-30 June 2009
EXECUTIVE SUMMARY

The constituency office maintained a strong focus on efforts to improve Bank strategies that emphasize governance, accountability, delivery and on operational policies to strengthen its outreach and decentralization program. At the same time, we continued to actively represent the interests of our member countries both at the Board level and in liaison with World Bank Group (WBG) staff. Additionally, our office has been instrumental in furthering better understanding between the Bank and the constituency members and in improving their relations with the WBG. These activities are important for enhancing the role of the constituency office which we will endeavor to further strengthen in the coming years.

Constituency Office

In the past year we have worked closely with the Bank Management in developing new strategies, themes and policy changes. We have also worked closely with them on operational matters, especially where the interests of our constituency members are concerned. With the Board’s fiduciary role, our office - led by the Executive Director - has been actively involved in policy reforms to improve the Bank’s efficiency, accountability and other institution strengthening policy reforms. Through these channels, we pursued increased Board vigilance to enhance the Board’s fiduciary role. Our office has been a leading advocate in strengthening the Board’s role in guiding Management to sharpen policies which enhance the Bank’s focus on developing countries, particularly small developing members such as our Pacific member countries.

During the year, our office made every effort to ensure improved communications with our constituency members and provide feedback on various issues of interest to them. To enhance this important mandate of the office, we maintained open communication lines with our capitals and have followed an active visitation program to the constituency members. As a result, the year has seen renewed engagement at the Bank’s senior management level with our constituency members.

Policy Issues of Special Interest to the Constituency

Our constituency office is one of a few Chairs that continue to assert the case for special attention to small states and in highlighting the particular development challenges of small states at the Board. The Bank is a strong supporter of the Small States Network (SSN). However, much more would be achieved if the members themselves mount a consistent and united effort to advance the interests of small states in the development community at large.

The issues of fragile and conflict-affected countries have been given added prominence in the Bank since President Zoellick’s selection of “fragility and conflict” as one of six strategic themes for the Bank’s work. To that end, under the Bank’s Policy for Rapid Response to Crises and Emergencies, it continues to improve the coherence and quality of the Bank’s assistance to fragile and post-conflict states.

The call for increased voice and participation for developing and transition countries (DTCs) of the WBG gained momentum during the past 12 months. Since November 2008 affirmative steps have been taken to achieve that. While there is consensus on the objective, reaching it still requires decisive action by the shareholders. The Bank will make a progress report during the 2009 Annual Meetings.
The Voice Secondment Program (VSP) is becoming an important conduit for mutual benefit to the member countries and the Bank. Feedback has demonstrated that not only does it benefit the developing countries and their officials who have the opportunity to observe and learn what the Bank does, but it also brings individual perspectives and experiences to bear in helping the Bank to understand its clients better. We have received six nominations for the 6th Cohort of the VSP, out of which two have been selected. We will continue to solicit candidates from the developing members of the constituency for future VSPs and would encourage them to submit nominations to the program.

The “Growth Commission” report, which was released last year, confirmed the centrality of economic growth as the means to achieve poverty reduction and the Millennium Development Goals. However, this discussion is still evolving which may develop into a new framework for development.

The International Finance Corporation’s (IFC) strategic priorities for the East Asia and Pacific in terms of its advisory and investment operations have put emphasis on three themes, namely: (i) focus on International Development Association (IDA) countries, (ii) lead regional efforts to mitigate climate change; and (iii) promote inclusive growth and rural development in middle-income countries where the majority of the region’s poverty is concentrated. Within this strategy, the current economic context requires that IFC focuses on the financial soundness of existing investment portfolio clients. IFC’s crises response initiatives have yet to be fully implemented. We continue to monitor action on these initiatives.

Our office played a leading part in enhancing Board efforts to reinvigorate the Bank’s approach to the financial sector, bedding down the new Financial Sector Strategy. The WBG assistance to the financial sector has increased substantially over the last two years. We continue to monitor the application of the Financial Sector Strategy in the Bank’s Country Assistance Strategies (CASs) and programs. We will also seek to ensure that the financial sector receives adequate attention in the preparation of the Bank’s Strategic Framework and the Annual Budget.

World Bank Group Strategy and Leadership

In last year’s Annual Report, we outlined President Zoellick’s new strategy for the WBG. While the President’s six strategic themes provide a useful overview of the Bank’s priorities, the events over the last 12 months saw internal work on fleshing out the strategy take something of a backseat. Meanwhile, the Bank’s engagement with middle-income countries has improved.

The WBG continued its efforts to help address developing country needs through a range of means including financial, analytical and technical assistance resources and policy advice; and leveraging financial support from a variety of public and private sources. The evolution of the external environment in the coming months will be critical for developing countries, and in particular for low income countries with limited fiscal capacity. In light of the deepening crisis, and the increasing demand on WBG resources, this has led to concerns in the Board over the financial capacity of the International Bank for Reconstruction and Development (IBRD) and IFC, including capital adequacy.

Nevertheless, the WBG has stepped up its financial assistance to help developing countries minimize the disruption to ongoing development programs and projects from the global economic crisis. The IBRD nearly tripled its lending in FY09. Fast-disbursing Development Policy Loans (DPLs) now comprise about 45 percent of the overall total for FY09. IBRD is also assisting developing countries to assess the social and structural sources of vulnerability, address
underlying policy and institutional weaknesses, and manage the response to the consequences from the global crisis.

The WBG’s Vulnerability Framework is an important vehicle for the Group’s strategy to address emergency situations. The framework has extended beyond the Global Food Crisis Response Program (GFRP) which was discussed in last year’s Annual Report. Under this “banner” IFC has also established several initiatives to deal with issues on the investment and private sector development front.

The Bank recognizes that climate change is “a cross-cutting issue with implications for agriculture, forestry, biodiversity, transport, infrastructure, water, health and sanitation, resource management and urban development”. It is, therefore, central to sustainable development and poverty alleviation. Accordingly, the WBG continues to play a leading role in addressing the impacts from climate change. Our office is aware of the growing concerns raised over the years, especially by our Pacific Islands members. We will continue active liaison with Bank staff and express these concerns at the Board.

The impact of the food and energy price shocks, along with the economic crisis has overshadowed discussions on medium term strategy. The context of current discussions has been to provide assistance to developing countries that maintain gains already made and to position countries for a return to growth - through investments in social and physical infrastructure. This has led to a significant increase in budget support initiatives.

A result of the WBG response has been to bring the levels of sustainable growth in the group under closer scrutiny. IBRD has made a draft proposal for a capital injection of between $6.8 and $11 billion. This is based on a projection of lending over $100 billion for the period 2009-2011 and then sustaining lending of around $15 billion until 2019. The range in the capital injection reflects the possible track of the economic crisis and its impact on IBRD countries.

The IFC is also making an argument to increase its equity. The fall in the value of its equity holdings and resources devoted to crisis response have led it to argue that it requires an increase in equity of between $2.5 and $5 billion. This would allow IFC to make additional commitments of between $7.5 and $15 billion (growth of between 7 and 10 percent per year).

**Operational and Strategy Issues: Transparency and Effectiveness of the WGB**

**Transparency**

During the past year, further actions were taken to improve transparency. The new policy – which was drafted based on extensive consultations both externally and internally - is a key component of ongoing efforts to safeguard the integrity and effectiveness of the WBG. It is fundamental to how the Bank operates and its international reputation. When fully implemented, the Bank’s new policy would exceed the whistle-blowing standards set up both under the UN policy and other MDBs. The WBG would, no doubt, be on the leading edge in whistle-blowing protection among international organizations.

The Bank is undertaking comprehensive internal reforms to its business model to ensure effectiveness, transparency and accountability. Work is in progress to establish systems that would further strengthen existing governance and anti-corruption mechanisms. Our office has been and will continue to pursue these reforms through our Chair and to push the interests of our
Pacific member countries. We will intensify our call to Management to move forward with implementation in order to mainstream the use of country systems across the Bank.

The Department of Institutional Integrity (INT) made changes during 2009 to improve operations. This includes recruitment, closing sanction loopholes and improving communication with stakeholders. INT has also built in procedures to ensure it maintains clear communications with member countries, including briefing the constituency office when issues relevant to member countries arise.

The Bank’s approach to disclosure of Board records has been under the spotlight in recent times. In response, more tangible steps have been initiated. A new disclosure policy - which proposes certain changes to current policy and administrative approach to disclosure of Board records – has now been compiled following an extensive consultation process. The gist of the new policy is to treat disclosure of Board records in line with the Bank’s general disclosure policy. While some technical aspects of the proposal remain unresolved, already agreement-in principle has been reached. Our office is actively engaged in these discussions.

Except for a number of new senior appointments, all substantive appointments at Managing Director and at Senior Vice-Presidential levels remained unchanged during the year. Also, no changes were made to their respective duties and areas of responsibility.

Gender Equality

The WBG continued to pursue the objective of reaching gender equality in its operations and policies. To enhance this objective the Group launched the Gender Action Plan (GAP). Another initiative taken by the Bank is the Performance-Based Grants Initiative (PBGI). The PBGI provides funding to selected activities that are critical to developing countries. The period saw significant progress in terms of increased access to funding which resulted in substantial amounts having been committed and disbursed.

Promoting Rapid Response

During the year, the Post Conflict Fund and the Low-Income Countries Under Stress (LICUS) Trust Fund were amalgamated into a new one, the State- and Peace-Building Fund (SPF). That the Bank has set up funds which are dedicated to working on fragile and post-conflict issues is an indication of the Bank’s commitment under President Zoellick towards this need. The amalgamation of these funds is intended to fast track the Bank’s ability to provide rapid, innovative and flexible responses in post-conflict and fragile situations. The constituency office will continue to work with management to ensure the funds are used effectively for their intended purpose.

Infrastructure Investment

The global financial and economic crisis is affecting the provision and investment in infrastructure services in developing countries, as governments are faced with shrinking resources and private financing flows decline. Mindful of this concern, the WBG has established an Infrastructure Recovery and Assets Platform (INFRA) to bridge infrastructure financing, project preparation, and capacity gaps. The INFRA Platform also includes the Energy for the Poor Initiative, to expand energy access and reduce vulnerability of the poor to volatile energy prices. The Bank plans to allocate extra funding for infrastructure investment and to support countercyclical measures to generate employment and growth.
**Development Results**

The Annual Report on Portfolio Performance (ARPP) showed that the Bank's portfolio of lending activities has declined in real terms over the past five years. However, the portfolio share of IDA, in particular Fragile States, has been increasing while the share of IBRD has been declining. The ARPP notes the growth of infrastructure lending which is a successful response to the 2003 Infrastructure Action Plan. Net resource transfers have been occurring in IDA, but not in IBRD. The ARPP also notes the planned increase in lending in the medium term as a response to the current global crisis, and recommends sustained focus on quality issues.

Several portfolio segments of the WBG have been performing well. The results of the recently completed Quality Assessment of Lending Portfolio (QALP) indicate that about 75 percent of the projects have a moderately likely or better chance of achieving their objectives.

The 2009 Annual Review of Development Effectiveness (ARDE) continued the two-part format introduced in 2008. Part I tracks the Bank’s performance including trends in outcomes of projects and country programs, the evolution of monitoring and evaluation, and the role of evaluation in the results agenda. This year, the special theme in Part II was the Bank’s work on sustainable development.

The Independent Evaluation Group (IEG) finds that the Bank’s record on performance shows a moderately strong upward trend over the medium term, and recent performance confirms that this trend continues. In terms of the Bank's orientation, capacity, and monitoring of development outcomes the results were mixed. Institutional initiatives to strengthen project-level monitoring and evaluation, to put in place a Results Measurement System for IDA, and to implement results-based Country Assistance Strategies are at different stages of deployment so these have yet to demonstrate a clear impact on outcomes.

**Funding Developments – Response to the Current Crisis**

The WBG made several innovations to increase the level of funding available to respond to the economic shocks. Fast-track procedures were introduced to bring forward and expand existing projects. Funds allocated to dormant projects were reassigned. There was also an increase in the level of standby arrangements to provide financial security. The IFC also sought to increase its leverage of private sector funds by entering into a series of joint investment funds, such as in financing trade. WBG was also active in proposing funding arrangements that might appeal to the specific interests of donor countries which was an influence on the design of the Vulnerability Framework. The WBG also proposed architecture that would improve the effectiveness of international funding of development projects and remove potential duplication. The most notable example of this is the recently established INFRA initiative.

With the global economic crisis, the Bank attempted to accelerate expenditure under IDA, particularly through the establishment of an “IDA Fast-Track Facility”. However, the increase in expenditures under the Facility has been quite modest.

The Executive Board has agreed to transfer $983 million from the WBG to IDA - $783 million from IBRD and $200 million from IFC. This met the WBG commitments to IDA for FY09. There was no net income available from IFC operations and the transfer was funded via a redesignation of retained earnings from previous years. In the case of IBRD, $283 million was drawn from reserves.
An important reason for the WBG’s 2009 loan pricing review was the need to mitigate the impact from the global financial and economic crisis on the WBGs’ clients. The WBG’s ability to “lean forward” in delivering development assistance was critical in this objective to enhance IBRD and IFC’s financial capacity to meet the substantially increased borrower needs for development finance. The 2009 price review has focused on loan pricing for financial sustainability.

Given the constraints from the current global financial and economic conditions, the WBG has been working on some constructive and positive solutions. The main considerations included a possible increase of equity, in addition to IBRD loan pricing, and tight administrative expense management. Already there is an emerging consensus at the Board on Management recommendations. Our view is that any pricing increase should be part of a package of General Capital Increase (GCI) and Selective Capital Increase (SCI). Inevitably there would need to be a discussion on capital increases as the voice issue is being addressed. Of the various options available for increased capital, hybrid capital, in the form of subordinated loans, would be most appropriate in the short-term. Over the longer term, an increase in paid-in capital would be the most appropriate in order to have IFC continue to grow and play its leadership role in private sector development for developing country clients. Going forward, the key issue now would be the discussion or argument on the price of shares and how these shares would be spread between a GCI and a SCI. The proposals are being modified to incorporate Board comments. We will participate actively in these discussions.

**IBRD/IDA Finances**

In response to client demand, the Bank’s lending commitment reached $46.9 billion at the end of FY09. This is the highest in the history of the Bank’s lending. At the same time, IDA commitment also increased significantly compared to the previous year. The Bank’s administrative budget has been flat in real terms since 2006 and will continue to be so for the coming year. All regions, as well as headquarter budgets, have either been reduced or allocated only moderate increases.

**International Finance Corporation**

During FY09, IFC increased its focus on portfolio management. Strong emphasis was placed on proactively reaching out to clients to help them assess their vulnerabilities in the difficult environment and to determine where IFC’s activities could bring the greatest development impact. To help enhance this objective IFC launched an array of crisis-response initiatives. IFC has demonstrated that these initiatives were an effective conduit for spurring private sector growth in developing countries. In that context, commitments to IDA countries of the East Asia and Pacific Region were doubled during the year, although in terms of the region as a whole, there was a decline compared to FY08.

Based on its financial projections, IFC management argues it will be unable to sustain the level of growth envisaged under its developmental goals over the medium-term and given its current capital position IFC would not withstand a further deterioration of the markets. This has stimulated the discussion at the Board level as to what form future growth should take. To effectively control IFC’s spending, Management suspended various pay programs and reduced its planned recruitment for FY09. Going forward, IFC will continue this proactive approach and is proposing a flat Regular Administrative Budget for FY10. In terms of the Total Administrative Budget, this would be four percent higher than FY09. The proposed FY10 capital budget is less than half the level of FY09.
IFC is rapidly adapting to a more decentralized operating model. Over half of IFC staff are now field-based in seven hubs in over 100 offices, including some countries in the East Asia and Pacific Region namely Cambodia, Mongolia and Papua New Guinea. IFC’s advisory services presence in the Pacific is also being extended from two countries (Papua New Guinea, Timor Leste) to six (Solomon Islands, Vanuatu, Samoa and Tonga).

**Multilateral Insurance Guarantee Agency (MIGA)**

After four consecutive years of growth, FY09 saw a decline in the level of new guarantees issued, a consequence of the on-going global financial crisis. In contrast, MIGA’s support for small equity-driven investments grew during the year. MIGA also played a significant role in ensuring the stability of the financial sector in some regions, such as Eastern Europe, which were hit particularly hard by the financial crisis. It is worth noting that from an increase in MIGA’s gross exposure for the period, IDA countries accounted for 33 percent of the outstanding portfolio.

In its medium-term projections, MIGA expects to see higher volumes of guarantee business. In its baseline scenario the Agency forecast a significant increase in business guarantee volumes in the FY10-FY12 period.

**Constituency Country Developments**

**Australia:** Australia maintained its high-level dialogue with the World Bank. Both Prime Minister Kevin Rudd and Treasurer Wayne Swan met with President Zoellick on several occasions. The Vice President for East Asia and Pacific, Jim Adams, has met with the Australian Agency for International Development (AusAID) Director General Bruce Davis. In August 2009, the Bank’s Chief Economist Justin Lin and Jim Adams joined Pacific Leaders in Cairns for the Pacific Islands Forum. These meetings provided an opportunity to discuss the extensive relationship between Australia and the WBG.

During the year, Australia made a $40 million contribution to the Bank’s food crisis initiative and with substantial commitment to the recent replenishment of the Bank’s IDA, Australia has now become the 12th largest donor. Australia continues to work closely with the World Bank’s Regional team in the Pacific to monitor the impact of the global financial crisis and many other issues affecting development progress in the developing countries in that region.

**Cambodia:** The country has experienced strong growth in recent years. Under its National Strategic Development Plan 2006-2010, GDP per capita has increased, budget performance has improved and the country’s foreign reserves position also increased. However, near-term growth is under threat due to the financial crisis, which has exacerbated the competition in the garment trade. Cambodia aims to diversify its growth base and to improve its governance as a way to address the constraints to development. The Bank has been working within this framework to assist the country in the areas of public financial management, governance, the financial sector strengthening and natural resources management.

