



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 (REP. OF), PAPUA NEW GUINEA,
SAMOA, SOLOMON ISLANDS AND VANUATU**



ANNUAL REPORT
FINANCIAL YEAR 2007-2008

SEPTEMBER 2008

Glossary

ARDE	Annual Report on Development Effectiveness
AusAID	Australian Agency for International Development
CAS	Country Assistance Strategy
CAT-DDO	Catastrophe Risk Deferred Drawdown Option
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CIF	Climate Investment Funds
COGAM	Committee on Governance and Executive Directors' Administrative Matters
CPS	Country Partnership Strategy
CTF	Clean Technology Fund
DC	Development Committee
DFID	Department for International Development (UK)
DRF	Debt Reduction Facility
EAP	East Asia and the Pacific
EDs	Executive Directors
ETF	Environmental Transformation Fund
ESW	Economic Sector Work
FIAS	Foreign Investment Advisory Services
FCRTF	Food Crisis Response Trust Fund
FY	Financial Year
GAP	Gender Action Plan
HIPC	Heavily Indebted Poor Countries
IAP	Infrastructure Action Plan
IBRD	International Bank for Reconstruction and Development
IDA15	International Development Association/15 th Replenishment by IDA Donors
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MTSF	Medium Term Strategy and Finance
MSME	Micro and Small and Medium Enterprises
NZAID	New Zealand Agency for International Aid
ODA	Official Development Assistance
PBGI	Performance-Based Grants Initiative
PPCR	Pilot Program for Climate Resilience
PRSP	Poverty Reduction Strategy Paper
REF	Regional Engagement Framework
SIAP	Sustainable Infrastructure Action Plan
SSN	Small States Network
TA	Technical Assistance
UNDP	United Nations Development Program
VDP	Voluntary Disclosure Program

All monies expressed in US\$ unless indicated otherwise
FY07 – refers to 1 July 2007-30 June 2008



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CONSTITUENCY OFFICE STRATEGIC GOALS

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

- *Ensuring that the Bank hears the voice and understands the interests of our constituency in its policy development and operational decisions;*
- *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;*
- *Encouraging the Bank to engage actively with our constituency members, in particular Cambodia, Mongolia, Papua New Guinea and the Pacific islands;*
- *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;*
- *Assisting coordination between the development-assistance programs of the Bank and donors (in particular, Australia, Korea and New Zealand) to the developing country members of our constituency; and*
- *Facilitating contacts between businesses in constituency countries and the Bank, including consultancy and procurement contracts.*

**WORLD BANK – EAST ASIA / PACIFIC CONSTITUENCY
OFFICE ANNUAL REPORT FY08**

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All monies expressed in US\$ unless indicated otherwise
FY08 – refers to 1 July 2007-30 June 2008

EXECUTIVE SUMMARY

FY08 saw the constituency office sharpen its focus while continuing its efforts to improve: overall Bank strategy with specific emphasis on governance, and performance; the representation of the interests of our members at both the Board level and with Bank staff; and assistance to our members in their relations with the Bank.

We have liaised closely with Bank Management and staff in the development of new Bank strategic themes and improving the Bank's focus on the constituency's developing countries, particularly our Pacific Island members. Relationships with our country teams are good and productive.

We continued to improve communications with our members by issuing Constituency Newsletters and Constituency Information Notes, and regularly updating our office website. We maintained our program of visits to constituency countries. Our office supported constituency delegates to various international meetings including IDA15 negotiations and the Climate Investment Fund Meetings.

We support the pilot Voice Secondment Program for developing country officials keeping our constituency members informed about program developments and soliciting candidates.

Our office continued work to maintain momentum on the Bank's efforts to improve engagement with fragile states and to encourage the Bank to bring more attention and resources to the needs of small states.

The issue of fragile and conflict-affected countries has been given added prominence in the past year with President Zoellick's selection of fragility and conflict as one of six strategic themes for the Bank's work. This prominence has been emphasized by the amalgamation of the Bank's Fragile States and the Conflict Prevention and Reconstruction Units responsible for the development and implementation of the joint work on conflict and fragility across the Bank.

Since the 2007 Small States Forum, there has been marked progress on several fronts. In January 2008, a grant, from the Development Grant Facility (DGF), of \$750,000 to support the Small States Network was approved. The Small States Network office has been established and located in the Central Bank of Malta and secretariat staff has been recruited. A group of regionally representative eminent persons drafted a preliminary work plan.

Our office continued to lead Board efforts to reinvigorate the Bank's approach to the financial sector, and bedding down the new Financial Sector Strategy. We continue to ensure that the directions of the Financial Sector Strategy are reflected in the Bank's CASs and programs.

World Bank Strategy

President Zoellick outlined six strategic themes to form a much needed framework for the Bank's operations during a speech to the National Press Club ahead of the 2007 Annual Meetings. The six themes are: overcoming poverty, fragile states, middle-income countries, regional and global public goods, the Arab World, and a knowledge Bank.

Medium Term Strategic and Financial Framework

Our office worked closely and effectively with other Executive Directors' offices, in conjunction with Management representatives, to identify the process, key budget formats, priorities, and presentation in the final Budget, agreed to by the Board on June 26, 2008. It remains unclear how the new six strategic themes announced by the President in September 2007 translates into resource allocations for 35 Vice Presidential spending plans from now through the medium term.

The Budget retains the important "zero real growth" principle, critical in our view to press Management to allocate scarce resources effectively and exit low priority activities. Trust funds were brought 'on book', for the first time, although there are outstanding issues of alignment, efficiency, and results in the trust funded-output arena.

Climate Change

The Bank has significantly stepped up its work on climate change in view of its importance as a challenge to sustainable development and poverty reduction. The Bank's involvement is critical in providing innovative financing to support climate change action.

The Bank consulted donors and developing countries about their interest in participating in the development of new funds for climate change action. Those consultations led to a series of meetings to design the Climate Investment Funds (CIF) involving developed and developing countries, multilateral development banks (MDBs) and multilateral organizations such as the UN agencies.

Growth Commission Report

Earlier this year the final report of the Commission on Growth and Development was released. Following their analysis of 13 high-growth economies, the Commission confirmed the centrality of economic growth as the means to achieve poverty reduction and the Millennium Development Goals.

IFC Road Map FY09-11 Creating Opportunity

IFC maintains its five strategic priorities set out in FY04 by adding climate change to the third pillar and defining frontier countries more specifically as IDA countries. IFC has kept the momentum of its past achievement and growth, as well as continuing its investments in frontier countries and climate change activities.

Voice and Participation

The Voice and Participation agenda at the Bank has moved forward rapidly and we expect specific outcomes this year. Since May 2008, COGAM (Committee on Governance and Executive Directors' Administrative Matters), with support from Bank Management, has begun to explore elements of a possible comprehensive package on enhancing the voice and participation of developing countries in the Bank's governance, following consensus at the 2008 Spring Meetings, to develop concrete options for consideration at the Bank's Annual Meetings in October 2008.

Operational Issues

The Bank acknowledges that there are large infrastructure service delivery gaps: 1.1 billion people are without access to safe water, 1.6 billion without electricity, and 2.4 billion without sanitation. An analysis of the role that the Bank needs to play in infrastructure led to the development of the Sustainable Infrastructure Plan (SIAP) for FY09-11. During this period, the Bank plans to scale up its finance and advisory services for infrastructure between \$59 and \$72 billion, and leverage an additional \$109 billion to \$149 billion in ODA and private financing for infrastructure.

In July 2008, the Audit Committee considered the 2008 Review of New Loan Pricing in line with the decision made a year earlier, that is, to simplify and reduce the pricing of new IBRD loans and proposed continued coverage of lending-related administrative costs by current lending spreads. These recommendations were approved by the Board on August 7, 2008.

In response to client demand, the Bank has been experimenting in various areas with different products in order to draw out the best menu of risk management products available to IBRD and IBRD/IDA blend countries. In the last 12 months, in addition to the Caribbean Catastrophic Risk Insurance Facility (CCRIF) which is now operational, the Board approved two other innovative products, namely, the Catastrophe Risk Deferred Drawdown Option (CAT-DDO) and weather derivatives intermediation.

At the 2008 Spring Meetings, the DC Members endorsed President Zoellick's call for a 'New Deal on Agriculture'. The Bank established a \$1.2 billion Framework for Food Price Crisis Response Program, which included a \$200 million Food Price Crisis Response Trust Fund (FPCRTF). This trust fund provides grant financing to IDA-eligible countries to reduce the impact of food price rises. The \$200 million comes from IBRD's surplus and is additional to current IDA funds available.

On April 22, 2008, the Bank created a new trust fund, the State- and Peace-Building Fund (SPF). This fund combines the existing Post Conflict Fund and the Low-Income Countries Under Stress (LICUS) Trust Fund to streamline the Bank's approach to conflict and fragility.

Little material progress has been made on the Voluntary Disclosure Program, with few companies approaching the Bank to report and work through integrity issues, and some that did apparently had misconceptions of the program as a corruption declaration and amnesty, which it is not.

Our office has continued its close tracking assessment and advocacy of reforms to the investigation function in the Bank, and how it relates to legal and audit functions, following significant recommendations for reforms contained in an independent external panel's report (aka Volcker Report) considered by the Board in October 2007. Allied reforms, largely on hold since 2005, have come back to the Board for discussion and action.

The Debt Reduction Facility (DRF) helps reforming, heavily indebted, IDA-only countries reduce their sovereign commercial external debt as part of a broader debt resolution program. Since its establishment, the DRF has supported 24 completed (or substantially completed) commercial debt reduction operations in 21 IDA-only countries. In April 2008, the Bank agreed to the extension of eligibility for DRF preparation grants on a case-by-case basis to pre-decision point HIPCs.

In March 2008, the first Progress Report on the Bank's Gender Action Plan (GAP) was discussed by the Board. The GAP mobilized significant resources from Bank's funds and donor contributions.

In December 2007, a progress report on the IFC Performance-Based Grants Initiative (PBGI), along with a proposal for an additional drawdown of remaining funds, was discussed by the Board. (In June 2005, the Board had approved the designation of \$250 million of retained earnings for a PBGI.) The Board approved the drawdown of the remaining \$182.8 million designated for the PBGI, given the strong outcomes of the pilot phase and the strong demand for PBGI.

Development Results

Annual Review of Development Effectiveness (ARDE)

The Annual Review of Development Effectiveness (ARDE) is the flagship publication of the Independent Evaluation Group (IEG). This year, IEG found that overall development outcomes of Bank lending have improved over the medium, term albeit not over the past year. IEG finds a rising 'disconnect' between project supervision ratings and final project outcomes that could point to weak incentives for accurate project reporting. IEG cautions against over optimism in assessing ongoing project performance, and calls for vigilance to ensure that the drop in project performance in FY07 does not foreshadow a persistent decline.

IBRD/IDA Finances

In FY08, the Bank extended IBRD/IDA loans, credits, guarantees, and grants totaling \$24.7 billion. IBRD lending reached \$13.5 billion, up five percent from FY07. Overall IDA commitments reached \$11.2 billion in FY08. Three regions – Middle East and North Africa, East Asia and Pacific, and Eastern Europe and Central Asia - experienced increased lending levels in FY08. Middle East and North Africa region's commitments showed nearly 74 percent increase since FY07. East Asia and Pacific Region delivered \$4.5 billion, up 12.5 percent from FY07. In addition to lending activities, a number of analytical and advisory products were delivered.

On June 26, 2008, the Board approved the \$1.7 billion FY09 IBRD/IDA Net Administrative Budget that shifts additional resources to regional operations, the work in global public goods and to Bank-wide initiatives. The 2009 Net Administrative Budget is flat in real terms with a 2.9 percent increase in nominal terms through within unit redeployments, the continued application of a differentiated productivity tax, and targeted savings within certain Bank units. In nominal terms, regional programs will grow by approximately \$40 million.

In FY08 IBRD's operating income increased to \$2.3 billion from \$1.7 billion in FY07. This was driven by increases in the release of provision for losses on loans and guarantees, and an increase in borrowing expenses due to lower interest rates and higher buyback gains. The Board has recommended the Governors to allocate \$893 million as reserves; \$583 million transfer to IDA and the remaining as non-earmarked surplus.

IDA's operating income of \$1.8 billion was \$931 million higher than FY07. There was an increase in the average balance of development credits outstanding and an increase in the average balance for the investment portfolio.

IDA15 replenishment

The IDA15 meetings concluded on December 14, 2007, with agreement on a record SDR27.3 billion (\$42 billion) replenishment. The United Kingdom pledged an impressive \$3.75 billion, an increase of 70 percent from IDA14, toppling the US from lead donor status for the first time in IDA history. The US, Japan, Germany and France all dropped 'burden share', despite increasing their contributions in nominal terms. China was the most prominent of six new donors contributing to IDA for the first time. In our constituency, Australia increased its burden share from 1.46 percent to 1.80 percent, while Korea and New Zealand maintained their burden share at 0.91 percent and 0.12 percent, respectively. The IDA15 replenishment meeting also agreed on a number of important policy outcomes including further strengthening of IDA's performance-based allocation system and improved aid effectiveness through accelerated decentralization of staff and decision making authority to the field, particularly in fragile states. IDA15 will increase its focus on the special needs of small states. Specifically, IDA15 will benefit small states through an increase to minimum country allocations and the per capita cap on allocations. Specific measures have been agreed to deliver more appropriate aid to fragile states. It is estimated that 10 percent of IDA15 resources will be spent in the East Asia Pacific region.

INTERNATIONAL FINANCE CORPORATION (IFC)

Operational Results

IFC has grown in terms of both commitments and expansion of its business activities. Total commitment volume reached \$11.4 billion in FY08 (\$8.2 billion in FY07). It mobilized resources in the amount of \$4.6 billion in FY08, 22 percent higher than in FY07 (\$3.9 billion). IFC's net income for FY08 was \$1.5 billion; \$1 billion lower than a record high \$2.5 billion in FY07. Although IFC's profit declined compared to FY07, it continued its recent strong performance. Most profits can be attributed to capital gains from equity sales in FY08 of \$1.4 billion (\$1.9 billion in FY07). The overall quality of the loan portfolio at end FY08 has marginally improved from end FY07.

This year, IEG reviewed the development effects of projects completed in 2005-2007. In 2007, 71 percent of selected samples were satisfactory in terms of development benchmarks and standards, while 63 percent of evaluated projects in the previous 10 years achieved satisfactory outcomes. However, development results have been weaker in smaller projects, particularly in projects of less than \$5 million.

The budget was based on the steady growth scenario in IFC's investment operations with emphasis on projects in frontier markets and on climate change. The regular administrative budget will increase by 11.5 percent in real terms over FY08 to reach \$507 million before adjusting for inflation. The total administrative budget will increase from \$598 million to \$656 million.

Net income allocation

IFC generated a net income of \$1.6 billion in FY08, and proposed the maximum income designation level of \$550 million. The Board approved the designation as follows:

- *IFC grants to IDA for the IDA15 replenishment of \$450 million; and*
- *a designation to the Funding Mechanism for Technical Assistance and Services of \$100 million.*

MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

Operational Results

Gross new guarantees underwritten by MIGA increased substantially in FY08, amounting to a record \$2.1 billion (53 percent higher than FY07). Gross guarantee portfolio reached a record high of \$6.5 billion at the end of FY08 (22 percent growth from \$5.3 billion in FY07). MIGA's gross exposure has increased by \$1,174 million (22.1 percent) from \$5.3 billion as of end-FY07 to \$ 6.5 billion as of end FY08, while net exposures have increased by \$369 million (11.5 percent) from \$3.2 billion to \$3.6 billion.

FY09 Business Plan and Administrative Budget

Since 2005, MIGA's business plan has focused on four priority areas: investment in IDA countries; conflict-affected environments; complex infrastructure transactions; and south-south investments. MIGA will maintain the focus on these priority areas in FY09. In addition, MIGA will do at least 50 percent of new business in IDA countries.

