

THE WORLD BANK

OFFICE OF THE EXECUTIVE DIRECTOR FOR

***AUSTRALIA, CAMBODIA, KIRIBATI, KOREA (Rep. of),
FEDERATED STATES OF MICRONESIA,
MARSHALL ISLANDS (Rep. of), MONGOLIA, NEW ZEALAND,
PALAU, PAPUA NEW GUINEA, SAMOA,
SOLOMON ISLANDS AND VANUATU***

***ANNUAL REPORT
FINANCIAL YEAR 2004 – 2005***

September 2005

Glossary

AAA	Analytical and Advisory Assistance
ADB	Asian Development Bank
ARDE	Annual Review of Development Effectiveness
ARPP	Annual Review of Portfolio Performance
AusAID	Australian Agency for International Development
CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CPI	Consumer Price Index
DC	Development Committee
FDI	Foreign Direct Investment
FEMM	Forum Economic Ministers' Meeting
FY	Financial Year
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development (The World Bank)
IDA14	International Development Association 14 th Replenishment by IDA Donors
IFC	International Finance Corporation
LICUS	Low Income Countries under Stress
MDGs	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
NZAID	New Zealand Agency for International Aid
ODA	Official Development Assistance
OED	Operations Evaluation Department
PBGI	Performance Based Grants Initiative
PIEs	Public Infrastructure Entities
PMCs	Pacific Member Countries
PRS	Poverty Reduction Strategy
PSLO	Private Sector Liaison Officers
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Program
WBG	World Bank Group
WTO	World Trade Organisation

All monies expressed in US\$ unless indicated otherwise
FY05 – refers to July 1, 2005 – June 30, 2006

**WORLD BANK – EAST ASIA / PACIFIC CONSTITUENCY
OFFICE ANNUAL REPORT FY05**

Introduction	i
CONSTITUENCY OFFICE	
Office Developments	1
Priorities	2
BANK STRATEGY AND LEADERSHIP	
Bank Strategy	4
The Presidency	5
IBRD and IDA	
The Bank and Middle Income Countries	6
IDA14 Replenishment	7
G-8 Proposal for Debt Relief for Heavily indebted Poor Countries	8
Impact of Grants and Debt Relief on IDA's Financial Stability	9
IBRD/IDA FINANCES	
Trends in the IBRD and IDA Lending Portfolios	10
FY06 Administrative Budget	12
IBRD Net Income Results	11
FY06 Administrative Budget	12
Budget Reform	12
Net Income Allocation	13
IBRD Capital Adequacy	13
DEVELOPMENT RESULTS	
The FY04 Annual Review of Portfolio Performance	14
The 2004 Annual Review of Development Effectiveness	14
OPERATIONAL ISSUES	
Governance and Corruption	16
Small States Forum	17
Managing for Development Results	17
Lending Modernisation and Simplification	17
Organizational Efficiency Task Force	18
Voice	19
Engagement between the Bank and Civil Society	20
Bank's Role in Tsunami Relief	21
Analytical and Advisory Services	21
INTERNATIONAL FINANCE CORPORATION (IFC)	
IFC Operational Results	23
IFC's Strategic Direction	23
MIGA	26
CONSTITUENCY COUNTRY DEVELOPMENTS	
Australia	27
Cambodia	28
Mongolia	29
Korea	29
New Zealand	30
Pacific Island Member Countries	31
Papua New Guinea	33

ANNEXES

1. Constituency Office	
a) Strategic Goals	37
b) Constituency Staff.....	38
c) Constituency Office Travel	39
2. Constituency Statements	
a) Hon. Peter Costello, MP, Treasurer, Australia Development Committee Meeting, October 2, 2004	40
b) Hon. Michael Cullen, DPM and Minister of Finance, New Zealand Development Committee Meeting, April 17, 2005-08-30.....	44
3. WB Activities in the Constituency	
a) Project Description	47
b) Table of WBG Financed Project to June 30, 3005	49
4. Bank Research Publications	50
5. Constituency Membership	
a) Constituency Voting Share and Membership.....	51
b) Constituency Voting Record	52

Glossary: Inside Front Cover

EXECUTIVE SUMMARY

During the World Bank Group's 2005 fiscal year (July 2004 – June 2005), the constituency office worked to improve Bank performance, to improve representation of the interests of our members at the Board and with Bank staff, and to assist our members in their relations with the Bank. The Bank Presidency changed with the completion of President James Wolfensohn's second term, and the election of President Paul Wolfowitz. Our Constituency office has also experienced more recent staff changes, including the completion of the term as Executive Director of New Zealand's John Austin, and the commencement on 1 August of the term of Korea's Dr. Joong-Kyung Choi.

Constituency Office

A major Office focus has been to improve communications with constituency members, especially developing country members. About every two months, an Office Newsletter summarises constituency issues; we have also increased the volume of our regular reporting on Board matters, shifted our mode of communication from fax towards e-mail, and improved our office website. We have actively supported the recently-established secondment program for developing-country officials.

We worked with other Bank Board members representing South-East Asia to support Borrower Representatives from the region in IDA negotiations. A high priority for the Office in FY05 was the *Regional Engagement Framework FY06-FY09 for Pacific Islands*.

In work at the Board and with management, we focussed on improving governance in the Bank, in particular through better strategic planning and reducing growth in the Bank's budget (the cost of which is ultimately recovered from borrowers).

We emphasised the implementation of the initiative for Low Income Countries under Stress (LICUS), seeking its rigorous and consistent use in Africa, and that non-African LICUS countries should also receive due focus. We encouraged lowering the financial and compliance costs to developing countries of doing business with the Bank. We have supported Bank work stressing improving governance and the business climate in developing countries, and refining the use of performance and governance measures to allocate IDA resources. We have encouraged the Bank to examine the impact of its allocation formula on the finances available to individual borrowing countries (including Cambodia and Mongolia in our constituency), and how the Bank can engage with and retain influence in countries with small allocations of aid. We have also sustained reporting on Bank-Fund work to operationalise the new debt-sustainability framework.

Bank strategy and leadership

The Bank's main short-term challenge is implementation of current business models, rather than any need for a new "vision". The key implementation issues are excessively and unsustainably rising costs, weak performance in both middle income and LICUS countries, and various organisational weaknesses. Over FY05 there has been progress in several of these areas, including a clearer strategy for middle-income countries, revitalised support for infrastructure, lending modernisation and the first steps to budget reform.

Mr Wolfowitz was elected President in a unanimous vote of all Executive Directors and took office from 1 June 2005. He has already indicated some of the approaches and key issues he intends to develop. He advocates that the Bank's mission – poverty reduction – should

remain the same. He advocates a holistic and country-specific approach to development, rather than focusing on single issues or universal solutions. He has also pointed to the importance of the private sector in generating wealth, and of combating corruption.

IDA and IBRD policy issues

The IBRD has taken various reforms to improve its performance in middle-income countries. Investment lending to IBRD-eligible countries increased from \$6.6 billion in FY04 to \$9.3 billion in FY05. This may be initial evidence that Bank reforms are starting to succeed, though continuation of recent improvements will be necessary to confirm that possibility.

IDA Donor countries reached agreement to provide US \$18 billion to the 14th replenishment, concluded in Washington in February 2005. With reflows to IDA and contributions from IBRD, at least US \$34 billion will be made available through IDA during the three years from 1 July 2005, which is about a 25% increase in resources over the IDA 13 replenishment. More transparent, performance-based allocation remains heavily driven by governance measures; small states' basic IDA allocation was increased by 10%; and grants will be available to the most heavily indebted.

G-8 Finance Ministers proposed on 10-11 June 2005 the cancellation of remaining debts by Heavily Indebted Poor Countries (HIPC) to IDA, the IMF and the African Development Bank. Many details of the proposal remain to be settled, including its implications for the application of the Debt Sustainability Framework.

IDA and IBRD finances

New IBRD loan commitments increased in FY05 for the first time since FY02, growing to \$13.6 billion from \$11.0 billion in FY04. In spite of the growth in new lending, FY05 was another year of negative net disbursements for the IBRD portfolio, with total loans outstanding at end FY05 of \$104.4 billion, compared with \$109.6 billion at this time last year.

In FY05, IBRD operating income declined to \$1.3 billion from \$1.7 billion in FY04. Return on equity (using allocable net income) was 3.5% in FY05 and continued to decline from a high of 9.1% in FY03. Current projections are that it will not rise above 4% over the next ten years.

The Board approved an FY06 IBRD/IDA administrative budget of \$1.543 billion, an increase of 3.0% over the FY05 budget. We are pleased to note that both the salary adjustment and the remaining administrative budget increase were lower than in previous years, in line with management's stated target of achieving zero real growth in Bank expenditure over the next three years. The Bank's budget reform program has made some progress in FY06, with the introduction of Strategy and Performance Contracts, and Key Performance Indicators for all units.

FY05 allocable net income was \$1.252 billion, and the Board has recommended to Governors that US\$ 400 million be transferred to IDA and \$210 million to the HIPC Debt Initiative Trust Fund.

IDA credits outstanding at the end of FY05 were \$121 billion, compared with \$116 billion at the end of FY04 and \$107 billion at the end of FY03. In FY05 IDA committed \$8.7 billion in new development assistance, slightly down on the \$9.0 billion that was committed last year.

New IDA commitments in FY05 were again concentrated in the African region. Lending to East Asia and the Pacific, a small portion of total lending, remained roughly constant.

Development results

Analysis of Bank operations completed in FY04 found that 78 percent had outcomes rated satisfactory or better, which is similar to performance since FY00, following steady improvement from lows of about 60 percent in the late 1980s. Review of the Bank's contribution to poverty reduction again affirmed that poverty reduction mainly results from economic growth. Distributional changes are typically rather slow and seldom large, so that simply lifting aggregate growth reliably reduces poverty. Analysis suggested that in low income countries, the Poverty Reduction Strategy and the enhanced HIPC initiatives have tended to focus excessively on social sector spending, and insufficiently on the growth-enhancing measures that would both reduce poverty and make social spending more sustainable.

Operational issues

The past year has seen further work confirming the importance of good governance as a precondition to achieving pro-poor economic growth and making effective use of aid resources. Cross-country comparisons show that some quite poor countries have achieved good governance, and that countries with initially poor governance can achieve improvements. The variety of experience shows that good governance is not a 'luxury' that only rich countries can afford, but rather is a condition for economic growth that developing countries can create. Bank tools such as the *Governance Matters IV* and the *Doing Business* databases allow governments, citizens and investors readily to examine country scores in various aspects of governance and regulation, to observe trends, and to make comparisons with regional averages or other countries.

The Bank's Country Policy and Institutional Assessment (CPIA) scores for each IDA country will be published commencing in 2006, when the CPIAs for 2005 will become available. Governance and corruption are becoming more important in determining aid flows, with the increase in funds in IDA-14, the US's Millennium Challenge Account, and the G-8's proposal for HIPC debt relief increasing the pool of IDA funding available for performance-based allocation to all IDA borrowers (not just HIPCs).

The 2005 Small States Forum will consider a draft review, requested by the 2004 Forum, of the relevance of the agenda set out in the Small States Task Force report of April 2000. The draft review identifies a number of new emerging challenges facing small states, including the erosion of preferential treatment in trade, the rising debt burden of many small states, growing environmental vulnerabilities, youth unemployment and health issues. One of the key recommendations is to move away from reliance on preferential and concessional treatments in trade. The draft review instead urges small states to design and implement outward-looking, export-based development strategies based on exploiting and creating comparative and competitive advantages in the service sectors,. A key new emphasis is on the potential for cooperative regional or sub-regional solutions to challenges that may be beyond the resources of individual small states.

The Bank has made some progress in modernising and simplifying its development policy and investment lending. The program with respect to development policy lending is now largely complete: from 1 September 2004 the Bank replaced the several variants of adjustment loans (*e.g.*, sectoral adjustment loans and structural adjustment loans) with one loan instrument – "development policy lending". However the program of reform with respect to investment lending is still being developed. It aims to reduce Bank and borrower

transaction costs for preparing and implementing investment operations, and to better align investment-lending policies with and procedures with borrowers' needs.

Work continues to improve the 'voice' of developing countries in the governance of the Bank Group. The Bank has taken actions to increase developing countries' 'ownership' of their relations with the Bank. These include the use of the Comprehensive Development Framework, the Poverty Reduction Strategy process, decentralisation of Bank activities and harmonisation of procedures among donors. The capacity of offices of Executive Directors representing large constituencies of developing countries, in particular those representing sub-Saharan Africa, has been strengthened through improved communications with their capitals, the establishment of an analytical trust fund to provide sub-Saharan African Directors with independent technical and research support, and a secondment program. The secondment program sponsors officials from developing countries to come to the Bank for six months and experience at first hand how policies, programs and projects are designed, authorized by the Board, and implemented. The first intake under the Program included an official from Cambodia.

The Bank's Board and management have also considered options for structural and institutional changes. These deal with IDA voting and capital structure and IBRD voting and capital stock, more representation of developing-country nationals in senior management positions at the Bank, Board effectiveness and the process of selecting the President of the Bank. Some changes require decisions by the Board of Governors or, in some cases, amendment to the Bank's Articles of Agreement. The more fundamental structural issues are controversial and seem to lack sufficiently broad support at this time.

IFC

IFC generated a record profit of \$2.0 billion in FY05, compared with the then-record profit of \$1.0 billion in FY04. The quality of IFC's portfolio has continued to improve, as it has each year since FY02, when the Argentine crisis damaged portfolio quality.

IFC inaugurated for FY06 a multi-year plan and budget, which the Board (including our constituency) has sought for several years. This provides explicit business objectives and an intended growth path and budgets, estimated over a three year period.

Reflecting recent strong performance and the sense that the IFC can contribute more to market development in the 'frontier economies' on which it seeks to concentrate, the FY06 budget indicates growth of 7 per cent in real terms over FY05, and foreshadows a potential real increase over FY05-08 of 22 percent.

IFC continued during FY05 to experiment with engagement with sub-sovereign public infrastructure entities (PIEs). IFC has proposed to establish a "Performance-Based Grants Initiative", as a vehicle to complement its frontier strategy. The Board has tentatively approved assignment of \$250 million from retained earnings to a pool to fund targeted projects if a well-designed scheme can be agreed. Proposed criteria and funding for the initiative are currently being developed by IFC management for future Board consideration.

Multilateral Investment Guarantee Agency

In FY05, MIGA was restructured and adopted a new business strategy. This involved streamlining the way MIGA does business (including closing field offices), strengthening finance and risk-management business processes, improving assessment of development impact, achieving synergies within and outside the Bank Group, re-thinking MIGA's business model and strengthening MIGA's relationship with development partners, including extending the reach of other insurers in frontier markets.

In FY05 MIGA issued \$1.2 billion in guarantee coverage for 62 new contracts in support of 33 new projects. While this volume of operations is similar to the past several years, administrative expenses continued to increase - from 51 percent of total income in FY04 to 54 percent in FY05. Portfolio concentration in terms of region, sector, and client base also continued to grow, notwithstanding intentions to reverse these trends through the new business strategy. The MIGA Board remains concerned at FY05 performance, and although there are some tentative signs that the new strategy may be beginning to produce results, close attention will be warranted in the year ahead.

Constituency country developments

Australia has strengthened its collaboration with the World Bank in the Pacific, providing A\$10 million through a Trust Fund to enhance the operations of the Bank's Sydney Office and increase the ability of the Sydney Office to access the best Bank specialists for input to work in the Pacific. Australia was an active participant in the IDA 14 negotiations and called for IDA to better address the needs of small states and countries with limited borrowing from the Bank. It contributed \$A98.1 million to IDA and \$A2.9 million for the Heavily Indebted Poor Countries initiative in 2005. Australian aid is budgeted to increase strongly in 2005-06, growing 12 percent in real terms over the previous year's budget. This reflects substantial commitments to PNG and the Solomon Islands and very large commitments in the wake of the Tsunami, especially to Indonesia.

Cambodia's new Country Assistance Strategy (CAS) for was approved by the Board in May 2005, together with an Education Sector Support Project. This project aims to assist Cambodia to expand access to educational services by addressing supply, demand, quality and efficiency constraints, with a focus on the poor and on under-served communes. The Cambodia Trade Facilitation and Competitiveness Project was approved in June 2005, to support growth by reducing transaction costs associated with trade and investment, introducing transparency in investment processes, and facilitating access of enterprises to export markets.

The then World Bank President, Jim Wolfensohn, visited Cambodia in February 2005, accompanied by the then Executive Director John Austin. He participated in a high-level panel discussion in Phnom Penh at the international summit conference *Cambodia: Seizing the Global Opportunity – a Growth Strategy in an Era of Free Trade*. H.E. Senior Minister Cham Prasidh and a public-private delegation from Cambodia visited the Bank in July 2005. The Senior Minister met with President Wolfowitz, and also made a presentation to World Bank staff on trade and investment-climate reforms.