In November 2008, Executive Director Jim Hagan had meetings with the Deputy Prime Minister and Minister of the Economy and Finance, as well as Senior Minister and Minister for Land Management, Urban Planning and Construction. He was briefed on the development policies of the new government which assumed office following the general elections in July that year. They discussed how the WBG assistance would be effectively applied to the country’s development program.
Korea: Relationships between the WBG and Korea continued to strengthen. Its partnership with the WBG is being cemented in several areas and it continues to provide current solid financial assistance to the WBG. In the coming years, Korea will increase contributions and commitments to the Bank’s trust funds and other initiatives aimed at assisting developing countries.

Korea continued to take initiatives to assert its place on the global stage. In 2010, it will participate in Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD). As one of the Troika members (Brazil, Korea and UK) for the 2010 G20 meeting, Korea is taking the lead in the preparations for this meeting.

Mongolia: In FY09, the Government of Mongolia (GOM) initiated action to re-emphasize the country’s development priorities and to strengthen cooperation with its external partners. Under the International Monetary Fund (IMF) program, key actions to be taken by GOM to support economic recovery have been ascertained. Mongolia’s external partners have assured support for the country’s economic reform plans. In light of that, the World Bank Interim Strategy Note (ISN) for Mongolia has been approved under which WBG assistance will be provided to enhance the Government’s efforts to stabilize the economy.

During the year, Executive Director Jim Hagan visited Mongolia. Both the Bank’s Chief Economist Justin Lin and VP Jim Adams attended the first joint economic policy conference organized by the GOM and the Bank in October 2008 in Mongolia. Managing Director Daboub also visited the country in June this year.

New Zealand: New Zealand is an active supporter in the scaling up of the Bank’s presence in the Pacific. Positive examples of this stepped-up engagement include IFC’s support for increased competition in the telecommunications and airlines sectors (e.g. in Vanuatu and Samoa), the WB coordinating donor response to the global economic crisis in the Solomon Islands and the co-location of WB experts in the IMF’s Pacific Financial Technical Assistance Center office. Our office has worked closely with the Bank and IMF to ensure that operational management of this arrangement is refined.

New Zealand maintained a high level policy dialogue with the Bank. The WBG has played a pivotal role to facilitate donor meetings to share information and identify more strategic approaches to addressing the issues of energy supply and access in the Pacific region. In these endeavors, New Zealand has worked jointly with AusAID to assist the Bank set priorities and allocate resources in the region. These efforts are continuing.

Pacific Island Member Countries: The WBG engagement in the Pacific has been increasing over the last two years. During that period, technical and program staffing resources at the Sydney Regional Office have been doubled. Most significant has been the acceleration of its outreach program to the region in the last 12 months. In November 2008, the Bank opened a joint WB/Asian Development Bank (ADB) office in Solomon Islands and, in early 2009; two offices were opened in Tonga and Samoa. Discussions are underway to establish a Liaison Office in Vanuatu. As well, the northern Pacific countries were being served by dedicated technical staff based in Fiji. These developments have had a very significant positive change in the level of dialogue and engagement by the WBG with the members of our constituency.
Generally, current Bank involvement in our region is mainly in the socio-economic sectors. The IFC is also quite active in a number of the countries in activities to enhance private sector development and growth via its business advisory arm. At the same time, IFC is engaged at varying levels of discussions on investment decisions in a few of the countries in the private sector.

Our office maintained an active program of consultation visits to the Pacific Islands. The Executive Director, the Alternate Executive Director and other office staff have visited our Pacific Islands member countries for consultations with our authorities, attended regional meetings and other special events, such as the opening of the WB Country Office in Solomon Islands. Similar visits, including a visit by Managing Director Juan Daboub, are being planned for the region later in 2009.

**Papua New Guinea:** The WBG’s re-engagement in PNG was founded on the joint IBRD/IFC CAS 2007. The CAS provides a framework for Bank-PNG cooperation over the medium to long term. The key pillars articulated in the CAS set out to promote and maintain sound economic and natural resource management, as well as raising livelihoods through improved service delivery and wider participation in economic development by the poor and expansion of opportunities for income generation.

The WBG activities have been in a number of sectors including telecommunications, institutional strengthening in the agriculture, minerals and financial sectors.
CONSTITUENCY OFFICE

Office Developments

We have maintained a strong focus on efforts to improve overall Bank strategy with emphasis on governance, accountability, delivery and its outreach. We continued in actively representing the interests of the members both at the Board level and with Bank staff. Additionally, the office has been instrumental in ensuring better understanding between the Bank and the constituency members and in improving their relations with the WBG.

In so doing, we kept in touch with Bank Management and staff on development of new strategies, themes, policy changes and on operational matters where the interests of our constituency members are affected. At the same time, given the Board’s fiduciary role, our office, led by the Executive Director, was actively involved at the Board level, at Board committees (particularly Audit and Personnel) and in direct liaison with staff on several policy issues which seek to improve the Bank’s efficiency, accountability and other institutional strengthening policy fronts. Through these channels, the office also assisted Bank Management and staff to sharpen policies which enhance the Bank’s focus on developing countries, particularly small developing members such as our Pacific member countries.

Our office has devoted much effort to ensure improved communications with our members. To maintain the mandate of this office it is vital that the communication lines between our capitals are always open. On the part of the constituency office, we issued Constituency Newsletters summarizing relevant Bank issues for government officials, reporting timely on Board matters and regularly updating our office website (http://www.worldbank.org/eds09) to facilitate broader public contact. To supplement that, we have regularized the issuance of Constituency Information Notes which provide detailed information on selected topics of particular interest to our members.

Visits to the constituency member countries are critical to the role of the constituency office and, therefore it continued to be an important feature in our program of activities for the period. During the year, Executive Director Jim Hagan, Alternate Executive Director Do Hyeong Kim and staff members travelled extensively to cover the constituency membership. We were also represented by either the Executive Director or the Alternate Executive Director at other international and regional gatherings of special interest to the constituency members, such as the ADB Annual Meetings, the Annual Bank Conference on Development Economics (ABCDE), the Forum Economic Ministers Meeting (FEMM), and so on (see Annex C for details of Office Travel). These gatherings bring mutual benefits, not least, in forging better relationships between these institutions and the constituency office on behalf of its constituents.

The Voice Secondment Program (VSP) is highly competitive among developing members of the WBG due to the benefits it brings. Not only has it benefited the developing countries and their officials who have the opportunity to observe and learn what the Bank does, but also to bring individual perspectives and experiences to bear in helping the Bank understand its clients better. The 5th Cohort of the VSP ended in June 2009. Our constituency’s only secondee came from the Ministry of Economy and Finance of Cambodia. We were quite involved both in his induction and retrospective programs. The selection for the 6th Cohort of the program has been completed. From six nominations submitted by our constituency members, two candidates – from Samoa and Vanuatu – have been selected. Considering that the entire East Asia and Pacific Region was competing for only three places in the program, this is a remarkable achievement. The two candidates will be contacted directly by the Bank in preparation for their travel to
Washington, DC to participate in the program which will start in January 2010. We look forward to being of assistance to them.

The period saw a number of changes on the constituency office staff. In September 2008, Rick Houenipwela (Solomon Islands) took over duties as Senior Advisor from Damba Baasankhuu (Mongolia) who remained in the office on another assignment as Advisor. In November 2008, we said farewell to Advisor Seilava Ros (Cambodia) as he returned to the Ministry of Economy and Finance in his home country. In February 2009, Advisor Iulai Lavea (Samoa) completed his assignment and returned to Samoa. He was replaced by Betty Zinner Toa (Vanuatu). Also in February 2009, Hille Blackshaw retired after serving as Program Assistant for many years. Beatrice Nguerekata assumed duties in February 2009 as Team Assistant (Refer to Annex 1 (b) for details on the Office Staffing).
POLICY ISSUES OF SPECIAL INTEREST TO THE CONSTITUENCY

Small States

As in the past, our constituency office is one of a few Chairs to be persistent in pressing the case for special attention to small states and in highlighting the particular development challenges of small states at the Board. Our office was also involved in a number of events targeted at addressing issues pertaining to small states, including the symposium – “Small States: Weathering the Global Crisis” – in early June 2009 for policy makers in small states. We have received support from the Canadian, Italian and Thai Chairs (representing the Caribbean, Malta, Tonga and Fiji).

With strong support by the Bank, there have been admirable achievements made so far in furthering the case for a small states focus, for example the launching of the book *Small States, Smart Solutions* last year. Also, with Bank support, the Small States Network (SSN) Secretariat has been established with a supporting staff and funding to assist in some of its initial programs. Support has also been received from the Isle of Man Government in funding training courses which are now on offer to the members. Apart from that, most of the Secretariat’s running expenses have been derived from its hosts, the Government of Malta and the Central Bank of Malta.

Despite the fact that almost a third of the entire WBG membership are small states, it would appear that much more effort will be required to generate sufficient interest to steer development to the special needs of small states. Current policy stance would prevent the Bank from taking any more than playing a supportive role of the “movement”. In fact, it does not feature in any functional sense in the Bank’s establishment apart from one officer whose responsibilities are not limited to small states matters. To that end, the idea to establish a thematic group between Executive Directors’ offices and technical staff in the Bank to discuss and advance small states issues has been difficult to progress.

That aside, it is fair to say that in order to keep small states interests alive, much depends on small states themselves. An important vehicle to mount a united and stronger voice for small states is the SSN. With members’ support, the SSN Secretariat is poised to provide services to its membership in line with each strategic direction as approved by the Board of Trustees. The Secretariat would be reporting on its progress at the 2009 Small States Forum in Istanbul, Turkey during the Annual Meetings.

Fragile States

The issues of fragile and conflict-affected countries have been given added prominence in the Bank since President Zoellick’s selected fragility and conflict as one of six strategic themes for the Bank’s work. Since then, Zoellick has spoken on several occasions about the importance of security and development and has signed a joint agreement with the UN Secretary-General Ban Ki-Moon about better partnering in conflict situations.

The amalgamation of the Bank’s Fragile States and the Conflict Prevention and Reconstruction Units under Director Alastair McKechnie has accelerated the work on fragile states. The new unit is responsible for the development and implementation of the joint work on conflict and fragility across the Bank and for promoting the overall effectiveness of the Bank’s response in these situations. This work will be further enhanced with the World Development Report (WDR) 2011 on conflict and fragility. The WDR team will be headed by two Bank staff well known to the region - Nigel Roberts, recent Country Director for Papua New Guinea and the Pacific, as well as Sarah Cliffe, who was Director for Strategy in East Asia Pacific.
Meanwhile, the Bank continues to improve the coherence and quality of its assistance in the area of fragile and post-conflict states following the operation of the Policy for Rapid Response to Crises and Emergencies in 2007. This policy is the centerpiece of a range of initiatives including encouraging more conflict-sensitive analyses and streamlined planning and implementation processes that will improve both the effectiveness of assistance and the speed of delivery. The Fragile States Unit is actively engaged in helping country teams utilize the flexibility provided by this new policy.

The review of the Rapid Response to Crises and Emergencies Policy showed that the policy was having a positive impact on the time taken from the decision to proceed to Board approval down from an average of 5.9 months (for projects reviewed between 2001-2006) to 4.3 months with an average processing time for food crisis operations of 1.7 months. Despite this improvement, projects are still experiencing delays in achieving effectiveness activation with 31 percent of those project operations not effective 3 months after approval and a lag to first disbursement averaging 4.2 months. These figures underline the continuing challenge of operating these frameworks in weak capacity environments, which suggests a need for Bank operations to continue to seek more effective implementation arrangements. The review notes that those lags highlighted the tension that exists between the need for rapid response and the danger that exists in by-passing governments. Such an approach may set back state-building, create long-term dependency and decrease state legitimacy.

While the new policy reduced the requirements for ex-ante reviews, there was a concomitant expectation that budget resources would shift from preparation to supervision stage. Feedback from staff and anecdotal evidence suggest that some regions have not budgeted sufficiently for that level and intensity of supervision needed to ensure an adequate level of ex-post implementation support and supervision.

The report suggests a number of areas for follow up focusing on:
- increased organizational support to rapid response teams;
- increased budget allocation to support intensified supervision;
- increased attention to staffing needs in fragile and conflict-affected countries;
- provision of additional staffing guidance and training including the issuing of a Rapid Response Good Guidance Handbook; and
- simplifying a review and approval requirements under Operations Policy (OP) 13.25 to align the policy on use of project cost savings so that such savings can be more easily diverted to rapid response initiatives within a country’s IDA envelope.

In October 2008, a new UN-World Bank Partnership Framework for Crisis and Post-Crisis Situations was signed by UN Secretary General Ban Ki-Moon and President Zoellick. This document is an important affirmation of the UN and World Bank’s commitment to work together more effectively in countries affected by conflict or natural disasters and should enhance the responsiveness of both organizations. The Partnership Framework recognizes the critical but complimentary roles that the two institutions play in post-conflict/disaster situations and underscores the importance of flexibility, national leadership, and an integrated political, security, and development approach to supporting stabilization and securing development efforts. It sets out agreed principles for stronger collaboration that is supported by (a) an agreed communications protocol; (b) the use of common methodologies for post-conflict and post-disaster needs assessments and recovery planning; (c) improved collaboration around funding mechanisms; and (d) a culture of collaboration.
Voice and Participation

The call for increased voice and participation for developing and transition countries (DTCs) of the WBG gained momentum during the past 12 months. Since November 2008, steps have been taken to enhance this objective including:

- agreement to amend the IBRD Articles of Agreement to increase basic votes to 5.55 percent;
- to allocate 7,117 authorized but unallocated shares to 16 DTCs;
- add a third Chair for Sub-Saharan Africa so that region is represented by three Executive Directors on the Boards of IBRD, IDA, IFC and MIGA;
- a Trust Fund to assist IDA-only countries take up allocated IDA shares; and
- the respective Executive Boards have agreed to take major reviews in the shareholding arrangements of IBRD and IFC – Phase 2.

There are practical issues that still impede the conclusion of some of the first phase. For example, on the allocation of basic votes, the required minimum number of votes to give effect to the amendments to the IBRD Articles of Agreement has yet to be reached because at the time of writing, all the Governors have yet to cast their votes. On the additional chair for Sub-Saharan Africa, members of the existing two constituencies have yet to determine the final make-up of the new three groupings.

At the 2009 Spring Meetings, the WBG’s shareholders reiterated their aim to reach agreement by Spring Meetings 2010 on reforms to enhance the voice and participation of the WBG’s DTC members. At the same time, the shareholders urged the WBG Management to pursue all its other institutional reforms. The Bank staff will make progress reports on these actions during the 2009 Annual Meetings.

With regard to Phase 2, while there is agreement on the objectives of the shareholding review, negotiations continue on the size and process of a rebalancing of shares. We expect to be able to report substantial progress by the WBG Annual Meetings in October 2009.

Apart from voice, tangible steps have also been taken towards major institutional reforms in the WBG in the following areas:

- internal governance and board effectiveness – with short deadlines;
- work diversity – to ensure the objective of having a diverse and inclusive workforce remains a priority in the WBG;
- decentralization – to deepen outreach and strengthen field work, new WBG country offices have been established (including two in the Pacific), or current offices are being strengthened with more resources; and
- the selection of the President: while not governed by the articles of the Bank, there is an emergency consensus that the selection should be merit-based and transparent.

For our constituency members, the outcome of a shareholding review is likely to increase the relative size of Korea’s shareholding and reduce the relative shares of Australia and New Zealand. For the rest of the constituency members, the outcome of this is likely to have little or no effect on shareholding.

Our office is a consistent advocate of various organizational and administrative reforms in the WBG. These include both ‘external governance’ (capital shares, board composition, etc.) and ‘internal governance’ (selection of President and other senior positions, board effectiveness, governance standards etc.). A more detailed discussion on these other reforms is covered elsewhere in the report. We will continue to pursue these reforms to their conclusion.
New Framework for Development

The Growth Commission report, which was released last year, confirmed the centrality of economic growth as the means to achieve poverty reduction and the Millennium Development Goals. However, the discussion around the Growth Commission is evolving into a broader discussion about the risks excessive exposure to export industries, openness of capital markets, and level of state intervention. This may yet evolve into a new framework for development. World Bank Chief Economist Justin Lin, the first Chief Economist from a developing country, is leading the discussion, based significantly on the development experience of China and its other East Asian neighbors, including Korea. We will continue to monitor this dialogue and update the constituency, as appropriate.

IFC’s Strategic Directions – Creating Opportunities

Since last year’s Road Map, the global landscape has changed dramatically, and IFC’s strategy is being adjusted in response. IFC’s operations have been guided by its five priorities, which have been in place, and have been consistently endorsed by the Board since 2004. There are some refinements to the strategy by adding conflict-affected situations to the definition of frontier markets (Pillar 1) and expanding from agribusiness to the more comprehensive food supply chain as a priority (Pillar 4).

Challenges encountered by IFC are:

- the strong and growing demands from its clients for IFC investment and advisory services, against the need for prudence and smart choices in the use of IFC’s capital and budget;
- the need to increase the human and financial resources dedicated to managing its portfolio against the demands for more IFC financing for new projects and the expansion of its mobilization and crisis initiatives;
- the commitment to long-term partnerships by supporting existing clients who value IFC’s willingness to help them in good and bad times against the needs of new clients, particularly in the more frontier markets; and
- IFC’s priority of increasing its share of investments in frontier markets, in particular IDA countries against growing crisis needs in middle-income countries.

IFC's strategic priorities in East Asia and Pacific for both advisory and investment operations are to: (i) focus on IDA countries, (ii) lead regional efforts to mitigate climate change; and (iii) promote inclusive growth and rural development in middle-income countries where the majority of the region’s poverty is concentrated. Within those strategic priorities, the economic context in the short-term requires that IFC focuses on the financial soundness of existing investment portfolio clients by helping them proactively manage through the downturn. IFC’s pipeline has been refocused as a result of greater selectivity-IFC pursues projects scoring highest on strategic fit and with highest additionality.