CONSTITUENCY COUNTRY DEVELOPMENTS

Australia

In 2008, Australia increased its high-level dialogue with the World Bank. Prime Minister Kevin Rudd met with President Zoellick on several occasions. The leaders discussed the increasing role of the World Bank in the climate change agenda, the global food crisis, and doing more joint work with new donors in the Pacific. In April 2008, Treasurer Wayne Swan represented the Constituency at the Spring Meetings, and gave a presentation to Finance Ministers at the second 'Bali Breakfast' on climate change. In July Prime Minister Rudd announced that Australia would contribute \$50 million to the World Bank to assist with the food crisis.

Cambodia

FY08 saw improvement in the Bank's engagement with Cambodia with renewed policy/strategy dialogue and Board approval of outstanding projects.

President Robert Zoellick visited Cambodia August 4-5, 2007, as part of his official trip to East Asia and the Pacific region. This visit was a unique opportunity for the President to witness Cambodia's remarkable achievements following a long period of conflict. In February 2008, Dr. Jim Hagan, Executive Director, made his first visit to Cambodia. He met with Senior Ministers and other Government officials.

An IEG report assessed WB assistance to Cambodia between FY99 and the first half of FY07. The Bank's anti-poverty focus, support for rebuilding infrastructure, focusing initially on urban projects, and health and education, had positive outcomes. In governance, which received increasing emphasis from the Bank over the assessment period, progress was considered unsatisfactory.

On May 20, 2008, the Board endorsed the extension of the current CAS until 2011, citing progress made and the Government's strong commitment to the reform agenda. In the CAS, the

Bank recognizes the positive changes over the past three years, and the solid progress the Government has made in implementing the ambitious reform agenda.

Korea

With increased ODA, the Korean Government has made efforts to expand its partnership with the Bank. Two trust funds set up in FY07 became operational. Korea has a keen interest in climate change issues. It continued to strengthen its cooperation with IFC in order to expand its engagement in the private sector development of developing countries.

Mongolia

Dr. Hagan (Host Director) and a group of EDs, visited Mongolia September 10-14, 2007 as a part of their group travel to the East Asia and Pacific Region. The EDs met with the Prime Minister, the Minister of Finance, members of Parliament, and representatives from both the private sector and civil society organizations.

During his State visit to the US in late October 2007, Mongolian President Nambaryn Enkhbayar met with President Zoellick. The leaders stressed the importance of the Bank's work in Mongolia and discussed how to improve its impact and effectiveness.

At a technical meeting between the government and external partners in January 2008, a draft Mongolia Private Sector Development Strategy was presented and key issues for realizing the draft strategic vision were discussed.

The next CAS for Mongolia requires further consultations. The Bank plans to have consultations with the new Government before finalizing the CAS.

During FY08, both the Bank and IFC local offices were strengthened with additional international staff.

The Board approved three projects for Mongolia: a grant of \$1.0 million for additional financing under Rural Education and Development Project (READ), an investment credit and grant of \$5.0 million for the Enhanced Justice Sector Services Project (JSSP,) and an investment credit and grant of \$9.3 million for a Mining Sector Technical Assistance Project (MSTA).

New Zealand

New Zealand continued its strong support and commitment to the Bank by joining MIGA in April 2008. New Zealand's engagement with the World Bank over the past year has been focused on the fulfilment of replenishment negotiations for IDA15.

Pacific Countries

The Bank's engagement in the Pacific saw positive developments in the last 12 months. Both resources and staff stationed at the Sydney Office have significantly increased. The Bank is in the final stages of opening a Bank/IFC Country Office in the Solomon Islands. Discussions are underway to set up two joint Bank/IFC/ADB 'satellite' offices in Samoa and Tonga, where the Bank and ADB would share resources as well as providing opportunity for improved coordination. There are also plans to provide better service to the Northern Pacific countries of Kiribati, Federated States of Micronesia, Palau and the Marshall Islands including the provision of two economists in the Fiji Office.

Consultations are underway to formulate the next Regional Engagement Framework for the Pacific Islands. As part of its engagement in the Pacific, the Bank is expected to discuss with partner countries the development of regional programmatic lending programs and pooled insurance facilities. The Bank is also working to establish a Pacific Regional Infrastructure Facility in conjunction with AusAID and the ADB.

IFC's presence in the Pacific has stepped up as well. An investment officer and regional manager are being recruited to strengthen IFC's managerial and operational presence in the Pacific. Telecommunications is one IFC investment likely to increase substantially through its investment in Digicel. A number of advisory services are being considered for Vanuatu and Solomon Islands.

Dr. Hagan visited a number of Pacific member countries, including Solomon Islands and Samoa. Mr. Iulai Lavea, Advisor, joined the team in Samoa and continued on to Kiribati. Mr. Mathew Dalzell, Senior Advisor, visited Palau. Mr. Jae Hwan Kim, Advisor, visited the Marshall Islands.

Papua New Guinea

In December 2007, the joint IBRD/IFC Country Assistance Strategy (CAS) for Papua New Guinea to cover the period FY08-11 was endorsed by the Board. The CAS marks the Bank's re-engagement with PNG after a period of reduced involvement and it provides a framework for Bank-PNG cooperation over the medium to long term.

IFC has identified a number of investment potentials in PNG in the mining sector and infrastructure. In October 2007, IFC launched a major investment in PNG through a loan of \$40 million to Digicel (PNG) Ltd.

Dr. Hagan visited PNG in January this year and held fruitful consultations with the Ministry of Treasury and Finance and other Government officials.

CONSTITUENCY OFFICE

OFFICE DEVELOPMENTS

FY08 saw our office sharpen its focus while continuing its efforts to improve: overall Bank strategy with specific emphasis on governance, and performance; the representation of the interests of our members at both the Board level and with Bank staff; and assistance to our members in their relations with the Bank.

We have liaised closely with Bank Management and staff in the development of new Bank strategic themes and improving the Bank's focus on the constituency's developing countries, particularly our Pacific Island members. Relationships with country teams are good and productive. Our office and the constituency are benefiting from increased Bank staffing of regional offices and the dynamic engagement of the regional VP, Mr. Jim Adams, along with his senior staff.

We continued to improve communications with our members by issuing Constituency Newsletters, summarizing relevant Bank issues for government officials, reporting timely on Board matters and regularly updating our office website, <http://www.worldbank.org/eds09>, to facilitate broader public contact. In addition, Constituency Information Notes provide detailed information on topics of particular interest to our members to supplement information provided in our Newsletters. We continued our program of visits to constituency countries. Executive Director Dr. Jim Hagan attended the Asian Development Bank (ADB) Annual Meetings held in Madrid, Spain, and the regular forum of the Pacific Developing Member Countries (PDMCs). He used the opportunity to meet with both, members of our constituency, as well as ADB Executive Directors and staff. One of the benefits of these meetings is to reinforce the relationship between the executives of the ADB and the World Bank and to improve cooperation between our organizations on behalf of our members.

Our office supported the Borrower Representative (from Mongolia) to the IDA15 replenishment meetings, and delegations from Samoa and Vanuatu to a Design Meeting on Climate Investment Funds, held in Potsdam, Germany.

The office bade farewell to Dr. Joong-Kyung Choi (Korea) our Alternate Executive Director, and the Advisor Mr. Chris Tinning (Australia). We welcomed their replacements, Mr. Do Hyeong Kim, from Korea as the new Alternate Executive Director, and Dr. Robert Christie, as the Australian Advisor.

We continued to support the pilot Voice Secondment Program for developing country officials, keeping our members informed about developments and soliciting candidates. Ms. Bolormaa Lkhagvasuren, from Mongolia, participated in, and successfully completed, the program in July 2008. An applicant from Cambodia, Mr. Vibol Keo, has been selected to participate in the 2009 program.

BANK GROUP STRATEGY AND LEADERSHIP

Bank Group Strategy

During his speech to the National Press Club, ahead of the 2007 Annual Meetings, President Zoellick outlined his six strategic themes to form a much needed framework for the Bank's operations. The themes reposition the Bank to deal with changes in the Bank's client base as a result of changing global dynamics. These are:

- **Help to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa** by focusing on: opportunities related to MDGs, health and skill development; trade, regional integration, infrastructure and private sector development; agriculture and environment; and governance and social inclusion.
- **Address the special challenges of states coming out of conflict or seeking to avoid breakdown of the state** by promoting better global understanding; promoting improved country level collaboration; and delivering visible results through a coherent World Bank Group approach. Our office has worked to ensure that the Fragile States theme was not solely restricted to those countries overcoming conflict. Our lobbying ensured that important research into fragile states continues.
- **Develop a competitive menu of 'development solutions' for middle income countries** involving customized services as well as finance by improving client responsiveness and flexibility; expanding the range and utilization of financial products; building a dynamic organization; and building knowledge to engage on 21st century challenges. Essentially, middle-income countries are demanding more innovative and flexible products from the Bank. They are also seeking to tap its expertise as much, if not more so, than its financing capacity.
- **Play a more active role with regional and global 'public goods'** in communicable diseases/public health; environmental commons; financial architecture; and trade. Here, our office has worked through the Board to ensure that the Bank remained focused on those areas where it has a comparative advantage and provides additionality relative to other donors, particularly UN agencies.
- **Support those advancing development and opportunity in the Arab World** through integration into the global economy; faster and more inclusive growth; and addressing special priorities, including conflict, unemployment, water scarcity, the youth 'bulge', the role of the public sector and limited public accountability.
- **Foster a 'knowledge and learning' agenda across the World Bank Group** by creating and leveraging the Bank's knowledge to support the global development community; capturing knowledge from the global community and disseminating it broadly to benefit our clients; and applying world class knowledge to our day to day development work. Here, our priority has been to improve the Bank's communication of its products to clients in developing countries, and especially in our region.

Medium Term Strategic and Financial Framework

Our office worked closely and effectively with the Budget Advisors Group in conjunction with Management representatives to identify and progress key budget formats, priorities, and presentation in the final Budget, agreed by the Board on June 26, 2008.

Ultimately, we were not fully persuaded by the allocation, rationale, and input orientation of the Budget, but welcomed the process, dialogue and continued observance of the quarterly formal engagement points between Management and the Board on budgetary matters.

It remains unclear how the new strategic themes announced by the President in September 2007 translate into resource allocations for the 35 Vice Presidential spending plans from now through the medium term.

The Budget retains the important ‘zero real growth’ principle, critical in our view to press Management to allocate scarce resources effectively and exit low priority activities. For the first time, all trust funds were brought ‘on book’, although there are outstanding issues with regard to alignment, efficiency, and results in the trust funded-output arena. There is also a potential perverse incentive on Management and staff to seek ever more numerous and larger trust funds, with part charges accruing to administration, to drive interests unrelated to the Bank's core mission.

In the Budget, the main gains are seen in the regional Vice Presidencies, which we consider appropriate, and the main cuts are in Development Economics Research and the World Bank Institute, which we queried, albeit accepting the case from Management that previous high case funding had left the units oversupplied for current tasks. Several EDs were concerned that the Knowledge Management agenda would be impaired by such cuts, but we accepted a more ‘whole of Bank’ explanation of the knowledge agenda, in that it includes operations departments, networks, IFC, and others not just the research and training units.

One key theme that emerged from the Board discussion on the final Budget document is the extent to which the Bank's senior Management should now start moving from refinement of strategy, to issues of organizational effectiveness. We joined calls for a results framework to be developed by the Bank to more fully articulate how the strategic themes are being delivered. The clear lead in the organizational improvement argument is the Netherlands ED, who called for greater ambition and ‘transformational’ change, since growth in Bank business is most marked in infrastructure and the environment which, he argues, entails structural and HR changes.

There is significant support for change from the Board, although not necessarily at the fully transformational level. It remains an open question whether the internal design and functioning of the Bank meets either, the needs of the new strategy and clients or, reaching the MDGs. The President is yet to make a clear statement on this matter. There appears, however, to be no obvious appetite for internal reform of the scale of the Strategic Compact under President Jim Wolfensohn, although tensions will likely emerge if doing nothing becomes firm policy.

Our office intends to remain engaged on this issue as the Executive Director and budget/audit team consider it to be a significant factor in the quality of service delivery to client countries. It is possible that incremental reforms may bear fruit.

Changes in the Bank’s Senior Management Team

Since his appointment on July 1, 2007, Bank President Zoellick has extended his senior Management team through the appointment of an additional Managing Director, Ms. Ngozi Okonjo-Iweala, a Nigerian national and previously WB Country Director and Vice President and Corporate Secretary. This resulted in the following portfolios:

- Ngozi Okonjo-Iweala supervises the Africa, South Asia, Europe and Central Asia Regions and Human Resources;
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- **Juan Jose Daboub** supervises **the East Asia and Pacific**, Middle East and North Africa, and Latin America and Caribbean Regions and oversees the Information Solutions Group; and
 - Graeme Wheeler supervises the Networks (Poverty Reduction and Economic Management; Human Development; Sustainable Development, and Finance and Private Sector Development, and World Bank Institute) while overseeing the General Services Department. The Operational Policy and Country Services Vice Presidency reports directly to the President.

The President's new senior Management team also includes:

- Justin Lin, a Chinese national, Senior Vice President & Chief Economist;
 - Hasan Tuluy, a Turkish national, Vice President, Human Resources;
 - Leonard McCarthy, a South African national, Vice President for Institutional Integrity;
 - Isabel Guerrero, a Chilean national, Vice President, South Asia Region; and
 - Kristalina Georgieva, a Bulgarian National, as Vice President and Corporate Secretary.
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POLICY ISSUES OF SPECIAL INTEREST TO OUR CONSTITUENCY

Climate Change

The Bank has significantly stepped up its work on climate change in view of its importance as a development challenge. Addressing climate change is central to sustainable development and poverty reduction. The Bank's involvement is critical in providing innovative financing to support climate action which is in line with three of the six pillars of the Bank's strategic directions.

The Bank's engagement was facilitated by the United Kingdom's commitment to set up an Environmental Transformation Fund (ETF) to combat the causes and impacts of current and future climate change, the United States' proposal to create a Clean Technology Fund (CTF) and Japan's 'Cool Earth 50' initiative. The three countries expressed interest in having the Bank assist in the design and management of the funds. With these three donors, the Bank began consulting other donors and developing countries about their interest in participating in the development of new funds for climate action. Those consultations led to a series of meetings to design the Climate Investment Funds involving developed and developing countries, Multilateral Development Banks (MDBs) and multilateral organizations, such as the UN agencies.

The consultations provided an opportunity for stakeholders, particularly developing countries and small states, to raise areas of interest to be considered in the Climate Investment Funds (CIF) framework. The issues raised by stakeholders can be summarized as follows:

- Recognition of poverty alleviation as the Bank's primary mandate;
- Primacy of the UN Framework for Climate Change Convention (UNFCCC) process;
- Resources to be additional and new;
- Need for grant-based funding;
- No conditionality attached to accessing the funds;
- Strong local ownership;
- Expediency in delivery of assistance;
- Private sector role in financing climate change actions;
- Close linkage of bilateral activities with CIF at the country level. and on the governance of these funds;
- The need for an effective and efficient structure;
- Equity of voice and representation between donors and recipients;
- Geographic representation in the selection of recipient representatives; and
- Decision making needs to be consensus based.

In response to the above concerns, the CIF recognize the primacy of the UNFCCC process by clearly defining the sunset clauses under each fund. As well, CIF resources are new and additional, and financing under the CTF and SCF will be in the form of concessional financing with a grant element. CTF funds will be used to catalyze long-term private sector investments by supporting a few initial investment opportunities to demonstrate real investment risks in a new technology market. The CIF design and operations is not expected to impose additional conditions on developing countries to access financing under the funds.

Furthermore, the governance structure is broad-based and inclusive with equal representation for recipients and donors on Trust Fund Committees. The Partnership Forum gives voice to all stakeholders such as GEF, UNFCCC, UNDP, and UNEP.