World Bank staff presented a knowledge-economy benchmarking assessment of **Mongolia** at the conference *Public Finance and Knowledge Based Economy for Mongolia*, held in Ulaanbaatar on 6-8 October 2004. In May 2005, the IDA Board approved a \$7.7 million IDA credit for a livestock insurance project. The project will ascertain the viability of index-based livestock insurance in Mongolia, to reduce the impact of livestock deaths on herders. In June 2005, the IDA Board approved a \$10.6 million IDA credit to Mongolia to provide capital for selected commercial banks to lend at market rates to private businesses. The project also aims to build the capacity of the management and staff of private banks to better manage their loan portfolios and risk, as well as building the regulatory and supervision capacity of Mongolia's central bank, the Bank of Mongolia.

In FY05 **Korea** continued to diversify and deepen its cooperative relationship with the World Bank both in its financial and non-financial aspects. The Korean Consultant Trust Fund received US \$860,000 for the year. The Korean government's contribution to the Fund totalled \$4.7 million since its establishment in 1993. Korea actively participated in the IDA

14 replenishment negotiations and pledged to increase its contribution to SDR128.58 million from SDR91.18 million in IDA13.

Since early 2005 the East Asia-Pacific region of the World Bank has been carrying out a study, partially funded by the Korean government, with the Korean Institute of Finance. This joint study involves relevant institutions from Korea, Malaysia, Hong Kong, Singapore, and others, and aims to develop a strategy for upgrading the Asian financial sector to global standards.

Since December 2004 Korea has undertaken several consultations with the World Bank to find better ways to accommodate and engage eligible Korean nationals into Bank operations.

New Zealand participated in the IDA14 replenishment negotiations which were concluded in February 2005. It contributed NZ \$39 million, including NZ \$3.45 million to meet its commitment to ongoing debt relief under the HIPC initiative. New Zealand Ministers have also announced support for the G8-proposed debt relief plan.

A key innovation in New Zealand's relationship with the Bank in the Pacific was finalizing the Tonga Education Support Programme. NZAID and the Bank have blended grant and loan finance for the initiative, which aims to mobilize the Bank's knowledge and technical assistance capacity, fully funding a sector-wide intervention, and maintaining a prudent level of debt carrying capacity in Tonga.

The Hon Trevor Mallard represented the constituency at the Development Committee meeting in April 2005.

The New Zealand Cabinet has agreed to join MIGA, completing NZ membership of all five World Bank organizations.

Pacific Member Countries saw heightened interest by the Bank over the last year. Managing Director Shengman Zhang, visited Samoa, Fiji and Tonga in July-August 2005. The Bank's independent Operations Evaluation Department (OED), concluded an assessment of the Bank's activities in the Pacific - *Evaluation of World Bank Assistance to Pacific Member Countries, 1992-2002*. This report provided a foundation for the development of the Bank's future strategy in the Pacific, the *Regional Engagement Framework FY06-FY09 for Pacific Islands*, which was finalised in May 2005. This new strategy was shaped by extensive consultations with all the member countries, dialogue with key development partners and the OED review. Our Office worked with Bank staff to ensure that the new strategy improves on past experience.

The new strategy is based on two pillars: strengthening government capabilities in service delivery, and improving incentives for private-sector development and job creation. It aims to promote job creation by improving the efficiency of public-sector expenditures and by supporting private-sector development. The new strategy will provide support mainly through analytic and advisory work and collaboration with other donors, although it also includes financial support. As recommended by OED, it contains country-specific and regional initiatives and is underpinned by analytic and advisory work both underway and planned.

Doing Business in 2005, the annual Bank examination of business regulations across countries, included all our constituency members in its database. It was used by Forum Economic Ministers in their June 2005 meeting to formulate quantified objectives for improving the business climate by FEMM 2007. Our Office has encouraged Bank Management to continue to include the PMCs in its future surveys.

The independent review of the Small States Agenda by external consultants will be on the agenda of the Small States Forum meeting during the 2005 Annual Meetings, and will stimulate consideration of how small states might work together to pursue outward-oriented, regionally cooperative growth options.

In **Papua New Guinea**, the World Bank and the Government continued to implement the recommendations from the Bank's Public Expenditure Review and Rationalisation (PERR) report. In April 2005 the Bank Board considered the *Interim Strategy for Papua New Guinea*, which covers the period to December 2006. The *Interim Strategy* involves a strong program of non-lending activities. The Bank will increase its efforts to assist the Government in addressing poverty, increasing capacity and improving donor coordination through the *Medium Term Development Strategy* developed by the PNG Government. It is following a two-pronged approach, aiming first to promote development dialogue and stem the decline in social indicators, and secondly to build the foundations for improved governance and sustained recovery.

In June 2005 the Forestry and Conservation Project, which has been suspended since 2003, was cancelled. The Bank and the PNG Government agreed to work together to identify other priority areas for future Bank engagement.

In June 2005 the IFC Board approved an investment of up to \$3.2 million in the PNG Microfinance Project, of which \$1.2 million is equity participation and up to \$2.0 million is a standby loan. The project is a welcome return by IFC to PNG and will be the first time that IFC has been directly involved as an equity investor. PNG Microfinance Ltd will initially target micro, small and medium sized businesses in both the formal and the informal sectors, as well as individual borrowers and business start-ups.

CONSTITUENCY OFFICE

OFFICE DEVELOPMENTS

During the World Bank Group's 2005 fiscal year (July 2004-June 2005), the constituency office worked to improve Bank performance, to improve representation of the interests of our members at the Board and with Bank staff, and to assist our members in their relations with the Bank.

Our office increased its emphasis on short and medium-term planning of our activities – operationalised through strategic goals (Annex 1 to this report sets out current strategic goals), a medium-term strategy and an annual office operational plan. The inaugural office operational plan was presented to constituency members at the October 2004 Constituency Meeting preceding the Bank/Fund Annual Meetings. Following feedback from constituency members, the operational plan was finalised and has provided guidance for our activities and priorities over FY05.

A major aim of the operational plan was to improve communications with constituency members, especially developing country members. Approximately every two months an Office Newsletter summarises constituency issues, policy issues, use of Bank resources, and voice issues. The newsletter is targeted particularly at the developing country members of the constituency, by providing brief, accessible information – with references to more detailed information if it is wanted. We have also increased the volume of our regular reporting on Board matters. After establishing country preferences and information technology facilities, our normal mode of communication has shifted over FY05 from fax towards e-mail. We have also improved our office website (<http://www.worldbank.org/eds09>) by providing more information about the role, mission and staffing of the Office, as well as the most recent Annual Report. We have also maintained an active program of visits to constituency countries (see Annex 3)

We have actively promoted greater Bank engagement with our constituency. This was done in part by ensuring that general Bank policies respond to the needs of our constituency. For example, we have encouraged the Bank's FY05 research project on migration and remittances to consider Pacific applications for its findings; we have reminded the Bank of the need for analytic and advisory services in small states, even where there is no significant lending program; we have cautioned that the debt sustainability initiative should not excessively focus on Africa; we have advocated refinement of IDA's performance-based allocation system, to ensure that our constituency members receive equitable allocations; and we have encouraged development of the Bank's engagement in 'fragile states' or Low Income Countries Under Stress (LICUS).

A high priority for the Office in FY05 was working with Bank staff on the *Regional Engagement Framework FY06-FY09 for Pacific Islands*, which was finalised in May 2005. We monitored the development of the Strategy and facilitated contact between the Bank and Pacific countries, regional institutions (such as the Pacific Leaders' Forum) and donors to the Pacific (including Australia and New Zealand in our constituency). As the Strategy developed, we facilitated Pacific members' feedback to Bank staff on its content.

We worked with other Bank Board members representing South-East Asia to support Borrower Representatives from the region in IDA negotiations. This included organising consultation meetings and providing briefings on key issues.

We have actively supported the recently established secondment program for developing country officials. Our Office played a role in developing the program through our active membership of the Committee responsible for the program's design and implementation. The program is targeted at developing country staff with line responsibility for relations with the Bank, and aims to improve their understanding of Bank operations and policies and of their Executive Director's office. We informed constituency members about developments in this program and solicited candidates from them. We also reconfigured an area of our office to accommodate secondees, thus facilitating their close involvement with constituency affairs during their stay at the Bank. An applicant from Cambodia was selected as one of the 18 secondees in the first wave of the program in FY05.

Over FY05 we supported links between the Bank and businesses in our constituency, including through the recently formed Australia-New Zealand Private Sector Liaison Officer network. This involved facilitating contacts between the network and the Bank. We supported management's efforts to encourage a diverse pool of potential consultants for Bank contracts.

Priorities

In our work within the Bank, we have focused on policy issues of particular importance for our constituency members:

- ensuring good governance in the Bank, in particular through good strategic planning;
- reducing growth in the Bank's budget, the cost of which is ultimately recovered from borrowers through loan charges. We have continued to advocate improved planning and budget processes, which are necessary to achieve better budget outcomes, and represent an important element of better governance;
- lowering the financial and compliance costs to developing countries of Bank requirements (such as safeguard standards) associated with its lending. We have pressed the Bank to take into account the balance of benefits and costs when it designs policies that impose requirements on developing countries, and as it implements those policies. We seek more consistent, and in some cases more urgent, attention to this issue, and concrete results;
- encouraging the Bank to increase its engagement with developing countries through non-lending activities;
- working with Bank staff to revitalise the Bank's small states policies. We have pressed the Bank to set priorities and goals, and have actively monitored progress;
- supporting the implementation of the LICUS initiative. We have emphasised that LICUS principles should be applied rigorously and consistently in Africa, and that non-African LICUS countries should receive due focus as the initiative is implemented;
- improving governance and the business climate in developing countries. We have encouraged the Bank to continue to focus on this issue in its policy research, in its outreach to developing countries and in its lending and non-lending programs;

- refining the use of performance and governance measures to allocate IDA resources. We have encouraged the Bank to examine the impact of its allocation formula, in particular the governance factor, on the finances available to individual borrowing countries (including Cambodia and Mongolia in our constituency), regional allocations, and how the Bank can engage with and retain influence in countries with small allocations of aid;
- engaging in the Bank-Fund work to operationalise the new debt-sustainability framework, in particular its estimation of the indebtedness of constituency members and its interaction with the Heavily Indebted Poor Country Initiative;
- encouraging simplification and harmonisation among donors, both as a desirable principle of Bank operations globally, and in particular in the developing country members of our constituency. This work has included promoting harmonisation between the Bank and our constituency donor countries (Australia, Korea and New Zealand) in their aid to the developing country members of the constituency;
- supporting Bank research and advocacy to reduce trade barriers for developing countries, especially in agriculture. We have encouraged the Bank to continue to pursue this work and disseminate it widely;
- encouraging the Bank to better understand the development process - which policy reforms work, which don't, and how successes can be scaled up; and
- encouraging growth of the IFC so as to achieve developmental and commercial success, based on a longer-term strategy and budget. We have encouraged rejuvenation of MIGA, incorporating a diverse portfolio among regions, sectors and investors, and a proactive marketing strategy. We have also sought greater integration and synergy among IFC, MIGA and the Bank.

We have consistently championed these issues at the Board and in our interactions with Bank management, to reinforce our governments' views on them.

BANK STRATEGY AND LEADERSHIP

Bank Strategy

In FY05 the Bank's overall strategy, adopted in FY02, continued to stress the "twin pillars" of investing in and empowering poor people, and promoting a favourable investment climate, as the key elements in achieving the Bank's mission of reducing poverty. This framework gives the Bank flexibility to respond across the spectrum of its clients.

The broad spectrum of the Bank's country clients spans middle income countries, low income countries and fragile states ("Low Income Countries under Stress" – LICUS). The Bank recognises small states as a distinctive subgroup spanning all three categories.

Within countries the Bank aims to respond to countries' demands, to make use of its particular strengths and to harmonise its work with that of other donors. Across countries it focuses on countries with a policy environment conducive to aid effectiveness. This is particularly the case with low income countries, for which aid volumes are determined in accordance with IDA's formal performance-based allocation systems.

The Bank is also increasingly involved in multi-country and global programs, such as measures to combat diseases prevalent across groups of countries (e.g., HIV/AIDS or malaria); regional or global environmental problems; or regional energy investments.

The Bank has identified its main challenge as one of implementation. The key elements of this are differentiating the Bank's activities in accordance with varying country needs, making appropriate aid allocations across countries,¹ reducing the cost of doing business with the Bank, working in partnership with other donors and improving internal efficiency. The Bank also needs a more rigorous approach to selecting which global and multi-country activities it needs to be directly involved in, to determining the extent and form of its involvement, and to linking these activities with country-level work.

Our office considers the key implementation issues to be excessive and unsustainable rising costs (which are ultimately paid for by the Bank's clients), a lack of indicators of Bank performance and of feedback mechanisms to decision-making, mandate creep, economic and sector work that is not closely enough related to the needs of clients countries, and various organisational weaknesses. Over FY05 there has been progress in several of these areas, including lending eligibility, a clearer strategy for middle income countries, revitalising support for infrastructure, lending modernisation and the first steps to budget reform. Several of these initiatives are discussed elsewhere in this report.

¹ The allocation dilemma being that responding to need may be in tension with the allocation of aid to where good policy environments are likely to result in greater aid effectiveness.

The Presidency

In early 2005 the then President, Jim Wolfensohn, announced that he would not be seeking a third term after his current term expired on 31 May 2005. Mr. Wolfensohn served for 10 years as President, and provided rejuvenating leadership that has considerably strengthened the Bank.

By tradition, the United States, the Bank's largest shareholder, has nominated its Presidents. In seeking President Wolfensohn's successor, the US consulted with the Bank's member countries on the desirable qualifications and experience requirements for the Presidency. The US nominated Paul Wolfowitz, whose career of over 30 years in public service and academia included a variety of senior US foreign policy and national security posts, the former focused on East Asia and the Pacific. Mr. Wolfowitz was elected President in a unanimous vote of all Executive Directors and took office from 1 June 2005.

President Wolfowitz has indicated some of the approaches and key issues he intends to develop. He stated that the Bank's mission – poverty reduction – should remain the same. He advocates a holistic and country-specific approach to development, rather than focusing on single issues or universal solutions. He has also pointed to the importance of the private sector in generating wealth, and of combating corruption. Mr. Wolfowitz's travel as President has included Africa and South Asia.

IBRD AND THE INTERNATIONAL DEVELOPMENT AGENCY (IDA)

The Bank and Middle Income Countries

The Bank's investment lending to middle income countries (defined by the Bank in this context as countries eligible to borrow from IBRD) has been in trend decline over the last decade. New approvals for investment lending to middle income countries averaged about \$6 billion between FY00 and FY04, compared with an average of about \$12 billion annually between FY90 and FY98. This contrasts with development-policy lending to middle income countries, which has remained steady at around \$4 - \$5 billion annually.

The fall in investment lending to middle income countries arose because some middle income countries have less need for borrowing from the Bank, whether due to high revenues (such as currently is the case with oil exporters) or due to improving access to international capital markets. Many Bank borrowers have stressed that the non-financial cost of doing business with the Bank is too high. Others (such as some central European countries) have formally or informally graduated from IBRD lending, while still others (such as Nigeria and Indonesia) have dropped from IBRD to blend or IDA-only status.

Lending from the regional development banks, such as the European Bank for Reconstruction and Development and the Asian Development Bank has held steady or increased. The IBRD's loss of 'market share' to regional development banks implies that factors internal to the IBRD played a major role in the decline in its lending to middle income countries, rather than a decline in overall demand for development banks' services.

A Bank Working Group on Middle Income Countries recommended reforms to Bank policies and procedures in a final report in April 2004. The Bank is acting on several fronts: changing Bank processes to reduce transactions cost; using lending conditionality more sparingly; revising the Bank's infrastructure policies to place a greater emphasis on the potential role of Bank lending; developing Country Assistance Strategies with a greater focus on strategy and results, and less on detailed modalities of Bank support; developing more flexible lending instruments, such as development policy lending and supplemental financing; better aligning analytical and advisory work with country priorities and circumstances; expanding use of country (rather than Bank) systems; improving outreach to ensure governments are aware of IBRD's financial and non-financial products; exploiting synergies among IBRD, IFC and MIGA; and strengthening collaboration with bilateral and multilateral partners.

While these changes are being implemented with IBRD borrowers in mind, all improvements to Bank efficiency – from budget reform to human resource policies – have the potential to make the Bank a more attractive development partner to these countries, as well as to IDA borrowers.

Investment lending to IBRD-eligible countries increased from \$6.6 billion in FY04 to \$9.3 billion in FY05. This may prove to be initial evidence that the various initiatives described above may be succeeding, though continuation of recent improvements will be necessary.

IDA14 Replenishment

The IDA14 Replenishment negotiations were concluded in Washington in February 2005.