IFC is currently implementing the initiatives it launched in FY09 to help private enterprises cope with the global financial and economic crises. These initiatives include the Recapitalization Fund, Microfinance Enhancement Facility, Expanded Global Trade Facilitation Program, Global Trade Liquidity Pool, Infrastructure Crisis Facility, and Advisory Support. In FY10, IFC is planning to launch additional initiatives-Distressed Asset Recovery Program, EM Europe and Central Asia (ECA) Facility, and Global Food Fund. IFC committed $5.0 billion for its own account to these initiatives and already has firm pledges from donors of an additional $5.0 billion. IFC will continue working to mobilize funds from donors.
Financial Sector Strategy Implementation

Our office continued to lead Board efforts to reinvigorate the Bank’s approach to the financial sector, bedding down the new Financial Sector Strategy.

Our concerns regarding the Bank’s approach to the financial sector have centered on:
- the decline in Bank technical staff devoted to financial sector issues;
- the decline in Bank lending and non-lending activities in the financial sector;
- a lack of incentives for country-based staff to focus on long-term issues such as financial sector development; and
- a ceding of ground by the Bank to both the IFC and the IMF, on financial sector issues.

In January 2009, the Board was presented an update on the Financial Sector Strategy, given the importance of the strategy in the current economic environment. WBG assistance to the financial sector has increased substantially over the last two years, mainly due to increased IFC assistance on guarantees and risk management, as well as syndication activities. Assistance to trade finance dominates the increase in assistance, although assistance to small and medium enterprise finance remains substantial. IFC also committed to a Bank recapitalization fund of $5 billion minimum, over three years, including significant mobilization.

In terms of World Bank work, the Bank has provided crisis-related advice to a large number of middle-income countries, with crisis preparedness simulations in Colombia, Jordan, Indonesia, and Turkey, amongst others. There has also been intensive engagement with IMF, Financial Stability Forum, and G20 on global response.

We continue to ensure that the directions of the Financial Sector Strategy are reflected in the Bank’s CASs and programs. We will also seek to ensure that the financial sector receives adequate attention in the preparation of the Bank’s Strategic Framework and the Annual Budget.
BANK GROUP STRATEGY AND LEADERSHIP

World Bank Group Strategy

In last year’s Annual Report, we outlined President Zoellick’s new strategy for the WBG. While the President’s six strategic themes still provide a useful overview of the Bank’s priorities, the events over the last 12 months saw internal work on fleshing out the strategy take something of a backseat.

While all priorities remain valid, it is fair to say that one theme has shifted – the Bank’s engagement with middle income countries. Here, the significant increase in lending volumes has meant that financing has once again become the main point of engagement with these countries. This has reversed the trend which was moving away from a focus on finance towards providing knowledge products with these countries. The evolving discussion on capital adequacy of the WBG is likely to lead to pressures for a greater elaboration of strategy. Shareholders from the G20 have already called for more articulation of a vision for the WBG after the economic crisis.

Responding to the World Financial and Economic Crisis

The WBG has continued its efforts to help address developing country needs through a full range of financial, analytical and technical assistance resources and policy advice, leveraging financial support from a variety of public and private sources. The evolution of the external environment in the coming months will be critical for developing countries in need of assistance and, in particular, for low income countries with limited fiscal capacity. In light of the deepening crisis, and the increasing demand on WBG resources, this has led to discussions with the Board on the financial capacity of IBRD and IFC, including capital adequacy. An issue of particular concern is the adequacy of concessional resources flowing to IDA-eligible countries.

As the global economic crisis has spread, the WBG has stepped up its financial assistance to help developing countries minimize the disruption to ongoing development programs and projects. The IBRD expects to nearly triple its lending in FY09 (which ended on June 30, 2009) from $13 billion in 2008 to approximately $33 billion. Fast-disbursing DPLs comprised about 45 percent of the overall total for FY09. IBRD is also assisting developing countries—through its capacity building efforts, policy advice, and technical assistance—to assess the social and structural sources of vulnerability, address underlying policy and institutional weaknesses, and manage the response to the consequences of the global crisis.

Lending by IBRD in the first quarter of FY10 was expected to be a record high of up to $11 billion. For FY10, the demand for IBRD lending is now projected to be $44 billion, and could go higher. If demand continues to remain strong, it could exceed the earlier projection of $100 billion in lending over the next three years. A report on potential options to enhance IBRD's (and IFC’s) financial capacity is being given to the Development Committee at the Annual Meetings in Istanbul.

Incremental demand for IDA resources in response to the crisis has accelerated (with significant demand emerging late in FY09) and is expected to increase further in FY10 as the brunt of the impact is felt in many low-income countries. Due to these unusual circumstances, the standard frontloading rule was relaxed in FY09 as part of the Financial Crisis Response Fast Track Facility to allow countries to frontload up to half of their annual allocation (instead of the regular 30 percent) for programs or projects that respond to the impact of the crisis. The Facility fast-tracks a total of up to $2 billion of IDA15 resources from existing country allocations by shortening the review period for eligible operations, consistent with the Bank’s existing operational guidelines on crisis response.
Vulnerability Framework

Over the course of 2008, with the new WBG responses to the food, fuel and then financial crises, President Zoellick presented a Vulnerability Framework to showcase the WBG’s crisis response initiatives.

The Vulnerability Framework included the Global Food Crisis Response Program (GFRP) we discussed in last year’s Annual Report, as well as the new Rapid Social Response (RSR) program announced at the London G20 Summit in April 2009, and the INFRA, announced at the 2009 Spring Meetings. It also includes several IFC initiatives, such as the IFC Capitalization Fund, the MEF; Global Trade Liquidity Program (GTLP); Expanded GTFP; Sovereign Wealth Fund (SWF) Initiative; and the Infrastructure Crisis Facility (ICF). It will also include other programs in final stages of development (at the time of writing), including the Debt and Asset Recovery Program and the Global Food Fund.

The GFRP was approved by the Board on May 29, 2008. Originally for $1.2 billion, the ceiling was raised to $2 billion on April 16, 2009 in response to high demand. The GFRP encompasses the Food Price Crisis Response Trust Fund of $200 million from IBRD surplus, as well as $1.8 billion in IDA/IBRD resources. Total Bank-funded GFRP projects amount to over $1.2 billion, with disbursements currently standing at $760 million in 33 countries, including $5 million for budget support in Cambodia. The GFRP is also supported by three externally funded trust funds, including a contribution of $40 million from Australia which includes US$6 million of assistance to the Pacific.

The RSR program is designed to help countries address urgent social needs stemming from the crisis by financing immediate interventions in the areas of: (i) access to basic social services, emphasizing services for maternal/infant health and nutrition and school feeding programs; (ii) building, or scaling up pre-existing targeted safety net programs; and (iii) labor market policies to provide income support to the unemployed. As of May 2009, new IBRD/IDA commitments in areas covered by RSR amounted to $5.2 billion for FY09 and $2.3 billion for FY10. To date, pledges to the RSR trust fund for capacity building donors total over $70 million.

The INFRA is a multi-donor program designed to provide coordinated support to developing countries in their efforts to maintain their infrastructure sectors as economic drivers in the face of the current global financial crisis. INFRA supports government efforts to protect existing infrastructure assets; ensuring delivery of projects that remain government priorities; by bridging the current gap in available financing for public, private or Public Private Partnership (PPP) infrastructure projects in emerging markets; and by supporting new infrastructure project development and implementation. After the formal launch of INFRA during the 2009 Spring Meetings, $17.4 billion has been committed by the WBG in FY09 in the areas covered by INFRA.

On IFC initiatives, the GTLP has the potential to finance trade of up to $50 billion by providing liquidity through banks to trade transactions. The proposed total IFC investment would be up to $2 billion, which will be match funded with resources from other financial institutions, and international banks with an established footprint in emerging markets trade finance. IFC has finalized an initial wave of transactions amounting to $500 million.

IFC has also closed the first transaction under the IFC Bank Capitalization Fund, which aims at providing additional capital for banks in developing countries; and is also designing advisory programs in risk management and non-performing-loans management. The Japanese government, a founding partner, has invested $2 billion.
IFC approved and disbursed funding to 36 microfinance institutions for investment from the MEF, a $500 million facility launched by the IFC and the German Development Bank (KfW) to support microfinance institutions facing refinancing difficulties.

IFC has also established an ICF to bridge the gap in available financing for viable, privately funded or PPP projects that face financial distress as a result of the crisis. France and Germany have respectively contributed €1 billion and €500 million to the fund. IFC is also considering launching an equity fund under the program.

Climate Change

The World Bank continues to play a significant role in the discussion on actions to mitigate the effects from climate change, especially for the poor developing and vulnerable countries. In this context, the Bank sees that addressing climate change is central to sustainable development and poverty alleviation. It is a cross-cutting issue with implications for agriculture, forestry, biodiversity, transport, infrastructure, water, health and sanitation, resource management and urban development. This is emphasized by President Zoellick in the following words: "... Climate change impacts directly on the World Bank's mission of poverty reduction, and has the potential to hamper the achievement of many of the United Nations Millennium Development Goals, including those on poverty eradication, child mortality, combating malaria and other diseases, and environmental sustainability. Climate change is clearly not just an environmental issue but one with severe socioeconomic implications, particularly in developing countries. ..."

In last year’s Annual Report, we looked at the importance of the Bank’s involvement in providing financing to support climate action. In this report, we outline the Bank’s work on climate change. The key challenge for the Bank is how to combine development with climate change objectives, find projects and negotiate the increasingly complex and politically sensitive climate change architecture.

Work on climate change tends to fall into one of two categories: adaptation or mitigation. Adaptation-related work is geared at reducing the vulnerability of developing countries to the projected impacts of climate change, including possible increases in the frequency or severity of some extreme climatic events, such as droughts, floods and storms. The Bank is also working on mitigation, which aims at limiting the extent of future climate change by reducing atmospheric greenhouse gas concentrations.

Impacts of climate change may have implications for sustainable development, particularly for poor countries and especially the poorest communities within them. Aside from ensuring that the development solutions the Bank provides are sensible long-term choices for client countries, the Bank aims at planning and designing projects that are sufficiently flexible and robust that their effectiveness is not likely to be compromised by changes in climate and/or in climate variability at the host location. Thus, mainstreaming adaptation in development is a priority. Tools and guidance to facilitate this are being developed.

Many developing countries are also keen to explore the opportunities that engagement in Carbon Finance may provide them. The Bank is committed to increasing access to energy in developing countries. Mitigation options are being explored in the areas of energy efficiency and renewable, as well as reducing land degradation and deforestation.

In its flagship document, the World Development Report 2010: Development and Climate Change, the Bank continues to highlight these two categories as the major areas of focus for stabilizing temperatures at less than 2°C above preindustrial temperature. The world is under threat of seeing temperatures rising as high as 5°C or more by the end of the century. The WDR 2010 "analyzes how to make development more resilient to climate change – so that countries can pursue growth and overcome poverty while
stabilizing temperatures”. The key messages of the Report are: (i) climate change threatens all countries, with developing countries the most vulnerable; (ii) poverty reduction and sustainable development remain core global priorities; (iii) economic growth alone is unlikely to be fast or equitable enough to counter threats from climate change, particularly if it remains carbon-intensive and accelerates global warming; (iv) low-carbon growth is attainable through mitigation action that is immediate, global and comprehensive; (v) climate-smart domestic policymaking would benefit all countries; and (vi) a global climate deal that is both equitable and effective would benefit all countries; and success hinges on changing behavior and shifting public opinion.

It is widely acknowledged that the Small Island States, many of which are in our constituency, are amongst those countries worst affected by the impact of climate change and are also among the first in need of adaptation strategies. To this end, we expressed great disappointment during Board discussion of the WDR 2010 that when the Bank was preparing the WDR 2010, it did not consult those countries. The awareness of the likely impacts of climate change in these countries is high, and we believe the actions and thinking being undertaken across SIS could be a valuable lesson for the Bank in its work on climate change which could be applied to the work in other developing countries that are perhaps not currently as focused on the future impacts of climate change.

In its previous Annual Report, the Bank made the undertaking that through the Strategic Climate Fund (SCF) it would provide financing to pilot new development approaches or scale up activities aimed at a specific climate change challenge through targeted programs. This facility would provide financing to pilot new development approaches and serve as an overarching support program dedicated to finance new pilot approaches with transformational action aimed at a specific climate change challenge or sectoral response. The first program designed under the SCF is the Pilot Program for Climate Resilience (PPCR). The PPCR will provide incentives for scaled-up action and transformational change through pilot projects that demonstrate ways to integrate climate risk and resilience into core development planning, while complementing other ongoing development activities in a given country. Cambodia has been chosen among the members of our constituency to participate in this pilot program.

Finally, and equally important, in terms of future Bank work, it is noted that for the moment climate change has yet to fall under the World Bank’s mainstream operations. It goes without saying that if the Bank is to play a leading role in climate change, aggressive steps have to be taken immediately to bring climate change – with adaptation and mitigation - into the Bank’s operations, as priority sectors, among other equally important sectors such as agriculture, forestry, biodiversity, transport, infrastructure, water, health and sanitation, resource management and urban development.

**Medium-Term Strategy and Finances for FY10-12**

The impacts of the food and energy price shocks and the global economic crisis have overshadowed discussions on medium-term strategy. The context of current discussions has been to provide assistance to developing countries that maintain gains already made and to position them for a return to growth through investments in social and physical infrastructure. This has led to a significant increase in budget support initiatives.

A result of the WBG response has been to bring the levels of sustainable growth in the group under closer scrutiny. IBRD has made a draft proposal for a capital injection between $6.8 and $11 billion. This is based on a projection of lending over $100 billion for the period 2009-2011 and then sustaining lending of around $15 billion until 2019. The range in the capital injection reflects the possible track of the economic crisis and its impact on IBRD countries.
IFC is also making an argument to increase its equity. The fall in the value of its equity holdings and resources devoted to crisis response have led it to argue that it requires an increase in equity between $2.5 and $5 billion. This would allow IFC to make additional commitments between $7.5 and $15 billion (growth rate between 7 percent and 10 percent per year).
OPERATIONAL AND STRATEGY ISSUES

Whistle-blowing Policy

In June 2008, with the approval of a strengthened whistle-blowing policy, the WBG became at the leading edge of whistle-blowing protections among international organizations. The new policy, based on over two years of internal and external consultations with the Executive Directors, the Staff Association, outside experts (including the Volcker report), and staff and the public at large, was a key component of ongoing efforts to safeguard the integrity and effectiveness of the WBG and fundamental to how the Bank operates.

The whistle-blowing policy is composed of a Board-approved amendment to the Principles of Staff Employment, which set ethical guidelines for staff, and a new Staff Rule, which sets out detailed whistle-blowing protections and procedures. The strengthened protections for whistle-blowing afforded by the new Staff Rule are an important complement to current provision, which mandates a duty for staff to report suspected fraud or corruption; encourages reporting of other misconduct; and generally prohibits retaliation against any person for providing information about suspected misconduct or using the Conflict Resolution System.

The new policy encourages reporting of misconduct by giving a range of reporting channels – both internal and, in defined circumstances, external – and explicit protections against retaliation for such reports. Open or confidential reporting is also encouraged so as to facilitate effective investigation and remediation, although anonymous reports made with sufficient detail or supporting evidence are also allowed. The protections do not, however, extend to knowingly false or reckless allegations.

The Bank’s new policy exceeds the standards set by the United Nation’s highly regarded 2005 whistle-blowing policy, which was considered to set the benchmark for intergovernmental organizations. Using the UN policy as a starting point, the Bank’s policy offers a similar range of whistle-blowing protections, including:

- multiple channels for reporting misconduct;
- providing safeguards against potential conflicts of interest;
- qualified protection for external reports;
- prohibition of retaliation, including against outside parties such as Bank-financed contractors and their employees;
- an express right to refuse to engage in misconduct;
- best-practice standards of proof in whistle-blower retaliation cases;
- recourse to the highest level of appeals (the Administrative Tribunal, which can, over the objections of Bank management, order reinstatement of a whistle-blower wrongfully terminated) to redress retaliation under the policy; and
- mandatory discipline for those found guilty of retaliation.

In addition, the Bank's policy goes substantially beyond both the UN policy, as well as the African Development Bank's more recent policy of 2007, by specifying the availability of alternative dispute resolution processes to resolve whistle-blower retaliation claims as including both conciliation and mediation – and specifically including external mediation by a mediator jointly selected by the parties involved. The Bank’s policy further extends protections from retaliation not only to cases of actual whistle-blowers, but – going beyond the UN standard – also to "pre-emptive" or "spillover" retaliation cases where staff suffered retaliation because they were believed to be about to report misconduct, or were mistakenly believed to have done so already.
Sustainable Infrastructure Action Plan and Implementation

The global financial and economic crisis is expected to severely impact infrastructure services in developing countries, as governments are faced with shrinking resources and private financing flows are declining. Experience from previous crises has shown that infrastructure investments often bear the brunt of shrinking public expenditure at the national and sub-national levels.

The WBG has established INFRA platform to bridge infrastructure financing, project preparation, and capacity gaps resulting from the global financial crisis. The INFRA platform comprises a rapid diagnostic tool to identify at-risk infrastructure projects, a concessional financing window to support the preparation and financing of projects, initiatives for parallel and donor financing, and a common reporting system. The INFRA Platform also includes the Energy for the Poor Initiative, launched in June 2008 to expand energy access and reduce vulnerability of the poor to volatile energy prices.

The World Bank plans to allocate extra funding for infrastructure investment and to support countercyclical measures to generate employment and growth. INFRA will provide $45 billion in infrastructure lending over the next three years, an increase of $15 billion over the three years preceding the crisis. In addition, IFC has set up an Infrastructure Crisis Facility to bridge the gap in available financing for viable, privately funded or public-private partnership infrastructure projects in emerging markets facing financial distress. As of June 2008, the WBG’s total active infrastructure portfolio was $49 billion.

Internal Reforms

The World Bank is undertaking a suite of internal reforms to its business model. The most significant of these is the reform of the Bank’s project-based ‘investment lending’ which accounts for 70 percent of the Bank’s active lending portfolio. The Bank proposes to streamline relatively low-risk projects, reduce transaction costs and increase flexibility for developing country clients. Other reforms underway include examination of the Bank’s internal process controls, a modification of its decentralization approach and Human Resources reforms.