The CIF is comprised of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF). The CTF finances the deployment and transfer of low-carbon technologies in the power and transportation sectors, and energy efficiency in buildings, industry and agriculture. The SCF provides financing to pilot new development approaches or to scale-up activities aimed at a specific climate change challenge through targeted programs. The Pilot Program for Climate Resilience (PPCR), the initial sub-project under the SCF, is designed to demonstrate how adaptation assistance can be integrated into development spending to deliver development goals. The other SCF program under consideration is the Forest Investment Program (FIP) - a program supported by Australia - that will have implications for a number of our constituency members.

For most of our constituency members, financing adaptation strategies is more urgent. This is where the PPCR becomes relevant. Financing under the PPCR will be in the form of stand-alone grants in addition to highly concessional lending. The number of countries participating under PPCR is expected to be around ten. We have clearly expressed our interest for at least one of our constituency members to be a pilot country in the initial phase.

On July 1 2008, the proposed CIFs were discussed by the Board and there was overwhelming support for the establishment of the CIF. This provided the green light for Management to pursue collaborative efforts with donors and participating MDBs. It is anticipated that, with donor commitments translated into actual funding pledges, the first projects or programs under the CIFs will have been identified and, probably, approved by the end of 2008.

Financial Sector Strategy

Our office continues to lead Board efforts to reinvigorate the Bank's approach to the financial sector. Our concerns regarding the Bank's approach to the financial sector have centered on:

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

We continue to ensure that the directions of the Financial Sector Strategy are reflected in the Bank's CASs and programs. We will also seek to ensure that the financial sector receives adequate attention in the preparation of the Bank's Strategic Framework and the annual budgets.

Fragile States

The issues of fragile and conflict-affected countries have been given added prominence in the past year with President Zoellick's selection of fragility and conflict as one of six strategic themes for the Bank's work. This prominence has been emphasized by the amalgamation of the Bank's Fragile States and the Conflict Prevention and Reconstruction Units and the upgrading of unit leadership to Director-level. Alastair McKechnie, formerly Country Director for Afghanistan, Bhutan and the Maldives, has been appointed to head the area. The new unit is responsible for the development and implementation of the joint work on conflict and fragility across the Bank and for promoting the overall effectiveness of the Bank's response in these situations.

Concerted effort is being made to improve the coherence and quality of the Bank's assistance in the area of fragile and post-conflict states following the March 2007 Operations Policy for Rapid Response to Crises and Emergencies. The new policy is the centerpiece of a range of initiatives including encouraging more conflict-sensitive analyses and streamlined planning and implementation processes that will improve both the effectiveness of assistance and the speed of delivery. To that end, the fragile states area is actively engaged in helping country teams utilize the flexibility provided by this new policy.

In addition to more streamlined internal processes, the Bank is also working across various internal networks and with bilateral and multilateral partners to promote a deeper engagement on issues once thought to be outside the Bank's economic and social development mandate such as political economy and security-related issues. This arises from a growing recognition that it is critical to have a clear understanding of these issues for developing coherent and effective development responses in fragile and conflict-affected situations.

The Bank is developing a program of research, knowledge and learning as part of continuing efforts to improve the Bank's and the wider development community's understanding of structural and country-specific factors that contribute to institutional and governance fragility, and to strengthen consensus on approaches to fragility and conflict. A series of Headline Seminars will anchor the research program. The first of these seminars – *Transition from Conflict to Peace: Dynamic Tensions between State-building and Peace-building* – is scheduled for September 2008. The seminar will bring together high-level development and diplomacy practitioners, as well as renowned academics, to reflect on experience and debate how the Bank and its partners should approach development in these sensitive periods of transition.

Despite this pleasing progress, further efforts are needed in key areas including:

- greater attention to donor harmonization, since limited government capacity in fragile and low income states should not be drained by donor proliferation and fragmentation;
- more policy relevant analytical work presented in an accessible and timely manner; and
- greater attention to the particular challenges of engaging effectively with fragile states in the “gradually improving” and “deteriorating” categories. We are concerned that post-conflict countries tend to receive most Bank attention within the fragile states group.

We will continue to take a leadership role in pursuing these issues at the Board.

Growth Commission Report

The final report of the Commission on Growth and Development was released earlier this year. Following their analysis of 13 high-growth economies, the Commission confirmed the centrality of economic growth as the means to achieve poverty reduction and the Millennium Development Goals.

The Commission on Growth and Development was established in April 2006. It closely examined 13 cases of sustained high growth – those economies that had achieved 7 percent or more for 25 years or more. Those countries were Botswana, Brazil, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Malta, Oman, Singapore, Taiwan (China), and Thailand. What is striking is that while the familiar Asian examples dominate the list, every other region of the developing world is represented, with economies from a spectrum of natural resource endowments and population size.

The Commission found no ‘magic bullet’ to achieving high growth in developing countries. In fact, the Commission found that the necessary and sufficient conditions for growth are simply not known with a

significant degree of conviction. Rather, growth paths were country-specific, but connected by a strong commitment to economic openness and policy flexibility over the medium term. High growth economies had active governments with strong leadership committed to growth.

Achieving sustained high economic growth is possible, but it is not easy - only 13 economies have achieved it. There were, however, five common elements to those economies that did achieve sustained high growth – they:

- fully exploited the world economy;
- maintained macroeconomic stability;
- mustered high rates of saving and investment;
- let markets allocate resources; and
- had committed, credible, and capable governments.

To sustain growth over time, a set of conditions and policies need to come together. The Commission had a keen sense of the policies that “probably matter.” They invested heavily in infrastructure, education and health. Many also had interventionist industrial policies, but were careful that these were consistent with their natural comparative advantage. But the Commission avoided prescribing a list of sufficient conditions for growth.

The Commission also specifically considered the challenges of small states such as those in the Pacific, recommending they embrace the world economy, consider more regional approaches, and outsource some government functions.

IFC’s Road Map, FY09-11 Creating Opportunity

IFC continues to base its investments on the five strategic priorities set out in FY04, adding climate change to the third pillar and defining frontier countries more specifically as IDA countries.

The strategic shift in the business mix has changed and this has affected IFC’s business pattern, namely:

- IFC has focused on smaller and more challenging markets, particularly IDA countries, and on reaching the underserved;
- IFC aims to be more selective in non-frontier market investment, focusing on those which are strategically important such as infrastructure and climate change; and
- IFC’s proposal for climate change include: enhanced support for renewable energy and energy efficiency (RE/EE) investment, partnerships to address climate change mitigation, extending carbon finance activities, measuring the greenhouse gas emissions in IFC’s portfolio, and the use of carbon shadow costs in projects appraisal.

IFC will keep the momentum of its past achievement and growth. Based on this, IFC expects commitments to reach \$13-14 billion with indicative budget increases of: 11.5 percent in FY09, 10 percent in FY10 and 9 percent in FY11.

IFC needs to overcome the following challenges:

- IFC has to balance competing demands in a counter-cyclical role;
 - IFC needs to strengthen risk management to confront global and microeconomic volatility with more, stringent portfolio management, planning to meet the demand for IFC’s counter-cyclical role, and earlier engagement of the Special Operations Department to identify and address problem investments;
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- Given the inherent risks and volatility of income, IFC requires a strong capital base. While the preliminary analysis shows that IFC has adequate capital to support the growth in the middle case and the high case, scenarios, it is essential to take into account overall financial capacity; and
- IFC's staff has increased significantly; the total workforce of 3,196 reflects a 32 percent increase since FY05. Decentralization is underway; IFC has recruited 1,981 new staff since 2005, of which 1,292 staff, or 65 percent, are in the field.

Small States

The *Small States, Smart Solutions* publication, launched in April 2008 demonstrates that small states can be successful in overcoming the constraints they face. It presents case studies of small states in Africa, Caribbean and the Pacific and how they deal with raising the cost effectiveness of public goods and services, and connectivity with the rest of the world. The book hopefully will generate renewed interest within the Bank to rethink its approach to supporting development in small states like the Pacific Islands. Our office is one of the few chairs to consistently highlight the unique development challenges of small states at the Board.

The Small States Network (SSN), with the aim of providing a mechanism to effectively share and disseminate knowledge and expertise on small states issues, has become the platform for advancing small states issues within the Bank. Since the 2007 Small States Forum, there has been marked progress on several fronts. In January 2008, the Board approved a DGF grant of \$750,000 to support SSN work.

On the administrative front, the SSN Secretariat staff – an Administrator and Administrative Assistant - have been appointed. The SSN office has been established and located in the Central Bank of Malta. Draft Network procurement rules have been drawn up and are being reviewed by the Board of Trustees. A procurement document for the development of the SSNED website is under preparation.

A group of regionally representative eminent persons, assigned to draw up the Network work program has been engaged. A preliminary draft work plan has been submitted and is now being considered by the Board of Trustees. The proposed work plan identifies five strategic directions, namely:

- public sector institution building;
- private sector development with emphasis on building capacity needed to promote competitiveness;
- promotion of private-public partnerships;
- addressing environmental concerns; and
- provision of education and training on issues critical for small states.

It also provides a series of activities under each strategic direction that could be undertaken by the Network. The report is expected to be discussed at the 2008 Small States Forum. In order to keep small states' interests alive, a Thematic Group is expected to be established to provide a forum for EDs' offices and technical staff to discuss and advance small states issues.

Voice and Participation

The Voice and Participation agenda at the World Bank has moved rapidly, expecting specific outcomes this year. Since May 2008, the Board's Committee on Governance and EDS Administrative Matters (COGAM), with support from Bank Management, has begun to explore elements of a possible package on enhancing the voice and participation of developing countries in the Bank's governance. This

followed on from the Development Committee (DC) Members' Lunch at the April 2008 Spring Meetings, where the consensus was that President Zoellick should develop a package of measures, using the Board, as well as other consultations, to meet the commitment outlined in the DC Communiqué with concrete options for consideration at the Bank's Annual Meetings in October 2008.

The COGAM meetings discussed the paper, *Enhancing Voice and Participation of Developing and Transition countries in the WBG*, and its subsequent revisions prepared by a Management team. The paper was based on previous work in the Bank, the recent IMF voice package, a COGAM meeting of May 12, 2008, and Management consultations with individual EDs. It developed draft objectives, principles and a possible framework for a package. In terms of outcomes, some themes became clear during the meetings:

- a consensus that the outcome needed to be a package – ‘nothing is agreed until it is all agreed’;
- a sense that the deliverables could include some concrete decisions as well as an ongoing process to improve aspects of voice and participation;
- agreement that the timeline was ambitious, and probably doable depending on the scope of any package;
- a view that the selection process of the President should be considered (the USA was the main dissenting voice);
- changes to Board representation of Sub-Saharan Africa (SSA) are contingent on improving governance, Board performance and budget neutrality; and
- support for increasing Basic Votes – with a range of options including, double, 10.78 percent increase and selective increases for those countries currently under represented.

Major differences to be resolved include:

- the objectives and definition of group to be assisted;
- the scope of the package;
- a selective capital increase (SCI);
- the basis for calculating any realignment of shares;
- SSA representation on the Board; and
- improving IDA shareholding of developing countries.

Our office has presented the various positions of our diverse constituent members. We expect a package to be presented at the Bank's Annual Meeting this October.

OPERATIONAL AND STRATEGY ISSUES

Annual Review of Development Effectiveness

The Annual Review of Development Effectiveness (ARDE) is the flagship publication of the Independent Evaluation Group (IEG). The 2008 ARDE was presented in a new, two-part format. Part I tracks the Bank's performance, including trends in outcomes of projects and country programs, the evolution of monitoring and evaluation (M&E), and the role of evaluation in the results agenda. Part II focuses on a special theme, which this year is the Bank's work in fostering Global Public Goods (GPGs).

IEG found that overall development outcomes of Bank lending have improved over the medium term, albeit not over the past year. IEG finds a rising 'disconnect' between project supervision ratings and final project outcomes which could point to weak incentives for accurate project reporting. IEG cautions against over optimism in assessing ongoing project performance, and calls for vigilance to ensure that the drop in project performance in FY07 does not foreshadow a persistent decline.

As for GPGs, IEG found that the country-based model worked well when the national and global interests coincided and grants supported country investment, but less so when actual/perceived benefits between country and global levels diverged significantly.

IEG made the following for the Bank's consideration:

- strengthen incentives to deliver GPGs at the country level;
- consider clearer organizational arrangements to best select and link responses at country, regional, and global levels;
- enhance the delivery of global knowledge and capacity to country teams working on GPGs;
- ensure that the perspectives of developing countries are effectively connected with global responses; and
- improve the justifications for the costs and benefits of actions being proposed to foster GPGs.

Debt Reduction Facility for IDA-Only Countries:

The Debt Reduction Facility (DRF) helps reforming, heavily indebted, IDA-only countries reduce their sovereign, commercial, and external debt as part of a broader debt resolution program. The DRF provides governments with grants to hire the professional services necessary in preparing commercial debt reduction operations. Implementation grants provided by the DRF help finance debt repurchase as part of commercial debt reduction programs. Supported commercial debt reduction operations typically involve a government buying back its public and publicly guaranteed debts from external commercial creditors for cash at a deep discount, thereby extinguishing such debts from the books of the public sector.

The DRF promotes creditor participation under the Heavily Indebted Poor Countries (HIPC) Initiative. As such, it helps reduce the risk of non-concessional creditors taking advantage of debt relief provided under the Multilateral Debt Relief Initiative (MDRI). Settlement of commercial claims, which are generally in arrears, may also help to improve the climate for foreign direct investment and trade. Moreover, the settlement of arrears with commercial creditors enables countries to manage their debts and reserves in a more cost effective way by reducing the incentives.

Since its establishment, the DRF has supported 24 completed (or substantially completed) commercial debt reduction operations in 21 IDA-only countries. About \$4.8 billion of external commercial debt principal and an estimated \$4.2 billion of associated interest arrears and penalties have been extinguished.

To extinguish this total of around \$9 billion of debt principal and interest, resources of about \$712 million have been utilized.

In April 2008, the Board decided that:

- eligibility for DRF preparation grants be extended, on a case-by-case basis, to pre-decision point HIPCs;
- formerly bilateral debts sold to commercial creditors after the HIPC reference date should not normally be considered eligible for buyback under DRF-supported operations;
- domestic debts sold to external creditors would not normally be considered eligible for buyback under DRF-supported operations; and
- participation thresholds stipulated for buybacks should not normally be below 90 percent; and staff should be given more flexibility on advisory fees – particularly in larger and more complex cases.

Gender Action Plan – Implementation

In March 2008, the WBG Gender Action Plan's (GAP) First Year Progress Report, which presents GAP implementation results and lessons for one year, was discussed by the Board. The GAP mobilized significant resources from Bank's funds and donor contributions as follows:

- pledges: \$36.7 million – an additional \$12 million over original four-year budget of \$24.5 million;
- receipts: \$ 16.3 million- \$6.1 million from Bank and \$10.1 million from donors. GAP allocated \$14.9 million in FY07-08;
- the GAP was implemented under four windows: operation and analytical work; results-based initiatives; research, impact evaluation and statistics; communications;
- the GAP focuses on four key markets: land, labor, agricultural product, and financial market;
- the GAP executed two calls for proposals to focus on economic sectors and it provided financial incentives to 71 projects out of 171 proposals; and
- the GAP funding was added value and not substituting for funds for gender equality work.

Global Food Crisis Response

For the first time since 1973, the world is being hit by a combination of record high oil and food prices. These price increases are a destabilizing element for the global economy because of their potentially severe growth, inflation and distributional effects. Continued high and volatile food and fuel prices will aggravate inflationary pressures, constrain fiscal expenditures for vulnerable groups and further endanger the poor.