Volume: Donor countries reached agreement to provide \$18 billion to the 14th replenishment of IDA. With reflows to IDA and contributions from IBRD, at least \$34 billion will be made available through IDA during the three years from 1 July 2005.

This is about a 25 percent increase in resources over the IDA13 replenishment. Although donors targeted a 30 percent increase, given exchange rate issues, there were a number of the larger donors who could not reach the 30 percent level. The US, Japan and Germany all significantly reduced their share of IDA, while the UK and a number of other European donors made significant increases.

Some donors have said they will try to increase their commitments during the IDA14 period.

Performance-Based Allocation System: IDA's Performance Based-Allocation System (PBA) will continue to be the basis for the distribution of IDA resources. Some relatively minor adjustments to the system were agreed during the replenishment period.

Under the PBA system, the performance of all IDA-eligible countries is assessed annually using the Country Policy and Institutional Assessment (CPIA) tool. This is intended to assess each IDA country's current policy and institutional framework for fostering growth and poverty reduction, and ability to effectively use IDA resources.

The CPIA comprises 16 criteria grouped in four equally weighted clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions.

The Bank tries to make ratings consistent within and across regions by providing detailed questions and definitions for each of the 16 criteria, and through an institution-wide process of rating and vetting a dozen benchmark countries that are used to "anchor" ratings in all the IDA regions. There is an institutional review of all country ratings before they are finalized.

To date, specific CPIA scores have been confidential to the country concerned, and country results have been published only in quintile bands. Starting with the 2005 ratings that are now being compiled, the numerical rating of each IDA borrower for each of the CPIA criteria will be publicly disclosed. The assessment process should be increasingly integrated into the country dialogue. CPIA ratings are based on the professional judgments of Bank Staff, who should discuss the judgments with relevant government representatives. There have been suggestions that any dissenting comments authorities might have on the CPIA ratings should also be disclosed. Management agreed to examine how this might be done and we expect a further report to the Board following the completion of the 2004 round.

The PBA system does not weigh all the CPIA criteria equally. It gives a very high weighting to the policy and institutional criteria, especially indicators of governance and corruption so these have a much greater impact on allocations than other parts of the CPIA.

The PBA system is having a major impact on access to resources, and it is relative performance that counts. Many countries are improving their scores, with the corollary that countries whose scores improve slower than average, remain the same, or decline, will see their level of IDA funding reduced.

Allocation for Small States: The IDA allocation is also a function of population. Small states with small populations get very small allocations, even if they have good CPIA ratings. However, each country gets a basic allocation of SDR3.3 million (nearly \$5 million) every three years. This tends to dominate their allocations. This basic allocation was increased by 10 percent in IDA14. Participants requested more analytical support for poor and fragile states, which generally do not have a PRSP or a substantial lending program.

Grants: In IDA13 it was agreed that IDA could provide grants for specific purposes such as post conflict situations or HIV/AIDS. The basis for providing grants has completely changed in IDA14. It has been decided that countries will receive their IDA allocation either as an IDA credit, or as a grant or as a mix of 50 percent credits and 50 percent grants depending on their risk of debt distress.

IDA has adopted the Joint Bank-Fund Debt Sustainability Framework as the analytical basis to link debt sustainability and grant eligibility. Grant eligibility will be limited to IDA-only countries. Further work is being done by the Bank and Fund on forward-looking assessments of countries' debt sustainability.

Countries that receive their IDA allocation as grants will have the volume of their allocation reduced by 20 percent. This is because the net present value of a grant is higher than that of a credit; the 20 percent reduction is intended to maintain the equity of PBA system and not reward countries that are debt vulnerable.

Results Measurement: A two-tiered system of results measurement is being implemented in IDA14:

- Tier 1 involves monitoring 14 country outcome indicators including the proportion of population living on less than \$1 per day, under five child mortality rates, primary school completion rate etc.
- Tier 2 involves assessing IDA's contribution to country outcomes. This will be assessed through results-based CASs and results frameworks within IDA projects and programs.

The Mid term Review of IDA14: The mid-term review of IDA14 is likely to take place in late 2006. This meeting will review progress in implementing IDA14 and will foreshadow approaches to the IDA15 replenishment.

G-8 proposal for debt relief for Heavily Indebted Poor Countries

The G-8 Finance Ministers proposed on 10-11 June 2005 the cancellation of remaining debts by the HIPCs to IDA, the IMF and the African Development Bank. They propose that future IDA gross flows to HIPCs be reduced to offset the repayments that have been forgiven (so that the IDA flow net of debt repayment would not change in the first instance), and that IDA donors contribute additional funds to IDA to make good the forgone repayments. Those additional funds would be allocated among all IDA borrowers by the PBA System described above, and could therefore potentially be available to IDA members of this constituency.

Many details of the proposal remain to be settled, including its implications for the application of the Debt Sustainability Framework. Since the end of FY05, the IDA Board undertook preliminary consideration of the proposal's implications for IDA operations and finances, and IDA Deputies met on 11 September 2005 to discuss financing issues. The proposal will be an important issue on the agenda of the Development Committee for its meeting on 25 September 2005.

Impact of Grants and Debt Relief on IDA's Financial Sustainability

The growing role of grants in IDA and the G-8 HIPC debt relief proposal may impact on IDA's financing, by reducing the future stream of principal repayments from selected indebted countries. Whereas at present, around half of IDA's cash disbursements are funded from 'internal resources' (principal repayments, fees and charges and income from investments), in future the burden of maintaining appropriate levels of assistance to developing countries may fall more on donor contributions to the replenishments.

It is not possible to forecast IDA's funding requirements over the forty-year horizon of IDA credits, and therefore it is difficult to quantify the implications of the IDA grant and the G-8 HIPC debt relief initiatives for IDA's sustainability. We propose to focus closely on these issues.

IBRD/IDA FINANCES

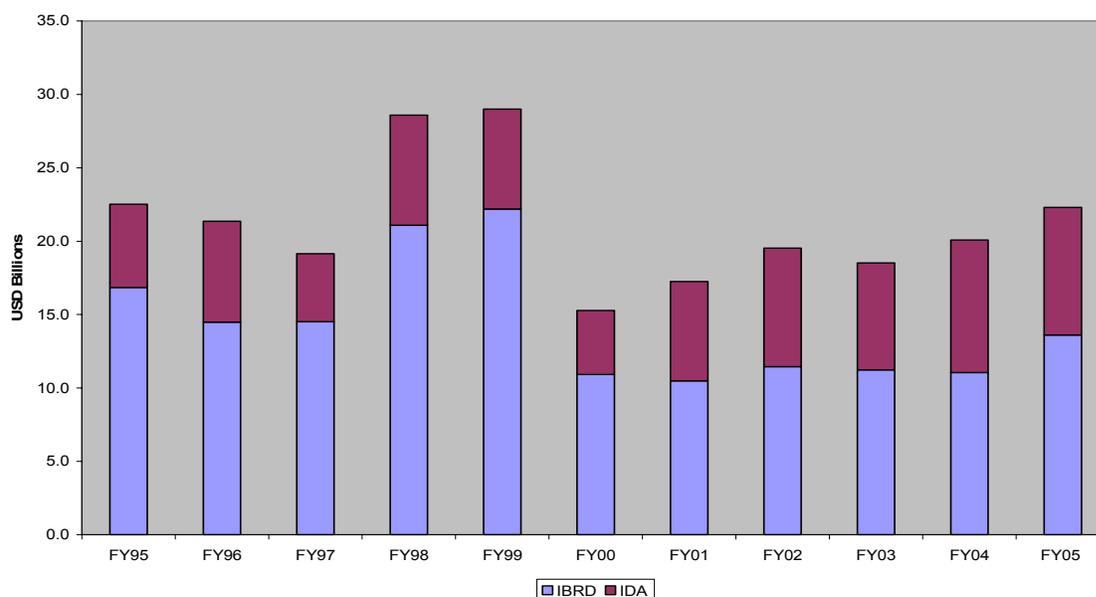
Trends in the IBRD and IDA lending portfolios

New IBRD loan commitments increased in FY05 for the first time since FY02, growing to \$13.6 billion from \$11.0 billion in FY04. New lending commitments also drove an increase in the share of investment lending compared to development policy lending (investment lending was 69 percent of total commitments in FY05, compared with 60 percent in FY04 and 63 percent in FY03). As noted above, this may reflect the increased emphasis on infrastructure lending that is part of the Bank's strategy for improving its performance in middle income countries.

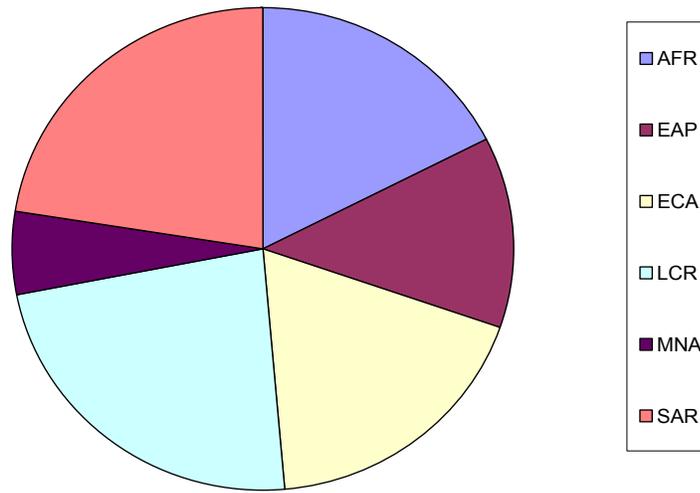
In spite of the growth in new lending, FY05 was another year of negative net disbursements for the IBRD portfolio, with total loans outstanding at end FY05 of \$104.4 billion, compared with \$109.6 billion the previous fiscal year. The negative net disbursements are largely a result of prepayments by middle income countries, which have been able to access capital markets for sovereign borrowing and which have seen rapid increases in private investment flows.

IDA credits outstanding at the end of FY05 were \$121 billion, compared with \$116 billion at the end of FY04 and \$107 billion at the end of FY03. In FY05 IDA committed \$8.7 billion in new development assistance, slightly down on the \$9.0 billion that was committed last year. New IDA commitments in FY05 were again concentrated mainly in the African region. Lending to East Asia and the Pacific, a small portion of total lending, remained roughly constant at \$2.5 billion.

IBRD/IDA New Commitments, FY95-FY05



IBRD/IDA Commitments by Region (\$b) FY05



IBRD Net Income Results

In FY05, operating income declined to \$1.3 billion from \$1.7 billion in FY04.

<u>Net Income (\$ millions)</u>	FY05	FY04
Loan interest income, net of funding costs		
<i>Debt funded</i>	291	628
<i>Equity funded</i>	1298	1231
Total	1589	1859
Other loan income	63	37
Release of provision for losses	502	665
Investment income, net of funding costs	94	22
Net non-interest expense (incl. admin costs)	(928)	(887)
Operating Income	1320	1696

- Net loan interest income decreased by \$270 million as a result of reducing loan spreads – this was mainly due to the impact of re-pricing the IBRD’s older pool loans.
- The release of provisions was \$163 million less than in FY04 - though at \$502 million the release of provisions, mainly due to the declining size of the loan portfolio, is still a major component of net income.
- The improvement in investment income reflected higher performance against the benchmark.
- Administrative expenses increased by \$81 million, though this was offset in small part by an increase in service fee revenues and a smaller contribution to special programs.

- Return on equity (using allocable net income) was 3.5 percent in FY05 and continued to decline from a high of 9.1 percent in FY03. Current projections are that it will not rise above four percent over the next ten years.²

FY06 Administrative Budget

The Board approved the IBRD/IDA administrative budget in June 2005. The FY06 net administrative budget is \$1.543 billion, an increase of three percent over the FY05 budget.

Total administrative expenses (including the budget for the Boards, the Development Grant Facility and the Staff Retirement Account) have increased by 5.1 percent from \$2.001 billion to \$2.103 billion. The larger increase in the total budget is due to a significant increase (\$278 million) in the Bank's pension liability.

The administrative budget includes a 3.9 percent average adjustment to staff salaries, which is in line with the growth in the Washington-area CPI for FY05. We are pleased to note that both the compensation adjustment and the remaining administrative budget increase were lower than in previous years, in line with management's stated target of achieving zero real growth in Bank expenditure over the next three years.

The zero-real growth target is to be achieved within a framework that will allow management a two percent "flexibility band" around the budget target. This is intended to be a tool to manage timing mismatches between the implementation of new initiatives and offsetting savings, while achieving zero real growth over time. While we have some concerns that it may make overall cost control more difficult, we consider the new framework warrants trial, under close management and Board supervision.

Budget Reform

The Bank's budget reform program has made some progress in FY06, with the introduction of Strategy and Performance Contracts, and Key Performance Indicators for all units. We expect that these changes in the planning and budgeting process will give better information about the links between the use of the Bank's resources and achievement of its development objectives; and in time we hope that this will result in more effective spending choices by the Bank.

We were disappointed that significant gaps remain in the budget reform program. In particular we have been seeking a change to the process by which changes in staff numbers, grade mix and salaries are incorporated into the budget by way of an automatic adjustment, which is then removed by way of a "Bank-specific deflator" when the Bank calculates the "real" increase in the administrative budget from year to year. We believe that this lacks transparency as to the real cost drivers of Bank spending, removes any incentive on the Bank to achieve productivity gains in return for salary increases, and prevents the Board from assessing the trade-offs between rising personnel costs and other possible uses of resources.

² R2005-0172/2, *Allocation of Net Income and Waivers of Loan Charges for FY06*, p 6

At our Chair's request, the paper setting the IDA commitment charge was included on the Board's agenda alongside the other budget papers. The IDA commitment charge is a charge that is compulsorily levied on the undisbursed balances of IDA borrowers whenever the total administrative costs allocated to IDA in a given financial year exceed income from the service charge on IDA credits. We believe that reducing budget growth to permit the commitment charge to return to zero percent should be a priority for management, and we continue to be concerned at a lack of accountability for managing IDA's portion of the administrative budget. The Bank has committed to reviewing the policy by which costs are allocated between IDA and IBRD; the review should come to the Board in early FY06.

Net Income Allocation:

FY05 allocable net income was \$1.252 billion, and the Board has recommended to Governors that it be allocated as follows:

<u>Allocable net income</u>	<u>1,252</u>
Reserves	589.5
Surplus	52.2
Transfers to IDA	400
Transfers to HIPC Debt Initiative Trust Fund	210

- The transfer to IDA is part of a \$1.5 billion commitment over three years. This means that IBRD's share of total IDA replenishment costs (close to five percent) will increase for the first time since IDA12.
- The transfer to HIPC completes IBRD's 1996 pledge to provide a total of \$2.15 billion in debt relief in 1998 NPV terms.
- Given the fact that IBRD's net income projections have improved considerably since this time last year, the Board has recommended gradually unwinding the \$400 million "earmarked surplus" that was set aside last year to support future transfers to IDA and HIPC. In FY06 the earmarked surplus will be reduced to \$300 million, with the \$100 million difference formally added to reserves.
- The existing loan charge waivers have been maintained, with the front-end fee waiver on IBRD loans increasing from 50 to 75 basis points. We expect to see this "temporary" charge (put in place during the Asian crisis) fully phased out next year.

IBRD Capital Adequacy:

IBRD's capital adequacy position continues to improve. This is not due to strong reserve growth (in fact for the last two years the general reserve has not held its real value), but rather due to the reduced size and improved quality of the loan portfolio.

Capital adequacy is a measure of the probability of a call on its callable capital. It is measured by two indicators. The first, the equity-to-loans ratio, is projected to rise from 29.4 percent in FY04 to 31.4 percent in FY05 to 33.1 percent by FY07. The second indicator, a stress test, shows that IBRD's ability to continue to generate earnings in the case of a credit shock (and hence continue to provide assistance to developing countries), has also improved in FY05.

DEVELOPMENT RESULTS

The Annual Review of Portfolio Performance (ARPP), written by Bank management, and the Annual Review of Development Effectiveness (ARDE), written by the Bank's independent Operations Evaluation Department, evaluate the effectiveness of the Bank's activities in terms of the outcomes for clients and the Bank's own performance. The reports differ somewhat in their methodologies and, in a given year's report, in the time period covered.

The FY04 Annual Review of Portfolio Performance (ARPP)

The ARPP's analysis of operations completed in FY04 found that 78 percent of operations had outcomes³ rated satisfactory or better, which is similar to performance since FY00, following steady improvement from lows of about 60 percent in the late 1980s.

- The factor most strongly correlated with satisfactory outcomes was the implementation performance of borrowers.
- More than 80 percent of the operations in Europe and Central Asia, South Asia and Latin America and the Caribbean had outcomes rated satisfactory or better, while in East Asia and the Pacific the level was 77 percent. Africa was the worst performing region with only 66 percent of operations having outcomes satisfactory or better.
- Analysis of performance by sector shows that more than 80 percent of operations in the transport, social protection and education sectors had satisfactory or better outcomes. This good performance was attributed to less project complexity and more focused objectives. Private sector development operations were the weakest performing, with only 62 percent of operations having satisfactory or better outcomes.