Investment Lending Reform

The Operations Policy and Country Services (OPCS) Vice Presidency is currently working on a proposal to reform the Bank’s investment lending, involving an examination of the full cycle of the Bank’s investment lending project model. OPCS is proposing a radical reform of the Bank’s primary lending instrument, which accounted for 70 percent of the Bank’s active lending portfolio but had not kept pace with borrowers’ needs.

The investment lending (IL) model was based on the 1960s project-centric model that suited traditional, ring-fenced infrastructure projects that neatly identified agreeable economic rate of returns. However, it was then applied to a variety of different tasks, such as public sector reform processes, and often sat uncomfortably within complex programs and which had multiple donors. It struggled to adequately incorporate the range of country, policy, design, and reputational risks that needed to be considered. The Bank acknowledged that the current model was encumbered by a web of internal, rule-based processes and requirements that did not ensure appropriate supervision and monitoring of results.

While there have been various changes to IL at the margin over the years, fundamental reform of the instrument was needed. The plethora of existing IL policies needs replacing with a modern, concise, and integrated policy and operational framework, accompanied by efforts to improve risk management, move
away from the corporate culture of project approval, and strengthen accountability. The challenge is how to do all this while identifying and addressing key governance and corruption risks and vulnerabilities in Bank-supported programs and projects.

The Bank acknowledged that the range of clients also presented a problem. Middle-income countries, which had access to alternative sources of financing, wanted greater flexibility of programs and greater use of government systems. Fragile states, on the other hand, needed the ability to respond to changing circumstances and higher levels of implementation support due to lower capacity.

Work on IL reforms is expected to be organized around four pillars or components: (a) adoption of a risk-based approach for processing IL; (b) a consolidated and rationalized menu of IL; (c) greater emphasis on supervision and implementation support; and (d) actions to provide an enabling environment for supporting and reinforcing the implementation of the reforms.

On the adoption of a risk-based approach, there would be different processing requirements applied to different projects, with at least 40 percent of operations classified as low risk under simplified procedures. In addition, the IL menu would be rationalized, with greater use of the rapid response process used for the GFRP, and a programmatic IL which would focus more on program-wide outputs/outcomes than specific project expenditures with direct accounting linkages between disbursement of Bank-specific resources and expenditure by clients. While the Bank has approved IL operations with these characteristics, to date, the new approach will streamline these efforts and provide a holistic framework for Bank staff to bring such operations forward (for example, Bos Kita in Indonesia).

The Bank would enhance supervision and implementation support through larger and better integrated and skilled teams to identify problems early and establish more effective actions for dealing with them. There would also be linkages to HR reforms, with greater effort to align incentives, rewards and resources and clarity over functions and responsibilities.

**IDA Internal Controls Audit**

World Bank Management, the Bank’s Internal Audit Department (IAD) and the Bank’s Independent Evaluation Group (IEG) have finalized a comprehensive assessment of internal controls over’s IDA operations. The assessment used the internal control framework developed by the Commission of Sponsoring Organizations of the Treadway Commission, adapted to fit the unique nature and operations of IDA. It was carried out in three tiers: Management self-assessment; IAD review; and an independent evaluation of both by the IEG.

This was the first review of its kind, not only for the Bank, but among international organizations. IEG noted that it broke new ground in creating new methodologies, allowing the Bank and IDA to take an important lead in assessment of its internal controls, and accelerating the development of new and improved controls to enhance Bank’s and IDA’s operations. Stemming from the report, Management is implementing a robust program of corrective measures to address issues identified and strengthen IDA’s controls. Most actions are already in process and many have been completed. These actions will strengthen and refocus IDA’s internal controls to better address governance and anti-corruption issues and enhance risk identification and management at transaction and entity-levels. Other actions will be taken up in the effort to improve investment lending, discussed above.

**Decentralization and HR Reforms**

The Bank continues to increase its numbers in the field, especially in IDA (concessional) countries. Decentralization of staff and operations to the field is seen as a way to better respond to client needs,
bringing greater country ownership and more cost-effective delivery. While the Bank has increased in-country management markedly, the story varies. In East Asia and the Pacific, 37 percent of internationally recruited staff is based in the field, while in the Middle East only 14 percent are. The Bank is now taking a broader look at the decentralization process. This entails a look across the Board at HR, Information Technology system, and process, including the above-mentioned IL reforms.

The Bank is also undertaking a series of reforms in the areas of employment policy, compensation, recruitment, diversity, managerial capacity, learning, and performance management. With regard to decentralization, a change to the recruitment framework from single entry point (Washington, DC) to multiple entries point based on several (worldwide) market zones has been floated. Further, the Bank is considering rolling out a number of regional hubs, where sector staff would be based closer to the field rather than in Washington, DC. The Bank is also trying to address the systemic difficulties in encouraging staff to more difficult postings.

Use of Developing Country Procurement Systems for World Bank Procurement

The pilot into the use of developing country procurement systems for World Bank international competitive bidding continues to move ahead, albeit at a slower pace than we had hoped for. Following wide and extensive consultations, the Board agreed for the pilot to cover eight to ten countries. Those countries involved in the pilot will need to have procurement systems that are equivalent to and consistent with the principles of the Bank’s procurement policies. However, we understand that there are delays in selecting candidates for the pilot, with some adjustments to the methodology to address the assessment indicators and possible extension.

The reasons for supporting the use of country systems for World Bank procurement are persuasive. It:

- increases development impact (the key reason) – more and better procurement through country systems improves the development impact of all expenditures;
- increases country ownership – country ownership over donor projects is greater when their own systems, rather than external ones, are used;
- facilitates harmonization – especially if other donors follow suit;
- simplifies and reduces costs for developing countries; and
- encourages a greater use of local firms – as a result of reduced need to understand Bank processes and systems.

At the Board we continued to push the interests of our Pacific member countries, calling for management to move forward with vigorous implementation in order to mainstream the use of country systems across the Bank. We noted that complex procurement rules have a particularly high transactions cost on smaller states.

State and Peace-Building Fund

On April 22, 2008, the Board agreed to create a new trust fund, the SPF. This fund combined the existing Post Conflict Fund and the LICUS Trust Fund. These funds provide rapid, innovative and flexible responses in post-conflict and fragile situations, the lessons of which have been applied across the Bank and shared internationally.

The two main objectives of the SPF are to support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into, crisis or arrears; and to support the reconstruction and development of countries prone to, in, or emerging from conflict.
By March 31, 2009, $27 million of the $46.3 million available in the SPF for FY09 was committed. The demand for SPF funds is substantial and there is a robust pipeline of proposals. Approximately $15 million in new projects have been prioritized for proposal preparation and processing by the end of FY09. Early indications suggest that demand will probably be in excess of the amount available for new projects. In addition, the global financial crisis and its adverse impact on fragile and conflict-affected countries are likely to further increase demand for SPF funds.

The LICUS trust fund has funded work in Cambodia, East Timor and Zimbabwe, a number of other African countries, and Haiti. The Post-Conflict Fund has funded work across Asia, including Cambodia, Indonesia, Philippines, Sri Lanka, Thailand and East Timor.

The fact that the Bank is funding the SPF from administrative expenses rather than IBRD surpluses indicates the Bank’s invigorated commitment to working on fragile and post-conflict issues under President Zoellick. The constituency office has stressed to Bank Management the need for broader cross-institutional evaluation and learning from the Bank’s fragile states strategic theme. We will also work to ensure that the SPE continues to work on both post-conflict and fragile situations and does not simply become a larger post-conflict fund, with little focus on fragile situations.

The World Bank Department of Institutional Integrity

The new head of INT has now settled into his position and taken steps to improve operations. More staff have been recruited to process cases and to conduct educational work within the Bank to assist in the prevention and identification of corruption in Bank projects. In addition, protocols have been established to smooth the flow of work from INT through the Assessments Officer to the Sanctions Panel. At the end of FY09, the Executive Board also approved measures to close loopholes in the sanctions process, clarify operating procedures and to improve the transparency of processes. A major step in this direction is to establish a database that enables Bank procurement staff to check the status of companies tendering for Bank contracts.

INT has also built in procedures to ensure it maintains clear communications with member countries, including briefing the constituency office when issues relevant to member countries arise. INT has also expanded its outreach to other comparable bodies, organizing conferences and developing protocols for sharing information. In terms of quality control, the External Advisory Panel recommended by the Volcker Panel in 2007 is now in place, serving as a sounding board for INT on issues of strategy and good practice.

Disclosure Program – Progress Report

In July 2009, the Committee on Governance and Executive Directors’ Administrative Matters (COGAM) discussed a draft Approach Paper by Management Toward Greater Transparency – Re-thinking the Bank’s Disclosure Policy: The Disclosure of Board Records and Related Issues. The paper proposed certain changes to current policy and administrative approach to disclosure of Board records.

The draft proposal was the outcome of an extensive consultation process involving 33 developing member governments, Bank staff, NGOs, and other interested groups. The paper reflected the general desire that treatment of Board records should be in line with the Bank’s general disclosure policy. Consistent with that approach, the paper defined classes of information for disclosure in three-tier time frames, with a list of different types of information/documents that could be disclosed under each tier grouping. It also took into account the special circumstances of many Executive Directors (EDs) offices which are multiple constituencies.
Discussions so far emphasized two main principles that underpin change: (i) that deliberate Board records would not to be disclosed until eligible; and (ii) final decision and outcomes to be disclosed immediately. However, COGAM discussions have also made suggestions which included the need for Board minutes to be more informative, disclosure of legal opinions, communications from EDs should not be disclosed, the need to have a more detailed negative list, and the suggestion to institute a pilot. Together with various requests for additional clarifications on a number of administrative and technical aspects of the proposed disclosure policy, these suggestions will be incorporated in a revised draft for further refining before a decision is reached on implementation.

Notwithstanding that the paper has been agreed in principle, there are some unresolved issues. For example, the issue of translation was stressed as critical for the proposed disclosure policy once it becomes effective. If this new policy approach is concluded and if translation was to be part and parcel of the policy, not only will it require the Bank to better articulate its policy on translation of Board documents, but also it was recognized that costs associated with translation will be huge. This will undoubtedly raise difficult budgetary issues.

**Gender Action Plan Implementation**

In May 2009, the progress report of the two-year program “Gender Equality as Smart Economics” was submitted to the Board. This program is part of the WBG’s Gender Action Plan (GAP). The report is an account of results and lessons taken during implementation of the program for the period January 2007 – January 2009.

The Bank mobilized significant resources under the GAP both from its own funds as well as from donor contributions: pledges totalling $60.9 million – an additional $36.4 million over the original four-year budget of $24.5 million, were made. Under the GAP, the Bank’s new commitment to promote gender equality, the Adolescent Girl Initiative and Private the Sector Leaders’ Forum, was launched.

The GAP was implemented under its four windows: (i) operation and analytical work; (ii) results-based initiatives; (iii) research, impact evaluation and statistics; and (iv) communications. Programs under the GAP focus on four key markets: land, labor, agricultural product, and financial market. The GAP has been effective in motivating new work on gender and enlarging the pool of gender expertise at the Bank.

The program faces a number of challenges, namely, consolidating mainstream gains in economic sectors may require additional time beyond the end of 2010. Since most GAP’s operations are in post-conflict countries, implementation could be delayed. Also, effective dissemination of the GAP’s outcome is critical. Finally, the GAP’s mainstreaming agenda may require additional instruments.

In terms of next steps, Management proposes that new GAP programs should include funding that is directed to help engender Bank’s response to the financial and food crises on women and families. Also, it proposes that the Bank’s responses to the two crises should include women in terms of employment, production and income generation.

**IFC Performance-Based Grant Initiative - Progress Report**

IFC’s Performance-Based Grant Initiative (PBGI), was piloted with an initial drawdown of $65 million out of $250 million retained earnings for 2006-2007. This was subsequently endorsed as a regular program at the end of 2007. The PBGI funds two tranches, namely, the Access to Infrastructure and Access to Finance (A2F).
As at January 2009, 23 grant agreements have been signed under this program for a total grant commitment of $92.8 million, an increase of 8 grant agreements ($28.5 million) since December 2007. This growth has been accounted for by IDA countries mainly in Sub Saharan Africa (six new grant agreements), the Middle East (Yemen) and East Asia (Cambodia).Cumulative IFC disbursements as at December 2008 to the GPOBA totalled $60.5 million, from a total allocation of $132.8 million. Good progress was observed in the following three key areas:

a) access by low-income households to basic infrastructure services;

b) signed advisory mandates to assist governments in mainstreaming Output-Based Aid (OBA) approaches; and

c) knowledge management products and harmonization of OBA approaches with other donors.

The A2F program has approved 14 projects valued at $17.9 million. By region, the program is widely dispersed: Africa (30.7 percent), South Asia (26.1 percent), East Asia (16.8 percent) and the Middle East & North Africa regions (11.1 percent). By sector, microfinance projects represent the highest concentration of projects (60.1 percent), followed by micro insurance (16.0 percent), leasing (13.9 percent) and low income housing finance (8.8 percent)

Changes in Senior Management

All substantive appointments at Managing Director and at Senior Vice-Presidential levels remained unchanged during the year. Also, their respective duties and areas of responsibility did not change. No major organizational changes were undertaken during the period.

Following an extensive process to find suitable candidates, a number of senior management positions have been confirmed during the period, which enabled President Zoellick to make the following vice presidential appointments:

- Clare Brady, a British national, will take up position in October 2009 as the Auditor General and Vice President, Internal Audit Department. This position was recently elevated to vice-presidential level.
- Anne-Marie Leroy, a French national, assumed duties in March 2009 as Senior Vice President & General Counsel. She took over from Scott White who was in charge on an acting capacity.
- Sanjay Pradhan, an Indian national, assumed duties in October 2008 as Vice President, World Bank Institute.
- Otaviano Canuto, a Brazilian national, assumed duties in May 2009 as Vice President and Head of Poverty Reduction & Economic Management Network. He took over from Danny Leipziger who retired in July 2009.
- Janamitra Devan, a US national, will take up duties in October 2009 as Vice President, Financial and Private Sector Development.
DEVELOPMENT RESULTS

Annual Review of Portfolio Performance FY09

The Annual Report on Portfolio Performance (ARPP) provides a strategic overview of the size, composition and quality of the Bank's portfolio and the Analytic and Advisory Activities (AAA) program. The report showed that the Bank's portfolio of lending activities has declined in real terms over the past five years. The portfolio share of IDA, in particular Fragile States, has been increasing while the share of IBRD has been declining.

The ARPP notes the growth of infrastructure lending, which is a successful response to the 2003 Infrastructure Action Plan. Net resource transfers have been occurring in IDA, but not in IBRD due mainly to large prepayments in IBRD during the past three years.

The ARPP notes the planned increase in lending in the medium term as a response to the current global crisis, and recommends sustained focus on quality issues. The share of AAA in country services expenditures increased from 24 percent in FY04 to 30 percent in FY08. The Bank spent about $250 million in FY08 in AAA, more than on lending and almost as much as on supervision.

The increase in AAA expenditures is occurring in three client segments: (i) IBRD countries which are opting for more "knowledge led" programs; (ii) Fragile States in response to the 2002 LICUS Task Force Report calling for a greater share of knowledge services in Bank programs; and (iii) multi-country AAA, at the global, regional, and sub-regional levels. There has been a major shift in composition of AAA from ESW to Non-lending Technical Assistance activities.

There are several portfolio segments that have been performing well. The Transport and Water Sectors have been consistently high performers during the past five years. The IBRD outcomes continue to improve, as well as those of the Environment, Economic Policy, and Urban Sectors. The ARPP also notes that while the Energy and Mining Sector was showing deterioration in outcomes of recently completed projects, the current portfolio of the sector shows signs of improved performance.

The results of the Quality Assessment of Lending Portfolio (QALP) recently completed by the Quality Assurance Group indicate that about 75 percent of the projects have a moderately, likely or better chance of achieving their objectives. The QALP confirmed the continuing weaknesses in the Africa Region, Health, Nutrition and Population Sector; and Public Sector Governance portfolios identified in recent IEG assessments. In addition, the QALP results indicate that the Education portfolio might need special attention to ensure that it does not deteriorate. The QALP also notes opportunities for improving project design and candor of Implementation Status and Results Reports.

2009 Annual Review of Development Effectiveness

The Annual Review of Development Effectiveness (ARDE) is the flagship publication of the IEG. The 2009 ARDE continued the two-part format introduced in 2008. Part I tracks the Bank’s performance, including trends in outcomes of projects and country programs, the evolution of monitoring and evaluation, and the role of evaluation in the results agenda. This year’s special theme in Part II was the Bank’s work on sustainable development.

IEG finds that the Bank's record on performance shows a moderately strong upward trend over the medium term and recent performance confirms that this trend continues. The 2008 World Bank project performance data shows improvement in achieving development outcomes, allaying concerns that the
weakened 2007 performance could signal a new downward trend. The decline in performance in 2007 was modest, and it has rebounded in 2008.

IEG also found that there had been a mixed record on implementing the agenda to strengthen the Bank's orientation, capacity, and monitoring of development results. Institutional initiatives to strengthen project-level monitoring and evaluation, to put in place a Results Measurement System for IDA, and to implement results-based CASs are at different stages of deployment and have yet to demonstrate a clear impact on outcomes.

The focus of the 2009 ARDE is on getting results for sustainable development. IEG finds the Bank's record in implementing the 2001 environment strategy and advancing the results agenda to be quite mixed. New sources of financing, including for global efforts, have helped lending and support for the environment recover from lows of the early 2000s, analytic work has fostered innovative approaches and enhanced environmental awareness, and direct support for environmental projects is showing improved performance with tangible results. But implementation of the strategy to mainstream environmental work across sectors has been weak and must be strengthened.
FUNDING DEVELOPMENT

Funding Envelopes

The WBG made several innovations to increase the level of funding available to respond to the economic shocks. Fast track procedures were introduced to bring forward and expand existing projects. Funds allocated to dormant projects were re-assigned. There was also increase in the level of standby arrangements to provide financial security. The IFC also sought to increase its leverage of private sector funds by entering into a series of joint investment funds, such as in financing trade. WBG was also active in proposing funding arrangements that might appeal to the specific interests of donor countries which was an influence on the design of the Vulnerability Framework. The WBG also proposed architecture that would improve the effectiveness of international funding of development projects and remove potential duplication. The most notable example of this is the INFRA initiative.