High food prices are also having a dramatic impact on poverty levels, especially in food importing countries, and risk reversing years of progress in many poor countries. However, it is important to note that neither the direction nor severity of impacts from higher prices is uniform between countries. The current cost of the annual food import basket for the least developed countries is estimated to have doubled when compared to 2000 levels. Higher commodity prices typically result in low income groups spending a higher proportion of their income on food and energy. In poor countries, where food can account for 70 to 80 percent of expenditures, rising prices can have a large negative impact on purchasing power.

Food prices have accelerated sharply in 2008. Grain prices have more than doubled since January 2006, with over 60 percent of the rise in food prices occurring since January 2008. Individual grain staple prices

have increased even more, with monthly average wheat prices doubling since January 2006. Rice prices more than tripled between January and May 2008, with a slight price reduction in June.

The proximate causes behind the rise in food prices have been well discussed, with changing demand (emerging markets, diet changes and bio-fuel production) and supply (increasing production costs, poor weather in key grain regions, falling US dollar and low global stocks) factors. As to why prices moved so fast, the Bank believes that the market expectations after October 2007 were driven by global fuel markets, events in global financial markets, policies of developing country exporters, and importers, in the case of rice.

The Bank expects food prices to stay high (at least at the October 2007 prices) for one to two years, and stay at about 2004 levels – which were about half current prices - in real terms until at least 2015. Critical in this forecast was not only meeting expectations of good harvests but also the collective response of governments to the crisis.

Over the longer term, the Bank believes that food price volatility will continue into the future, with long-term uncertainty increasing due to climate change. The increased input prices linked to oil prices would “discourage” developing country smallholders, although by how much, will need further analysis.

In response, the Bank established a \$1.2 billion Framework for Food Crisis Response Program, which included a \$200 million Food Crisis Response Trust Fund (FCRTF). The Trust Fund provides grant financing to IDA-eligible countries to reduce the impact of food price rises. The \$200 million comes from the IBRD surplus and is in addition to currently available IDA funds.

At the 2008 Spring Meetings, the DC Members endorsed President Zoellick’s call for a ‘New Deal on Agriculture’ with short-to-medium term-responses including:

- enhancing delivery systems to overcome fragmentation in food security, health, agriculture, water, rural infrastructure and gender policies;
- a shift from traditional food aid (supplementing local supplies) to a broader concept of food and nutrition assistance, for example, by encouraging production above subsistence levels by using cash and vouchers to develop local food markets and farm production; and
- emergency measures, such as feeding programs for vulnerable groups, work for food programs and conditional cash transfers.

In the Pacific, the World Bank regional office organized a meeting of donors on July 11, 2008 (including ADB, SPC, UN agencies and bilateral donors), to discuss the food and fuel price rises. At the end of the meeting, participants jointly agreed to, gather further information and share that information on the impact of the price rises in the Pacific, to convene a working group of interested donors and regional organizations to examine possible assistance and to write to regional governments to discuss the issue.

Governance and Internal Justice Matters

Our office has continued its close tracking, assessment and advocacy of reforms to the investigation functions in the Bank, and how it relates to legal and audit functions, following the significant recommendations for reforms contained in an independent external panel's report (aka the Volcker Report) considered by the Board in October 2007. President Zoellick was adamant that the institution remained under the sharpest scrutiny on anti-corruption measures, - "we cannot afford to fail."

Important allied reforms, largely on hold since 2005, have now come back to the Board for discussion and action. The first related change has been to reconfigure the Bank's Conflict Resolution System (CRS) whereby staff can take grievance cases, and/or disciplinary measures, which are weighed and considered through the various levels and mandates: from line management, the Ombudsman protocols, the Mediation Service, office for Ethics and Business Conduct, Appeals Committee and ultimately - and at the highest, only, and final, judiciary level - the Administrative Tribunal. There has also been a re-crafting of the Whistleblower Policy, which has important new provisions, including shifting the 'burden of proof' from staff to Management for allegations of misconduct and retaliation, and an important new provision for reporting grave misconduct to entities outside the Bank.

The policy has disappointed some who were arguing for external arbitration provisions, but nonetheless it is a positive step forward. Implementation will be a key monitoring priority. This questioned the merits of the Administrative Tribunal as being a court of first instance and court of final appeal at the same time, but appetite for reform was not widespread.

Our office considered these issues in the broader context of higher-level fiduciary oversight duties and staff desk level incentives. With an especially critical report in January on health funding problems and limited results, we considered it a priority to analyze and pursue the systemic and organizational arrangements which may in future foster greater candor and responsiveness if staff discover or perceive problems in Bank programs and Management. This remains a risk, however, and unless constituency Governors deem otherwise, we intend to continue to devote attention to it through 2009. These issues are variously, but broadly relevant, to Bank engagement across our constituency and we look forward to further dialogue with Governors and designated officials during the upcoming Annual Meetings.

IBRD Loan Pricing and New Instruments

As part of the strategy to strengthen engagement with middle-income borrowing member countries, the Board in September 2007, approved the proposal to simplify and reduce the pricing of new IBRD loans. Borrowers expressed interest in revisiting the possibility of using pricing or other incentive mechanisms to encourage greater borrower investment in sectors deemed to have large public good benefits. Members also wanted to see improved simplicity, transparency and competitiveness of IBRD loan pricing, which allows IBRD to continue extending appropriate levels of lending to eligible borrowers in support of its developmental mandate, while at the same time recover the cost of lending. The approved pricing framework is:

- Standard loans (excluding Special Development Policy Loans) signed after September 27, 2007 (date of approval), will have a single contractual interest spread of 30 basis points and a front-end fee of 25 basis points; and
- A 50 basis point late service charge be introduced on payments received after 30 days past due date.

The Bank's strong financial position at the time provided the platform for the reduced borrowing rates to be implemented. Going forward, a review of loan pricing will be conducted annually to ensure that IBRD's strong financial position is maintained.

In July 2008, the Audit Committee considered the 2008 Review of New Loan Pricing in line with the decision made a year earlier. The Audit Committee made the following recommendations to the Board at its August 7 meeting:

- maintain new loan pricing at a contractual interest spread of 30 basis points (bp) and front-end fee of 25 bp;
 - fixed spread loan (FSL) risk premium maintained at 5 bp;
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- revise intermediation spread for local currency hedges:
 - a. to 2 bp (from 10 bp) for currency swaps;
 - b. to 1 bp (from 3 bp) for interest rate swaps.

The strong capital adequacy outlook and continued coverage of lending-related administrative costs by current lending spreads formed the basis of the recommendations. The Board approved the recommendations.

IDA15 Replenishment

The IDA15 replenishment negotiations concluded with a final meeting December 13-15, 2007 in Berlin. The primary purpose of the meeting was for the 45 donors to announce their pledges to the IDA15 replenishment. Eight representatives of borrowing countries also attended the meeting.

The Bank secured a record IDA replenishment of SDR27.3 billion (\$42 billion), only narrowly missing its 'ambitious' target of SDR27.8 billion. Note - the total replenishment size is made up of three components: contributions from donors; reflows from repayment of past IDA loans; and transfers from IBRD and IFC net income. Bank President, Robert Zoellick, who had invested a considerable amount of time in securing a strong replenishment outcome since the commencement of his presidency in July, said the replenishment size 'exceeds my highest expectations'. The IDA15 replenishment will cover the period 2008-09 to 2010-11.

Inclusive of contributions for debt relief, the IDA15 outcome is a 23 percent nominal increase over the final size of the IDA14 replenishment in SDR terms, fuelled primarily by a 33 percent nominal increase in donor contributions and a significant increase in internal transfers to IDA from IFC and IBRD. The increase in donor contributions is the largest in the history of IDA. In a debrief to the Board on December 20, 2007, Vice President Philippe Le Houerou described this as "outstanding and remarkable" given that the increase came on top of a very strong IDA14, which had seen the biggest rise in donor contributions in 25 years.

Donors' regular contributions

The highlight of the meeting was a SDR 2,564 million (\$3.75 billion) contribution from United Kingdom, a 70 percent nominal increase from IDA14 that increased their burden share, from 12.14 percent to 14.39 percent. This places the United Kingdom in the position of the clear lead donor to IDA, well ahead of the next largest donor, the United States. This represents the first time in IDA's 47-year history that the United States has been surpassed as the largest donor.

The United States and Japan revealed widely expected and significant drops in their burden shares. Both countries have experienced adverse foreign exchange rate movements since the last replenishment. The United States pledged a contribution of \$3.1 billion for a decrease in burden share from 12.96 percent in IDA14 to 11.2 percent. Japan remained as the third-largest IDA donor, but dropped burden share from 11.75 percent in IDA14 to 9.28 percent. More surprising was significant drops in burden share from Germany (from 7.96 percent to 7.11 percent) and France (from 7.20 percent to 6.49 percent).

Denmark, Switzerland and Norway also announced surprise reductions in burden share, with Norway noting their reduced contribution was in direct response to dissatisfaction about the Bank's approach to conditionality in lending operations. Spain, Canada, the Netherlands and Finland joined the UK and Australia in significantly increasing burden share, helping to offset these reductions.

China became an IDA donor for the first time with a contribution of SDR18 million (\$27.0 million). Many participants recognized the important symbolism of having one of IDA's greatest recipients, Indonesia, graduating to donor status. Other countries joining IDA as first time donors were Cyprus, Egypt, Estonia, Latvia and Lithuania.

In our constituency, Korea (0.91 percent) and New Zealand (0.12 percent) both maintained 'burden share' of donor contributions. Australia increased burden share from the 1.46 percent in IDA14 to 1.80 percent in IDA15. Australia's contribution increase was the fifth largest amongst donors.

The Bank also secured donor pledges totaling SDR6.0 billion (\$9.24 billion) for its costs under various debt relief initiatives during the IDA15 period.

Outcomes of the IDA15 Replenishment Negotiations

The IDA15 replenishment also agreed on a number of important policy outcomes. Further strengthening of IDA's performance-based allocation system has reaffirmed IDA's commitment to development results. Aid effectiveness will also be improved through accelerated decentralization of staff and decision making authority to the field, particularly in fragile states.

IDA15 will increase its focus on the special needs of small states. Specifically, IDA15 will benefit small states through an increase to minimum country allocations and the per capita cap on allocations. As a result of these measures, IDA allocations to the Pacific are expected to rise significantly, for example, by 46 percent for Samoa, 38 percent for Kiribati, 19 percent for Vanuatu and 16 percent for Solomon Islands.

Specific measures have been agreed to deliver more appropriate aid to fragile states. Agreement was reached to extend the phase-out period of exceptional allocations for eligible post-conflict and re-engaging countries. East Timor and Afghanistan are amongst the countries currently benefiting from exceptional post-conflict allocations from IDA. In addition, IDA will pay greater attention to promoting debt sustainability including through debt management capacity building, particularly for those countries that have recently benefited from debt relief.

It is estimated that 10 percent of IDA15 resources will be spent in the East Asia Pacific Region. This is a decrease from IDA14, in which the region has been allocated approximately 13 percent of resources. The decrease is due to the anticipated graduation of Indonesia from IDA in 2008-09.

IFC Performance-Based Grant Initiative Progress Report

In December 2007, the Board discussed IFC Performance-Based Grants Initiative (PBGI) Progress Report.

In June 2005, the Board approved a designation of \$250 million of retained earnings for PBGI, with the Board authorizing a drawdown of \$65 million for a pilot phase of the PBGI in March 2006 and a drawdown of \$2.2 million for higher education in Liberia in 2007. The pilot phase consists of two tranches:

- a tranche supporting services in infrastructure implemented by the Global Partnership on Output-Based Aid (GPOBA) with \$35 million; and
- an Africa Micro and Small and Medium Enterprise (MSME) program implemented by IFC with \$30 million,

The GPOBA provides private companies with grants to cover some utilities and connection fees so that investments in infrastructure could be activated. Under MSME program, IFC provides cash benefits or technical assistance to African banks that increases MSME loans.

The outcomes of the 18-month pilot phase were:

- it enabled private sector companies to extend services to customers who rarely expected to receive those services;
- there was strong demand for grants under GPOBA and MSME program especially in IDA countries; and
- the pilot phase had strong development impact, 550,000 new households were given access to essential services and four African banks have issued MSME loans amounting \$800 million in five years.

The Board approved the drawdown of the remaining \$182.8 million designated for PBGI, given the positive outcomes of the pilot phase and the strong demand for PBGI.

New Financial Instruments

In response to client demand, the Bank has been experimenting in various areas with different products in order to draw out the best menu of risk management products available to IBRD and IBRD/IDA blend countries. In addition to the Caribbean Catastrophic Risk Insurance Facility (CCRIF) already operational, the Board, in the last 12 months, approved two other innovative products, namely, the Catastrophe Risk Deferred Drawdown Option (CAT-DDO) and Weather Derivatives intermediation.

- **CAT-DDO** is intended to better address a country's immediate liquidity needs following a case of natural disaster by providing access to long-term IBRD resources to maintain ongoing structural programs if a financing need materializes. It would also provide a formal basis for continued policy-based engagement with the Bank when the borrower has no need for immediate funding but values Bank advice and access to immediate liquidity whenever deemed necessary. The DDO feature would continue to be available for IBRD-eligible borrowers, including countries that borrow from both IBRD and IDA ("blend countries"). The operational policy requirements for proceeding with an operation with a DDO feature are the same as those set out for regular development policy operations – maintenance of an adequate macroeconomic policy framework and satisfactory implementation of the overall program.
- **Weather Derivatives** represent an expansion on the current offerings by the Bank of market-based tools to manage risk, such as interest rate swaps, caps and collars, currency swaps and commodity swaps. The Bank would leverage its existing capacity and its long-term relationships with client countries and international market counterparts, while incurring limited incremental financial risk. Following a subsequent severe weather event, Governments would receive a payout from the Bank based on an index, which is designed to reflect the loss or liquidity needs caused by an adverse weather event. The payout would be funded with the payment that the Bank would receive from a mirroring transaction with a market counterpart.

State- and Peace-Building Fund

On April 22, 2008, the Board agreed to create a new trust fund, the State- and Peace-Building Fund (SPF). This fund combines the existing Post Conflict Fund and the Low Income Countries Under Stress (LICUS) Trust Fund. These funds have provided rapid, innovative and flexible responses in post-conflict and fragile situations, the lessons of which have been applied across the Bank and shared internationally. Combining these funds will assist in streamlining the Bank's approach to conflict and fragility.

The two main objectives of SPF will be carried over from the former funds: to support measures to improve governance and institutional performance in countries emerging from, in, or at risk of sliding into, crisis or arrears; and to support the reconstruction and development of countries prone to, in, or emerging from conflict.

The State- and Peace-Building Fund will build on the work of the Post Conflict and LICUS trust funds. In the last year, the Post Conflict Fund has:

- undertaken a peace audit providing information on conflict-sensitive development planning in Sri Lanka;
- established a development program to channel donor resources in Mindanao; and
- monitored the flow of cargo between Palestine and Israel.

The LICUS trust fund work has included a labor-intensive rebuilding of basic infrastructure in Haiti, preparing the public financial management system for debt clearance in Liberia, and preparing a macroeconomic framework for a HIPC decision-point in the Central African Republic.

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

The total funding for the LICUS trust fund from FY04 to FY08 was \$90 million, of which \$80 million came from the IBRD surplus. The Post Conflict Fund spent \$100 million over the FY98 to FY08, with most of the money coming from bilateral donors. The Board agreed that \$100 million will be transferred to the SPF from administrative expenses for the period FY09-11.

The fact that the Bank is funding the SPF from administrative expenses rather than IBRD surpluses indicates the Bank's invigorated commitment to working on fragile and post-conflict issues under President Zoellick. Our office has stressed to Bank Management the need for broader cross institutional evaluation and learning from the Bank's fragile states strategic themes.