The 2004 Annual Review of Development Effectiveness (ARDE)

The 2004 ARDE, released in May 2005, evaluated the outcomes of the individual Bank operations that closed in FY03 (the latest full-year cohort of evaluated projects). Seventy-five percent had satisfactory or better outcomes.⁴ This was a slightly lower level of satisfactory performance than FY01 and FY02. However, FY03 was the fourth year in a row in which operations' outcomes met or exceeded the corporate target of 75 percent satisfactory, and constituted a marked improvement on the results from the 1980s and early 1990s.

- Over the FY00-FY04 period the South Asia region had the highest and Africa the lowest proportion of satisfactory or better outcomes.
- 74 percent of the FY03 project cohort is likely or highly likely to be resilient to future risks and 48 percent had substantial institutional impact. While this is a significant decline over the FY02 cohort, evaluation of the early part of the FY04 cohort suggests that the above

³ In the ARPP, "outcomes" are defined as the likelihood of attaining an operation's development objectives.

⁴ In the ARDE, "outcomes" take into account three criteria: relevance of an activity's objectives in relation to country and Bank priorities, achievement of an operation's development objectives, and efficiency in achieving those objectives.

declines in FY03 will be reversed in the full FY04 cohort, and may be indicative of a resumption of the upward trend in operations' performance seen in recent years.

The ARDE's review of the Bank's contribution to poverty reduction again affirmed the poverty reduction mainly results from economic growth. It updated previous research to confirm that distributional changes are typically rather slow and seldom large, so that simply lifting aggregate growth reliably reduces poverty. The ARDE suggested that in low income countries, the Poverty Reduction Strategy and the enhanced HIPC initiatives have tended to focus excessively on social sector spending, and insufficiently on the growth-enhancing measures that would both reduce poverty and make social spending more sustainable.

The report finds that better outcomes of Bank assistance were associated with three factors: achieving and maintaining macroeconomic stability; the relevance of Bank country strategies; and country ownership of the reform agenda.

- Country Assistance Strategies (CASs) are more likely to be relevant where the Bank remains engaged in countries and has continuity in its policy analysis and advice.
- This is underscored by the further finding that high-quality analytic work leads to better project designs and outcomes.

The report found that selectivity among different priorities in line with the Bank's comparative advantage has been difficult to achieve. It recommends that CASs identify binding constraints to growth and use these as the basis for determining where the Bank's assistance is likely to have most impact.

The report argued that there needs to be greater attention to the poverty impact of social development lending. Targeting the poorest and most vulnerable has proved to be difficult and the sustainability of Bank spending on social development and community development activities has been low.

OPERATIONAL ISSUES

Governance and Corruption

The past year has seen further work in the World Bank Group to highlight the importance of good governance as a precondition to achieving pro-poor economic growth and making effective use of aid resources.

In May 2005 Bank researchers released the fourth edition of a large database, *Governance Matters IV*, synthesizing available information on governance quality in over 200 countries and showing trends from 1996 to 2004. The measures capture six key aspects of governance: the rule of law, the regulatory burden, government effectiveness, control of corruption, political instability and violence, and voice and accountability. Governance quality has been confirmed to be an important condition for economic growth, and cross-country comparisons show that some quite poor countries have achieved good governance, and that countries with initially poor governance can achieve improvements. The variety of experience shows that good governance is not a 'luxury' that only rich countries can afford, but rather is a condition for economic growth that developing countries can create. Bank tools such as the *Governance Matters IV* database allow governments, citizens and investors to readily examine country scores in various aspects of governance, to observe trends, and to make comparisons with regional averages or other countries.

The Bank was intensively involved during FY05 in programs to assist members improve governance and reduce corruption. Successes are hard won, and are intimately connected with local political priorities and country ownership of reform efforts. However, review by the Bank's independent Operations Evaluation Department showed that Bank programs to strengthen governance had only moderately successful outcomes in the early 2000s, ranking behind programs in the health, infrastructure and education sectors. Governance often remains poor because it serves vested interests for it to do so.

Reductions in corruption may sometimes be assisted by public campaigns and prosecutions, and Bank evaluation in FY05 found potential in selective, country-specific policy reforms, such as a redesign of government processes and increased revenue transparency, to reduce the opportunities for corruption. Often, complex, multi-stage and time-consuming government processes provide opportunities for corruption to flourish. Improving the business climate, improving government efficiency and reducing corruption can be joint products from the one set of reforms.

As noted above in the context of IDA, in September 2004 the Bank Board agreed to the publication of the Bank's Country Policy and Institutional Assessment (CPIA) scores for each IDA country, commencing in 2006 when the CPIAs for 2005 will become available. Governance and corruption are becoming more important in determining aid flows, with the increase in funds in IDA14, the US's Millennium Challenge Account, and the G-8's proposal for HIPC debt relief increasing the pool of IDA funding available for performance-based allocation to all IDA borrowers (not just HIPCs).

Small States Forum

In conjunction with the Annual Meetings, the Bank annually hosts the Small States Forum of some 45 small developing countries, including the Pacific Island members of our constituency, along with partner institutions (Commonwealth Secretariat, European Union, IMF, UNCTAD, World Bank and World Trade Organization).

The 2005 Forum will consider a draft review, requested by the 2004 Forum, of the relevance of the issues set out in the Small States Task Force report of April 2000. The draft review maintains that the issues and opportunities identified in the 2000 Agenda are still relevant to the development of small states. These include, but are not limited to, remoteness, vulnerability to natural disasters, limited institutional capacity, and limited export diversification and openness.

The draft review identifies a number of emerging challenges facing small states, including the erosion of preferential treatment in trade, the rising debt burden of many small states, growing environmental vulnerabilities, youth unemployment and health issues. One of the key recommendations is to move away from prolonging preferential and concessional treatments in trade. The draft review instead urges small states to design and implement outward-looking, export-based development strategies based on exploiting and creating comparative and competitive advantages in the service sectors, while not neglecting other sectors. A key new emphasis is on the potential for regional cooperative solutions to challenges that may be beyond the resources of individual small states. It urges small states to increase existing efforts to adopt knowledge and service-based development, and to improve their investment climate, human-resources capacity and regional cooperation.

Managing for Development Results

In September 2002 the Development Committee endorsed an agenda on “Better Measuring, Monitoring and Managing for Results” as the next step in the Bank’s long-standing efforts to strengthen service delivery, operation quality and aid effectiveness. Implementation of the Bank-wide agenda began in early 2003 and has accelerated since.

The Bank has also initiated a partnership on managing for results across development agencies. This has taken the form of working groups that bring together donor agencies, the multilateral development banks and the OECD’s Development Assistance Committee.

Our Office has supported the focus on results. We would like to see a clearer vision of what a results-oriented Bank would look like – in terms of changed behaviours, management and outputs. We would also like to see a greater emphasis on the incentives on Bank staff to manage for results.

Lending Modernisation and Simplification

Over the last two years the Bank has been advancing a multifaceted program to modernise and simplify its policies and procedures for both development policy and investment lending.

The program with respect to development policy lending is now largely complete: from 1 September 2004 the Bank replaced the several variants of adjustment loans (*e.g.*, sectoral adjustment loans and structural adjustment loans) with one loan instrument – “development policy lending”. Development policy loans incorporate current understanding of good development practice, for example country ownership, a focus on institutions and structural reforms, fewer conditions, requirements for consultation, good analytic-underpinnings, a results focus, good monitoring and evaluation, and consistent treatment of poverty, social, environmental and fiduciary aspects.

At the 2004 Annual Meetings the Development Committee asked the Bank to review the Bank’s policy and practice regarding conditionality in development policy lending. That review has been completed, and endorses the Bank’s practice as it has evolved in recent years, with a small number of conditions focused on key medium-term policy and institutional reforms. The Development Committee will consider the findings of the review at the 2005 Annual Meetings.

The program of reform with respect to investment lending is still being developed. It aims to reduce both Bank and borrower transaction costs for preparing and implementing investment operations, and to align investment-lending policies with and procedures with borrowers’ needs. Some parts of the program are internal to the Bank, such as improvements to project supervision, project documentation and the Operational Manual (changes effective in FY05), which sets out Bank policies and guidelines for staff. Other changes implemented in FY05 are more visible to borrowers: streamlined procedures for processing simple and repeater projects, provision for additional financing to expand successful existing projects; expanding the range of expenditures which can be financed by Bank loans; and using country systems for implementing environmental and social safeguards and for international procurement (being piloted in FY05 and FY06). As a result of these measures, average processing times for investment loans is reducing, from 18 months in FY03 to 16 months in FY04 (which in turn was a large reduction from 24 months in 1990).

Our Office has supported the modernisation and simplification of lending as an important part of providing an effective and efficient service to developing countries. We would like to see more effort given to developing measures and targets (such as reduced transaction costs for the Bank and borrowers), by which the success of the reform efforts can be gauged. Bank management has undertaken to follow up on this.

Organisational Efficiency Task Force

The 2004 Organisational Efficiency Task Force finalised its report in February 2005. Its mandate covered the operational aspects of the Bank’s work - not overall strategy. IFC and MIGA were outside the scope of the Task Force’s work, as they have recently performed similar exercises.

The Task Force argued that the Bank’s clients are becoming more diverse and challenging. At one end of the client spectrum, the Bank is called on to engage with very poorly performing countries (LICUS), while at the other end, investment-grade clients looking for specialised services remain important clients. A country basis for Bank work, while remaining important, is

being challenged by demands for sub-national, cross-border and global services. The ranks of multinational, governmental and civil society organisations with an interest in development assistance continue to grow. New aid models are also arising, such as global funds and the United States' Millennium Challenge Account.

To strengthen service delivery in client countries, the Task Force proposed a package of measures, including more team-based delivery of results-focused programs, with services delivered by larger teams led by the Bank's most experienced staff; simpler and more strategic planning and budgeting; and an increased proportion of resources for direct client services (rather than for units such as the Bank's central networks and regional offices). The Task Force also noted options for more radical decentralisation, but believed that more in-depth analysis of these options is needed.

To leverage the Bank's comparative advantage as a global institution, the Task Force also proposed a second package of measures focused on improving the Bank's networks and sector boards (the central units that work on a set of connected issues, sectors or themes, for example the infrastructure network and the education sector board), and global programs. The recommendations included reducing rigidities that discourage knowledge-sharing; better aligning the work of networks with country programs; and consolidating the networks and sector boards from 25 to four to reduce fragmentation and duplication. In the case of global programs, the Task Force recommended greater selectivity, better accountability and closer links with country programs.

Bank management is implementing the recommendations relating to client delivery and global programs. Early progress has been seen in moves to begin the consolidation of task teams, and in the FY06 budget process and decisions. The FY06 budget provides for a larger share of staffing and financial resources for direct client services, and a smaller share for head office activities, in particular as a result of rationalising quality assurance and corporate reporting functions and networks.

Management considers that the options for more radical decentralisation and the recommendations relating to the structure of the networks are "not ready for action at this time", although it acknowledges the weaknesses in current arrangements. One consideration in this regard is to allow for input from the new President on these long-term and more fundamental issues.

Our Office has over several years stressed the need for increased operational efficiency in the Bank. We look forward to the ongoing implementation of agreed recommendations, and encourage the Bank to consider whatever more fundamental measures may be needed to increase efficiency – and thus reduce costs to Bank clients.

Voice

The 2002 Monterrey Consensus asked the Bank and Fund to enhance the voice and participation of developing and transition countries their decision-making – a call also made by the Development Committee each year since then.

- The Bank has taken actions to increase the countries' 'ownership' of their relations with the Bank. These include the use of the Comprehensive Development Framework, the Poverty Reduction Strategy process, decentralisation of Bank activities and harmonisation of procedures among donors.
- The capacity of offices of Executive Directors, in particular those representing sub-Saharan Africa, has been strengthened through improved communications with their capitals, the establishment of an analytical trust fund to provide sub-Saharan African Directors with independent technical and research support, and a secondment program.
- The secondment program sponsors officials from developing countries to come to the Bank for six months and experience and learn at first hand how policies, programs and projects are designed and implemented. The first cohort of the Program included an official from Cambodia from our constituency.

The Bank's Board and management have also considered options for structural and institutional changes. These deal with IDA voting and capital structure and IBRD voting and capital stock, higher representation of developing country nationals in senior management positions at the Bank, Board effectiveness and the process of selecting the President of the Bank. For some of these issues, specific options have been formulated and evaluated, and consultation has taken place with the Fund. Some changes require decisions by the Board of Governors or, in some cases, amendment to the Bank's Articles of Agreement. The more fundamental structural issues are controversial and apparently lack broad support for change at this time.

Engagement between the Bank and Civil Society

Since the early 1980s, the Bank has engaged with a wider spectrum of organisations within global, national and local civil society in policy dialogue at transnational, national and local levels. A strategic review of the Bank's relations with civil society over FY02-FY05 yielded a final report in March 2005: *Issues and Options for Improving Engagement between the World Bank and Civil Society Organizations*.

The review found two main challenges for the Bank as it seeks to engage with civil society more constructively and effectively.

- The Bank should institute better learning programs for staff and governments on the changing nature, role and perspectives of civil society and how to engage them effectively, and should also develop tools to help staff determine which civil society organisations to engage on a given issue, project or strategy.
- There is a need for greater Bank-wide coherence and accountability for engaging civil society. The review proposed various measures to improve the quality of the Bank's engagement with civil society.

Our Chair agrees with the review that the Bank's engagement with civil society can be an important element in promoting the sustainability of development efforts, in particular through improving broad-based country ownership of poverty reduction strategies. We have also argued that the Bank should have a clear objective when it engages civil society - namely to improve the Bank's practical contribution to sustainable poverty reduction by a balanced incorporation of the insights of representative civil society organisations. This is an aspect of the issue of "voice" –

how to ensure that representative views of the citizens of developing countries are heard in the Bank's decision-making.

Bank's Role in Tsunami Relief

By the end of June 2005, the World Bank had committed more than \$835 million to help countries devastated by the December 2004 tsunami. As a development bank (rather than an emergency response unit), the Bank's role has grown as the tsunami recovery tasks have moved from emergency supply of food and shelter initiated through the United Nations agencies, to reconstruction and the rebuilding of livelihoods.

In Indonesia, a Bank-supported community-driven development program, the Kecamatan Development Program, has been active in tsunami-affected villages in Aceh. In May 2005 the Bank-managed \$500 million Multi-Donor Trust Fund for Aceh and North Sumatra approved four new projects worth \$250 million to provide housing, land rights and community facilities for the earthquake and tsunami-affected people of Aceh and Nias.

In Thailand, the Bank is administering grants from the Japanese Social Development Fund to help non-governmental organisations in the affected areas restore the social and cultural fabric and rebuild a sense of well-being, through support to groups struggling to restore their livelihoods after the tsunami. The projects will also help communities put in place a better system for managing the natural environment.

The Bank has committed \$528 million to help India with the majority of the funding to be used for housing reconstruction and restoration of people's livelihoods, as well as upgrading and repairing rural water supplies in Kerala.

In Sri Lanka some \$36 million of Bank funds have been disbursed (as at July 2005) out of \$150 million committed, with the majority of the funds used for housing grants and livelihood cash-grants to people directly affected by the tsunami. The Bank has also allocated \$14 million to be disbursed to the Maldives over a three-year period under the Post-Tsunami Emergency Relief and Reconstruction Project.

Analytic and Advisory Services

The Bank complements its financial assistance with analytic and advisory services (AAA). Examples of AAA are poverty assessments, country economic memoranda, public expenditure reviews, country procurement assessment reports and sectoral studies. Many evaluations over the years have demonstrated that a foundation of good AAA increases the success of Bank operations.

Priority is now shifting towards customised AAA reports that respond to client demands, rather than standard reports provided across most countries.

The number of delivered AAA products increased from 499 in FY01 to 1077 in FY03 and 1037 in FY04, and the cost of AAA increased from \$71 million in FY01 to \$141 million in FY03 and

\$146 million in FY04. Spending and delivery of AAA products in FY04 increased strongly in LICUS countries in FY04.

The AAA reform program has also led to a broad improvement of the quality of individual AAA products. By the summary criterion of overall quality, 92 percent of AAA in FY02 (the most recent year evaluated) had a rating of satisfactory or better, compared with 73 percent in FY98-99. However, country reviews have found that the impact of AAA programs at the country level is often less than the sum of their individual parts. Better coordination is needed across sectors, themes and different parts of the Bank in order to produce more coherent AAA programs, and better dialogue is needed with clients in order to increase impact. Management oversight could be improved, to better link country assistance strategies and sectoral AAA. Slow delivery times, an issue of long standing, continues to be a problem, with clients consistently expressing a desire for more “just in time” advice and for greater responsiveness in delivery.