Reflecting the ability of IBRD to respond to demand, IBRD lending commitments accelerated in 2009 to reach $32.9 billion compared to $13.5 billion in FY08, and is currently projected to be between $30 and $50 billion in FY10. This increase in commitments moved the equity/loan ratio from 37.6 to 34.5 percent, with the target band of 27 to 23 percent. Should the higher lending scenario be realized the equity/loan ratio would approach the lower boundary of the target band in FY11.

IDA15 funding operates within a fixed funding envelope of $42 billion. This has meant that the resourcing of a crisis response for IDA countries has been approached differently to IBRD, relying more on reallocation of funds for dormant projects and sourcing trust funds where available. The midterm review of IDA takes place in late 2009 and it is likely that the adequacy of funding will be addressed.

In response to the global economic crisis, the WBG established an IDA Financial Crisis Response Fast-Track Facility to assist IDA clients anticipate the negative effects of the crisis, provide customized policy options to minimize the crisis impact, as well as provide technical and financial support to assist private and public sector projects with long-term development impacts.

The Facility would fast-track an initial $2 billion of the IDA15 resources. If delivery of a fast-tracked operation would exceed the country’s 30 percent frontloading threshold, frontloading of up to 50 percent will be considered. However, despite the Fast Track-Facility’s approval by the Board in December 2008, by the 2009 Spring Meetings there was little progress, with only two smaller projects approved. Concern was expressed by a number of Governors at the Spring Meetings about the slow progress. Since that time, there has been $1 billion worth of projects approved under the Facility, including $350 million for Vietnam.

IBRD – Net Income Allocation

IBRD's net income available for distribution in FY09 was $500 million, some $1.644 million lower than FY08 - a function of lower interest rate (and thus interest income) and higher loan loss provisions. Management expects similar levels of net income for the next two years. The Executive Board agreed to transfer net income of $500 million to IDA, in addition to $283 million from reserves (total $783 million). This, in addition to the $200 million transferred to IDA from the IFC, maintains President Zoellick's commitment regarding WBG transfers to IDA for 2009. IFC had no net income available for transfer to IDA and re-designated $200 million, funds put aside for IFC projects in IDA countries.
IBRD – Loan Pricing and New Instruments

The main objective of the 2009 loan pricing review was factored around the WBG’s response to the impact of the global financial and economic crisis on its clients. A key component of the WBG’s ability to “lean forward” in delivering development assistance was the need to enhance IBRD and IFC’s financial capacity to meet the substantially increased borrower needs for development finance. As the crisis unfolded, private sector funding collapsed at the same time as financing needs of middle-income countries rose. The demand for IBRD loans, even when adjusted for the institution’s operational ability to deliver, is projected to exceed IBRD’s financial capacity over the medium term. Hence, the 2009 price review has focused on loan pricing for financial sustainability.

A two-step approach is proposed for the new loan pricing. The first step is to place loan pricing on a sustainable cost coverage basis such that loan pricing would cover both lending-related administrative expenses and long-run expected losses. The possible second step would be the consideration for a further combination of measures for building the IBRD’s lending capacity. In terms of the second step, Management has not proposed a strict formulaic approach to setting sustainable pricing, given the difficulties related to (i) the need for normative assumptions regarding the share of administrative expenses that should be recovered from loan pricing beyond direct lending-related expenses, and (ii) the technical challenges associated with the measurement of the pricing elements.

The review indicated that IBRD’s new loan pricing should be raised to put it on a sustainable cost coverage basis. On balance, given the challenges associated with a precise estimation of the cost elements comprising sustainable loan pricing for IBRD, the recommended increase includes:

- 20-basis point increase in the contractual spread for regular loans, which would result in raising the contractual spread on new loans from 30-basis points to 50-basis points, with the front-end fee maintained at 25-basis points; and
- 50-basis point increases in the front-end fee of DPL, Deferred Drawdown Option (DDO) and a 25-basis point increase in the front-end fee of Catastrophic Risk DDOs to charge for the capital tied up due to undrawn DDOs.

On August 5, 2009, the Board considered the 2009 Review of New Loan Pricing on the basis of loan pricing for financial sustainability. The Board endorsed the recommendations of the Audit Committee on the following:

(i) new loan pricing be set at a contractual interest spread of 50-basis points and a front-end fee of 25-basis points;
(ii) for new partial risk, partial credit, and policy-based guarantees, pricing be set at a guarantee fee of 50-basis points and a front-end fee of 25-basis points;
(iii) the front-end fee for DPL-DDOs be increased from 25-basis points to 75-basis points, with a 50-basis point fee charged at each renewal; and
(iv) the front-end fee for Catastrophic Risk-DDOs be increased from 25-basis points to 50-basis points, with a 25-basis point fee charged at each renewal.

Within the constraints of the current global financial and economic conditions, the WBG has been working on constructive and positive solutions for going forward. The main considerations included a possible increase of capital adequacy, pricing review on loans on a substantial basis, and tight administrative expense management. Hence, improvements on future approaches to loan pricing have been noted. These include: (i) additional income generated through the pricing increase will be allocated to reserves to strengthen IBRD’s capital position in line with what is required in the Articles of
Agreement; and (ii) a second step that there is a SCI in the context of Voice and a General Capital Increase (GCI) to follow.

The above could be seen as a two-step approach: the first step would be for addressing the issue of capital adequacy and financial sustainability, and that the second step would be to take up discussion on a SCI. In this case, the burden of price increase falls basically on borrowers, and also the benefits of a price increase continue to accrue long after the immediate reason for the price increase has passed unless the price increase itself is reversed. This is the view of a few of the Board Chairs while most Chairs agreed to Management recommendation.

The view of this office is that any pricing increase should be part of a package of GCI and SCI. Inevitably, there would need to be a discussion on capital increases as the voice issue is being addressed. This office would participate and contribute to any capital increase. Going forward, the key issue now would be the discussion or argument on the price of shares and how these shares would be spread between a GCI and a SCI.

**IFC - Capital Adequacy**

Given its current capital position, IFC would not be able to sustain the level of growth needed to fulfil its developmental role over the medium-term nor would be in a position to withstand a further deterioration of the markets. IFC has developed both medium- and long-term (through FY16) ‘base-case’ and ‘prolonged recession’ financial projections, based on detailed macroeconomic analysis. Under the ‘base-case’ scenario, for IFC to maintain a 10 percent capital buffer throughout FY09-FY16, average commitment growth could not exceed 5.0 percent. This 5 percent growth rate will not allow IFC to meet its developmental goals, play a countercyclical role or address the growing private sector demand for its services. Under the low-case ‘prolonged recession’ scenario, annual commitment growth levels of around 6.6 percent through FY16 would result in a capital shortfall of $2 billion by end-FY11; this shortfall would worsen steadily thereafter.

Therefore, IFC will either need to maintain lower levels of growth in the future, or strengthen its capital position in order to support higher investment and advisory levels. Increased capital in the range of $2.5-$5.0 billion would provide IFC with sufficient capital to continue to play a leadership role in supporting the private sector in emerging markets during the crisis. Of the various options available for increased capital, it is suggested that hybrid capital from shareholders would be most appropriate in the short-term, as a means of enhancing IFC’s counter cyclical role while ensuring its financial strength should there be a further downturn. Over the longer term, an increase in paid-in capital would be the most appropriate means to allow IFC to continue to grow and play its leadership role in private sector development for our developing country clients.
IBRD/IDA FINANCES

Trends in the IBRD/IDA Lending Portfolios

During FY09, the World Bank increased its lending commitments significantly in response to client demands, particularly from developing countries to deal with the impact from the crises. Total commitments reached $46.9 billion or almost double of FY08 levels.

IBRD lending commitments were at their highest in the history of Bank lending, reaching $32.9 billion from $13.5 billion in FY08 or almost 2.5 times. This exceeded the Bank’s lending commitments during the Asian financial crisis which reached $22.0 billion. Development policy lending to IBRD countries increased to $15.5 billion from $4.0 billion in FY08. IBRD lending also increased in all sectors. Public administration and law and justice received the highest volume of IBRD lending of $6.9 billion. Lending to infrastructure sectors (transportation, energy and mining, water, sanitation and flood protection, and Information and Communication Technology) increased to $12.3 billion. Lending to health and other social services sector also increased significantly from $0.7 billion in FY08 to $4.3 billion in FY09. In terms of themes, financial and private sector development received the highest volume of $7.2 billion, followed by social protection and risk management with $4.5 billion. Lending to environment and natural resources management reached $4.5 billion.

<table>
<thead>
<tr>
<th>Category</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>Change</th>
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<tr>
<td>Number of operations</td>
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<td>298</td>
<td>309</td>
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<tr>
<td>IBRD</td>
<td>112</td>
<td>99</td>
<td>126</td>
<td>27.3%</td>
</tr>
<tr>
<td>IDA</td>
<td>189</td>
<td>199</td>
<td>176</td>
<td>(11.6%)</td>
</tr>
<tr>
<td>Commitments ($ billions)</td>
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<td>89.9%</td>
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<td>IBRD</td>
<td>12.8</td>
<td>13.5</td>
<td>32.9</td>
<td>144.4%</td>
</tr>
<tr>
<td>IDA</td>
<td>11.9</td>
<td>11.2</td>
<td>14.0</td>
<td>24.6%</td>
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<tr>
<td>Investment</td>
<td>18.4 (75%)</td>
<td>15.6 (63%)</td>
<td>28.6 (61%)</td>
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</tr>
<tr>
<td>Development policy</td>
<td>6.3 (25%)</td>
<td>6.7 (27%)</td>
<td>18.3 (39%)</td>
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</tr>
</tbody>
</table>

Note: Lending includes loans, credits, guarantees, and grants.

Overall, IDA commitments increased to $14.0 billion in FY09 representing a 25 percent increase on FY08. In terms of regional distribution, Sub-Saharan Africa and South Asia accounted for the highest share of total IDA commitments during FY09, with 56 percent and 30 percent respectively.

IDA commitments in the health sector increased by a significant 120 percent from $910 million in FY08 to $2 billion in FY09, while agriculture sector and Education sector lending also increased by 91 percent and 32 percent, respectively. Infrastructure sector (i.e., the energy and mining; transportation; water, sanitation) lending saw a 39 percent increase from FY08. By the end of June 2009, 10 operations totalling $990 million and spanning eight countries have been brought forward under the IDA Financial Crisis Response Fast-Track Facility, an initiative in response to the financial crisis.

Except ECA, and Latin America and Caribbean (LCR), all regions experienced increased lending levels in FY09. However, in comparison to the previous year, LCR region’s commitments in FY09 were nearly tripled their FY08 levels. Lending to the ECA region was more than double FY08 levels, reaching $9.4
billion. East Asia and Pacific (EAP) Region delivered $8.25 billion, up 82 percent from FY08. The LAC region accounted for the highest IBRD commitments in FY09 (about 42 percent of total IBRD commitments). The majority of the IBRD commitments in FY09 concentrated in three countries, namely, Indonesia, Brazil, and Mexico. In terms of total IDA commitments for the period, 56 percent was accounted for by the Sub-Saharan Africa (SSA) region.

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of loans</th>
<th>Commitments ($ billions)</th>
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<tbody>
<tr>
<td></td>
<td>2007</td>
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</tr>
<tr>
<td>AFR</td>
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<tr>
<td>EAP</td>
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<tr>
<td>ECA</td>
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<tr>
<td>MNA</td>
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<td>17</td>
</tr>
<tr>
<td>SAR</td>
<td>42</td>
<td>39</td>
</tr>
<tr>
<td>Total</td>
<td>301</td>
<td>298</td>
</tr>
</tbody>
</table>

Gross disbursements during FY09 reached $27.8 billion, an increase of 41.4 percent compared to FY08. The increase is explained largely by strong IBRD disbursements which increased by 77 percent. In comparison, IDA disbursements increased by only one percent from FY08 levels. IBRD gross disbursements increased in all regions. However, more than 57 percent of the increase was in the LCR region, followed by a 27 percent increase in the ECA region. Gross IDA disbursements decreased in SSA region reflecting the large volume of lending that was approved in FY09 for several countries. The increasing trend in net IBRD/IDA disbursements continued during FY09, reaching $15.3 billion. There was a significant swing in net IBRD disbursements, moving to a positive $8.3 billion in FY09. Net IDA disbursements increased by one percent to $6.9 billion in FY09. Repayments in FY09 were $0.2 billion, 86 percent less than the $1.7 billion prepaid in FY08. In addition to lending activities, analytical and advisory products have continued to be delivered. These included 437 ESW products, 545 Technical Assistance, 39 Country Assistance Strategy and Country Partnership Strategy documents, 18 Poverty Reduction Strategy Paper products and Seven Highly Indebted Poor Country documents.

**FY09 WB Administrative Budget**

On June 30, 2009, the Board approved FY10 net administrative budget of $1.741 billion – a flat budget in real terms inside a range of +/-2 percent. In nominal terms, this is an increase of 1.39 percent applying price factor. Management was authorized to tap additional budget flexibility of up to $33 million above the existing band to allow the Bank to respond in a timely manner should client-driven needs continue to increase beyond the levels currently anticipated in work programs. Allocation to the regions will go up 1.7 percent to $22.7 million in real terms and more than half of new funds. Regions are also the main beneficiaries of the changes in the price factor. In real terms, network anchors will receive $12.5 million more, but nearly 80 percent of this is expected to be from external funding (this year’s budget incorporates anticipated trust fund and other external money). The majority of Finance, Administrative and Corporate units have budget cuts in real terms.

The +/-2 percent flexibility range established in FY06 is being allocated to two “fast-disbursing budget set asides”: the Crisis Response Credit Line ($21 million) for regions to use for lending, supervision, and
ESW, and the Business Improvement Fund ($12 million) for start-up investments in key initiatives such as HR policy, decentralization, Information Technology and knowledge.

The Bank is committed to reverting to a flat budget in three years. To do this, there will have to be rigorous monitoring of fixed costs and increased cost savings, which the Bank expects to find through a four-step process. This covers everything from how office space is used to country services. Management will report to the Board in December 2009, and the first round of actions will be reflected in the FY11 budget. A number of important initiatives are already underway—including the decentralization review, the knowledge and learning agenda, and investment lending reform. Finally, the Board encouraged Management to provide more analytic work on the impact of Bank-executed trust funds on the work program.
INTERNATIONAL FINANCE CORPORATION (IFC)

Operational Results

During FY09, IFC increased its focus on portfolio management in view of the global economic crisis and in line with decentralization and industry cluster implementation. Strong emphasis was placed on proactively reaching out to clients to help them assess their vulnerabilities in the difficult environment and to determine where IFC could be of greatest assistance.

IFC’s commitments in FY09 totalled $10.547 billion, a seven percent decline from FY08. In addition, IFC mobilized resources in the amount of $3.964 billion from $4.752 billion in FY08. The number of projects IFC invested increased from 372 to 446 in FY09, a 20 percent increase from FY08. Disbursements from IFC’s own account totalled $5.64 billion as compared with $7.650 billion in FY08. Between FY05 and FY09, the number of commitments in IDA grew 180 percent, with 51 percent of all FY09 projects in IDA countries, compared to 32 percent in FY05. When frontier regions are included, this rises to around 60 percent. Commitment volume increased 300 percent over the same period: from $1.1 billion to $4.5 billion, accounting for 43 percent of total volume, compared to 21 percent in FY05. Compound annual growth rate of IDA investments was 41 percent over the period FY05-FY09, compared to 18 percent for IFC as a whole.

In East Asia and Pacific region, IFC committed $1.1 billion in FY09, a 30 percent decline from FY08. Commitments to IDA countries in the region nearly doubled from $200 million to $400 million. IFC’s total commitment to the region generated new business in 45 projects, seven of these are located in conflict-affected countries and regions.

IFC adjusted its product mix to meet the changing needs of developing countries. For instance, IFC committed over $5 billion in financial market investments, of which $2.4 billion was in trade finance as compared with $1.4 billion in FY08.

IFC launched an array of crisis-response initiatives, including:

- $3 billion IFC Capitalization Fund to strengthen systemically important banks, with a leveraged impact of as much as $75 billion;
- $5 billion Global Trade Liquidity Program to help reverse the decline in trade flows to support as much as $50 billion in trade; and
- $2.4 billion Infrastructure Crisis Facility to ensure that projects critical for development get built.

In addition, IFC introduced the $500 million Microfinance Enhancement Facility to provide credit to micro enterprises, and expanded advisory services aimed at helping clients manage risks and address non-performing loans. Through its focus on development impact and results measurement, IFC has shown that it is an effective conduit of funds to the private sector in developing countries, with every dollar of capital leveraging approximately $17.5 of project costs, and generating about $11.5 of benefits over and above project costs plus a risk-free return. IFC has also achieved significant leverage in its advisory services.

In FY09, investment projects rated with high development outcome. Development performance benchmarks and standards reached 71 percent, the same as FY08, but higher than 63 percent in FY07. Advisory services projects with development effectiveness rated “satisfactory” or better reached 70 percent. IFC’s growing focus on frontier markets and second-tier clients led the IFC to adopt a more decentralized operating model to be able to serve these markets and clients better. By being closer to the clients and better able to understand their needs, IFC’s ability to deliver projects with greater development impact and to maximize additionality is significantly enhanced. The move to a decentralized model has
been an evolving process, intensifying from 2002. IFC’s efforts to be more client-centered have gained greater urgency with the unfolding of the global financial crisis. Being closer to clients is critical to improved monitoring of projects and providing pro-active support to clients facing difficulties. Over half of IFC staff is now field-based in 7 hubs and 106 offices, 64 of which are in IDA countries including seven in East Asia and Pacific Region countries like Cambodia, Mongolia and Papua New Guinea. IFC’s advisory services presence in the Pacific is being extended from two countries (Papua New Guinea, Timor Leste) to six (Solomon Islands, Vanuatu, Samoa and Tonga).