Use of Country Procurement Systems for Bank Procurement

On April 24, 2008, the Board approved a pilot for the use of country procurement systems for the Bank for international competitive bidding. Following wide and extensive consultations, the Board agreed to a pilot to cover eight to ten countries. Countries involved in the pilot will need to have procurement systems that are equivalent to, and consistent with, the principles of the Bank's procurement policies.

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

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

At the Board, we continued to push the interests of our Pacific member countries, calling for Management to move forward with vigorous implementation in order to mainstream the use of country procurement

systems across the Bank. We noted that complex procurement rules have a particularly high transactions cost on smaller states.

Voluntary Disclosure Program (VDP)

There was little material progress on the VDP this year, with few companies approaching the Bank to report and work through integrity issues, and some that did apparently had misconceptions of the program as a corruption declaration and amnesty, which it is not.

Our office continues to engage on the periodic reports and we reconfirm previous analysis of the limitations of the scheme and internal design problems. In early 2007, the then ED Dr. Choi was rightly critical of the initiative and called for its re-design, especially on game theoretic grounds. The latest reports, and a repeatedly postponed technical briefing on the topic from Management suggest we should continue pressing these points. The initiative has potential positive upsides for the Governance and Anti-Corruption agenda, but needs appropriate design features.

World Bank Group's Sustainable Infrastructure Action Plan (SIAP)

The growing awareness of the impact of the infrastructure service delivery deficit on developing countries' poverty reduction and economic growth prospects prompted calls for the Bank to re-engage and scale up its assistance based on 2003 Infrastructure Action Plan (IAP) for FY04-07.

At the end of the IAP, Bank financing for the infrastructure sectors totaled \$33 billion for the FY04-07 period, compared with \$22 billion over the preceding four-year time period. Adding IFC and MIGA, the figures were \$41 billion and \$28 billion, respectively. During the IAP period, the reengagement of Bank support to infrastructure was accompanied by dramatic changes in the external environment including, climate change, growing regional disparities in the context of rapid urbanization and decentralization, changing global financial conditions (including increases in private investment in infrastructure in emerging markets), rising energy prices, and the potential of breakthroughs in technologies for delivering infrastructure services in a more sustainable manner.

Large infrastructure service delivery gaps - 1.1 billion people without access to safe water, 1.6 billion without electricity, and 2.4 billion without sanitation - caused the Bank to update its analysis of its role in infrastructure after the initial gains achieved during the IAP.

The analysis of the role that the Bank needs to play in infrastructure led to the development of the SIAP for FY09-11. The SIAP was prepared as an umbrella framework that brings together the lessons of the Bank's infrastructure experiences from the past two decades and the more recent achievements during the IAP. The SIAP provides direction to the many individual efforts to increase infrastructure support by the different Bank institutions through multiple product lines. During this period, the Bank plans to scale up its finance and advisory services for infrastructure between \$59 and \$72 billion, and leverage an additional \$109 to \$149 billion in ODA and private financing for infrastructure.

Through improved agility in responding to countries, the Bank will:

- increase joint efforts to reduce the non-financial costs of doing business in high priority sectors; improve results monitoring and evaluation of the sustainable infrastructure interventions;
 - increase utilization of the Bank financial expertise and access to multiple financial resources for transactions packaging for high priority objectives; and
 - maximize value from the Sustainable Development Network integration.
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The East Asia and Pacific Region will continue to address the infrastructure service needs in IDA countries with financing, capacity building and management of infrastructure assets, and will increasingly focus in middle income-countries on addressing environmental challenges of rapid economic growth and on the development of frameworks and mechanisms to revive and harness private-public partnerships. Climate change will be an important new thrust of the Bank work program including substantial lending and advisory work on implementing cleaner energy systems (e.g. scaling up energy efficiency improvement, renewable energy generation, and clean coal technologies), expanding sustainable transport (e.g. mass transit systems to moderate transport fuel demand), pursuing climate friendly city management, and supporting strategies for adaptation.

IBRD/IDA FINANCES
Trends in IBRD/IDA Lending

In FY08, the Bank extended loans, credits, guarantees, and grants totaling \$24.7 billion in line with the previous year's results. IBRD lending reached \$13.5 billion, up 5 percent from FY07. Overall, IDA commitments reached \$11.2 billion in FY08, down 5 percent from FY07. This excludes projects that were approved during the July grace period that was introduced in order to fully utilize the IDA14 resource envelope (\$0.8 billion).

Net IBRD disbursements were higher in FY08 compared to FY07 due to lower repayments of \$1.7 billion in FY08 compared to \$6.4 billion in FY07. Net IDA disbursements slightly increased to \$7 billion in FY08 from \$6.8 billion in FY07.

IBRD/IDA Lending, FY07 and FY08

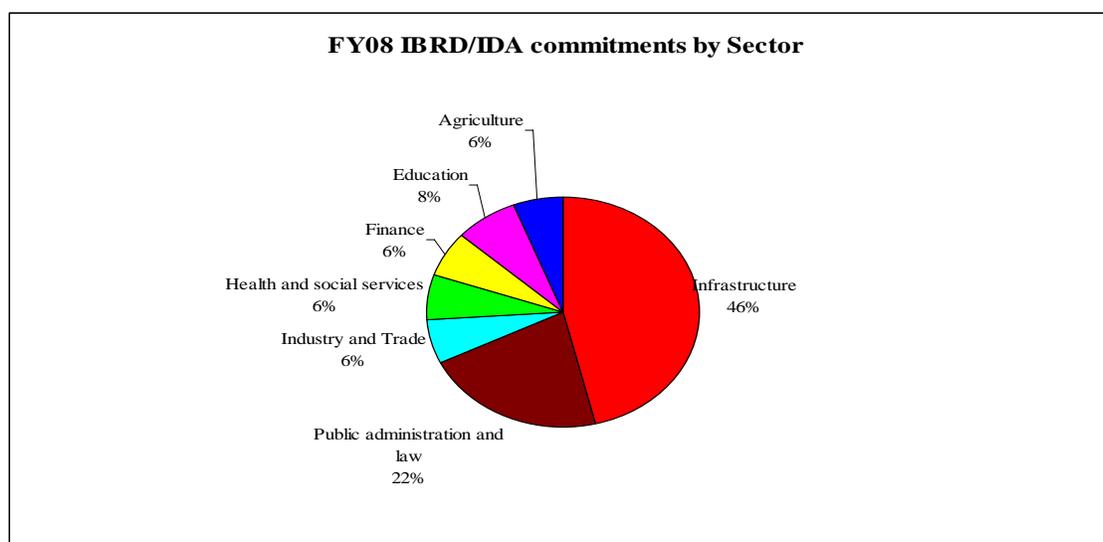
<i>Category</i>	<i>2007</i>	<i>2008</i>	<i>Change</i>
Number of operations	301	298	(0.7%)
IBRD	112	99	(11.6%)
IDA	189	199	5.9 %
Commitments (\$ billions)	24.7	24.7	0
IBRD	12.8	13.5	+5 %
IDA	11.9	11.2	(5.3%)
Investment	18.4 (75%)	15.6(63%)	
Development policy	6.3 (25 %)	6.7(27%)	
<i>Note: Lending includes loans, credits, guarantees, and grants.</i>			

Three regions, Middle East and North Africa, East Asia and Pacific, and Eastern Europe and Central Asia, experienced increased lending levels in FY08. Middle East and North Africa region's commitments were nearly 74 percent larger than FY07. East Asia and Pacific Region delivered \$4.5 billion, up 12.5 percent from FY07. Latin America and the Caribbean continue to account for the highest IBRD commitments in FY08 (about one-third of total IBRD commitments). IBRD commitments were concentrated in three largest borrowers - Brazil, Colombia and Mexico - accounting for more than 80 percent of the total. Half of IDA commitments were provided to Sub-Saharan Africa.

IBRD/IDA Lending by Region, FY07-08				
<i>Region</i>	<i>Number of loans</i>		<i>Commitments (\$ billions)</i>	
	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>
AFR	93	91	5.8	5.7
EAP	36	46	4.0	4.5
ECA	59	47	3.8	4.2
LCR	56	58	4.6	4.7
MNA	15	17	0.9	1.5
SAR	42	39	5.6	4.2
Total	301	298	24.7	24.7

The largest share, (46 percent) of combined IBRD/IDA commitments went to the infrastructure sector, reaching \$9.1 billion a 25 percent increase in FY08 from FY07. The agriculture sector received \$1.4 billion.

More than 50 percent of the Bank's commitments supported infrastructure, which has increased by 18 percent from FY07 to FY08. The increase in infrastructure includes, in particular, a significant increase in the energy and mining sector from \$0.6 billion in FY07 to \$2.8 billion in FY08. The education sector also saw an increase of nearly 62 percent in lending commitments in FY08 from the FY07 levels, while there was a reduction of around 59 percent in agriculture commitments during the same period. Similar to Bank commitments, infrastructure sectors received the largest share of IDA commitments at \$4.3 billion (up from 30 percent in 1998 to 39 percent in 2008). Within this sector, transportation increased significantly by 30 percent, accompanied by a 15 percent increase in energy and mining in FY08. IDA commitments to agriculture increased by 23 percent in FY08, reaching at \$1.0 billion.



In addition to lending activities, a number of analytical and advisory products have been delivered. This included 489 ESW products, 513 TAs, 49 CAS and CPS documents, including 18 CAS Progress Reports and 9 Interim Strategy Notes, and 29 PRSP products.

FY09 Administrative Budget

On June 26, 2008, the Board approved the \$1.7 billion FY09 IBRD/IDA Net Administrative Budget that shifts additional resources to regional operations, the work in global public goods and to Bank-wide initiatives.

In line with the commitment made to the Bank's shareholders, the 2009 Net Administrative Budget is kept flat in real terms. This translates to growth of 2.9 percent in nominal terms. In order to remain within the flat real budget, the ongoing transfer of resources to operational work programs will be funded through within unit redeployments, the continued application of a differentiated productivity tax, and targeted savings within certain Bank units. As agreed with the Board in FY06, Management will manage the budget within a +/-2 percent range.

In nominal terms, regional programs will grow by approximately \$40 million. Network Anchor budgets will also grow significantly – by around \$7 million – in support of the Bank’s growing work on Global Public Goods and also to help manage key Bank-wide programs such as Governance and Anti-corruption. More specifically, the budget allocates additional resources to work programs in the Africa, Middle East/North Africa, and South Asia Regions, as well as to Governance and Anti-Corruption, Infrastructure, Clean Energy/Climate Change, Trade, Agriculture, Health & Social Services, Finance and Private Sector Development. Increased decentralization is also funded, with a particular emphasis on increasing the Bank’s field presence in fragile and conflict-affected countries.

Other Operational units’ budgets will decline by around \$2 million. Most finance, administrative, and corporate program budgets will be held flat or decline. To help manage cost pressures caused by the US dollar depreciation, the FY09 budget introduces some limited foreign currency impact mitigation measures.

Projections for operational deliverables remain similar to those outlined in the Medium Term Strategy and Finance Paper with IBRD/IDA commitments estimated at \$26.0- \$32.2 billion.

The Budget is the product of a collaborative effort between the Board and Management that began November 2007 and led to the re-establishment of three-year indicative budget trajectories for VP Units. The Budget also benefited from deepened interactions between Senior Management and the VPs on proposals for funding priority areas.

For the first time, the budget document contains an integrated presentation of all sources of funds, including Bank-executed trust funds, and shows project deliveries for both Bank and Recipient- executed Trust Funds.

Net Income Results

In FY08, IBRD’s operating income increased to \$2.3 billion from \$1.7 billion in FY07. This was driven by, increases in the release of provision for losses on loans and guarantees, and an increase in borrowing expenses due to lower interest rates and higher buyback gains. It should be noted that:

- borrowing expenses increased by \$502 million, due to lower interest rates and higher buyback gains;
- net loss was \$57 million in FY08 due to the reduction in the volume of loans and borrowings portfolios; and
- the Board of Governors’ approved transfers were: \$600 million to IDA from FY07 net income, \$55 million to Trust Fund for Gaza and West Bank, and \$85 million to the Food Price Crisis Response Trust Fund in FY08.

IDA’s operating income of \$1.8 billion was \$931 million higher than the operating income in FY07. There was an increase in the average balance of development credits outstanding and an increase in the average balance for the investment portfolio.

Capital Adequacy and Net Income Allocation

At the end of FY08, IBRD’s Equity-to-Loans and Long-Term Investment Assets ratio stood at 37.5 percent, approximately 1.5 percentage points higher than the 36.0 percent at end-FY07. In terms of strategic capital adequacy, the FY08 Equity-to-Loans and Long-Term Investment Assets ratio of 37.5 percent is well above the target range of 23 percent to 27 percent. This buffer is projected to only slowly reduce over the medium term in line with projected loan growth. IBRD is thus currently well capitalized

to underpin the risks in its loan portfolio, as well as to support a significant increase in its lending activity and/or deploy some of its available risk-bearing capacity for other purposes.

IBRD's FY08 allocable net income was \$2.23 billion, higher than the \$1.61 billion of allocable net income realized in FY07, and the Board has recommended that Governors approve the following allocation, at their meeting in Washington on October 11-13:

Allocable net income (millions)	\$ 2,226
Allocation to reserves	893
Non-earmarked surplus	750
Transfer to IDA	583

INTERNATIONAL FINANCE CORPORATION (IFC)

Operational Results

IFC has grown both in terms of its commitments and expansion of its business activities. Total commitment volume reached \$11.4 billion in FY08 or 39 percent higher than \$8.2 billion in FY07. IFC also mobilized resources in the amount of \$4.6 billion in FY08 or 22 percent higher than in FY07 (\$39 billion).

IFC has maintained robust growing trends in its operations reflecting the soaring demand of markets in developing countries. IFC's net income for FY08 was \$1.5 billion or \$1 billion lower than a record high of \$2.5 billion in FY07. Although the profit of IFC declined, it continued its recent strong performance. Most of profits can be attributed to capital gains from equity sales in FY08 of \$1.4 billion (\$1.9 billion in FY07). Another important factor which affected FY08 profit was an increase in expenses related to prior year designations amounting to \$404 million, such as grants to IDA, PBGI and advisory services. The overall quality of the loan portfolio at the end of FY08 has marginally improved from FY07. Total reserves against losses on loans amounted to \$848 million or 5.7 percent of the outstanding loan portfolio at the end of June FY08, versus \$832 million at the end of June FY07 or 6.6 percent of the then-outstanding portfolio. It is expected that IFC's strong financial performance will continue through FY09-FY11 regardless of the difficulties of the global economy and financial markets.

In 2007, IEG evaluated the development effects of IFC projects implemented in 1996-2006, and this year it reviewed development effects for 2005-2007. In 2007, 71 percent of selected samples were satisfactory in terms of development benchmarks and standards, while 63 percent of evaluated projects in previous 10 years were satisfactory. IEG evaluation showed that development effectiveness has gone along with IFC profitability. Eighty five percent of projects had a strong correlation between development results and profitability. However, development results have been weaker in smaller projects, particularly those of less than \$5 million. Half of the projects in Africa, Asia and Middle East and North Africa did not meet development benchmarks and showed poor performance results when compared to Europe and Central Asia and Latin America and Caribbean regions.

IEG attempted to evaluate additionality in projects, through proxies, in three areas - financial, operational and institutional. IEG noted that it is necessary to develop measurement tools for additionality and recommended that IFC:

- pays attention to work quality and portfolio risks management in newer markets, especially in view of the downturn in global economic growth;
- ensures that IFC addresses environmental and social performance shortcomings in Africa;
- improves the data on the performance of advisory services operations;
- clearly figure out additionality in IFC's strategy and develop guideline and incentives;
- needs to use analytical framework outlined in the report; and
- executes further analyses of IFC's additionality in lagging regions and sectors.