The Bank’s independent Operations Evaluation Department (OED) has reviewed the Bank’s AAA to Pacific Island countries as part of a review of the Bank’s engagement with these countries over 1992-2002. OED found that AAA formed the core of Bank assistance to Pacific Island countries in this period. The AAA mainly focused on the regional level. While it helped generate consensus on what needed to be done on issues common to all Pacific countries, it did not provide an effective basis for country-specific issues. Further, the Bank for the most part did not back up its advice with a sustained policy dialogue with countries or other implementation assistance. The Bank’s new *Regional Engagement Framework FY06-FY09 for Pacific Islands* aims to remedy these problems, with more targeted AAA, a greater effort on country-specific activities, and better dissemination and dialogue with countries.

INTERNATIONAL FINANCE CORPORATION (IFC)

IFC's Operational Results

IFC generated a record profit of \$2.0 billion in FY05, compared with the then-record profit of \$1.0 billion in FY04. The main source of the FY05 profit was record net income of \$1.4 billion from equity investments, compared with \$0.7 billion in FY04. This results from the strong performance of equity markets in emerging countries and from investments in firms that benefit from high commodity prices, with associated high dividends and capital gains. Income is likely to be lower in FY06 is mainly due to a return to normal levels of equity income. IFC's commitments in FY05 were \$4.75 billion, compared with \$4.73 billion in FY05 and a planned range of \$3.8 - \$4.8 billion. IFC is forecasting an increase in its annual commitment volume to a range of \$6.0 to \$7.2 billion by FY08.

The quality of IFC's portfolio has improved each year since FY02, when the Argentine crisis damaged its portfolio quality. At the end of FY05, IFC's total reserves for losses were \$1.0 billion, down from \$2.8 billion at the end of FY02. Loan reserves as a percentage of the outstanding portfolio decreased from 9.3 percent at the end of FY04 to 5.9 percent at the end of FY05. This improvement mainly results from lower credit risk and impairment levels, and the successful restructuring of a number of large non-performing loans in Asia and Latin America.

IFC's independent Operations Evaluation Group (OEG) evaluates the commercial and developmental results of IFC's individual projects. The most recent information available derives from evaluations conducted in 2001-2003 of a sample of projects the Board approved in 1996-1998. Of this sample 59 percent were successful financially, 53 percent were successful developmentally, and 46 percent were successful by both criteria, compared to 41 percent and 42 percent, respectively, in the preceding years.

Projects evaluated in IFC's targeted "strategic sectors" yielded higher than average development and investment outcome success rates. IFC has steered its resources towards the financial markets, infrastructure, and social sectors since 1998, increasing their share of its total commitments from 41 percent in 1998 to 57 percent in 2004. This growth has been achieved mainly in the finance and insurance sectors.

IFC's Strategic Direction

IFC has continued to try to scale-up and accelerate implementation of its strategic priorities, to maximise its development impact and to respond to the needs of member countries. The following are major developments over FY05.

Strategic priorities: Over FY06-FY08 IFC aims to scale-up and accelerate implementation of five strategic priorities, endorsed by the Board in April 2004:

- strengthening the focus on frontier markets;
 - building long-term partnerships with emerging global players in developing countries;
 - differentiating through sustainability competencies;
-

- addressing constraints to private sector growth in infrastructure health and education; and
- continuing to emphasise the development of local financial markets through institution-building and innovative financial products.

Frontier Markets: In recent years IFC has achieved good developmental and financial results in frontier markets. Some big economies have ceased to be defined as “frontier”, leading to a debate on whether to expand the definition to include more countries, frontier regions within countries, and sectors. IFC is reviewing this issue. Our office has argued that any expansion in the definition should not lessen IFC’s commitment to countries currently defined as frontier.

Multi-year plan and budget: IFC inaugurated for FY06 a multi-year plan and budget, which the Board (including our constituency) has sought for several years. This provides explicit business objectives and budgets estimated over a three-year period. Starting with FY06 IFC presented a three-year business plan and budget, comprising ranges for business targets, and a detailed budget for the first year together with indicative budgets for the second and third year. This change represents a significant improvement in IFC’s governance. The FY06 budget represents an increase of seven percent in real terms over FY05. The indicative real increase over FY05-08 is 22 percent.

Human Resources: IFC’s total staff has grown from 1,975 to 2,431 since FY01, the most significant increase being in country offices (from 626 to 1,098). The number of investment officers has been flat at around 400. To increase investment activity, IFC plans to recruit about 150 new investment officers and associated support staff. Currently 44 percent of IFC staff is located in the field: this is planned to increase in coming years.

Performance-Based Grants proposal: IFC has proposed to establish a “Performance-Based Grants Initiative” (PBGI), as a vehicle to complement its frontier strategy. The Board has tentatively approved assignment of \$250 million from retained earnings to a pool of resources to fund targeted projects. The size of the grants would be determined on a project-by-project basis. Compliance with the performance conditions specified for each grant would be subject to independent monitoring and verification arrangements. Proposed criteria and funding for the initiative are currently being developed by IFC management for future Board consideration.

Sub-Sovereign and Municipal Lending: During FY05 IFC continued to experiment with engagement with sub-sovereign public infrastructure entities (PIEs). These entities are the principal operators and financiers of infrastructure projects. Their role is expected to grow as central governments are increasingly looking for means to devolve infrastructure development, finance, and service provision responsibilities to them in an effort to ease central governments’ fiscal constraints and reduce competing expenditure demands. PIEs comprise a diverse group of firms and agencies, from publicly owned infrastructure firms to locally or municipally managed and/or owned utilities.

Our Office supported IFC’s business strategies and its proposed budget, including the seven percent real increase in expenditure in FY06 over FY05. We particularly welcomed the start of IFC’s multi-year plan and budget framework. We cautioned, however, that an expanded definition of frontier markets risks losing IFC’s development focus reinforced in the current

definition. We emphasised that a major challenge to IFC, no less than to the World Bank, is to engage successfully in LICUS.

We stressed the importance of maintaining the quality of IFC staff and management through careful selection and appropriate training of new employees, and ensuring that ambitious recruitment plans do not outrun IFC's needs in the event of any slowdown in its markets.

MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

In FY05, under its new Vice President, Ms. Yukiko Omura (appointed in April 2004), MIGA was restructured and adopted a new business strategy. This involved streamlining the way MIGA does business (including closing field offices), strengthening finance and risk-management business processes, improving assessment of development impact, achieving synergies within and outside the Bank Group, re-thinking MIGA's business model and strengthening MIGA's relationship with development partners, including extending the reach of other insurers in frontier markets.

MIGA's performance, however, has not been as good as expected, partly due to the adverse global environment but also due to MIGA's inability to fully deliver on its counter-cyclical role as a catalyst for foreign direct investment in developing countries.

In FY05 MIGA issued \$1.2 billion in guarantee coverage for 62 new contracts in support of 33 new projects. While this volume of operations is similar to the past several years, administrative expenses continued to increase - from 51 percent of total income in FY04 to 54 percent in FY05. The upward trend of administrative costs as a proportion of total income goes back to FY00, and reflects flat guarantee income, declining investment income except for FY05 and increasing expenses. MIGA's net income before provisions decreased to \$24 million in FY05 from \$25 million in FY04 and \$38 million in FY03.

Portfolio concentration in terms of region, sector, and client base has grown even after it adopted the new business strategy. Fifty-five percent of gross commitment in FY04 was accounted for by only two clients, up from seven percent in FY00. In FY05 portfolio concentration in the Europe and Central Asia region increased to 39 percent from 26 percent in FY03 and 37 percent in FY04.

MIGA's disappointing performance in recent years, extending to FY05, has drawn critical attention from the Board. At the May 2005 Board discussion of MIGA's strategic direction for FY05-08, the Board agreed with management's proposed operational priorities of infrastructure development, frontier markets, conflict-affected environments, and south-south investment. It expressed disappointment, however, about MIGA's overall performance and called for visible, early pay-offs over FY06 from the new management's efforts to improve MIGA's performance. Our constituency stressed the need for MIGA to demonstrate early improvements controlling administrative expenses, growing the business, diversifying its business by clients and by region, better integrating with the World Bank Group and better targeted technical assistance.

MIGA's management has suggested expanding the current product lines to better meet clients' evolving needs. For MIGA to do this, MIGA's Convention would need to be amended. Our constituency's initial response to this suggestion was that a thorough analysis of the pros and cons of particular proposals, as well as of MIGA's competitiveness with its current products, should be made before considering amending the Convention.

CONSTITUENCY COUNTRY DEVELOPMENTS

Australia

Australia has strengthened its collaboration with the World Bank in the Pacific, providing A\$10 million through a Trust Fund to enhance the operations of the Sydney Office and increase the ability of the Sydney Office to tap the best Bank specialists for input to work in the Pacific.

Australia was an active participant in the IDA14 negotiations and called for IDA to better address the needs of small states and countries with limited borrowing from the Bank. Australia also emphasised the importance of growth and trade reform for poverty reduction. Australia contributed A\$98.1 million to IDA and A\$2.9 million for the Heavily Indebted Poor Countries initiative in 2005.

Australian aid is budgeted to increase strongly in 2005-06, growing 12 percent in real terms over the previous year's budget. This reflects substantial commitments to PNG and the Solomon Islands and very large commitments in the wake of the Tsunami, especially to Indonesia.

In 2005 Australian firms won 87 prior review IDA and IBRD contracts valued at more than \$35 million. The Private Sector Liaison Officers (PSLO) continued to work with the World Bank to support Australian companies doing business with the Bank. The PSLOs organised a visit to the Bank by interested Australian and New Zealand companies. Alternate Executive Director Terry O'Brien addressed the delegation and the Office provided support.

Australia's Executive Director at the Asian Development Bank and Dean of its Board, Stephen Sedgwick, visited the World Bank in June 2005 to compare experiences and challenges of improving Board effectiveness at the two organisations. He met with Senior Management of the Bank, with Executive Directors from Asia and with the Chairs of Board Committees.

Senior Officials from AusAID and Treasury continued their practice of meeting with Senior Management during visits for the Spring and Annual Meetings. AusAID and the Agence Française de Développement presented a joint seminar to Bank staff on their experiences in bilateral aid programs for Low Income Countries Under Stress. In addition, the Office arranged meetings for Annmaree O'Keefe, Australia's Special Representative on HIV/AIDS, to discuss Bank programs in this area.

The Hon. Bruce Billson, MP, Parliamentary Secretary for Foreign Affairs and Immigration, visited the World Bank in July 2005. He held discussions on prospects in East Asia and the Pacific, development effectiveness and the Bank's engagement with civil society organisations. Bank Managing Director Shengman Zhang visited Australia in July-August 2005, which provided further opportunities for close consultation with senior Australian Ministers and officials on Bank performance and reform.

Cambodia

In May 2005 the World Bank Board approved a new Country Assistance Strategy (CAS) for Cambodia. This was a ground-breaking document in that the analytical work underpinning the strategy was jointly agreed to by the World Bank, the Asian Development Bank, the Department for International Development (U.K.) and the U.N. Each organisation based its program of assistance on the jointly agreed analysis. The CAS focuses on governance, underlining its crucial importance for Cambodia's future, and growth in the agricultural sector. The Board welcomed the CAS's role in helping coordinate donors' activities, thus easing administrative burdens on Cambodia and improving aid effectiveness.

In May 2005 the Board also approved an Education Sector Support Project. This project aims to assist Cambodia to expand access to educational services by addressing supply, demand, quality and efficiency constraints, with a focus on the poor and on under-served communes.

The Cambodia Trade Facilitation and Competitiveness Project was approved in June 2005. This will support Cambodia's strategy to promote economic growth by reducing transaction costs associated with trade and investment, introducing transparency in investment processes, and facilitating access of enterprises to export markets.

H.E. Vongsey Vissoth, Deputy Secretary General of the Ministry of Economy and Finance, was one of two Borrower Representatives for East Asia and the Pacific at the IDA14 replenishment negotiations. He made a notable contribution to the discussions.

Alternate Executive Director Terry O'Brien, attended the 7th Consultative Group Meeting on Cambodia held in December 2004 in Phnom Penh. At the meeting, the Government and donors agreed that Cambodia is, as Prime Minister Samdech Hun Sen stated, at a "crossroads in its difficult journey towards sustainable development and poverty reduction." All agreed the time had come to move beyond action plans and strategies to decisive implementation of a comprehensive reform program. The theme of improving governance ran through the discussion sessions at the conference.

The then World Bank President, Jim Wolfensohn, visited Cambodia in February 2005, accompanied by Executive Director John Austin. He met with His Majesty the King, Norodom Sihamoni; Prime Minister Samdech Hun Sen; senior government officials; civil society; students and youth organizations; garment workers; members of the private sector; and donors. He also participated in a high-level panel discussion in Phnom Penh at the international summit conference *Cambodia: Seizing the Global Opportunity – a Growth Strategy in an Era of Free Trade*. This major conference focused on Cambodia's economic reform process and its response to the era of free trade in the textile and garment sectors.

H.E. Senior Minister Cham Prasidh and a public-private delegation from Cambodia visited the Bank in July 2005. The Senior Minister met with President Wolfowitz, and also made a presentation to World Bank staff on trade and investment-climate reforms. He outlined the challenges and successes to date in the implementation of Cambodia's protocol of accession to

the World Trade Organization, improving the investment climate, and competing in the garment sector after quotas expire.

The Bank has initiated a Secondment Program to sponsor officials from developing countries to come to the Bank for six months and experience and learn at first hand how policies, programs and projects are designed and implemented. The first cohort of the Program included an official from the Cambodian Ministry of Economy and Finance.

Korea

In FY05 Korea continued to diversify and deepen its cooperative relationship with the World Bank both in its financial and non-financial aspects. The Korean Consultant Trust Fund received \$860,000 for the year. The Fund was fully utilised for hiring consultants in the Bank's operations in East Asia and Latin America. The Korean government's contribution to the Fund total \$4.7 million since its establishment in 1993. Korea actively participated in the IDA14 replenishment negotiations and pledged to increase its contribution to SDR128.58 million from SDR91.18 million in IDA13. This accounted for 0.91 percent of total donor contributions.

Since December 2004 Korea has undertaken several consultations with the World Bank to find better ways to accommodate and engage eligible Korean nationals into Bank operations. This culminated in an outreach mission to Korea in April 2005. The mission included a Human Resource Manager, senior recruitment officer, and the Korean Advisor in our Office. The mission held several job fairs and meetings, creating a pipeline of recruitment opportunities for potential staff from Korea.

Since early 2005 the East Asia-Pacific region of the World Bank has been carrying out a study, partially funded by the Korean government, and the Korean Institute of Finance. This joint study involves relevant institutions from Korea, Malaysia, Hong Kong, Singapore, *etc.* and aims to develop a strategy for upgrading the Asian financial sector to global standards.

The Korea Trade Investment Promotion Agency is working with the World Bank to appoint a Private Sector Liaison Officer, who will disseminate information on World Bank projects and provide strategic and technical advice to firms and individuals that want to do business with the Bank. The Agency, supported by the Korean Finance Ministry, plans to hold a launching ceremony for the Liaison Officer in Korea in October 2005.

Mongolia

World Bank staff presented a knowledge-economy benchmarking assessment of Mongolia at the conference *Public Finance and Knowledge Based Economy for Mongolia*, held in Ulaanbaatar on 6-8 October 2004. The assessment, *The Challenge of the Knowledge Economy for Mongolia: A Comparative Diagnostic*, concluded that Mongolia has some strengths in the area of education and there have been improvements in the economic and institutional regimes affecting the knowledge economy, but access to and use of information technology, and innovation remain weak and need to be supported by government policy and investment in the coming years.

In May 2005, the IDA Board approved a \$7.7 million IDA credit for a livestock insurance project. The project will ascertain the viability of index-based livestock insurance in Mongolia, to reduce the impact of livestock deaths on herders. The project includes the piloting of insurance products, promotion and public awareness activities, and support to establish the institutional framework and capacity necessary for the potential expansion of the insurance products. A range of stakeholders will be involved during the pilot program to monitor responses to the new products.

In June 2005, the IDA Board approved a \$10.6 million IDA credit to Mongolia to provide capital for selected commercial banks to lend at market rates to private businesses. The project also aims to build the capacity of the management and staff of private banks to better manage their loan portfolios and risk, as well as building the regulatory and supervision capacity of Mongolia's central bank, the Bank of Mongolia. The project will help the Bank of Mongolia develop new policies and procedures for credit analysis and risk assessment, internal audits, human-resource management, financial control and bank supervision.

New Zealand

FY05 was John Austin's second and final year in his term as Executive Director from New Zealand. His term provided New Zealand with the opportunity to strengthen its engagement in the Bank and advance dialogue on a number of its policy priorities, such as better engagement with small states in the Pacific.