Decision-making and risk management capabilities are also shifting to the field. Based on lessons learned from the pilot in Asia, internal delegated authority went global in FY09. Legal, credit, environmental and social specialists in the field have all increased to support the delegated decision-making.

**FY10 Business Plan and Administrative Budget**

IFC’s Business Plan is based on the strategic priorities set up in 2004:
- strengthening engagement in frontier countries;
- building long-term partnerships with emerging players in developing countries;
- differentiating through sustainability competencies;
- addressing constraints to private sector growth in infrastructure, health and education; and
- developing local financial markets.

While IFC’s core priorities have not changed – as above, its overall strategy has shifted from an emphasis on growth to a focus on its countercyclical role while at the same time working to enhance risk management, stabilize its portfolio, mobilize partners and help existing clients.

Commitments in FY09 are estimated to be at least in the range of $10.2 billion to $11.0 billion in 420 to 460 projects, with mobilizations of $5 to $7 billion. However, in light of the capital constraint IFC is facing and the need for caution in a volatile environment, it proposed only moderate growth for FY10, with commitments in the range of $11 to $12 billion, and mobilizations are estimated at the same levels as FY09. IFC’s Management Group has also established a stretch target of $14 billion for IFC’s commitments which would be achievable if there is an earlier than expected global recovery. Considering the recent volatility in the global economy, however, it is also conceivable that much worse than expected developments in the external environment could dramatically lower IFC’s projected business program.

IFC aims to deliver further growth in frontier markets, particularly in IDA countries, maintaining the IDA percentage around 50 percent of a growing number of projects. It will also strengthen its approach to Small and Medium Enterprises and reaching the base of the pyramid.

IFC’s FY09-11 Business Plan and Budget (IFC/R2008-0120) called for an indicative budget increase in FY10 of 10 percent, but growth is no longer planned in either the investment program or the budget for the duration of the financial crisis.

During FY09, IFC proactively managed its spending and as the scope of the financial crisis became clear, departments were told to limit their expenditures to 95 percent of their budgets. Also, Management decided to suspend variable pay programs such as market premiums and long term performance awards. Planned recruitment was also reduced so that IFC would not increase its cost base entering FY10. IFC will continue this proactive approach going forward and is proposing a flat Regular Administrative Budget of $522 million for FY10.

The Board approved a total administrative budget for FY10 of $697.9 million including a contribution to IBRD’s Vulnerability Financing Facility of $145,000 (in lieu of Management Group salary increases); a
capital budget of $41.7 million; and a $7 million special carry forward of unspent FY09 budget to fund a
Crisis Response Contingency for FY10 to be released only after consultation with the Board. The
proposed Total Administrative Budget is 4 percent higher than the FY09 Total Administrative Budget.
This increase includes the price factor of 0.72 percent and reflects a significantly higher (+37 percent)
contribution to staff retirement plans. The capital budget proposal is less than half the level of FY09.

Crisis Response Initiatives

In response to the global financial and economic crises, IFC has taken a number of initiatives to assist
developing member countries mitigate the impacts. First, it established the Capitalization Fund which
aims to assist rebuild financial infrastructure in developing countries. The fund would provide additional
capital for banks that are under liquidity problems as a result of the global financial crisis. Already IFC
and Japan have invested $1 billion and $2 billion, respectively, in the fund.

Secondly, IFC is providing liquidity for global trade finance by expanding the GTFP to create the GTLP.
The GTFP is a guarantee program for trade managed by IFC. As at December 2008, IFC has expanded
the total guarantee limit under the GTFP $3 billion from $1.5 billion in the previous year. Already, IFC
has launched the first phase of GTLP for $50 billion. This would provide liquidity for trade finance for
three years.

Thirdly, IFC has established MEF to provide liquidity support to private sector companies in developing
countries. The facility is to be operated through microfinance financial institutions in the form of loans.
As a start, it aims to lend $500 million which is targeted at small and medium enterprises. Seed funding
has so far come from the German government and IFC itself.

Fourth, IFC has established the ICF which would provide liquidity for infrastructure projects in
developing countries that are experiencing financing gap in their development budgets as a result of the
crisis.
MULTILATERAL INSURANCE GUARANTEE AGENCY (MIGA)

Operational Results

New issuance of guarantees fell to $1 billion in 2009 from $2.1 billion in 2008. The limited availability of credit had a significant impact on MIGA’s portfolio as many proposed investments requiring large amounts of debt financing were delayed. On the other hand, MIGA’s support for small equity-driven investments grew in fiscal year 2009. MIGA also played a significant role in the financial sector by providing coverage which ensured continued bank lending in Eastern Europe – a region that was hit particularly hard by the financial crisis.

After four consecutive years of growth, the amount of new guarantees issued declined for the first time since 2004. However, gross exposure increased slightly to $6.6 billion due to a significant drop-off in the number of cancelled contracts. Exposure in IDA countries constitutes 33 percent of the outstanding portfolio. While the amount of guarantees issued in fiscal year 2009 was higher in IBRD countries, 10 of the 19 projects were in IDA or IDA blend countries. Eight of the projects were in Sub-Saharan Africa, another priority area for MIGA. South-South investments accounted for 42 percent of projects.

In FY09, 8 contracts were cancelled compared with 50 in FY08 and 54 in FY07. The dramatic decrease in cancellations in FY09 is an indication that risk perceptions have increased as a result of the ongoing financial crisis, and that guarantee holders are more inclined to maintain existing coverage. The FY09 results bring total volume of guarantees issued since MIGA’s inception to $20 billion, including amounts leveraged through the Cooperative Underwriting Program.

FY10 Business Plan and Administrative Budget

In FY10, MIGA expects to regain momentum and see higher volumes of guarantee business within the $1.4 billion to $1.8 billion range, depending on how soon the global economic environment turns around and Foreign Direct Investment flows resume in emerging markets. The baseline scenario shows FY10-FY12 business guarantee volumes as follows: FY10 $1.6 billion, FY11 $2.0 billion, FY12 $2.3 billion. The baseline forecast of MIGA’s business shows the following indications at the end of FY10: Gross exposure $7.3 billion, Net Exposure $3.9 million and Net premium $46.8 million.

As MIGA responds to market needs in the context of the ongoing financial crisis, new business does not directly align with the four areas of operational priority as presented in MIGA’s FY09-FY11 Operational Directions. In that document, four particular areas for operational focus were highlighted as strategic priorities, namely: (i) supporting investments in IDA countries; (ii) supporting investments in post-conflict countries; (iii) supporting complex projects, especially in infrastructure and the extractive industries; and (iv) supporting South-South investments. While the consequences of the financial crisis led to a low proportion of new business generated in FY09 falling within the stated operational priority areas, MIGA anticipates a resumption of focus on these strategic priority areas and an increase in business in these areas in FY10. Also, the recently approved changes to MIGA’s Operational Regulations set MIGA squarely on that path. These changes will increase the agency’s flexibility to offer a broader range of products to its clients. Full-scale implementation of the amended Operational Regulations and revised procedures will begin in early FY10.

To deliver on the FY10 work program, MIGA’s regular administrative budget of $28.3 million in FY09 dollars was approved by the Board. This amount would represent a flat budget request of percent when compared to the FY09 request of $28.3 million. Including below the line costs, the overall total administrative budget request in FY10 would amount to $39.1 million in FY09 dollars. Thus, this would represent a 2.2 percent increase from the prior year’s request in FY09 dollars. After price adjustment, this
will be a budget request of $39.6 million which represents a 3.5 percent increase over the FY09 budget request.

In FY10, the main cost drivers for MIGA relate to below-the-line costs. These higher costs are attributable to the agency’s contribution to the staff retirement plan (an increase of $0.8 million) as a result of the rate increase from $21.3 in FY09 to $27.8 in FY10; depreciation costs (which rose by $0.3 million) associated with the guarantee systems project that MIGA expects to launch in FY10; Compliance, Advisor and Ombudsman costs (which increased by $0.1 million); and IEG (which increased by $0.1 million).

Under MIGA’s supplementary budget which was approved at mid-year, Management may propose to the Board a supplemental budget not exceeding two percent of its total administrative budget if there is a marked demand for its products and services. Such supplemental budget will be drawn down only if client needs arise and that MIGA Management finds the agency unable to adequately meet those demands within the original Board-approved budget envelope.
CONSTITUENCY COUNTRY DEVELOPMENTS

Australia

In 2009, Australia maintained its high-level dialogue with the World Bank. Prime Minister Kevin Rudd met with President Zoellick on several occasions, including Washington and London G20 Summits, as well as a meeting in March 2009. The leaders discussed the importance of assisting the vulnerable in response to the global economic crisis. The leaders also continued their discussions on climate change and working more closely with new donors in the Pacific. Treasurer Wayne Swan also met with President Zoellick on several occasions, including during the 2008 Annual Meetings and 2009 Spring Meetings.

In July 2009, Prime Minister Rudd announced that Australia would contribute $40 million to the World Bank to assist with the food crisis. The money would help provide vital seeds and fertilizers to help farmers cope with the rapidly rising cost of agricultural inputs and increase food production. Australia is also working with the World Bank’s Regional team in the Pacific to monitor the impact of the global financial crisis, including the continuing relatively high food prices, and develop timely responses.

The Vice President for East Asia and Pacific, Jim Adams, led several missions to the Pacific during the year, meeting with Australian Agency for International Development (AusAID) Director General Bruce Davis in Canberra on June 29-30, 2009. The discussions provided an opportunity to discuss the extensive relationship between Australia and the Bank. World Bank Chief Economist Justin Lin and Jim Adams joined Pacific Leaders in Cairns for the recent Pacific Islands Forum.

Australia provided a significantly increased contribution ($492 million) to the recent replenishment of the Bank’s IDA, a real increase of 40 percent over IDA14. This contribution increased our burden share from 1.46 per cent in IDA14 to 1.80 percent in IDA15. In doing so, Australia became the 12th largest donor.

Australia's development assistance, official development assistance (ODA) in 2009-2010 will total $A3, 818.8 million ($3.28 billion), equal to 0.34 percent of Gross National Income (GNI). This represents a two percent increase over the expected outcome for 2008–2009. The 2009-2010 budget continues to lay the foundation for implementing the Government's long-term commitment to increase Australia's ODA to 0.5 percent of GNI by 2015-2016.

Cambodia

Cambodia has experienced strong growth in recent years. Under its National Strategic Development Plan 2006-2010, GDP per capita has increased, budget performance has improved and the country’s foreign reserves position also increased. However, the prospect for near-term growth is under pressure due to the financial crisis, which has exacerbated competition in the garment trade (particularly with China and Vietnam).

The country aims to diversify its growth base and to improve its governance as a way to address the constraints to development. The Bank has been engaged in various activities to assist the country towards its development objectives. Consistent with the Bank’s development principles, these activities have placed special emphasis on public financial management, governance, the financial sector strengthening and natural resources management. The WBG is currently assisting to improve the business environment in Cambodia through both WB’s Private Sector Development work (International Community Agreements and trade facilitation), and the IFC’s Business Enabling Environment program (Provincial Business Environment Scorecard, sub-national regulatory reforms, Alternative Dispute Resolution, and Public Private Dialogue). The WBG notes that the Government has made some significant policy reforms, such as the Law on Concessions, and improvements in trade facilitation and overall implementation of the
Government’s Poverty Reduction Strategy. Meanwhile, IFC complemented its work to improve business environment with loan and equity investments in Cambodia’s private enterprises. IFC continued to actively seek investment opportunities in Cambodia and is confident in the long-term economic prospects of the country. The Bank has also developed a growing volume of activities in the agriculture sector, mainly in analytical work. This sector has the potential for growth diversification along with tourism offsetting the slowdown in garment exports. While the WBG is not directly involved in the mining sector at this stage, analytical work has been launched on “mining as a source of growth” as part of a broader analysis of growth in Cambodia. This sector also has great potentials for the country.

In November 2008, Executive Director Jim Hagan, visited Cambodia for consultations. He had meetings with the Deputy Prime Minister and Minister of the Economy and Finance, as well as the Senior Minister and Minister for Land Management, Urban Planning and Constructions. He was briefed on the development policies of the new Government which assumed office following the general elections in July that year. They noted the importance of building better understanding of the Government’s priorities and having an appreciation of the development challenges facing the country, and the question is how the Bank Group would be of assistance to the country’s development program. The role of the constituency office is recognized as critical in representing Cambodia’s interests at the World Bank.

The discussion noted the enormous risks to the country’s development goals as a result of the financial crisis. The Cambodian Government re-emphasized that the Bank’s assistance should continue to be 50 percent grant and 50 percent soft loans. They expressed dissatisfaction with the International Procurement Agency and its implementation. They discussed the importance of the relationship between the Bank and authorities. Jim Hagan assured the Cambodian Government that our office will be working to help them – as all the other members – to ensure the Bank is engaged as a partner in the development of the country.

Korea

Korea started to increase ODA to play a main role as a donor country in international communities and will expand ODA’s portion to GNP to 0.25 percent by 2015. Also, Korea plans to participate in OECD DAC in 2010.

Korea has taken the lead in setting out agendas and communiqué of the G20 leaders’ meeting as one of Troika (UK, Korea, and Brazil) of G20. In the G20 meeting, Korea insisted anti-protectionism for trades, implementation of stimulus packages over the world, and support for developing countries facing the global financial crisis. The Government is excited and looks forward to playing its role as the Chair of G20 next year.

The Korean Government has made efforts to expand partnership with the WBG, as follows:

- Two Korean trust funds (TF) of $15 million each – one in EAP and one in Global Information and Communication Department (GICT). These are now in operation since last year. The TF in EAP put in place 19 grant projects totalling $7.5 million in May 2009. At the same time, the TF in GICT selected and put in place nine grant projects totalling $3 million in November 2008 and initiated the 2nd phase of the operation in April 2009;
- Consultations are progressing on plans to establish a new trust fund, for supporting fragile states in EAP;
- Also, Korea contributed $1.5 million in the Multi Donor Trust Fund for Labor Market, Job Creation and Economic growth in May 2009;
Korea strengthened its partnership with IFC to expand engagement in private sector development of developing countries, given that capital flows into developing countries have dried up due to the global financial crisis. In September 2009, the Korea Investment Corporation (SWF) will participate in SWF Initiative, IFC’s response program to the financial crisis investing in Africa and South America. Also, Korea is discussing with IFC Management its participation in the GTLP; and

Korea is interested in climate change issues acknowledging the importance of the effects of climate changes and global warming. It has paid attention to the discussion of CIF and considers contribution to it.

Mongolia

The GOM had two technical meetings with external partners in FY09 as a regular platform to discuss Mongolia’s development priorities and intensify cooperation between the GOM and its external partners in supporting those priorities.

Following an agreement on a draft 18-month Stand-By Agreement between the GOM and the IMF, the latest technical meeting was held in March 2009, where GOM unveiled its economic program to be supported by the IMF and other development partners. The Program outlines key actions to be taken by the GOM to manage Mongolia’s economic downturn. Its major objectives are to recover economic sustainability through improved fiscal and monetary policies and protecting the poor and vulnerable people through a better targeted social safety net program. Mongolia’s external partners have welcomed the agreement reached between the IMF and the Government and have been showing strong support for the implementation of the Government's economic reform plans.

The unexpected severity of Mongolia’s economic downturn has led the Bank Group to shift its strategic focus and programming to help the GOM address urgent priorities, with an emphasis on crisis management in ongoing and new programs. Given the emerging severity of crisis impacts, and uncertainties about the length and depth of the downturn, the Bank, in consultation with the Government, prepared an Interim Strategy Note (ISN) for 18 months, rather than proceeding with the four-year Country Partnership Strategy that had been under preparation for more than a year. The Bank ISN was approved by the Bank Board on May 21, 2009. Under the ISN, the WBG assistance program will support the Government’s efforts to stabilize the economy and maintain employment and growth by focusing on three strategic areas:

- improve macro and fiscal sustainability in a mineral-based economy;
- protect the poor and vulnerable; and
- encourage transparent and prudent mining investments and a more competitive and stable medium-term business investment climate.

WB Executive Director Jim Hagan visited Mongolia as a part of our office consultations with the authorities. During the visit, he held discussions with the authorities on the country’s issues and challenges, as well as the Bank’s assistance program. Among the key issues discussed were those related to economic crisis management, economic prospects and governance issues in light of the new large mines, infrastructure bottlenecks as well as the development of agriculture.

The Mongolian authorities continued a high-level dialogue with the Bank. Bank Chief Economist Justin Lin attended the first joint economic policy conference organized by the GOM and the Bank in October
2008 in Mongolia. East Asia and Pacific Vice President Jim Adams chaired the conference. Managing Director Daboub visited the country on June 11-13, 2009.

In FY09, WB approved two projects namely, (i) Strengthening of the National Statistical System of Mongolia project amounting $2.0 million, and (ii) Mongolia Development Policy Credit (DPC) Program of $40 million. The DPC is designed to assist the GOM manage the current downturn. The DPC supports reforms in the four policy areas: (i) fiscal policy and management, given the budget’s strong dependence on mining revenues; (ii) social protection, given the impact of the economic downturn on the poor; (iii) the financial sector, which was overheating when the global crisis hit, and which experienced a major bank failure in late 2008; and (iv) the mining sector, given the sector’s importance in driving the recovery. The Strengthening of the National Statistical System project aims to improve the efficiency and effectiveness of the national statistical system of the country, enabling it to provide relevant, timely and reliable data for evidence-based policy making in support of the Government’s Millennium Development Goals-based National Development Strategy. The total cost of the project is expected to be $3.1 million, comprising $2.0 million of investment credit from IDA; $0.7 million grant from the Republic of Korea, and $0.4 million from the Trust Fund for Statistical Capacity Building.