FY09 Business Plan and Administrative Budget

IFC's business plan includes:

- IFC has set a stretch target to have 50 percent of projects in IDA countries by FY11.
 - IFC aims to double or triple its renewable energy/energy efficiency investments over the period FY09-11 from \$1.1 billion invested over FY05-07.
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- IFC is ready to play a counter-cyclical role as well as ensure that its portfolio management and internal controls are sufficiently robust to be able to deal with adverse impacts, given current, global economic uncertainty.
 - IFC will build on its Asia decentralization pilot by decentralizing further in other regions.
 - Since IFC has grown significantly, IFC plans to allocate more resources to risk management, portfolio management, HR system, and support functions such as legal and environment.

The budget is based on the steady growth scenario set out in IFC's Road Map with emphasis on projects in frontier markets and on climate change. The regular administrative budget will increase by 11.5 percent in real terms over FY08 to reach \$507 million before adjusting for inflation. The total administrative budget will increase to \$656 million from \$598 million, an increase of 9.8 percent, reflecting the increase in the regular administrative budget.

The main characteristics of the FY09 budget are.

- IFC will devote \$135 million or 46 percent of the budget for Investment Department and Advisory Services, in IDA countries;
- IFC will proactively address climate change; and
- IFC will allocate \$5.3 million for six strategic initiatives, \$0.9 million of which is allocated to a Pacific Islands initiative.

Net income Allocation

IFC generated a net income of \$1.55 billion in FY08, and proposed the maximum income level of designation, \$550 million. The Board approved the following:

- IFC grants of \$450 million to IDA for the IDA15 replenishment; and
 - \$100 million to the Funding Mechanism for Technical Assistance and Services.
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MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

Operational Results

Gross new guarantees underwritten by MIGA increased substantially in FY08, amounting to a record \$2.1 billion or 53 percent higher than in FY07. MIGA's gross guarantee portfolio reached a record high of \$6.5 billion at the end of FY08, 22 percent growth (from \$5.3 billion in FY07).

MIGA's gross exposure has increased by \$1.2 billion (22.1 percent) from \$5.3 billion end of FY07, to \$6.5 billion end FY08, while net exposures has increased by \$369 million (11.5 percent) from \$3.2 billion to \$3.6 billion. During FY08, cancellations, expirations, reductions and translation adjustments amounted to \$924.4 million compared to \$1,428.9 million in FY07.

MIGA has eagerly focused on its engagement in IDA countries. MIGA guaranteed 15 projects in IDA-eligible countries and 9 projects in Sub-Saharan Africa. In terms of exposure, IDA-eligible countries accounted for 41 percent of the net portfolio as of June 30, 2008, while coverage of projects in Sub-Saharan Africa accounted for 22 percent.

During FY08, total gross revenues earned from guarantees amounted to \$38.9 million compared to \$36.3 million in FY07.

A recent economic capital-based-capital adequacy modeling and stress testing exercise performed as of June 30 2008, demonstrates, with a high degree of certainty, MIGA's level of available capital is expected to remain adequate over the next five years, and current capital and liquidity positions are both strong.

FY09 Business Plan and Administrative Budget

Since 2005, MIGA's business plan has focused on four priority areas: investment in IDA countries, conflict-affected environments, complex infrastructure transactions, and south-south investments. In FY09, MIGA will continue to maintain the emphasis on these priority areas. In addition, MIGA will do at least 50 percent of its new business in IDA countries and will utilize the Bank's country presence for more effective engagement in IDA countries. The baseline forecast of MIGA's business shows that at the end of FY09, gross exposure is expected to be \$6.6 million, net exposure \$3.7 million, and net premiums \$41.6 millions.

MIGA's total administrative budget is \$38.2 million, which is a 2.7 percent increase over the FY08 budget but represent no increase in real terms. While staff costs will increase by \$1.4 million, due to recruitment of additional underwriters, cost savings of the same amount are executed in terms of cost-sharing allocation, decrease contribution to Foreign Investment Advisory Services (FIAS) and a decline in contributions to the staff retirement plan.

CONSTITUENCY COUNTRY DEVELOPMENTS

Australia

In 2008, Australia increased its high-level dialogue with the Bank. Prime Minister Kevin Rudd met with President Zoellick on several occasions - Bali in December 2007, Washington in April 2008, and Japan in July 2008. The leaders discussed the increasing role of the Bank in the climate change agenda, the global food crisis, and doing more joint work with new donors in the Pacific. In April 2008, Treasurer Wayne Swan represented the constituency at the Spring Meetings, and gave a presentation to Finance Ministers at the Bali Breakfast on climate change.

In July, Prime Minister Rudd announced that Australia would contribute \$50 million to the Bank to assist with the food crisis. The money will help provide vital seeds and fertilizers to help farmers cope with the rapidly rising cost of agricultural inputs and increase food production. Australia is also working with the Bank's regional team in the Pacific to monitor both the food and fuel situation in the region, and develop timely responses.

The Vice President for East Asia and Pacific, Mr. Jim Adams, led several missions to the Pacific during the year, meeting with AusAID Director General, Bruce Davis, in Canberra, November 15-16, 2007, and again in February 19-20 2008. The meetings provided an opportunity to discuss the extensive relationship between Australia and the Bank.

The Government will provide \$126.8 million over four years to establish a Pacific Region Infrastructure Facility with the Bank and the ADB to improve basic infrastructure provision in the Pacific, including roads, maritime, aviation and energy sectors. The Facility is aimed at strengthening partner governments' use of their own resources for infrastructure maintenance and development, and helping enhance infrastructure assistance from the Bank and ADB. The Facility will provide long term support for the development and operation of the broad-based infrastructure required to help the social and economic development of Pacific Island countries.

Australia provided a significantly increased contribution (A\$583 million) to the recent IDA15 replenishment, a real increase of 40 percent over IDA14. This contribution increased our burden share from 1.46 percent in IDA14 to 1.80 percent in IDA15. In doing so, Australia became the 12th largest donor.

Australia's Official Development Assistance (ODA) in 2008-09 will total \$3.7 billion, equal to 0.32 percent of Gross National Income (GNI). This is an increase on the figure of 0.30 percent in 2007-08. The 2008-09 Budget lays the foundation for implementing the Government's long-term commitment to increase Australia's ODA to 0.5 percent of GNI by 2015-16.

Cambodia

FY08 featured improvements in the Bank's engagement with Cambodia with renewed policy/strategy dialogue and the approval of outstanding pipeline projects.

President Robert Zoellick visited Cambodia 4-5 August 2007, as part of his official trip to East Asia and the Pacific region. At the invitation of the Cambodian authorities, Dr. Choi, Alternate Executive Director, accompanied the President on his visit. This visit was a unique opportunity for the President to witness Cambodia's remarkable achievements following a long period of conflict.

In February 2008, Dr. Jim Hagan, ED, made his first visit to Cambodia. During the visit, he met with Senior Minister H.E. Keat Chhon, Ministry of Economy and Finance, and other key economic ministers from the commerce, agriculture and industry ministries. This visit was an opportunity for Dr. Hagan to hold face-to-face discussions with the authorities on the country's issues and challenges, as well as the Bank's assistance program. Among the key issues discussed were those related to economic prospects and governance issues in light of the newly discovered oil reserve, the booming in property market, and the threats to the expanding industrial sectors, as well as the development of agriculture and tourism.

On governance, Dr. Hagan was informed of the Government's long-term commitment to tackling the issue as core of its development agenda, though emphasizing that the thrust should not be pursued at the expense of other priorities. He was informed of the operational issues with the Bank's program, including the disagreement over the findings in the Bank report and the related disclosure policy, the slow response by the Bank's bureaucracy, the inflexibility in its lending operations, and the unfavorable country profile as small and fragile.

During the 2007 Annual Meetings, our office facilitated active participation by the Cambodian delegation, led by Minister Aun Porn Moniroth, including the holding of meetings with Cambodia's key development partners, (WB & IFC Management, the ADB, IMF and DFID), to discuss Cambodia's programs in the context of the Bank's country assistance strategy. There were meetings with several institutional investors to disseminate investment opportunities in the country, as well as a seminar to share Cambodia's successful experience in implementing the public financial management reform program, supported by the Bank.

Our office followed up on key strategy dialogues between the authorities and Bank Management, including the IEG Country Assistance Evaluation Report and the Cambodia CAS Progress Report – with regular briefings by staff/Management and reports to the Capital.

The IEG Country Assistance Evaluation

Between FY99 and the first half of FY07, the period covered by this evaluation, the Bank was Cambodia's third largest donor, providing \$390 million in IDA funds. The Bank's anti-poverty focus and support for rebuilding infrastructure, focusing initially on urban projects, and for health and education, had positive outcomes. The Bank also produced high-quality analytical work which provided the base for progress in these sectors and, more recently, in public financial management. The economy has grown at over 9 percent per annum since 1998 and the incidence of poverty fell from 47 percent to 35 percent between 1994 and 2004. Substantial progress has been made in health and education indicators, but, starting from such a low base, Cambodia still lags behind other Southeast Asian countries. The rural sector has grown more slowly, agricultural production is subject to strong weather-related fluctuations, and productivity remains well below that of Cambodia's neighbors.

In governance, which received increasing emphasis from the Bank over this CAE period, progress has been unsatisfactory. The report recommended that the Bank should continue to engage in areas where reasonable success is being achieved (education, health, poverty reduction, rural infrastructure and public financial management), and engage with the Government on governance issues through operations such as Poverty Reduction and Growth Operation and with the wider donor community to improve business environment, and to address the weakness in its rural strategy. The Bank's lending operations should be more streamlined than in the past and focus on a few key objectives and limited actions to meet these objectives. Finally, the Bank should continue to focus its attention on fiduciary safeguards with respect to the IDA portfolio.

The CAS Progress Report.

On May 20, 2008, in reviewing the CAS Progress Report, the Board endorsed the extension of the CAS until 2011, citing strong progress on reform efforts and the Government's commitment to the reform agenda. The Bank's assistance strategy recognizes the positive changes in Cambodia over the past three years, and the solid progress the Government has made in implementing the ambitious reform agenda. This progress has enabled the Bank and other donors to continue working with the Government to deepen their reform efforts. First approved in 2005, the Cambodian CAS provides support for tackling some of the critical governance issues threatening the country's ability to reduce poverty and achieve Millennium Development Goals. It aims to improve governance through private sector development for growth; public financial management for better service delivery; land administration, management and allocation for agricultural investments and growth; and decentralization and social accountability for better governance and empowerment of communities. The Cambodia CAS was the first Bank CAS produced jointly with the ADB, DFID, and the UN system, all of which have endorsed extension of the current CAS.

A number of projects were approved during this year including:

- Land Allocation for Economic and Social Development Project;
- Avian and Human Influenza Control and Preparedness Emergency Project;
- Road Asset Management project; and
- 2nd Health Sector Support Program.

Korea

The Korean Government has increased its Official Development Assistance (ODA) thereby increasing Korea's status as an international donor. Korea would especially like to expand its engagement in low income and IDA countries. In this context, Korea has increased the number of embassies in post conflict countries to strengthen a closer relationship with them. Also, through government reorganization, the Ministry of Economy and Finance became the Ministry of Strategy and Finance (MOSF), responsible for the resource allocation-budget functions. MOSF can implement ODA more effectively.

The Korean Government's efforts to expand its partnership with the WBG include:

- Activating the two trust funds of \$15 millions each which were set up last year, one in EAP and one in Global ICT. The trust fund in GICT has received many proposals and attracted much interest. The selection process was completed in August and actual implementation will be completed by the end of September 2008. The EAP trust fund commenced in September 2008.
- Strengthening its cooperation with IFC in order to expand engagement in private sector development of developing countries. It arranged a seminar where IFC senior Management and Korean companies participated and looked for co-investment opportunities in developing countries. It is expected that this will be a very successful venture.

Korea acknowledges the importance of climate change and global warming. It closely followed the Climate Investment Fund discussions and is considering making a contribution to it.

Mongolia

The EDs from Brazil, Egypt, France, Mexico, and the UK, visited Mongolia September 10-14, 2007 as a part of the EDs' Group travel to the East Asia and Pacific Region. Dr. Hagan accompanied the group as the Host ED. They met with the Prime Minister, the Minister of Finance, the Mayor of capital city Ulaanbaatar, members of Parliament, and representatives from both the private sector and civil society

organizations. Both the Prime Minister and the Minister of Finance expressed their satisfaction with the Bank's work in Mongolia. They particularly praised the Bank's action in its organization of consultative groups and the conduct of a number of successful projects. They indicated to the Group that they expect the Bank to play a crucial role in four main areas: (i) infrastructure (especially roads to better connect Mongolia to its neighboring countries, telecommunications and energy); (ii) private sector development, (iii) management of natural resources (in particular in respect to the big mining projects in the south of the Gobi desert); and (iv) capacity building in the civil service.

During his state visit to the US in October 2007, the Mongolian President, Nambaryn Enkhbayar, met with President Zoellick. The leaders stressed the importance of the Bank Group work in Mongolia and discussed how to improve its impact and effectiveness.

The Government of Mongolia (GOM) and external partners continued technical meetings in FY08 as a regular platform to discuss Mongolia's development priorities and intensify cooperation between the GOM and its external partners in supporting those priorities. At the latest meeting in end-January 2008, a draft of the Mongolia Private Sector Development (PSD) Strategy was presented and key issues for realization of the PSD vision were discussed. The meeting was co-chaired by Minister of Finance, Ch. Ulaan, and Mr. David Dollar, World Bank Country Director for Mongolia. Prime Minister S. Bayar, members of Parliament; the Cabinet Ministers; the State Secretaries; representatives of the Office of the President; heads of Government agencies and authorities; members of the domestic and international business communities; the Mongolian Chamber of Commerce; other business associations, bilateral and international partners; and NGO representatives attended the meeting. The GOM and all other parties stressed the crucial role that the private sector plays in the economy, producing about 80 percent of GDP and employing 88 percent of the total labor force. The Finance Minister noted that, however, integrated policy direction was lacking, and as a result, the private sector has not been able to contribute to the full extent possible in processing of raw materials and in developing environmentally friendly extractive industries and knowledge intensive production.

The Bank continues the development of the next CAS for Mongolia. Consultations are ongoing. The Bank plans to have further consultations with the new government before finalizing the new CAS by the end of 2008.

During FY08, both the Bank country office and the IFC local office were strengthened with additional international staff.

The Board approved three IDA and three IFC projects for Mongolia:

- grant of \$1.0 million for additional financing under Rural Education and Development Project (READ), an investment credit;
- credit of \$3.7m and a Grant of \$1.3m (\$5.0 total) for the Enhanced Justice Sector Services Project (JSSP); and
- investment credit of \$9.3 million for a Mining Sector Technical Assistance Project (MSTA).
- three IFC Projects – two loans totaling \$30 million to two banks and a senior loan of \$67 million to MCS Holdings.

Mr. Ch. Khurelbaatar, State Secretary for the Ministry of Finance, successfully represented the EAP borrowing countries during the IDA15 replenishment negotiations.

New Zealand

New Zealand's engagement with the Bank over the past year has focused on the fulfillment of replenishment negotiations for IDA15. New Zealand considered the outcomes of the IDA15 negotiations can be characterized as improving, in the light of experience, the policies and practices debated and decided on previously.

New Zealand is supportive of the Bank's strategic framework and recognizes the importance of the ongoing implementation of the overall framework. New Zealand continued its strong support and commitment to the WBG in 2008 by joining MIGA in April. Membership in MIGA will provide New Zealand investors with added confidence in their decisions to make sustainable investments in developing countries.

At the country level, the Bank and NZAID continue to work closely together. NZAID, Bank, AusAID and the Government of Samoa have implemented a health sector SWAp in Samoa from July 2008. The Bank has also indicated readiness to provide TA to support the PIF bulk fuel initiative as well as financial, technical and analytical expertise through the Pacific Regional Infrastructure Facility (PRIF). New Zealand looks forward to increased engagement by the World Bank on gender initiatives.