New Zealand participated in the IDA14 replenishment negotiations which were concluded in February 2005. It contributed NZ\$39 million, including NZ\$3.45 million to meet its commitment to ongoing debt relief under the HIPC initiative. New Zealand Ministers have also announced support for the G8-proposed debt relief plan.

New Zealand welcomed a number of policy initiatives established by IDA14. It supported the expansion of the IDA grants facility, favouring targeting grants specifically at debt-distressed borrowers, and the creation of a policy framework designed to prevent the accumulation of unsustainable debts in the future. It also supported a number of measures to enhance the Bank's assistance to small states, including an increase in basic allocation, and more and better targeted and sustainable analytical support.

New Zealand continued its strong commitment and support to IFC regional sub-units, the Pacific Enterprise Development Facility, and the Mekong Project Development Facility, and assisted projects through the new Corporate Citizenship Facility. NZAID's Jakarta-based and Wellington staff continued positive liaison with IFC in Indonesia, specifically the PENSA programme.

NZAID continued to fund country-level and sub-national programmes through World Bank Trust Funds in the Philippines, Timor Leste, support for the new Aceh trust fund, post-tsunami, and for the first time the fund for the Occupied Palestinian Territories as part of a package of World Bank and UN reconstruction and development initiatives.

Hon Trevor Mallard represented the constituency at the Development Committee meeting in April 2005. Mr Mallard tabled a constituency statement from New Zealand's Governor, Hon Dr Michael Cullen (Annex 2b), and intervened at the Committee on financing for development, noting the potential negative impact of airline taxes for small states already disadvantaged by distance from markets, and the crucial importance of harnessing trade for development, including removal of iniquitous tariff and subsidy arrangements in the developed world. He suggested DC Ministers should stop hiding behind their trade negotiators while their ODA only provided partial compensation for the damage wrought by their trade regimes.

The New Zealand Cabinet has agreed to join MIGA, completing NZ membership of all five organizations of the World Bank Group.

New Zealand Ministers also approved NZAID's Multilateral Engagement Strategy, the first time New Zealand has had a formal statement of priorities and interests in the multilateral development system. The strategy is intended to focus and strengthen engagement with high priority multilateral agencies including the World Bank and Asian Development Bank. NZAID and AusAID continued to work closely on multilateral agency reform issues. New Zealand will continue close cooperation with the Bank's regional office in Sydney and with other donors in the Pacific.

New Zealand sees the Bank as a key partner in its work in the Pacific. It particularly appreciates the Bank's facilitation of better donor cooperation. A key innovation in New Zealand's relationship with the Bank in the Pacific was finalizing the Tonga Education Support Programme. NZAID and the Bank have blended grant and loan finance for the initiative, which aims to mobilize the Bank's knowledge and technical assistance capacity, fully funding a sector-wide intervention, and maintaining a prudent level of debt carrying capacity in Tonga.

Pacific Member Countries

Kiribati, the Marshall Islands, the Federated States of Micronesia, Palau, Samoa, the Solomon Islands and Vanuatu are seven of the nine Pacific Member Countries (PMCs) of the World Bank. The similar challenges and opportunities facing PMCs are shape the Bank's efforts to help reduce poverty in all nine countries. The representation of the nine PMCs through two constituency offices at the Bank has also led to continued close cooperation during FY05 between our Office and the constituency on the Bank Board representing ASEAN economies, which also represents the other two PMCs, Fiji and Tonga.

FY05 saw heightened interest by senior management of the Bank in the PMCs. In March 2005 the Bank's independent Operations Evaluation Department (OED), concluded an assessment of the Bank's activities in the Pacific - *Evaluation of World Bank Assistance to Pacific Member Countries, 1992-2002*. This report provided a foundation for the development of the Bank's current strategy in the Pacific, the *Regional Engagement Framework FY06-FY09 for Pacific Islands*, was finalised and approved by the Board on 31 May 2005. Managing Director, Shengman Zhang, visited Samoa, Fiji and Tonga in July-August 2005.

The OED review acknowledged past deficiencies in the Bank's engagement with the PMCs. It was critical of the Bank's lack of formal strategy, defined focus and measurable goals. This made it hard to assess the relevance and effectiveness of the Bank's programs. However, OED found that the Bank's activities had little impact in fostering economic growth in PMCs. This finding is similar to that of a 1992 OED review of an earlier period of Bank assistance.

Further, the Bank's small resource transfers (in both lending and non-lending activities) reinforced the need for policy advice and analysis to be more strategically targeted, particularly on growth and private sector development. OED also recommended effort to get the PMCs to engage with the Bank in a more demand-driven approach.

The OED review challenged the Bank to adopt specific country and sector-level objectives, define the appropriate level of engagement in each PMC and utilise more cost-effective instruments for its assistance. The review argued that the PMCs' key development constraint is not a lack of financial aid, but their remoteness and small size, and often weak policies and institutions.

The review recommended that the Bank's future strategy should select regional-level interventions, such as support in fisheries and transport sectors, to complement country-level activities. Collaboration with bilateral donors, other multilateral donors, and regional organisations, such as the Pacific Forum, would be a part of this regional approach.

The *Regional Engagement Framework FY06-FY09 for Pacific Islands* took into account the findings of the OED review. This new strategy was shaped by extensive consultations with all the member countries, dialogue with key development partners and the OED review. Our Office worked with Bank staff to ensure that the new strategy improves on past experience. In our view the new strategy represents a considerable step forward in the Bank's attention to and thinking about the PMCs.

The new strategy is based on two pillars: strengthening government capabilities in service delivery, and improving incentives for private-sector development and job creation. It aims to promote job creation by improving the efficiency of public-sector expenditures and by supporting private-sector development. The new strategy will provide support mainly through analytic and advisory work and collaboration with other donors, although it also includes financial support. As recommended by OED, it contains country-specific and regional initiatives and is underpinned by analytic and advisory work both underway and planned.

Doing Business in 2005, the annual Bank survey of regulations across countries, included all our constituency members in its database. Bank staff presented Pacific data from the *Doing Business* exercise to the June 2005 meeting of the Forum Economic Ministers in Tuvalu, and discussion among Ministers led to the commitment to work towards halving, by FEMM 2007, the time it takes to start a business, the cost of registration, the time to go through insolvency and the cost of enforcing contracts. Our Office has encouraged Bank Management to continue to include the PMCs in its future surveys.

As noted above, the independent review of the Small States Agenda by external consultants will be on the agenda of the Small States Forum meeting during the 2005 Annual Meetings. The review is an indicator of Bank concern to find effective ways to assist small states.

Bank work in the PMCs via Trust Fund resources continued in FY05, as shown below.

Pacific Member Countries - Trust Fund Portfolio

Fund	Country	Grant Name	Closing Date	Grant Amt (USD)	Funds Disbursed to date in USD
TF053994	Kiribati	GEF3 PDF B KIRIBATI ADAPTATION PROGRAM PHASE II	03/31/2006	99,100	51,856
TF051715	Kiribati	PHRD-CCIG KIRIBATI: KIRIBATI ADAPTATION PROJECT PREPARATION	10/31/2005	645,580	501,423
	Kiribati			744,680	553,279
TF052906	Pacific Islands	WB/AUSAID PACIFIC FACILITY	05/30/2005	1,975,000	818,540
TF052907	Pacific Islands	WB/AUSAID PACIFIC FACILITY A/C 2	06/30/2005	264,000	117,450
	Pacific Islands			2,239,000	935,990
TF054200	Samoa	IDF - SAMOA: PROCUREMENT REFORMS AND CAPACITY DEVELOPMENT	10/05/2007	176,000	0
	Samoa			176,000	0
TF054173	Solomon Islands	IDF - SOLOMON ISLANDS : GRANT FOR THE CENTRAL BANK CAPACITY BDNG PROJ	10/01/2007	254,000	0
	Solomon Islands			254,000	27,394
TF053775	Tonga	IDF-TONGA:PROCUREMENT REFORMS AND CAPACITY DEVELOPMENT	07/06/2007	200,000	0
	Tonga			200,000	0

In addition, FY05 Bank disbursements included the Samoan Health, Telecommunications, and Infrastructure Asset Management work; and the Solomon Islands Health sector. Private sector Development work proceeds in rural sector, forestry, renewable energy, and telecommunications, and analytical and advisory work is being drawn up in areas including infrastructure, natural resource management, and debt sustainability.

Papua New Guinea

The World Bank and the Government continued to implement the recommendations from the Bank's Public Expenditure Review and Rationalisation (PERR) report. Some of the key areas the PERR Implementation Committee had been working on since June 2004 are:

- improving budget processes and stability at the national and provincial levels;
- securing the payroll and appointments process to eliminate waste, leakages and fraud in salary administration and reducing the salary and wage bill for civil servants;
- controlling and setting priorities for spending on procurement and improving oversight of spending;
- expenditure adjustment and prioritisation; and
- improving oversight of statutory authorities.

In February 2005 the Constituency Executive Director, John Austin, visited Papua New Guinea as part of a wider tour of the constituency. He had meetings with PNG authorities and other development partners. The meetings focused on the following areas:

- recent policy initiatives at the World Bank;
- the Presidential succession process;
- cooperation and coordination among multilateral and bilateral donors in East Asia and the Pacific;
- regional development initiatives;
- meetings on and site visit to the road rehabilitation and maintenance project work on the Highlands Highway;
- the direction of the Bank's work at the country, regional and global level; and
- the Bank's engagement with civil society.

In April 2005 the Bank Board considered the Interim Strategy for Papua New Guinea, which covers the period to December 2006. The Interim Strategy involves a strong program of non-lending activities. The approach taken is consistent with the Bank's principles for supporting Low Income Countries Under Stress.

During the period covered by the Interim Strategy, the Bank will increase its efforts to assist the Government in addressing poverty, increasing capacity and improving donor coordination through the Medium Term Development Strategy developed by the PNG Government. It is following a two-pronged approach, aiming first to promote development dialogue and stem the decline in social indicators, and secondly to build the foundations for improved governance and sustained recovery.

The Interim Strategy outlines key areas in which the Bank will work over the next 18 months. The Bank is committed to maintaining a country presence and building a strong relationship with the PNG Government. The country still faces significant development challenges including rising poverty, unemployment, HIV/AIDS and lack of capacity to implement reforms, maintain and develop infrastructure and deliver basic services. Although the World Bank is a relatively small contributor of development finance to Papua New Guinea, it has the potential to be a catalyst for change within the country and within the donor community.

In June 2005 the Forestry and Conservation Project, which has been suspended since 2003, was cancelled. The Bank and the PNG Government agreed to work together to identify other priority areas for future Bank engagement. The Bank sees it as crucial that the PNG Government manages PNG's natural resources properly and in a sustainable manner, and intends to be fully engaged and to assist PNG authorities to achieve this aim.

In June 2005 the IFC Board approved an investment of up to \$3.2 million in the PNG Microfinance Project, of which \$1.2 million is equity participation and up to \$2.0 million is a standby loan. The project is a welcome return by IFC to PNG and will be the first time that IFC is directly involved as an equity investor. Moreover, the project could have a demonstration effect and, if successful, may be replicated elsewhere in the Pacific.

PNG Microfinance Ltd will initially target micro, small and medium-sized businesses in both the formal and the informal sectors, as well as individual borrowers and business start-ups. This promises to tap considerable demand for finance and could grow to have substantial impact on employment and income levels in rural and urban areas. This project has potentially strong development impact, as illustrated by the successes IFC has had in financial-sector development in other countries of this Constituency.

ANNEX 1 CONSTITUENCY OFFICE**a) Strategic Goals**

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

- (a) ensuring that the Bank hears the voice and understands the interests of our constituency in its policy development and operational decisions;
 - (b) 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;
 - (c) encouraging the Bank to engage actively with our constituency members, in particular Cambodia, Mongolia, Papua New Guinea and the Pacific islands;
 - (d) 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;
 - (e) assisting co-ordination between the development-assistance programmes of the Bank and donors (in particular, Australia, Korea and New Zealand) to the developing-country members of our constituency; and
 - (f) facilitating contacts between businesses in constituency countries and the Bank, including consultancy and procurement contracts.
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b). 2004-2005 CONSTITUENCY OFFICE - STAFF**EXECUTIVE DIRECTOR**

Mr. Joon-Kyung Choi	Korea	Elected: August 1, 2005
Mr. John Austin	New Zealand	Aug. 1, 2003- July 31, 2005

ALTERNATE EXECUTIVE DIRECTOR

Mr. Terry O'Brien	Australia	Appointed: July 23, 2003
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SENIOR ADVISORS

Mr. Kyu-Yun Choi	Korea	Appointed: Sept. 15, 2004
Ms. Joanna Gordon	New Zealand	Appointed: July 25, 2005
Mr. Tom Hall	New Zealand	June 7, 2004-July 22, 2005
Mr. Dong-Soo Chin	Korea	July 23, 2003-Aug 5, 2004

ADVISORS

Mr. Yoon Kyung Kim	Korea	Appointed: February 3, 2003
Mr. Lucas Alkan	Papua New Guinea	Appointed: November 22, 2004
Mr. Rhinehart Silas	Palau	Appointed: November 29, 2004
Ms. Angela Barnes	New Zealand	July 1, 2003-August 19, 2005
Ms. Julia Newton-Howes	Australia	July 28, 2003-August 26, 2005
Mr. Jeff Barton	Marshall Islands	Nov. 25, 2002-December 10, 2004
Mr. Tola May	Cambodia	Nov. 22, 2002-November 19, 2004

OFFICE SUPPORT STAFF

Mrs. Yolanda Cunnane	Senior Executive Assistant
Mrs. Hille Blackshaw	Staff Assistant
Mrs. Elena Chanchu	Staff Assistant

c). **CONSTITUENCY OFFICE TRAVEL: JULY 1, 2004 - JULY 31, 2005**

1. John Austin, Executive Director

July 10-25, 2004	ED's Group Travel, E. Africa and CWA ⁵ , EBRD
Oct. 10-20, 2004	Senior Executive Finance Program, UK
Dec. 12-15, 2004	Conference, Eradicating Poverty, San Francisco
Feb. 03-March 04, 2005	CWA, Cambodia, Papua New Guinea, Australia and New Zealand
April 17-19, 2005	ECOSOC Meeting, New York
April 29 –May 10, 2005	ADB Annual Meetings, Istanbul Turkey and CWA
June 7- June 22, 2005	CWA, New Zealand and Korea

2. Terry O'Brien, Alternate Executive Director

Aug. 6-Sept. 5, 2004	CWA, OECD, (trade issues), Kiribati, Solomon Islands, Australia
Sept. 11-14, 2004	Development Committee Deputies Meeting, Paris, France
Dec. 2-14, 2004	CGM ⁶ & CWA, Cambodia
Jan. 29-Feb 8, 2005	Executive Directors' Group Travel, Pakistan and India

3. Kyu-Yun Choi, Senior Advisor

June 16-28, 2005	CWA, Korea
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5. Tom Hall, Advisor

Nov. 11-20, 2004	CGM and CWA, Solomon Islands
April 16-19, 2005	ECOSOC Meeting, New York

4. Angela Barnes, Advisor

July 5-16, 2004	IDA14 Negotiations, Hanoi, Vietnam
Dec. 12-15, 2004	IDA14 Negotiations, Athens, Greece
April 1-7, 2005	Development Committee Deputies Meeting, Paris, France

5. Yoon Kyung Kim Advisor

April 2-12, 2005	CWA, Korea
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6. Julia Newton-Howes, Advisor

July 4-20, 2004	IDA14 Negotiations, Hanoi, Vietnam, CWA, Papua New Guinea, Australia,
Dec. 12-15, 2004	IDA14 Negotiations, Athens, Greece
Jan. 6 -15, 2005	Meeting to review the Implementation of the Program of Action for Sustainable Development of Small Island States, Mauritius
May 15-22, 2005	CWA, Australia

⁵ CWA: Consultations with Authorities

⁶ CGM: Consultative Group Meeting

ANNEX 2 CONSTITUENCY STATEMENTS**a) STATEMENT BY THE HON. PETER COSTELLO, MP TREASURER, AUSTRALIA
Development Committee Meeting, October 2, 2004**

The world is expected to enjoy economic growth in 2004 at its highest rate in almost 30 years. We should capitalize on that strong growth to press home trade liberalization, structural reforms, improved aid effectiveness and sustainable debt arrangements that will assist developing countries' growth in real living standards in years to come, and accelerate progress against poverty.

While growth in 2005 is forecast to remain almost as strong as this year's, there are downside risks from high oil prices, political uncertainties and economic imbalances. In Asia, the region that most directly affects the economic prospects of this constituency's members, the pace of Japanese recovery and the extent of China's necessary moderation in growth remain uncertain. And in some economies of the constituency itself, per capita real income growth remains subdued or even negative. Among the small island economies of the Pacific, per capita GDP growth over the last decade was well below the averages for the East Asia and Pacific region, and for Lower Middle-Income countries more generally.