New Zealand

New Zealand has supported the scaling up of the Banks presence in the Pacific through contributions (three year commitment of NZ$1 million per annum to the Pacific Facility Trust Fund). The Bank uses part of these resources to co-locate two technical assistance projects (on SOE management and public financial management) in the IMF Pacific Financial Technical Assistance Center (PFTAC). This arrangement has deepened the capacity of PFTAC to respond to requests from Pacific countries and will also contribute to closer donor coordination. We have worked closely with the Bank and IMF to ensure that operational management of this arrangement is refined. New Zealand has also worked closely with the WB in the design and establishment of the Pacific Region Infrastructure Facility. It is envisaged that this Facility will provide a step change in how infrastructure will be supported in the region.

New Zealand has continued to have a high level of policy dialogue with the Bank. This has involved several delegations visiting Wellington, joined up discussions as part of the donor “quadrilateral” meetings August 2008 and June 2009) along with country and theme-specific dialogue. A good example of this was the coordination of the WB and NZ (and other donors) to monitor the impacts of the global economic recession and to develop analysis to support Pacific Islands Countries (PICs) determine appropriate responses. The WB has played a pivotal role to facilitate donor meetings to share information and identify more strategic approaches to addressing the issues of energy supply and access in the region.

New Zealand has worked jointly with AusAID to influence how the Bank sets priorities and allocates resources in the region. NZ is continuing to work with the Bank on a scaled-up presence in the region, in a way that is accountable to PICs, coordinates with other donors (builds on existing initiatives and mechanisms) and does not duplicate the existing bilateral presence/relationships.

New Zealand continues to value the WB’s analytical work on temporary labor migration, and the potentially fruitful analysis on the lessons learned on budget support, and on the design of a viable, sustainable and cost-effective approach to catastrophic risk.

New Zealand has continued to work with the WB in sector wide approaches in Samoa (health) and Tonga (education). The WB has recently begun to be more closely involved with NZ’s health sector engagement in PNG.
Pacific Island Member Countries

The WBG engagement in the Pacific has improved immensely compared to the past years. In terms of resources, Bank’s technical and program staff at the Sydney Office have doubled in the last two years, although there is now a major setback to the top management of that office with the departure of the Country Director, Nigel Roberts. We are beginning to see improved communication and better dialogue between the Bank and the Pacific countries resulting in wider coverage of practical developments in the region. The Bank opened a Joint WB/ADB office in the Solomon Islands in late 2008. In FY09, the Bank opened a Joint WB/ADB Liaison Offices in Tonga and Samoa. Discussions are underway to establish a Liaison Office in Vanuatu. There are also plans to provide better services to the Northern Pacific countries including Kiribati, Federated States of Micronesia, the Marshall Islands and Palau. Two Economists have been placed in Fiji to work closely with the IMF/PFTAC team dedicated to support the northern Pacific region. These developments have seen parallel active engagement in development projects in the region. In the past few years, the Bank’s activities have expanded in a wide range of sectors including energy, agriculture, infrastructure, social protection and youth employment. The Bank’s analytical work in temporary labor migration has shown substantial potential to improve the economies of these countries. With other partners in the region, the Bank has also engaged in similar work in aid management, fisheries and under-sea mining.

Meanwhile, IFC has also increased its presence in the Pacific, following the recent recruitment of a Regional Manager and an Investment Officer. This has shown a significantly strengthening of IFCs managerial and operational presence in the Pacific. IFC continues to play a major advisory role in the Pacific in the telecommunication and investment sectors. Through its advisory services and investment portfolio, IFC is now actively engaged in a number of regional countries in a variety of private sector projects and in promoting private sector development and economic growth. IFC is now playing a major role in the Pacific in financial market infrastructure across Pacific member states. In partnership with other development partners, IFC is helping develop a regional credit bureau and is now in an advanced stage in developing the Pacific Micro Finance Initiative.

FY09 saw an increase in constituency consultation visits to the Pacific Islands. In October 2008 Executive Director Jim Hagan and Advisor Iulai Lavea attended the FEMM in Vanuatu. Iulai Lavea also had bilateral discussions with the Forum Secretariat staff in Fiji before travelling on to Samoa for consultations. Jim Hagan was in Solomon Islands in early November for the opening of the Bank Country Office in Honiara. Senior Advisor Rick Houenipwela visited Solomon Islands in January 2009 for consultations and went back in March to attend a conference on Sources of Growth, and continued on to Vanuatu for consultations. In June 2009, Alternate Executive Director Do Hyeong Kim visited Korea and Samoa, and Advisor Jae Hwan Kim visited Korea and the Marshall Islands. Betty Zinner-Toa visited Palau and continued on to Vanuatu. Trips are also planned for the rest of Pacific countries later in the year.

Impacts of the Financial Crisis

The Pacific countries have not escaped the impacts of the global financial crisis. This was coupled by the fact that most of the Pacific countries were barely coming out of the food and energy crisis from early 2008, and it was like a double blow to them going into the financial crisis. In terms of the impact of the financial crisis, most of the countries have had very little access to external capital market, therefore did not feel the negative impact in the first six months of the crisis because their underdeveloped financial markets and limited integration with global financial markets helped cushion the impacts of the crisis. However, it was only in the second round effects of the financial crisis that the Pacific countries started feeling the pinch. These countries faced a dual challenge of dealing with the overheated economies they had just prior to the crisis, to dealing with the external shocks and declining domestic revenues and
increasing expenditures. There has been a rapid decline in exports and a slowing of remittances inflow, as well as significant drop in tourism receipts. Fiji, Kiribati and Solomon Islands were on the threshold of fiscal and balance of payments crises, while other countries were bracing themselves for the negative impacts from tourism, remittances, commodities and declining trust funds. PNG, which was heavily dependent on mineral export, and the Solomon Islands which was dependent on logging export, started feeling the impacts of the drop in commodity prices. Samoa started seeing receding revenues due to the decline in imports, while Vanuatu experienced a decline in revenue through a drop in domestic consumption mainly in the construction sector. The Federated States of Micronesia, Kiribati, Marshall Islands and Palau have also been heavily impacted by the global financial crisis due mainly from external shocks.

The 2009 World Bank *Economic Update for the East Asia and Pacific Region: Battling the Forces of Global Recession* (EAP 2009 Update), reported that “a sustainable recovery (in the Pacific) will ultimately depend on development in the advanced economies.” In other words, recovery in the economies of the Pacific region will come but at the pace of the recovery in the developed world and much will be influenced by recovery in the economies of the developed countries. By way of crisis response, the Bank is reviewing its country programs in the East Asia and Pacific region to help balance the short-term crisis response with long-term priorities. The Bank continues to show commitment to the Pacific region through the doubling of regional staff, new office and staff in the Solomon Islands, Tonga, Samoa, Fiji and Vanuatu. It has also stepped up efforts in the infrastructure and energy sectors and is progressing work on alternative energy source as well as adaptation on climate change. The Bank continues to improve cooperation with other development partners in the region.

*Catastrophe Risk Insurance*

The Pacific Island Countries requested World Bank assistance with gaining access to affordable and effective catastrophe risk insurance solutions to protect them against natural disasters, following the successful launch of the Caribbean Catastrophe Risk Insurance Facility in 2007. In response, the World Bank is leading the Pacific Catastrophe Risk Financing Initiative in partnership with the Global Facility for Disaster Reduction and Recovery, the ADB, the Pacific Islands Applied Geosciences Commission (SOPAC), and the Pacific Islands Forum Secretariat, with technical risk modelling work provided by Air Worldwide.

This work aims at (i) developing country-specific catastrophe risk profiles to better understand the economic and fiscal consequences of natural disasters faced by the Pacific Island Countries; and (ii) recommending catastrophe risk financing options to ensure post-disaster liquidity in the aftermath of a catastrophe.

The first phase included eight South Pacific Islands: Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. The technical findings and financial options are discussed in *Pacific Catastrophe Risk Financing Initiative: Catastrophe Risk Assessment and Options for Regional Risk Financing*, World Bank draft report, September 2008. Country catastrophe risk profiles are presented in a set of brochures. The results of the first phase were presented at the Pacific Forum of the WB-IMF Annual Meetings on October 11, 2007 in Washington, DC and at the Conference on Natural Catastrophe Risk Insurance Mechanisms for Asia and the Pacific, sponsored by ADB and Ministry of Finance of Japan, in Tokyo in November 4-5, 2008. A World Bank–ADB mission visited selected Pacific Island Countries (Fiji, Vanuatu and Samoa) in March 2009 to present the country catastrophe risk profiles and discuss the options for catastrophe risk financing. Other Pacific Island Countries are scheduled to be visited in the coming months.
Papua New Guinea

The joint IBRD/IFC CAS for Papua New Guinea approved by the Board in December 2007 marked the Bank’s re-engagement with PNG after a period of reduced involvement. The CAS provides a framework for Bank-PNG cooperation over the medium to long term. The key pillars articulated in the CAS set out to promote and maintain sound economic and natural resource management as well as raising livelihoods through improved service delivery and wider participation in economic development by the poor and expansion of opportunities for income generation.

IFC’s major loan of $40 million to Digicel (PNG) Ltd is bearing fruit for PNG consumers and businesses. The project is expected to provide capacity for approximately 850,000 subscribers.

While delayed, the Smallholder Agriculture Development Project (SADP) $27.5 million will increase, in a sustainable manner, the level of involvement of targeted communities in their local development through measures aimed at increasing oil palm revenue and local participation.

We hope that the Second Mining Sector Institutional Strengthening Technical Assistance Project will soon be effective. This project will work to improve the effectiveness of key Extractive Industries (EI) sector institutions, supporting EI communities to be better able to monitor the delivery of community programs and services, empowering disadvantaged groups including women and youth in extractive EI affected areas, and improving accountability of the sector for management and use of mining-related revenues.

The Bank is also actively leveraging grant cofinancing from PNG Sustainable Development Program (SDP) (a trust set up by a local copper mine) with millions of dollars in SDP cofinancing provided for Road Maintenance and Rehabilitation Project and SADP. The Bank’s non-lending activity in PNG include macroeconomic/public expenditure dialogue, support (jointly with AusAID) to a Household Income and Expenditure Survey (the first full Household Budget Survey since the mid-1970s), and support to the Office of Climate Change in putting together a Climate Change Framework, focusing particularly on adaptation and risk reduction, in preparation for the World Climate Change Summit in Copenhagen in the Fall.
ANNEX 1 - CONSTITUENCY OFFICE

Constituency Office Strategic Goals

We seek to advance the interests of the members of the constituency by pursuing the following strategic objectives:

(i) Ensuring that the Bank hears the voice and understands the interests of our constituency in its policy development and operational decisions;

(ii) Advocating policies (including the promotion of economic growth as a key means of reducing poverty) and implementation practices that improve the effectiveness and efficiency of the Bank;

(iii) Encouraging the Bank to engage actively with our constituency members, in particular Cambodia, Mongolia, Papua New Guinea and the Pacific islands;

(iv) Encouraging our constituency members to engage actively with the Bank. To this end, we work to increase the understanding among constituency members of the Bank’s policies and activities;

(v) Assisting co-ordination between the development assistance programs of the Bank and donors (in particular, Australia, Korea and New Zealand) to the developing country members of our constituency; and

(vi) Facilitating contacts between businesses in constituency countries and the Bank, including consultancy and procurement contracts.
ANNEX 2 - 2008-2009 CONSTITUENCY OFFICE STAFF

EXECUTIVE DIRECTOR

Dr. Jim Hagan          Australia          Elected:  August 1, 2007

ALTERNATE EXECUTIVE DIRECTOR

Mr. Do Hyeong Kim      Korea             Appointed:  May 12, 2008

SENIOR ADVISORS

Ms. Damba Baasankhuu   Mongolia          March 1, 2006 – September 30, 2008
Mr. Matthew Dalzell    New Zealand       Appointed:  September 4, 2007
Mr. Rick Houenipwela   Solomon Islands   Appointed:  September 22, 2008

ADVISORS

Ms. Damba Baasankhuu   Mongolia          Appointed:  October 1, 2008
Dr. Robert Christie    Australia         Appointed:  February 11, 2008
Mr. Jae Hwan Kim       Korea             Appointed:  August 21, 2006
Ms. Betty Zinner-Toa   Vanuatu           Appointed:  January 26, 2009
Mr. Seilava Ros        Cambodia          November 27, 2006 – November 28, 2008
Mr. Iulai Lavea        Samoa            December 11, 2006 – February 6, 2009

OFFICE SUPPORT STAFF

Mrs. Yolanda Cunnane   Senior Executive Assistant
Mrs. Elena Chanchu     Program Assistant
Mrs. Beatrice Ngurekata Team Assistant
Mrs. Hille Blackshaw   Program Assistant – retired February 14, 2009
CONSTITUENCY OFFICE TRAVEL: JULY 1, 2008 – JULY 31, 2009

1. Dr. Jim Hagan Executive Director

   08/16/08–08/30/08 Majuro, Marshall Islands; Pohnpei, FSM; Sydney, Australia, CWA
   09/10/08–09/14/08 Mexico City, Mexico, DC Deputies’ Meeting
   10/22/08–11/22/08 Port Vila, Vanuatu; Honiara (FEMM), Solomon Islands; Phnom Penh, Cambodia; Seoul, Korea, CWA
   01/26/09–02/11/09 Canberra, Sydney, Australia, CWA
   03/12/09–03/24/09 Monrovia, Liberia; Cotonou, Benin; Lome, Togo, EDs’ Group Travel
   04/27/09–05/10/09 Bali, Indonesia, ADB Annual Meetings and CWA
   06/07/09–06/17/09 Ulaanbatar, Mongolia; Seoul, Korea, CWA

2. Mr. Do-Hyeong Kim, Alternate Executive Director

   02/20/09–02/28/09 Seoul, Korea, CWA
   04/26/09–04/28/09 New York, USA, ECOSOC and CWA
   06/20/09–07/05/09 Seoul, Korea; Apia, Samoa, ABCDE Conference and CWA

3. Mr. Rick Houenipwela, Senior Advisor

   01/07/09–01/20/09 Honiara, Solomon Islands, CWA
   03/01/09–03/06/09 Honiara, Solomon Islands, Conference
   03/07/09–03/10/09 Port Vila, Vanuatu, CWA

4. Ms. Damba Baasankhuu, Senior Advisor

   01/30/09–02/12/09 Ulaanbaatar, Mongolia, CWA
   06/06/09–06/21/09 Ulaanbaatar, Mongolia; Wellington, New Zealand, accompanied ED and CWA

5. Mr. Jae Hwan Kim, Advisor

   11/10/08–11/20/08 Seoul, Korea, accompanied ED and CWA
   06/11/09–06/28/09 Seoul, Korea, Manila, Philippines; Pohnpei, FSM, accompanied ED and CWA

6. Ms. Betty Zinner Toa, Advisor

   07/12/09–07/27/09 Port Vila, Vanuatu, Koror, Palau CWA

7. Mr. Iulai Lavea, Advisor

   10/24/08–11/08/08 Port Vila, Vanuatu; Honiara (FEMM), Apia, Samoa, Suva, Fiji, accompanied ED and CWA

8. Mr. Seilava Ros, Advisor

   11/07/08–11/18/08 Phnom Pehn, Cambodia, accompanied ED and CWA
ANNEX 3 - CONSTITUENCY STATEMENTS

a) Fall Development Committee Meeting, October 2008

Statement by Mr. Wayne Swan, MP Treasurer of the Commonwealth of Australia, Development Meetings, October 12, 2008

Overview
Current events demonstrate the need for strong international economic organizations and responsive development agencies. We live in an interconnected world. Recent developments in global financial markets and the impacts on economic growth pose significant challenges to governments and the international community. While dealing with these urgent matters, it is also important not to lose sight of important medium and longer-term development objectives. None of the recent turmoil has alleviated the urgency of making greater efforts to achieve the Millennium Development Goals (MDGs). It has been clear over the past year that threats to achieving the MDGs have been many, varied, and often sudden. Our development partners have faced a multiplicity of challenges that has tested them, their donor partners and multilateral institutions. Australia and our constituency are committed to targeting the economic and social causes of underdevelopment and will be active participants in the Doha Follow-up International Conference on Financing for Development. A stable international system is crucial to sustainable development. The IMF and G20 will have a key role in promoting financial stability.

Constituency Developments
The WBG has demonstrated a sharp increase in engagement with our constituency. On the ground presence of World Bank and IFC staff has increased along with visits to the region by the President and senior managers. An office is shortly to open in Honiara, in the Solomon Islands. We warmly welcome the secondment of World Bank staff to the PFTAC. This fills a critical gap in analytical capacity and complements PFTAC’s existing capacity. We see the proposed joint presence of the WBG and Asian Development Bank in three countries as a very positive sign and welcome increased institutional collaboration to support regional initiatives. We also welcome the operations and results of a greater Bank Group effort in the Pacific, Cambodia and Mongolia. We look forward to a fuller suite of IFC business lines and MIGA presence Pacific-wide and look forward to further updates on scaling up in the region. Lastly, on constituency developments, we welcome the World Bank’s efforts to mobilize attention and financing to address critical unmet needs, such as infrastructure. Initiatives in telecommunications, resource exploitation, and risk management are promising steps at both country and regional levels. A vital element of this effort going forward will be the full and timely delivery of the expanded Global Environment Facility program in the Pacific.

Food and Fuel Prices
Volatility in fuel and food prices has been extreme and put great pressure on country and household balance sheets. The majority of countries in our constituency have experienced large terms of trade shocks. The Bank’s convening role has been very constructive in developing a regional response to rising food and energy prices. Of greatest concern is the impact of rising food prices on hunger and malnutrition, although we note that data sets on malnutrition and poverty for the Pacific region do not allow an assessment towards MDGs. All countries need to continue to improve their capacity to respond and adjust to high food and commodity prices. The incentives for developing countries to increase their investment in agriculture and food systems need to be strengthened in order to boost their share of global food output and trade. Completion of the Doha Round is therefore an essential element to tackle the crisis.