A significant concern for New Zealand is how best to respond to increasing fragmentation and proliferation in the international aid architecture and the implications for developing countries in managing an increasing number of specialized funding mechanisms. The challenges of increased fuel and food prices, combined with those of climate change, make it especially important that such increased resources are used to maximum effect. New Zealand welcomed the Bank's efforts both internationally and in the region on these issues. New Zealand appreciates the high value dialogue opportunities from Bank consultation visits to New Zealand by Mr. Jim Adams, East Asia Pacific Vice President, in February and by Country Director (Pacific) Mr. Nigel Roberts in July. These visits, combined with regional discourse at annual cooperation meetings in Sydney, reflect the increasing engagement of the Bank with development partners in the Pacific. New Zealand will continue to identify opportunities for partnerships, consultations, and visits by Ministers and senior officials to Washington including attendance at Spring and Annual Meetings.

New Zealand's key interests in the year ahead are ongoing implementation of the Strategic Framework, voice and participation, aid effectiveness and harmonization efforts, and delivery on debt sustainability.

Pacific Islands Countries

The Bank's engagement in the Pacific saw positive developments in the last 12 months. Bank resources and staff stationed at the Sydney office have significantly increased. This has been translated into improved communication and dialogue between the Bank and the Pacific resulting in practical developments taking place in the region. The Bank is in the final stages of opening a World Bank/IFC Country office in the Solomon Islands. Discussions are underway to set up two joint World Bank/IFC/ADB 'satellite' offices, in Samoa and Tonga where the Bank and ADB would share resources as well as providing opportunity for improved coordination. There are plans to provide better service to the Northern Pacific countries of Kiribati, Federated States of Micronesia, Palau and the Marshall Islands. The placement of two Bank economists in Fiji, during 2009, to work closely with the IMF/PFTAC team dedicated to support the northern Pacific region is a step in this direction.

The 2006-09 Regional Engagement Framework (REF) for the Pacific Islands provides the platform for Bank engagement in the region. Consultations are now underway to formulate the next Framework.

The new Framework is expected to include a mid-term progress report to review the relevance of the REF, examine the extent and causes of any significant successes and failures, and propose adjustments which will set the stage for the next REF cycle. It is expected that the consultation process will involve the Pacific countries and is expected to be finalized in FY09.

IFC's presence in the Pacific has stepped up as well. An investment officer and regional Manager is being recruited which will significantly strengthen IFC's managerial and operational presence in the Pacific. IFC's investment in telecommunications is likely to increase substantially through Digicel. A number of advisory services are being considered for Vanuatu and Solomon Islands. IFC is also considering a regional approach to restructure financial market infrastructure across Pacific member states in support of private sector development. This would promote economies of scale as well as allowing opportunities for sharing experiences and lessons learnt.

The support for regional approaches in the Pacific was also highlighted in the East Asia and Pacific (EAP) Regional Strategy endorsed by the Board in April 2008. As part of its engagement in the Pacific, the Bank is expected to discuss with partner countries the development of regional programmatic lending programs and pooled insurance facilities, drawing lessons from the approaches being piloted in the Caribbean. Such programs can provide a natural vehicle to encourage cooperation on common challenges in the Pacific, such as adaptation to climate change, disaster preparedness, migration, and trade and transport. The Bank is also working to establish a Pacific Regional Infrastructure Facility in partnership with AusAID and the ADB.

In FY08, the Board approved the Health Sector Support Program TA (\$1.5 million) and a grant (\$4.0 million) for the Electricity Authority for Solomon Islands; and the Health Sector Management Program Support Project (\$3.0 million), for Samoa. In FY08 Vice President Jim Adams, accompanied by Dr. Hagan, visited a number of Pacific member countries, including Solomon Islands and Samoa. Mr. Iulai Lavea, Advisor, joined the team in Samoa and continued on to Kiribati. Mr. Mathew Dalzell, Senior Advisor, visited Palau, and Mr. Jae Hwan Kim, Advisor, visited the Marshall Islands.

Papua New Guinea (PNG)

In December 2007, the joint IBRD/IFC Country Assistance Strategy (CAS) for PNG was endorsed by the Board. The CAS which covers the period FY08-11 marked the Bank's re-engagement with PNG after a period of reduced involvement. The CAS provides a framework for Bank-PNG cooperation over the medium to long term. The key pillars articulated in the CAS set out to promote and maintain sound economic and natural resource management as well as raising livelihoods through improved service delivery and wider participation in economic development by the poor and expansion of opportunities for income generation.

IFC has identified a number of potential investments in PNG in both the mining sector and infrastructure. In October 2007, IFC launched a major investment in PNG through a loan of \$40 million to Digicel (PNG) Ltd.

The Smallholder Agriculture Development Project (\$27.5 million) and the Second Mining Sector Institutional Strengthening Technical Assistance Project (\$17 million) were approved by the Board in FY08.

In January 2008, Dr. Hagan visited PNG and held discussions with authorities on issues relating to PNG-Bank cooperation and how our office can better support PNG's interest both with staff and at the Board.

ANNEX 1 CONSTITUENCY OFFICE**2007-2008 CONSTITUENCY OFFICE STAFF****EXECUTIVE DIRECTOR**

Dr. Jim Hagan	Australia	Elected: August 1, 2007
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ALTERNATE EXECUTIVE DIRECTOR

Dr. Joong-Kyung Choi	Korea	August 1, 2007 –February 15, 2008
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Mr. Do Hyeong Kim	Korea	Appointed May 12, 2008
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SENIOR ADVISORS

Ms. Damba Baasankhuu	Mongolia	Appointed: March 1, 2006
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Mr. Matthew Dalzell	New Zealand	Appointed: September 4, 2007
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ADVISORS

Dr. Robert Christie	Australia	Appointed: February 11, 2008
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Mr. Jae Hwan Kim	Korea	Appointed: August 21, 2006
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Mr. Iulai Lavea	Samoa	Appointed: December 8, 2006
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Mr. Seilava Ros	Cambodia	Appointed: November 27, 2006
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Mr. Chris Tinning	Australia	September 12, 2005 – January 31, 2008
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OFFICE SUPPORT STAFF

Mrs. Yolanda Cunnane	Senior Executive Assistant
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Mrs. Hille Blackshaw	Program Assistant
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Mrs. Elena Chanchu	Program Assistant
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CONSTITUENCY OFFICE TRAVEL: JULY 1, 2006 – JULY 31, 2007
1. Dr. Jim Hagan Executive Director

09/08/07-09/14/07 Ulaanbaatar, Mongolia; Host, ED Group Travel
 10/03/07-10/08/07 Paris, France, DC Deputies Meeting and CWA
 01/17/08-02/07/08 Port Moresby, PNG; Phnom Penh, Cambodia; Seoul, Korea; CWA
 02/18/08-03/02/08 Apia, Samoa; Wellington, New Zealand; CWA
 05/01/08-05/11/08 Madrid, Spain, ADB Annual Meetings and CWA
 06/27/08-07/01/08 Las Vegas, Nevada, CWA with Australian Authorities

2. Dr. Joong Kyung Choi, Alternate Executive Director

08/01/07-08/07/07 Phnom Penh, Cambodia, with President Zoellick
 12/01/07-12/12/07 Seoul, Korea, CWA; Honolulu, Hawaii, Visiting Lecturer
 01/01/08-02/12/08 Seoul, Korea, CWA

3. Ms. Damba Baasankhuu, Senior Advisor

09/05/07-09/15/07 Ulaanbaatar, Mongolia, accompany ED on ED Group Travel and CWA

4. Mr. Matthew Dalzell, Senior Advisor

06/04/08-06/20/08 Koror, Palau; Wellington, New Zealand; CWA

5. Mr. Jae Hwan Kim, Advisor

05/18/08-06/02/08 Majuro, Marshall Islands; Seoul, Korea; CWA

6. Mr. Iulai Lavea, Advisor

12/11/07-12/15/07 Berlin, Germany, IDA15 Borrower Country Representative Advisor
 02/26/08-03/12/08 Apia, Samoa, accompany ED; Tarawa, Kiribati; CWA
 05/19/08-05/23/88 Potsdam, Germany, Formation of the Climate Investment Fund Meeting

7. Mr. Seilava Ros, Advisor

07/31/07-08/11/07 Phnom Pehn, Cambodia, accompany AED and President Zoellick, CWA
 11/10/07-11/14/07 Dublin, Ireland, IDA15, Borrower Country Representative Advisor
 02/01/08-02/07/08 Phnom Penh, Cambodia, accompany ED, followed by CWA

8. Mr. Chris Tinning, Advisor

11/10/07-11/14/07 Dublin, Ireland, IDA15 Negotiations
 12/11/07-12/15/07 Berlin, Germany, IDA15 Negotiations

CWA: Consultations with Authorities

ANNEX 2 CONSTITUENCY STATEMENTS**Statement by Mr. David Parker, Australian Treasury (on behalf of the Hon. Peter Costello,
Treasurer of the Commonwealth of Australia) Development Committee Meeting, October 21, 2007****Introduction**

We meet with the World Bank at a critical juncture. While global development progress over recent years has been impressive, growing complexity in the aid architecture and the increasing likelihood the MDGs will not be reached is focusing unprecedented scrutiny on the role of the World Bank. In this context we welcome the appointment of Mr. Zoellick as President. We are heartened by his early steps to develop a clear long-term strategy for the Bank Group. We support his approach of treating the Bank as an integrated organization - seeking to maximize the leverage of Bank Group resources to maximize aid effectiveness.

For the World Bank to be truly global the President and the Executive Board will need to ensure that all developing countries have voice in the Bank and receive appropriate technical and financial services. The poor and socially disadvantaged are present in every developing country and lagging regions exist in all corners of the globe. The Bank must be positioned to provide appropriate and effective assistance to all its developing country members.

Bank Strategy

In a globalizing world, the World Bank must take a truly global perspective. Improving global economic prosperity and social conditions requires perseverance. The development of a long-term strategy for the Bank provides the opportunity to better focus the resources of the Bank for such an effort. The Bank is already thinly stretched across a broad spectrum of development priorities, and emerging priorities have the potential to stretch the Bank to breaking point. The President's outline of 6 strategic themes represents a sensible basis for streamlining previously enunciated priorities. The identification of the themes centered on the core mission of poverty reduction and sustained economic growth is particularly welcome. Considerable work will be needed, however, to flesh out the long-term strategy and detail the operational implications.

The challenge facing the Bank in focusing efforts is evident when considering the combination of the six themes, five global public goods and the eight MDGs represent a significant number of priorities and cross-cutting themes. It is important that the development of the strategic plan clarifies the relationships between the themes and generates a clear vision and focus. The risk of creating a laundry list must be avoided. In further refining the Bank's focus, we believe the Bank's comparative advantage lies in supporting countries to generate sustainable economic growth, including through: development of the financial sector; infrastructure development; and promotion of the productive sectors, most notably agriculture.

The poor and fragile states

This constituency has more fragile states than any other outside of Sub Saharan Africa. While we agree that the concentration of poor people and weak governance in Sub-Saharan Africa means that the Bank will need to concentrate effort there as a matter of course, our constituency is a reminder that poverty and fragile states represent global challenges. It is important to remember that such countries are not necessarily conflict affected states. As part of its mission, the Bank needs to provide technical assistance and policy advice that assists governments to prevent deterioration in the conditions associated with failed states.

Middle Income Countries

In a similar vein the strategic direction of addressing the needs of Macs is an appropriate theme, both to provide programs that assist progress to higher standards of living, and also to ensure that sub-populations of poor are not neglected. The Bank can also play a valuable role in supporting the aid effectiveness of emerging donors among the MIC group.

Arab World

President Zoellick's identification of the Arab world is an important strategic direction and represents recognition of the relevance of cultural context to aid effectiveness. We acknowledge the economic and social indicators that point to the role the Bank Group can play in raising living standards in the Arab world. Nevertheless, we would see merit in the Bank's strategic directions posing more inclusive and thematic challenges with global implications rather than

singling out particular regions. In any case, the Bank must take care not to homogenize sets of countries or peoples in addressing development challenges. Even at sub-regional level there is significant diversity and disparity which requires tailored solutions at country level, as is evident in Arab Human Development Reports.

Global Public Goods

On the whole, the group of five global issues is appropriate. At the same time, these ‘goods’ are of wider concern than to just developing countries. There are other organizations better equipped in some cases to take the lead. Given this, and the limited resources of the Bank, we would encourage a focus of Bank activity on the intersection of these ‘goods’ with sustaining economic improvement in developing countries, in areas where the Bank has a clear comparative advantage among international organizations. The Bank does not need to be the lead player in all circumstances. We note that in the case of world energy generation the IEA forecast for investment in energy in developing countries for the next decade is \$200 billion. The Bank’s clean energy investment program can only be a small part of this. The Bank Group should concentrate on shaping its investment to assist developing countries.

As further point on climate change issues, the Bank should not lose sight of the importance of adaptation to climate change, where developing countries are at their most vulnerable. Adaptation to climate change is about economic and social resilience. In many ways work on adaptation is closely related to the traditional development work of the Bank, involving building strong institutions and governance and investment in infrastructure.

Knowledge

We welcome the emphasis on the Bank being a knowledge organization. Bank experience and analysis can be a great source of knowledge for policy advisers in developing countries. As such, in fulfilling this strategic direction the Bank will need to carefully examine how it communicates with developing countries. The issues include: presentation of material in accessible forms for small and geographically isolated countries; accessibility of policy messages; communicating with countries where English may not be the primary language of communication.

At the moment, many Bank publications, including flagship documents, are difficult to read and the intended audience is unclear. Policy lessons are often obscure. Dissemination is often neglected, while there are insufficient linkages between knowledge work and the Bank’s lending and technical assistance programs. These issues need to be addressed if the Bank is to succeed as a knowledge institution.

Gender equality is not only a development goal in its own right but it also supports the achievement of other development goals, since the contribution, skills and effort of the whole community - women as well as men - are needed to eradicate poverty. We congratulate the Bank on producing the Gender Action Plan, and call for the Bank to re-intensify efforts to promote gender equality, in partnership with client countries, donors, and other development agencies.

Implementation of the strategic plan

The implementation of the strategic plan has internal and external resourcing implications for the Bank. IDA replenishment is one avenue of resourcing, along with allocation of Bank group income and mobilization of trust funds. Successful implementation of the strategic plan will also involve the efficient deployment of internal resources and possibly also a re-consideration of internal management arrangements. The current internal management arrangements are overly complex and obscure accountability.

Constituency Perspectives

We are pleased to note that the Bank is making steady progress in the development of a new CAS with the Government of Mongolia. We welcome the establishment of a sustainable development expert in the Bank’s country office in Mongolia.

Progress in developing a new CAS with the Government of Papua New Guinea is a positive sign of Bank intentions to build its program in PNG, as is the plan to enhance the Bank’s office in Port Moresby, particularly through the appointment of a country economist.

We also welcome the increasing commitment to and presence of the Bank in the Pacific, with the enhancement of senior staff in the Sydney office and decision to open an office in Honiara. We look forward to further moves

towards increasing the Bank's in-country presence in Pacific Island Countries, a prerequisite for effective long-term engagement.

We are encouraged by the steps the Bank is taking to become more involved in improving aid effectiveness and coherence in the Pacific. The joint offer (with the ADB) to place additional staff in Suva to work in conjunction with the Pacific Financial Technical Assistance Center (PFTAC) is a timely response to the request of finance ministers at the 2007 meeting of the FEMM. We look to other major providers of donor and technical aid services in the Pacific to coordinate their activities in a similar way. The proposed PFTAC initiative is an example of the kind of enhanced collaboration arrangements which should be pursued consistent with the recommendations of the Malan report.