The effectiveness of aid (however financed) and the ability to service debt are dependent first of all on countries' own successes in creating the foundations for growth, and using growing trade opportunities in more open markets to generate wealth equitably for their citizens and revenues with which to provide services and service foreign debt.

Foundations for Growth: Investment climate and Infrastructure Development

The World Bank has produced powerful evidence that a key determinant of wealth creation is the ability of ordinary people to use their capital as collateral in the formal economy to finance growth. If governments make the cost of doing business in the formal economy too high, by failing to secure law and order, by allowing high costs or unpredictability in enforcing contracts, or by imposing over-restrictive regulation, then economic activity is channelled to the informal sector, which provides a poor foundation for sustained growth and poverty reduction. The evidence is capably presented in the *World Development Report 2005: A Better Investment Climate – for Everyone* and (more pointedly) in *Doing Business 2005: Removing Obstacles to Growth*.

When countries can ensure low-cost arrangements for business start-up, registration of property, contract enforcement, credit evaluation, hiring and firing, investor protection and closure of failed businesses, then they enjoy more business formation, more employment, faster growth in living standards, and smoother and faster adaptation to unforeseen economic shocks. Misguided regulation in any of these areas damages poverty alleviation. The costs of inappropriate regulation are often borne by the most disadvantaged in society. Where costs of doing business are high, small businesses stay small, often outside the formal sector, without access to finance for expansion. In the labour market, marginal participants such as women and youth are particularly disadvantaged.

The contrasts in business climate are large. Comparing the best-performing economies to the weakest-performing economies:

- enforcing a contract can cost as little as 4% of the value disputed, or as much as 280%;
- starting a business can take as little as 2 days, or as many as 200;
- registering a change in property ownership can take as little as 1 day, or well over two years;
- an index of the rigidity of employment regulation varies, from most flexible to most rigid, by a factor of thirty.

No amount of aid, whether by soft loan, grant or technical assistance, and no matter whether financed today by ODA or tomorrow by 'innovative financing mechanisms', can be as successful in sustainably reducing poverty where the foundations for private sector growth are weakened by a poor business environment.

The Bank's *Doing Business* database provides a powerful 'self-help manual' for countries to diagnose whether they are discouraging wealth creation by bad regulatory policies, where the main regulatory problems lie, and which countries have best solved those problems. This work and its cost-effective dissemination through

<http://rru.worldbank.org/doingbusiness/>, serves as a model of how a modernizing World Bank can cheaply deliver powerful new tools to help its shareholders improve their performance. We strongly support the planned extension of the ‘*Doing Business*’ database in 2005 and 2006, to include such additional comparative measures as property registration processes, trade infrastructure performance and property protection.

As countries reform their business environment, it will be increasingly important to ensure their improved access to global markets. In low-income countries, agriculture employs almost 70% of the work force and produces almost one-quarter of GDP. Agricultural trade liberalisation can improve the opportunities for these people. The international community could realistically agree to the elimination of export subsidies, substantial reductions in trade-distorting domestic support, and better market access. We welcome Bank initiatives such as the forthcoming publication on *Global Agricultural Trade and Developing Countries*, and its assistance to developing countries to reduce “behind-the-border” barriers to trade such as poor logistics, poor phyto-sanitary standards or obstructive customs processes.

We also welcome the Bank re-building its catalytic role in infrastructure projects, in a way which is flexible and pragmatic. We encourage giving proper weight to the quality of service, and to infrastructure operations and maintenance costs, not just construction costs. The Bank’s current approach rightly explores the whole spectrum of public and private provision, at all levels of government. It seeks to rebuild the information base necessary to evaluate infrastructure needs and the contributions of infrastructure provision to the Millennium Development Goals. It embodies important work in transport, trade facilitation and information and communication technologies, all of which help reduce the ‘behind-the-border’ barriers to trade noted above.

It is heartening to see the strong growth in FY 2004 in volumes of infrastructure finance through both the World Bank and the International Finance Corporation. But more important than volumes is quality of investment and of its operation, and we would hope the new emphasis in the Bank’s infrastructure operations will improve the quality of cost-effective services provided.

While we would expect to see more infrastructure support in IDA14, this must be weighed against other needs and we would not support any preconceived targets in this or other areas. We consider it is worth analyzing experience with sub-sovereign lending by the Bank for infrastructure, and further exploring possibilities for direct financial market access by sub-sovereign borrowers. But we are mindful of the limited capacities for debt management in many developing countries and the distance to travel to operationalise the debt sustainability framework, and suggest these investigations proceed cautiously.

Aid Effectiveness and Financing Modalities

Governments everywhere must build the foundations for growth and the prosperity of their people by securing peace, ensuring law and order, and promoting an environment conducive for private sector development. Aid can play a role in supporting and accelerating growth, but it has a much smaller impact where governments are not already committed to good policies and approaches.

Our constituency members support the strengthening of performance-based allocation of aid under IDA13, and support the moves to improve and simplify the measurement of country policy and institutional assessments (CPIAs). The CPIA system is a fundamental part of IDA’s performance-based allocation system, and therefore of critical interest to IDA borrowers and donors alike. We also look forward to the publication of the 2005 round of CPIA measurements.

The challenges facing Low-Income Countries Under Stress – the LICUS grouping - are huge, as is implicitly shown in the paper on *Aid Effectiveness and Financing Modalities*. Among IDA-only borrowers, there are more LICUS (31) than non-LICUS countries (27). LICUS countries are home to over 400 million people, with average GDP per capita of only US\$1 a day. Moreover, they receive much less Official Development Assistance and fewer remittances than other IDA-only borrowers. Their domestic investment as a share of GDP is significantly lower. Because they are hindered by poor governance and policies, and often by recent histories of conflict, LICUS economies receive only modest levels of performance-based aid allocations. Many are already too indebted to borrow more, even at IDA’s highly concessional terms, and the fragility of their institutions and governance make them unlikely candidates for productive use of IDA grants.

The Bank has been at the forefront of developing approaches to engage with and help LICUS. Yet it still struggles to deliver, and to finance, the blend of practical technical assistance and other non-lending interventions that are needed to carry forward reforms in LICUS. The Bank's comparative advantages in helping these countries are its analytical resources and the truly global experiences it can draw on. Unfortunately, the Bank's spending on analytical and advisory services has become more strongly associated over recent years with the size of a country's lending program alone.

The Bank has noted that when it comes to core analytical and advisory services, there are sizable gaps in the coverage for particular groups of countries such as LICUS and small states. About 30 countries received none of the five core diagnostic products that the Bank considers desirable. Most of these countries are small: for example eight of the countries missing the core diagnostic products are small island economies in the Pacific.

We note that the countries which have very few of the core diagnostic reports include a number of Heavily Indebted Poor Countries (HIPCs). The Bank's debt sustainability work has shown that countries with weak policies and institutions suffer debt distress at significantly lower debt ratios, are more prone to misuse of funds and less capable of managing resources productively. It is important that we deal not only with the symptoms of these problems by providing debt relief and grant assistance, but also deal with the underlying causes: poor financial management and weak policies and institutions.

We welcome moves over recent years to differentiate the Bank's products for better engagement with LICUS, small states and some HIPCs, but more needs to be done. In particular, there is a need for a greater level of practical, results-oriented technical assistance to support these countries to strengthen policies and institutions and to build the foundations for growth. We hope that the IDA14 replenishment will provide a new mechanism for the Bank to engage with those clients that have traditionally had limited engagement with the Bank and where the challenge of poverty is growing.

Improving the Bank's performance in matching its range of products to shareholders' needs and borrowing capacities requires continuing evolution in the Bank's priorities and budget. There needs to be clear prioritization of required, measurable outputs, appropriate assignment of resources to produce those outputs, and accountability for delivering them. The Bank needs to build a stronger productivity culture, so that increased outputs can be produced without excessive growth in the Bank's administrative budget. Ultimately, it is the Bank's poorest clients who pay for excessive growth in the Bank's administrative costs; in recent years, growth in administrative costs have necessitated re-imposition of commitment fees on the undisbursed balances of IDA borrowings.

The quest for increased aid flows to accelerate progress towards the Millennium Development Goals targeted for achievement by 2015 has produced various ideas for innovative aid-financing mechanisms, ranging from the proposed International Finance Facility (IFF) through to ideas for global tax systems.

The attraction for some in the IFF seems to lie in its front-loading of aid flows and the potential for the associated commitments to be kept 'off-budget' in some donor economies. The general case for budget transparency which the World Bank rightly expounds to aid recipients argues also for transparent accounting to voters of the commitments aid donor governments enter into on their behalf. This constituency urges caution in proposals for front-loading aid given the need for substantial aid will continue past 2015. Global taxation ideas do not appear practical in any relevant time frame. The most transparent and cost-effective way to provide more aid resources is for countries to increase their aid programs and we are concerned to limit the level of World Bank resources devoted to less practical options.

Debt and Debt Sustainability

The HIPC initiative has now delivered irrevocable debt relief to 14 over-indebted members, and another 13 are between the HIPC decision and completion points. At HIPC completion point, countries emerge with ratios of net present value of debt-to-GDP of 150%. We are concerned, however, that even as this progress was being achieved, creditors (including the World Bank itself) continued new lending, propelling the indebtedness of some HIPCs significantly over the 150% benchmark.

This is not a failure of the HIPC process, but rather a failure to apply the lessons from past cases of over-indebtedness to today's lending decisions.

Working closely together in the World Bank and the IMF, we need to operationalise the Debt Sustainability Analysis (DSA) framework. We welcome the joint Fund-Bank DSA paper that has been prepared for this meeting (*Debt Sustainability in Low-Income countries: Further Considerations on an Operational Framework and Policy Implications*). Its identification of the linkages from weak policies and institutions to heightened vulnerability to debt crises is an important insight, and the DSA's estimates of threshold limits at which excessive lending is significantly likely to lead to future incidents of debt distress are very informative. They are, however, estimated limits, not lending targets. High debt can be inimical to growth, and therefore to poverty alleviation, well before it causes debt servicing crises.

Looking forward, we need to consider how the DSA framework should be reconciled with the HIPC process. There can not be separate approaches for determining when it is appropriate to stop lending to a country because of concerns over debt sustainability, and for determining when debt relief should be provided.

One lesson from the DSA is the need to make more recourse to grants rather than loans for dangerously indebted poor countries. More IDA grants than loans under IDA14 to those countries with vulnerability to debt service problems will be part of the answer, but only part. As noted above, the Bank also needs to address the underlying causes of debt distress – poor policies and weak institutions. In such cases, we need seriously resourced, practical advisory and technical assistance, de-linked from financial assistance.

Voice and Participation of Developing and Transition Economies

Maintaining the legitimacy of the Bretton Woods institutions requires timely adjustment in their governance practices, and in the representation of shareholders in the light of their changing weights in the world economy. Shareholding governments also need to be confident that their Board representation can effectively influence the policies of the Bank and the Fund.

The Progress Report for this meeting by the Board of the World Bank, *Voice and Participation of Developing and Transition Countries in Decision Making at the World Bank and the International Monetary Fund*, usefully chronicles action to date, and practical options on which it might be possible to build consensus for future decision by Governors.

In IDA, the subscription by many African countries to allocated IDA shares is now helping to increase their voting shares appreciably, towards their initially agreed potential. There is as yet no consensus for adjustment of quota shares at the IMF, or a change in the capital subscription shares at the IBRD.

We have supported the development over recent years of measures to enhance the resources available to very large constituencies with many low-income or LICUS borrowing members to better represent the voice of their shareholders in the governance of the World Bank. The recent initiation of the secondment program is a worthwhile development in this regard. Despite these improvements in resourcing, large constituencies still face challenges in representation and voice.

This constituency supports the further work the Board proposes by the Spring 2005 meeting in order to enumerate detailed options to enhance representation and voice, as a base from which to seek Governors' guidance and decision.

**b) STATEMENT BY THE THE HON. DR. MICHAEL CULLEN DEPUTY PRIME MINISTER AND
MINISTER OF FINANCE, NEW ZEALAND,
Development Committee Meeting April 17, 2005**

This year provides an important opportunity for the international community to take stock of our progress towards the Millennium Development Goals (MDGs), ten years out from our target date of 2015. The Global Monitoring Report 2005 is a helpful document both in assessing what has been done to date, and in providing practical suggestions as to where we need to go from here.

Large parts of the developing world have been experiencing sustained economic growth, and global prospects are good for achieving the income poverty goal by 2015. At the same time, the report notes that such growth cannot be found everywhere. Sub-Saharan Africa lags behind the other regions; and even the fastest growing regions and countries still retain pockets of severe poverty.

There is an emerging bipolarity in the performance of developing countries, as the weaker performers stagnate and the high performers sparkle. The overwhelming majority of those weak performers are LICUS (Low Income Countries Under Stress), small, landlocked or remote economies. We find many examples in the Pacific, as well as in Africa. Developing better ways for the World Bank to work with these difficult cases should be a key element of any strategy for achieving the MDGs.

Global Monitoring Report 2005

The Global Monitoring Report's five-point agenda is a good framework for accelerating progress towards the MDGs, including the importance of country ownership, economic growth and trade reform, and the need to increase both the effectiveness and the level of aid.

Initiating and Sustaining Economic Growth The report makes a compelling argument for the centrality of growth to poverty reduction. As the report comments (p12), however, "the apparently limited growth impact of aid transfers, in combination with evidence on diminishing returns, implies that aid, by itself, does not constitute a growth strategy". National governments also need to address policy issues in areas such as governance, institutions and the regulatory environment. This point has been well illustrated by the Bank's *Doing Business* project, which has shown that investment climate reforms, at low fiscal cost, have huge potential to stimulate and finance growth.

That aid alone is not a viable strategy is widely acknowledged, including in the Bank's approach to dealing with LICUS countries. However, more work needs to be done on how to generate the improvements in policies and institutions that will help drive sustainable growth in these countries. It would be desirable for the report to have better explained the lessons drawn from LICUS problems, and generalize from Sub-Saharan Africa to LICUS in other regions.

Scaling up Service Delivery Effective service delivery is essential to achieving the human development goals of health, education and gender equality. The focus in this chapter on outcome-focused strategies for improving health and education strategies, including a call for donors to take a more flexible approach to funding recurrent costs, will contribute to better service delivery. However, any move towards providing more aid in the form of budget support must be conditional on a country's capacity to manage the funding transparently, and donors being assured that funds will be spent effectively. This should be judged on a country-by-country basis.

Realizing the Development Promise of Trade It is common at meetings such as these for the participants to affirm the importance of completing the Doha Round, from which all countries can benefit. The Bank's estimate is that developing countries would obtain around one-third of the global gain from freeing all merchandise trade, well above their one-fifth share of GDP.

Such sentiments, however, are rarely reflected in the positions of trade negotiators. This is in spite of the fact that, as noted in this report (p23), most of the benefits of trade reform derive from countries reducing their own barriers to trade. Unilateral reduction in barriers to imports can have a powerful economic stimulus, as has proved the case in a number of countries in this constituency. Such reductions can have additional flow-on effects in developing countries, by driving institutional improvement and weakening vested interests.

The Bank should continue to contribute to this debate by demonstrating the benefits of trade reform, and identifying where assistance needs to be targeted in order to realize these benefits for poverty reduction. These benefits may involve transitional costs in some cases. The Bank's work on aid for trade has a major role to play here, addressing supply-side constraints and focusing on increasing the capacity of developing countries to harness the benefits from liberalization, for example through technical assistance on behind-the-border issues.

The Bank's work on an Overall Trade Restrictiveness Index has confirmed evidence available from other indicators. However, its incorporation of WTO-approved health and safety standards into measures of non-tariff protection is wrong. While scientifically justified phyto-sanitary standards may particularly affect the relevant exporters, this does not amount to protection. Rather, it is an argument for assisting developing countries to achieve the behind-the-border progress necessary to meet defensible standards.

Increasing Aid and its Effectiveness: The report makes a number of useful recommendations on improving the effectiveness of aid. Effectiveness can be increased greatly through alignment and harmonization of donor approaches within development strategies owned and led by developing countries themselves. We also support maintaining a performance-based allocation for IDA, untying aid and providing more flexible and predictable financing.

Developed countries agreed at Monterrey to take concrete steps towards a target for overseas development assistance of 0.7% of GNI. Our commitment remains to allocate increased financing where governance conditions and capacity indicate those flows will be used wisely and effectively. A global "big push" does not seem consistent with those principles. Substantial policy reform will be required in some countries before a doubling of aid could be absorbed, and a country-by-country approach is more likely to deliver sustainable development benefits.