Strategic Framework for Development and Climate Change
Constituency Governors welcome the new strategic framework. This is an issue critically important to the constituency, in particular the low-lying Pacific atoll countries. Many of our constituencies are small
contributors to greenhouse gas emissions, but are the worst affected to the extent that some islands may disappear. We consider the strategic framework an important element of redefining the WBG role in providing global public goods and managing global transboundary threats. It is appropriate that the WBG define for itself and clients a complementary practical role. In its role the Bank Group can mobilize additional resources, support strong country ownership, and target specific interventions. Adaptation to climate change is the key challenge to our developing country constituency. We therefore urge the Bank to continue analysis, policy dialogue, capacity building and operations in this area and look forward to specific reporting on results and emerging lessons learned into the medium term. In this regard constituency donors were very supportive of the Climate Investment Funds and Australia pledged significant resources to meeting these challenges.

Voice, participation, and internal governance
We thank management of the Bank for undertaking the task of compiling a package of voice and participation initiatives. The range of views and number of stakeholders makes for a complex consultation and drafting process. We support the proposed package to advance voice and participation of developing countries, although there are some elements with which we are uncomfortable. The proposed package is a first step, while not delivering all that some shareholders want, towards a positive contribution to the wider discussion on global governance, if adopted. Voice and participation has several dimensions, including region, size and income levels. It is important that advances in one area do not lessen voice and participation for other developing country stakeholders. We believe a package advancing on a number of fronts balances many interests. We also agree that the proposed work program is a pragmatic way of dealing with what are essentially difficult issues, while allowing progress. Looking forward, realigning voting interests to reflect the increased economic weight of emerging economies will be fundamentally important to the long-term relevance of the Bank.

b) Spring Development Committee Meeting, April 2009

Statement by Mr. Michael Callaghan Executive Director of Macroeconomic Group, Australian Treasury, April 26, 2009

Overview
The impact of the global financial crisis has now transmitted to the real economy and is having a devastating impact on the daily lives of millions of poor people around the world. The economic crisis is proving a challenge to achieving the Millennium Development Goals, and leaders at the recent G20 Leaders Summit highlighted the importance of not leaving developing countries behind during the crisis. Continued action is needed to mitigate the negative impacts of the food, fuel and financial crises to guard against social and human crises. International economic organizations have demonstrated swift and timely responses. We warmly welcome the initiatives put forward by the WBG. It has proven that large international organizations can harness their intellectual and financial resources in times of crisis. The WBG has been able to identify the systemic constraints and devise innovative proposals to meet the needs of their clients. The significant additional measures announced by G20 Leaders will further strengthen the efforts of these organizations. Close cooperation and coordination between the MDBs and the IMF is critical. The Bank and the IMF should draw on each other’s expertise and resources to ensure continued and effective responses to the global economic crisis. We endorse the G20 Leaders’ support for at least an additional $100 billion lending by MDBs and welcome the World Bank’s commitment to contribute $60 billion of this by increasing its IBRD lending to up to $100 billion over the next three years. Further options to assist developing countries to respond to the crisis should be explored. Small states are especially vulnerable to the current economic crisis. While the first round of the financial crisis had a relatively benign impact on small states, the second and third round effects are having a far more dramatic impact. Small states tend to have highly open economies, yet lack the fiscal resilience and formal social protection mechanisms that assist the most vulnerable in times of economic hardship. Given the current
demands on international economic organizations like the WBG, it is important that small states receive
the swift and responsive assistance and advice they need to weather these difficult times.

**Climate Change**
We would like to emphasize the importance of not losing sight of the climate change agenda in the
current economic crisis. The WBG’s Strategic Framework for Development and Climate Change that was
welcomed at the 2008 Annual Meeting Development Committee provides a solid framework for the
Bank’s operations in the area of climate change. Impressive progress has been made already in the
operation of the climate funds managed by the WBG, proving that the Bank can be a leader in delivering
practical, tangible and country-driven results.

**Voice and Participation**
The legitimacy of the WBG is enhanced when all members - large and small, developed and developing -
have a say and are able to access Bank services. It is important that shareholdings both reflect
the economic importance of members and also protect the interests of smaller states. Making the adjustment
to a more modern representative structure will require developed countries as a group to surrender relative
vote shares. The consequence for those countries gaining a greater voting share is that with the greater
share also comes greater responsibilities as development partners. We welcome the G20 statement
regarding implementing Bank Reforms. We recognize the substantial Bank staff resources that have gone
into previous work in developing reform proposals and the substantial work required to implement the
next phase. Successful acceleration of voice and representation reforms in the World Bank will be assured
if key developing and developed countries can reach the understandings necessary for a realignment of
voting shares.

**Constituency Developments**
The opening of the WB Office in the Solomon Islands on November 10, 2008 was a tangible sign of the
continued increase in World Bank engagement in our constituency. We warmly welcome the WBG’s
efforts to work more closely with other development partners in the constituency, including the hosting of
the Asian Development Bank country coordinator in the Solomon Islands Office, and progress in creating
a joint presence in three Pacific countries. We would like to acknowledge the World Bank’s leadership in
Mongolia, where their efforts have helped secure additional external assistance as the country faces
significant challenges as a result of dramatic fluctuations in its export prices. The work by the World
Bank on helping to overcome short-term difficulties while also remaining focused on Mongolia’s longer
term prosperity is greatly appreciated by the Mongolian authorities. We also welcome the WBG’s
increased engagement with new donors such as Korea. While Korea was affected by the financial crisis, it
remains committed to quickly establishing itself as a donor with a reputation for a commitment to
peaceful development of its developing country neighbors as well as more global development needs.

**Organizational effectiveness reform**
We welcome the WBG’s move to undertake reform efforts on a number of fronts. The early work on
reforms to the Bank’s investment lending model in particular are very promising, and we call on the Bank
to continue to think boldly when developing these reforms. In particular, we call on the Bank to be more
adventurous and creative in small and fragile states, where the IDA envelopes are often small, with lower
client capacity and ability to handle complex – and frankly, often unnecessary – Bank requirements. We
also see fruitful possibilities in the reforms to HR systems, decentralization, IT, knowledge and IDA
controls. We look forward to hearing more from the Zedillo Commission about its work. We ask the
Commission to seek ways to engage World Bank members to provide information about Commission
thinking, especially in light of the G20 Leaders Summit.
## ANNEX 4 - CONSTITUENCY PROJECTS

<table>
<thead>
<tr>
<th>Date</th>
<th>$ Million</th>
<th>From</th>
<th>Project Description</th>
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<tbody>
<tr>
<td><strong>CAMBODIA</strong></td>
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<tr>
<td>12/08/08</td>
<td>20m Grant</td>
<td>IDA</td>
<td><strong>Demand for Good Governance Project (Streamlined - no Board Discussion)</strong></td>
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<td>Purpose: Project’s objective is to enhance the demand for good governance in the</td>
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<td>priority reform areas identified in the Country Assistance Strategy as:</td>
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<td>i) private Sector Development;</td>
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<td>ii) management of natural resources;</td>
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<td>iii) public financial management and decentralization; and</td>
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<td>iv) citizens’ partnership for better governance.</td>
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<td>In order to achieve this, the project has three components:</td>
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<td>i) support to State Institutions;</td>
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<td>ii) support to non state institutions, (e.g. national and local NGOs,</td>
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<td>grass root organization, and research centers media and</td>
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<td>professional organizations) ; and</td>
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<td>iii) coordination and learning – support research, awareness raising</td>
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<td>and capacity building on demand side approaches as well as</td>
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<td>overall coordination of the project.</td>
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<td>06/22/09</td>
<td>2m *</td>
<td>IFC</td>
<td><strong>Investment in KS Hotels (in conjunction with Lao PDR)</strong></td>
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<td><strong>Streamlined Procedure no Board discussion</strong></td>
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<td>The Project: The KS Group will build several community-development</td>
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<td>focused hotels (CDF) in Siem Reap hoping to benefit from tourism</td>
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<td>associated with the Angkor temple Complex.</td>
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<td><em>Exact amount for Cambodia is not available - $2m is amount for one CDF hotel</em></td>
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<td>01/29/09</td>
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<td><strong>Joint World Bank/IMF Debt Sustainability Analysis 2008</strong></td>
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<td>Analysis shows that the external debt burden indicators do not breach the</td>
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<td>relevant policy-dependent indicative thresholds under the baseline scenario.</td>
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<td>However, given recent global developments and Cambodia’s</td>
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<td>vulnerability to external shocks there are considerable downside risks to the</td>
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<td>baseline scenario. An assessment of the impact of various exogenous</td>
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<td>shocks on the sustainability of external and public sector debt shows</td>
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<td>Cambodia would face a moderate risk of debt distress.</td>
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<tr>
<td><strong>KIRIBATI &amp; SAMOA</strong></td>
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<tr>
<td>08/06/08</td>
<td>70m*</td>
<td>IFC</td>
<td>**EAP Region: Proposed Investment in Digicel Kiribati (together with Fiji,</td>
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<td></td>
<td>Samoa, Tonga, and Vanuatu) Streamlined Procedure – no Board Discussion.**</td>
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<td>The Project: Construction, expansion and operation of digital networks by</td>
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<td>Digicel. The project aims to achieve the following development impacts:</td>
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<td>• improved access to telecommunications services;</td>
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<td>• support for telecommunications liberalization;</td>
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<td>• spur competition;</td>
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<td>• support local companies and SMEs by creating market services to</td>
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<td>businesses; and</td>
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<td>• increase employment.</td>
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<td>*Total amount for the project- no breakdown for individual countries</td>
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</tbody>
</table>

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<thead>
<tr>
<th>Date</th>
<th>$ Million</th>
<th>From</th>
<th>Project Description</th>
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<tbody>
<tr>
<td><strong>MONGOLIA</strong></td>
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<tr>
<td>05/21/09</td>
<td>N/A</td>
<td>IDA/IFC/MIGA</td>
<td><strong>Interim Strategy Note (ISN)</strong> Strategic focus: the World Bank Group will support the Government’s immediate crisis response and associated reforms with potential to improve medium term management of the country’s mineral based economy;</td>
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<td>• the World Bank’s assistance program will support the Government’s efforts to stabilize the economy and maintain employment and growth by focusing on three strategic areas –</td>
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<td>o improve macro and fiscal sustainability in a mineral based economy;</td>
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<td>o protect the poor and the vulnerable; and</td>
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<td>o encourage transparent and prudent mining investments and a more competitive and stable medium-term business investment climate.</td>
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<td>• The IFC will enhance its support to help strengthen financial markets and ongoing IDA projects are being refocused to build capacity in crisis management, support medium term policy reforms and accelerate disbursements of the existing portfolio of projects.</td>
</tr>
<tr>
<td>06/12/09</td>
<td>2.0m</td>
<td>IDA</td>
<td><strong>Monstat: Strengthening the National Statistical System of Mongolia (STATCAP) Adaptable Program Lending (Credit) – Streamlined - no Board Discussion</strong> Purpose: Project objective is to improve efficiency and effectiveness of the national statistical system of Mongolia to enable it to provide relevant, timely and reliable data for evidence-based policy making in support of Government’s MDG-based National Development Strategy. Its components include:</td>
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<td>• improving policy, regulatory and institutional framework and the organizational structure of the statistical system;</td>
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<td>• strengthening the statistical infrastructure – registers, classification standards and methods;</td>
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<td>• upgrading statistical operations including individual programs and methodologies as well as existing data outputs;</td>
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<td>• developing and improving IT infrastructure and equipment, linking regional offices with the Central NSO this will include upgrading computer programs, training in new technologies; and</td>
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<td>• project management.</td>
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<tr>
<td>06/25/09</td>
<td>40.0m</td>
<td>IDA</td>
<td><strong>Development Policy Credit – Streamlined Procedure under IDA Financial Crisis Response Fast Track Facility – no Board discussion</strong> Project objectives are:</td>
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<td>• improve capital budget planning and execution, and protect the maintenance of basic infrastructure;</td>
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<td>• protect the poor during the downturn by retargeting social policies to the poor</td>
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<td></td>
<td>• strengthening confidence in the financial sector by preparing an action plan for the resolution of a failed bank and enhancing</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• contingency planning and systemic risk monitoring; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• clarifying the mining policy framework by adopting draft standard mining investment agreements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The project supports reforms in the four policy areas: (i) fiscal policy and</td>
</tr>
<tr>
<td>Date</td>
<td>$ Million</td>
<td>From</td>
<td>Project Description</td>
</tr>
<tr>
<td>------------</td>
<td>-----------</td>
<td>--------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
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<td>01/02/09</td>
<td></td>
<td>Economic Report</td>
<td><strong>Consolidating the Gains, Managing Booms and Busts, and Moving to Better Service Delivery-Second Public Expenditure and Financial Management Review</strong></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>This review assesses the achievements and remaining challenges for public expenditure and financial management in Mongolia as the Government responds to the needs of a rapidly changing economy. It reviews the effectiveness of implementation of the 2002 Public Sector Management and Finance Law and lays out options for deepening reforms. The review finds Mongolia has successfully implemented the ‘first generation’ of core public financial management reforms by introducing an internally consistent legal framework and establishing medium term and annual budget planning frameworks. This new legal, institutional and systemic framework has helped control leakages in public finances as well as:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• improved budget execution;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• largely eliminated arrears accumulation on goods, services and salaries;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• achieved fiscal discipline;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• clarified roles and responsibilities of budget entities.</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>Mongolia’s public finances today face a unique opportunity to address medium-term development challenges by allocating large increases in public revenue to service delivery improvements. In the medium-run, the most significant challenge for Mongolia is embarking on to the second generation of reforms: making full use of the core PFM institutions and systems to improve the quality of service delivery. Improving service delivery will require:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• strong public commitment to macroeconomic stability and sustainability;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• clear and creditable medium term revenue allocation for public spending;</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>• the policy makers’ ability to adapt public services to Mongolia’s new structural characteristics.</td>
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<td>Debt Analysis</td>
<td><strong>Joint Bank Fund Debt Sustainability – Information Note</strong></td>
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<td>The staff’s debt sustainability analysis show that Mongolia is at low risk of external debt distress. Although the debt ratios will rise significantly over the next two years as the government receives front-loaded foreign financing to recover from a major terms of trade shock, the debt outlook is expected to recover and improve over the medium term. Key medium risks involve large debt service in 2012-15 associated with the repayments to the International Monetary Fund (under the ongoing SBA). Mongolia has very little domestic debt. If Mongolia manages to ride out the effects of the adverse commodity shock and move to a new medium-term development path underpinned by the commodity sector.</td>
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WBG FINANCED PROJECTS TO 30 JUNE 2008

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<tr>
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<p>| <strong>IFC – INTERNATIONAL FINANCE CORPORATION</strong> | | | | | | | | | | | | |</p>
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<tr>
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<tr>
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Grand Total: IDA Credits and IFC Loans $427.8 million. All figures rounded.

1 Credit line of $6.0m
## ANNEX 5 - CONSTITUENCY MEMBERSHIP

### a) Constituency Voting Power - Percentage of Total and Number of Votes as of June 30, 2009

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<thead>
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<th>MEMBER</th>
<th>IBRD</th>
<th>IDA</th>
<th>IFC</th>
<th>MIGA</th>
<th>G-77*</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>#</td>
<td>%</td>
<td>#</td>
<td>%</td>
</tr>
<tr>
<td>Australia</td>
<td>1.52</td>
<td>24,714</td>
<td>1.23</td>
<td>224,641</td>
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<tr>
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<td>715</td>
<td>0.06</td>
<td>11,777</td>
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<td>7486</td>
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<td>3.41</td>
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### Membership

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b) *Constituency Voting Record: July 2008– June 2009*

During this period, the World Bank Group’s Board of Governors voted on the following resolutions:

**IBRD Governors’ Resolutions**

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<th>#</th>
<th>Resolution Title</th>
<th>Date</th>
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</thead>
<tbody>
<tr>
<td>592</td>
<td>2008 Regular Election of Executive Directors</td>
<td>August 1, 2008</td>
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<tr>
<td>593</td>
<td>Allocation of $115m. of FY08 Net Income</td>
<td>September 9, 2008</td>
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<tr>
<td>594</td>
<td>Financial Statements, Accountants’ Report and Administrative Budget</td>
<td>October 13, 2008</td>
</tr>
<tr>
<td>595</td>
<td>Allocation of FY08 Net Income</td>
<td>October 13, 2008</td>
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<tr>
<td>596</td>
<td>Enhancing Voice and Participation of Developing and Transition Countries</td>
<td>January 30, 2009</td>
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**IDA Governors’ Resolutions**

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<td>Financial statements, Accountants’ Report and Administrative Budget</td>
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**IFC Governors’ Resolutions**

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<td>248</td>
<td>Financial Statements, Accountants’ Report, Administrative Budget and Designation of Retained Earnings</td>
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**MIGA Governors’ Resolutions**

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<td>Membership of the Republic of Kosovo</td>
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While most Constituency members are quick to respond to a request for a vote from Governors, our office continues to be concerned about a number of Constituency members who have difficulty in returning their vote and / or do not take the opportunity to vote.
ORGANIZATION CHART OF THE MULTILATERAL INVESTMENT GUARANTEE AGENCY
AS OF JANUARY 1, 2009

* Reports operationally to IEG (Independent Evaluation Group) and administratively to EVP (MIGA)
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<tr>
<td>Acronym</td>
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<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
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<tr>
<td>MEF</td>
<td>Microfinance Enhancement Facility</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>OBA</td>
<td>Output-Based Aid</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OPCS</td>
<td>Operations Policy and Country Services</td>
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<tr>
<td>PBGI</td>
<td>Performance-Based Grants Initiative</td>
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<td>PFTAC</td>
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<td>PICs</td>
<td>Pacific Islands Countries</td>
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<td>Pilot Program for Climate Resilience</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>QALP</td>
<td>Quality Assessment of Lending Portfolio</td>
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<tr>
<td>RSR</td>
<td>Rapid Social Response</td>
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<td>Smallholder Agriculture Development Project</td>
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<td>SCI</td>
<td>Selective Capital Increase</td>
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All monies expressed in US$ unless indicated otherwise
FY08 – refers to 1 July 2008-30 June 2009