The public response to the tsunami disaster in South-East Asia has shown us that people, and governments, are willing to provide additional resources when faced with compelling need. Developing countries can help to create a constituency for higher aid flows by demonstrating that aid resources are being managed well and delivering results.

Keeping developing country debt at sustainable levels will be an ongoing concern if lending assistance is scaled up. It is important to reinforce the message of the debt sustainability framework, that it is inappropriate for countries with higher levels of debt to continue to receive assistance in the form of loans. We look forward to further discussion on debt relief at future meetings. Financial assistance should be provided in the form that provides the best stimulus for growth and development, and in some cases additional debt relief may be warranted on that basis.

Strengthening and Sharpening International Financial Institution (IFI) Support: The report identifies a number of challenges ahead for the IFIs: deepening the poverty reduction strategy framework, building institutional capacity in low-income countries, adapting to the changing needs of middle-income countries, and focusing on research, partnerships and results. However, there are a number of additional strategic challenges for the IFIs that should be more developed in future reports.

IFIs' harmonization and cooperation with their development partners needs more attention. There is little discussion in the report about the role of the IFIs in relation to the wider development community, including the UN development agencies, the regional development banks, bilateral aid agencies and civil society.

The continuing negative net flows to the IBRD suggest that the Bank needs to do more to reduce the costs to developing countries of doing business with it. Similarly, the IFIs need to become more accountable for their internal use of resources, through continuing modernization of budget and management processes.

The IFIs are still struggling to find effective modes of assistance, and to scale up such assistance for those countries - primarily LICUS and small states - where aid mainly in the form of lending activity is not the right strategy. In these countries, the Bank needs to shift away from financial products towards knowledge-based data collection, research, capacity-building, technical assistance and limited number of high-impact projects. As noted above, finding better ways to assist LICUS countries may be the single most important component of the IFIs' contribution towards achieving the MDGs. This should not be seen in geographic terms as a problem of Sub-Saharan Africa. Some African countries are success stories, whereas LICUS countries may be found across all regions.

Financing Modalities towards the MDGs

The search for new or innovative financing modalities risks distracting attention away from more substantive actions towards achieving the MDGs, such as raising the volume and effectiveness of aid; improving policies and governance; and liberalizing trade.

Financing increases in ODA through traditional mechanisms is simpler, cheaper and more transparent and more politically accountable than through the International Financing Facility (IFF) or the global taxation proposals. Without a consensus favouring their adoption, and with the IFF Immunization pilot in the early stages of development, putting more IFI resources into their development would be unproductive at this point. Rather than continuing this debate at the level of the Development Committee, it may be time for those countries contemplating aid increases to choose their own preferred option and proceed independently, whether that be via traditional or innovative financing mechanisms.

The work on blending, which is built on existing mechanisms, is promising. We find it particularly apt for use in small countries with limited capacity to borrow from the Bank, and are glad to see it included alongside the financing options the Bank has traditionally offered to its development partners.

Enhancing the Voice and Participation of Developing and Transition Countries

The outstanding issues related to quota and share allocations need to be resolved. In our view, proposals for change should be directed at correcting inconsistencies between actual quota levels/share allocations, and economic size. Changes should also be consistent with effective decision-making processes. Consistent with past practice, changes at both the IMF and the World Bank should occur in parallel, as representation at both institutions should be based on economic size

Enhancing the voice of the smaller or slower-growing development and transition countries is most practically addressed through the measures currently being implemented, including capacity building in Executive Directors' offices, secondment initiatives and improved board effectiveness.

ANNEX 3 WB ACTIVITIES IN THE CONSTITUENCY

a)

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
CAMBODIA			
05/12/05	\$8.0m + \$20.0m grant	IDA	<p>Education Sector Support Project</p> <p>The credit and grant will finance investments to enhance access to educational facilities with special focus on the poor and underserved communes. Specifically it will support interventions to:</p> <ul style="list-style-type: none"> • improve equitable access to education for disadvantaged children and • to improve the quality of education as well as • Assistance to the Education Support Program of the Ministry of Education, Youth and Sports. <p>The project will strive to reach the development objectives through a two pronged strategy: First the project will seek to enable equitable access to education through a balanced mix of both supply and demand side interventions. Second it will promote decentralization mechanisms to nurture educational quality enhancements.</p>
06/02/05	\$10.0m Grant	IDA	<p>Trade Facilitation & Competitiveness Project</p> <p>The object of the project is to support Cambodia's strategy to promote economic growth by reducing transaction costs associated with trade and investment, introducing transparency in investment processes and facilitating access of enterprises to export markets. Project includes:</p> <ul style="list-style-type: none"> • A Trade Facilitation Component to finance automation and reform of trade facilitation agencies. • Export Market Access Fund will finance a technical assistance matching grant facility that will cover 50% of the cost of achieving market standards or evidence of compliance with those standards. • A PPI and Investment component to finance a program of capacity building to implement the Law on Concessions and the Amended Law on Investment to improve organizational capacity of key agencies to manage and deliver of PPIs transactions that are conducted fairly, transparently, competitively and in the public interest. • A Legal transparency component to finance the establishment and maintenance of a website in the Khmer language to make readily and publicly available both the final judgments of the Supreme Court and the Court of Appeals and to ensure electronic publication of all Cambodian commercial laws related regulations and draft legislation.
MONGOLIA			
05/26/05	\$ 7.75m	IDA	<p>Index Based Livestock Insurance</p> <p>The purpose of the project is to finance an Index Based Livestock Insurance Project. The object of the project is to ascertain the viability of an index-based livestock insurance in Mongolia with the aim to reduce the impact of livestock mortality for herders. The project will finance pilot index-based livestock insurance in three provinces. The Project has five components:</p> <ul style="list-style-type: none"> • Live Stock insurance program in the three provinces to include a

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
			<p>Continent Debt Facility, software, livestock data collection, technical training, and technical assistance for the review and refining the pilot;</p> <ul style="list-style-type: none"> • Promotion and Public Awareness – targeted at the herders, livestock services providers, parliamentarians, NGOs, micro finance institutions and donors; • Institutional Capacity Building to allow for the development of the institutional framework for the potential expansion of the program country wide; • Monitoring and Evaluation of the pilot group, monitoring response to new products and to determine if, and how herders modify behaviour; and • Project Management – provide support to the Project implementation units (PIU) in each of the three pilot provinces.
06/28/05	\$ 10.57m	IDA	<p>Second Private Sector Development Credit</p> <p>This second credit will continue to support the Mongolian Government and commercial Banks' efforts to develop the intermediate term-lending market for Mongolia's private sector. These will be achieved by:</p> <ul style="list-style-type: none"> • increased longer-term funding for viable capital investment projects • Strengthen institutional capacity in identified high priority areas of Participating Financial Intermediaries (PFIs) and • Improved enforcement of prudential regulation and supervision by the Bank of Mongolia (BOM) <p>The overall outcome indicators include:</p> <ul style="list-style-type: none"> • increased intermediate-term lending financed by PFIs to commercially technically and financially viable; borrowers • Quality of intermediate-loan portfolio equal or better than of overall portfolio; and • Institutional capacity of PFIs and the BOM strengthened in key areas supported by the project. <p>This project will also enhance the Bank's coordination with the IFC. IFC's investments in the Trade & Devt. Bank and the Agricultural Bank, technical and investment support to the XacBank and a 2 year Technical assistance initiative to develop a leasing industry will all support and enhance the Private sector Development Credit</p>
PAPUA NEW GUINEA			
06/26/05	3.2m tot	IFC	<p>The project will support PNG Microfinance limited (PML). The first commercial microfinance institution in Papua New Guinea PML was licensed by the Bank of PNG in 2004 as a specialized financial institution to provide credit and financial services to micro and small businesses in PNG.</p> <p>IFC will provide an equity investment of up to 3m Kina (\$1.2m) for a shareholding stake of approximately 19 percent of PML. In addition, IFC will provide a standby loan of up to \$2.0m available for up to three years and a tenor for up to five years.</p> <p>IFC's role is to ensure that PML is commercially oriented from the outset and operates in a transparent manner in line with the best practices of the micro finance industry.</p>

b) CONSTITUENCY - WORLD BANK GROUP FINANCED PROJECTS TO 30 JUNE 2005

Year	2001		2002		2003		2004		2005		GRAND TOTALS	
	No of Loans	Total \$ M	No of Loans	Total \$ M	No of Loans	Total \$ M	No of Loans	Total \$ M	No of Loans	Total \$ M	No of Loans	Total \$ M
IBRD												
Papua New Guinea	4	141	1	40							5	181
Total	4	141	1	40							5	181
IDA												
Cambodia	3	63	3	47	4	65.75			2	18 ⁷	12	193.75
Mongolia	3	69	2	24			1	18	2	18.3	8	129.3
Samoa	1	5	1	4.5			1	2.08			3	11.58
Solomon Islands												
Vanuatu	1	4									1	4
Total	8	141	6	75.5	4	65.75	2	20.08	4	36.3	24	338.63
IFC												
Cambodia			1	3			2	16	1	6 ⁸	4	25.0
Korea, Rep. Of	1	50	2	70							3	120.0
Mongolia							2	8			2	8.0
Papua New Guinea									1	3.2	1	3.2
Pacific Islands												
Total	1	50	3	73			4	24	2	9.2	10	156.2

Grand Total : IBRD IDA/ITF and IFC = \$ 675.8 million All figures rounded

In addition to the above, non-project activities included;

1. Papua New Guinea: Interim Strategy Note discussed at the Board April 12, 2005 (see page
2. Cambodia: Country Assistance Strategy discussed at the Board May 12, 2005 (see page
3. Pacific Islands Regional Engagement Framework FY2006-2009 discussed at the Board May 31, 2005 see page

⁷ Cambodia received a \$20.0m Grant in addition to the IDA Loan

⁸ Credit Line of \$ 6.0m

ANNEX 4 BANK RESEARCH PUBLICATIONS

Listed below are some of the major publications issued by the WB Infoshop in the last 12 months. The Annual Publications listed were forwarded to all Constituency members. All publications are available on the Website <http://publications.worldbank.org>

Annual Publications

Global Monitoring Report 2005. This report summarises progress worldwide and by region towards the Millennium Development Goals. It also discusses actions by developing countries, developed countries and the international financial institutions that would accelerate progress. The 2005 edition has a special focus on Africa – the region that is farthest from achieving the development goals and faces the most difficult challenges in accelerating progress.

World Development Report 2005. This report surveys a broad aspect of applied development economics. The 2005 edition examines how governments can improve the investment climate. It describes key features of a good investment climate, practical lessons from country experiences, good practice, the role of selective interventions and how the international community can help developing countries to improve their investment climate.

Global Economic Prospects 2005. This report examines the global economic outlook and discusses a special topic. The 2005 topic is trade, regionalism and development. The report discusses the characteristics of trade agreements that promote – or hinder – development, whether the proliferation of trade agreements poses risks to the multilateral trading systems, and how these risks can be managed.

Global Development Finance 2005. The report examines recent trends and prospects for financial flows to developing countries. It provides both a prose discussion and extensive data. In 2005 the report also discusses how to manage the vulnerabilities associated with financial flows and global imbalances, the growing market sensitivity of developing-country debt, and mobilising and diversifying sources of income.

Doing Business in 2005. This report investigates the scope and manner of regulations (and their enforcement) that improve and constrain business activity across 140 countries. While the report includes a discussion of business regulation issues, its core is a country-by-country database of business regulations. Using this, governments, citizens and investors can readily compare a country with its neighbours, on such measures as the speed and cost of setting up a new business, or of adjudicating and resolving a contract dispute. *Doing Business* includes all the countries of our constituency in its electronic database (see <http://rru.worldbank.org/DoingBusiness/>), but not all of our countries are included in the printed version of the report.

World Development Indicators 05. This report provides current information on global development at a country, group-of-countries, and global level. It includes over 800 indicators for 152 economies, as well as basic indicators for an additional 55 countries.

One-Off Publications

Economic Growth in the 1990s: Learning from a Decade of Reform. This book is the result of a major effort undertaken by the World Bank to understand the development experiences of the 1990s. It includes chapters on macroeconomic stability, trade liberalisation, privatisation and deregulation, financial liberalisation, policy reforms and growth experience, improving public-sector governance and the role of democracy in development.

Remittances. This book discusses the importance of remittances to developing countries, the policies that can increase the development impact of remittances, strengthening the formal and informal financial infrastructure for remittances, and the relationship among remittances, migration and development.

Governance Matters IV: Governance Indicators for 1996-2004. This research paper discusses trends over 1996, 1998, 2000, 2002 and 2004 in six governance indicators (voice and accountability, political instability and violence, governance effectiveness, regulatory quality, rule of law and control of corruption). It discusses aggregate trends, and individual country data for 209 countries, including all the members of our constituency, are available through the electronic version of the publication. The paper also discusses links between governance and income levels, arguing that better governance leads to higher income.

Other Bank publications cover infrastructure (Reforming Infrastructure: Privatization, Regulation and Competition), fiscal management (Fiscal Management and Accountable Public Governance) and pensions (Old Age Income Support in the 21st Century).

ANNEX 5 MEMBERSHIPS

a) Constituency Voting Share - Percentage of Total & Number of Votes June 30, 2005

MEMBER	IBRD		IDA		IFC		MIGA	
	%	#	%	#	%	#	%	#
Australia	1.53	24,714	1.26	186,942	1.98	47,579	1.53	3,300
Cambodia	.03	464	.09	12,922	.02	589	.21	445
Kiribati	.04	715	.08	11,777	.01	262	---	---
Korea Rep. Of	.99	16,067	.57	85,033	.67	16,196	.50	1,072
FS Micronesia	.05	729	.12	18,424	.04	994	.15	331
Marshall Islands	.04	719	.03	4,902	.04	913	---	---
Mongolia	.04	716	.16	24,389	.02	394	.16	339
New Zealand	.46	7486	.28	41,746	.16	3,833	---	---
Palau	.02	266	.00	504	.01	275	.15	331
Papua New Guinea	.10	1,544	.26	39,121	.06	1,397	.18	377
Samoa	.05	781	.12	18,441	.01	285	.15	331
Solomon Islands	.05	763	.00	518	.01	287	---	---
Vanuatu	.05	836	.09	13,821	.01	305	.15	331
Total	3.45	55,800	3.06	458,540	3.04	73,309	3.18	6,857

Constituency Membership

MEMBER	IMF	IBRD	IDA	IFC	MIGA	ICSID	G-77*
Australia	X	X	X	X	X	X	
Cambodia	X	X	X	X	X		X
Kiribati	X	X	X	X			
Korea	X	X	X	X	X	X	
Marshall Islands	X	X	X	X			X
Micronesia FS	X	X	X	X	X	X	X
Mongolia	X	X	X	X	X	X	X
New Zealand	X	X	X	X		X	
Palau	X	X	X	X	X		X
Papua New Guinea	X	X	X	X	X	X	X
Samoa	X	X	X	X	X	X	X
Solomon Islands	X	X	X	X	X	X	X
Vanuatu	X	X	X	X	X		X
OTAL	13	13	13	13	10	8	9

* Membership has risen to 132 countries but G77 title is retained for its historic significance
Australia and Korea are members of the G20 formed in 1999.

b) Constituency Voting Record: July 2004-July, 2005

During this period the Bank's Group Board of Governors voted on the following resolutions:

IBRD GOVERNORS' RESOLUTIONS

#	Resolution Title	Date
558.	Direct Remuneration of Executive Directors and their Alternates	July 28, 2004
559.	2004 Regular Election of Executive Directors	August 18, 2004
560.	Framework for Remuneration of the President	September 16, 2004
561.	Remuneration of the President	September 16, 2004
562.	Financial Statements, Accountants' Report & Administrative Budget	October 03, 2004
563.	Allocation of net Income	October 03, 2004
564.	Transfer from Surplus to Fund the trust Fund for Liberia	October 13, 2004
565.	Transfer from Surplus to Fund Trust Fund for Tsunami Recovery In India and Indonesia	April 22, 2005
566.	Forthcoming Annual Meetings of the Board of Governors – Change Of Annual Meetings Date	May 24, 2005
567.	Remuneration of the President	July 6, 2005

IDA GOVERNORS' RESOLUTIONS

208.	Financial Statements, Accountants Report and Administrative Budget	October 3, 2004
206.	Additions to Resources: Fourteenth Replenishment	April 13, 2005

IFC GOVERNORS' RESOLUTIONS

240.	Financial Statements, Accountants Report and Administrative Budget	October 3, 2004
241.	Membership of Malta	May 16, 2005

MIGA GOVERNORS' RESOLUTIONS, JULY 2004-JUNE 2005

68.	Election of Directors	August 18, 2004
69.	Financial Statements, Accountants Report	October 3, 2004
70.	Parity of Voting Power in MIGA	October 3, 2004
71.	Reclassification of Slovenia	May 31, 2005
72.	MIGA 2005 Review for FY00-04	July 5, 2005