The visit of President Zoellick to Cambodia in August 2007 signals a positive step towards improving mutual understanding between the Bank and Royal Government of Cambodia. We recognize that friends need to be able to send delicate messages to each other at times and that this should not get in the way of productive long term relationships. The key is how the messages are delivered and managed. We are pleased that the Bank has taken measures over the past year to repair the damage that was done to the relationship with Cambodia through the handling of the most recent INT investigation. The Bank has taken initial steps towards addressing how it deals with sensitive issues in its Bank-country relationships in the context of responding to the Volker report, although we believe more work is needed on this issue. We look forward to the Bank building on these steps.

Both the donor and developing country members of our constituency are strong supporters of IDA. Further progress towards development of the Bank's long-term strategy and an ongoing focus on maximizing development results will be critical to securing a strong IDA15 replenishment outcome.

Voice

The constituency continues to encourage shareholders in the Bank and the IMF to make progress on voice and representation issues (including structural arrangements) that would ensure appropriate voice for all members of both institutions. Such adjustments are central to the legitimacy and ultimately the long-term viability of both institutions.

Structural changes are important but we acknowledge they will take time. This should not preclude progress on a range of other voice issues which have a more practical and immediate impact on the Bank's small members.

From the perspective of the small members of our constituency, the key to better voice and representation is not the size of their shareholdings. Voice for small countries is best heard in the communications between the Bank and the member, practical acknowledgement in operations, representation by the constituency office and the operations of the Executive Board. We encourage all constituencies, the President and the management to work to improve the operations of the Board as a governance process and an instrument to monitor the implementation of development programs.

The Board, President and management must also redouble efforts to reform the wider internal governance of the Bank, in order to fully deliver on the expectations of shareholders that the Bank embodies international good practice in governance and effectiveness. Key issues include the role and reporting lines of key accountability mechanisms within the Bank. Perhaps most importantly, we call on the Board and President to expedite agreement on a merit-based, open and transparent selection process for the Bank President, as a clear signal that the Bank is moving to more representative arrangements.

ANNEX 2 CONSTITUENCY STATEMENTS

Statement by the Hon Wayne Swan, MP, Treasurer of the Commonwealth of Australia Development Committee Meeting, April 13, 2008

Strategic Overview

Recent world events have underlined the importance of promoting robust and sustainable growth to share improved standards of living. They also highlight that the poor remain the most vulnerable to developments in the world economy and climatic catastrophes.

We have passed the half way point on the Millennium Development Goals. The need for a renewed effort in order to achieve the goals by 2015 is clear. We currently risk not meeting six of the eight targets by a considerable amount.

The World Bank Group is well positioned to assist developing countries achieve their goals by using its resources to introduce new ideas and to leverage the private sector and other development partners. The increased emphasis of the World Bank businesses on operating as a group and building internal and external partnerships is already yielding positive results.

In this regard, we welcome the progress made within the WBG in the last six months. However, we also note that we need to build upon these efforts if we are to meet the goals we have set for ourselves. The strategic framework has been further elaborated and the resource implications are becoming clearer in the Budget process. We endorse the current approach to reallocate resources to higher priority areas and also to increase income flows to provide additional development resources. To achieve optimum results going forward, the Bank needs to align its organizational structure to support the strategy.

We look forward to the evolution of how the strategic themes interrelate with both sectors such as infrastructure and cross-cutting issues such as gender.

Constituency Developments

The WBG is increasing its engagement with the constituency. In particular, we welcome developments in the Pacific region, including additional staff located in the region. The new PNG Country Assistance Strategy is a sign of improved quality of engagement.

We appreciate the more strategic approach to development in the constituency. This is evident in the improved coordination of IBRD/IDA businesses with the IFC, such as in Mongolia, PNG and Cambodia. We look forward to an increased IFC and MIGA presence Pacific-wide and are encouraged by recent interest in working in the region.

The WBG has also leveraged its effectiveness by working with other development partners in the region. We encourage the WBG to continue this approach, particularly given the increased development resources and initiatives expected in the region over the near term.

Overcoming Poverty in the Poorest Countries

We are pleased that the Development Committee will examine the strategic theme of overcoming poverty in the poorest countries. We agree that there is a strong need for donors to focus on Africa, but we also point out that significant poverty still exists in the Asia Pacific region.

We agree that the Bank needs to be more innovative, nimbler and more accessible to its client base. We encourage the Bank to continue to identify new ways of working in producing innovative products, working at the sub-national level, and reducing the cost of its loan products.

We are also aware of the considerable opportunities and challenges that high commodity prices currently present, particularly for the poorest countries. For instance, countries benefiting from resource revenue windfalls have

unique opportunities to invest in their development priorities. At the same time resource-poor countries are faced with escalating food and energy prices. We strongly support the Bank's focus on these issues in the context of current market conditions.

Fragile States

We are also pleased to see that the issue of fragile states is part of the DC agenda. We agree strongly that this should be a priority for the Bank. There are special challenges in helping fragile states to meet their development aspirations. There are challenges of managing significant resource flows including recent windfall gains; large numbers of underemployed (especially youth); the breakdown of service delivery functions; and endemic corruption. Many fragile states are in or have recently been in conflict, which poses additional challenges to state-building.

We also note that fragile states are often the most vulnerable to climate change and climate variability, due to the inability of the state to provide protection in case of natural disasters or long term climate change. This is particularly the case for small island states such as those in the Pacific.

The Bank is well placed to apply its resources, tools and knowledge to the agenda. We welcome the placement of the fragile states agenda into one thematic network as it deserves a specific focus.

We appreciate the frank assessment within the Bank that this area needs much greater research into challenges, but also more resources on the ground. We also appreciate that it is important to get right the incentives for attracting staff to fragile states. This is much more than just salaries and promotion prospects, but goes to ensuring that staff have sufficient autonomy on the ground to make decisions, while also receiving sufficient management support for their work.

Voice and participation

We believe that the discussion of voice and participation should be framed to include the interests of all shareholders. For some countries the issue is a re-alignment of voting interests. Recognizing that the re-alignment of IMF quota is to be finalized soon, the Bank should work steadily towards consensus on quota issues as part of a broader suite of initiatives improving the voice and legitimacy of all developing countries.

The most important way that the Bank can ensure that the voice of the poor and marginalized is heard within the Bank is to ensure that developing countries, particularly smaller countries, are better served by the Bank. Important factors from this perspective are the quality of the Bank-country relationship, the standard of service, and the accountability of Bank management. In this light, the growing complexity of aid architecture, particularly in relation to Climate Change, needs to be monitored.

Organizational Effectiveness Reform

We are seeing many positive elements of internal organizational reform, which are important elements of Bank effectiveness for its clients. Bank instruments are being retooled, innovation encouraged, along with better loan pricing.

There is still much work to simplify process steps and documents in decision making – something the Board shares responsibility for. There is also much work to be done on reducing the red tape within the Bank. The Bank is advancing on its Paris Declaration agenda, with an appropriate approach to the use of country systems. We look forward to the roll out of the Governance and Anti-Corruption work, as well as the INT policy and practice changes.

ANNEX 3

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
CAMBODIA			
03/24/08	\$6.0m	IDA	<p><i>Avian Flu and Human Influenza Control and Preparedness Emergency Project Adaptable Lending Project. (Streamlined, no Board discussion.)</i></p> <p>Purpose: To support the implementation of Cambodia's Comprehensive Avian and Human Influenza (AHI) National Plan (the AH1 Plan), contributing to minimize the threat posed to humans and the poultry sector by an AH1 infection in Cambodia, and to prepare for, control and respond, (if necessary), to a human influenza pandemic. More specifically the AHI National Plan aims for the following outcomes:</p> <ul style="list-style-type: none"> a) to contain the spread of the disease, reducing loss of livelihood; b) prevent or limit human morbidity and mortality; and c) prevent or curtail macroeconomic disruption and losses by reducing the probability of a human pandemic & improved emergency preparedness. <p>This project will also receive financial support from Japan and Avian and Human Influenza Facility Grant (AHIF).</p>
05/20/08	Gr. \$8.7m Cr. \$2.8m	IDA	<p><i>Land Allocation for Social and Economic Development Project (Board, Streamlined.)</i></p> <p>The project will support the development of Cambodia's locally initiated social land concessions program by transferring land to poor, landless families. It will be implemented by local communities, with assistance from the Government's land and decentralization support agencies. Communities will identify appropriate state land, and select poor, landless families to receive land as well as livelihoods assistance. Project has the following components:</p> <ul style="list-style-type: none"> a) commune-based social land concession planning & land allocation; b) community development services and investments; and c) sustainable & transparent program development.
05/20/08	\$30.0m	IDA	<p><i>Road Asset Management Project.</i></p> <p>The Bank will provide financial and technical support to help the government perform periodic maintenance on selected sections of the country's road network, as well as establish related systems. Studies have shown that road access helps reduce poverty as it allows poor people easier access to the markets. An improved road system also enables the government to bring social services to remote, rural areas. This five-year project also receives financial support from AusAID.</p>
06/19/08	\$30.0m	IDA	<p><i>2nd Health Sector Support Program. (Board, Streamlined.)</i></p> <p>Will support the implementation of the Government's Health Strategic Plan 2008-2015- to improve health outcomes through strengthening institutional capacity and mechanisms by which the Government and development partners can achieve more effective and efficient sector performance.</p>

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
MONGOLIA			
10/12/07	15m	IFC	<i>Proposed Investment in Khan Bank. (Streamlined, no Board discussion.)</i> Loan is to allow the Khan help meet the growing demands for greater lending capacity to small and Medium enterprises and corporates and to further play a development role in Mongolia's financial market through institutional capacity building
11/27/07	15.0m	IFC	<i>Proposed Investment in Xac Bank Equity. (Streamlined, no Board discussion.)</i> Xac Bank is a key micro-finance institution in Mongolia. The project will enhance corporate governance, meet its growing demand for greater lending capacity to micro, small and medium enterprises as well as support new initiatives in leasing, housing finance and cross border expansion
05/01/08	67.0m	IFC	<i>Proposed Investment in MCS Holding LLC (Board)</i> MCS Holding is one of the leading private enterprises in Mongolia with 10 subsidiaries operating in a number of business sectors including energy & infrastructure; general manufacturing & services; property development; and food beverages and alcohol. This project will fund a capital expenditure program to include the expansion of the soft drinks division; contribution to the development of the Tavan Tогоi coking coal deposit; to establish a new hospital in Ulaanbaatar; in addition to improving its cashmere operations and expanding its telecommunications network
06/19/08	Cr. 19.8m Gr. 13.2m	IDA	<i>2nd Sustainable Livelihoods Project. (Streamlined no Board discussion.)</i> 2 nd Phase of a three-phase adaptable program loan (APL) which includes a wide range of activities to reduce the vulnerability of rural communities. Activities are categorized into four components: a) pastoral risk management; b) community Initiatives – empower communities to identify and implement small public facility improvement projects; c) micro finance development; and d) capacity building and project management – ensure quality of implementation and management of the above.
06/26/08	Cr.3.7m Gr. 1.3m	IDA	<i>Enhanced Justice Sector Services Project. (Board, Streamlined.)</i> JSSP will assist Mongolia to implement its “Millennium Development Goals-Based National Development Strategy” by strengthening government institutions and improving the legal environment to ensure transparency and accessibility of public services. The project's components are: a) enhancing Public Legal Education on the Justice Sector through development of comprehensive legal education reform program and the implementation of a national public information strategy throughout the country; b) increasing Transparency through Improved Access to Legal Information; and c) enhancing Judicial Operations, Enforcement and Monitoring of court Decisions.

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
06/26/08	Gr. 1.0m	IDA	<p><i>Rural Education and Development Project. (Board, Streamlined)</i> The Government of Mongolia requested additional financing under the WB's Rural Education and Development Project (READ) to support its ongoing collaboration with One Laptop per Child Foundation (OLPC) in order to leverage READ to enhance the value of integrating children's digital libraries with the XO laptop computer platform in rural schools. The project has four main components:</p> <ol style="list-style-type: none"> provision of Mongolia-specific educational content on the XO laptop computers through an improved and adapted version of International Children's Digital Library (ICDL) software; training of teachers and students in the successful use of the XO laptop computers to optimize their effect on students' learning; design of an effective monitoring and evaluation system to extract relevant lessons from the pilot and adjust the project design as necessary; and procurement of children's laptops from OLPC.
06/26/08	9.3m	IDA	<p><i>Mining Sector Institutional Strengthening Technical Assistance Project. (Board, Streamlined.)</i> The MSTA project is seen as the first phase of a longer-term engagement to support the Government in developing this key sector in the economy. It is designed to assist the Government to enhance the effectiveness of the government to regulate and manage the mining sector to increase the sector's contribution to the national budget. It will also assist manage the effective distribution of benefit streams and sustain economic growth through commodity price cycles. On a more technical level, the project will develop further the regulatory framework for mining; improve the capacity of the Government to effectively monitor regulatory compliance of the mining sector as well as increase the availability of geological data and support programs to mitigate the health and safety risks for artisan and small-scale miners.</p>
PAPUA NEW GUINEA			
10/29/07	40.0m	IFC	<p><i>Proposed Investment in Digicel PNG. (Streamlined, no Board discussion.)</i> This investment supports the construction and operation of a nationwide Greenfield GSM digital cellular network in PNG by Digicel. This investment will increase the quality and availability of telecommunications services in PNG and will have the following impacts:</p> <ol style="list-style-type: none"> expanded access; telecom liberalization by encouraging competition and providing alternative service options; expand Geographic coverage, thereby providing critical security and commercial coverage; demonstration effect to other foreign investors; and increase employment and support local companies.
12/18/07	27.5m	IDA	<p><i>Smallholder Agriculture Development Project (Board)</i> The project is aimed at increasing, in a sustainable manner, the level of involvement of targeted communities in their local development through measures aimed at increasing oil palm revenue and local participation.</p>

CONSTITUENCY PROJECTS			
Date	\$ Million	From	Project Description
06/26/08	17.0m	IDA	<p><i>2nd Mining Sector Institutional Strengthening Technical Assistance, (Board, Streamlined)</i></p> <p>The project involves improving effectiveness of key Extractive Industries (EI) sector institutions, supporting EI communities to be better able to monitor the delivery of community programs and services, empowering disadvantaged groups, including women and youth, in extractive industries affected areas, and improving accountability of the sector and for management and use of mining-related revenues.</p> <p>Overall the project is expected to enhance the contribution of the EIs to the national budget and to mining affected communities</p>
SAMOA			
06/19/08	3.0m	IDA	<p><i>Health Sector Management Project. (Board, Streamlined.)</i></p> <p>Aimed at improving effectiveness in managing and implementing the health sector program based on the use of results from sector performance monitoring.</p>
SOLOMON ISLANDS			
09/11/07	Gr. 3.2m	IDA	<p><i>Rural Development Project. (Board, Streamlined.)</i></p> <p>The overall objective of the project is to raise the living standards of rural households by establishing improved mechanisms for the delivery of priority economic and social infrastructure and services through:</p> <ol style="list-style-type: none"> increased cost effective & sustained provision of local services & basic infrastructure determined through participatory planning prioritized by villagers; increased capacity of agricultural institutions to provide demand driven agriculture services at the local levels; and support for rural business development.
03/20/08	Gr. 1.5m	IDA	<p><i>Health Sector Support Program Technical Assistance Project. (Board, Streamlined)</i></p> <p>Project will improve the institutional capacity of the Ministry in the areas of public expenditure management & sector performance monitoring. In addition a large component will be used for training & capacity building.</p>
07/08/08	Gr. 4.0m	IDA	<p><i>Sustainable Energy Project. (Board Streamlined.)</i></p> <p>Grant will help finance the Solomon Islands' Electricity Authority efforts to improve operational efficiency, system reliability and financial sustainability through: improved financial and operational management, reduction of losses, and increased revenue collection.</p>

IDA14 – GRANTS

Beginning with IDA14 we have seen an increase in both, the number and the amount of grants made available to constituency members. In FY08 members received a total of \$32.9 million in grants as follows:

- Cambodia \$ 8.7m
- Mongolia \$15.5m
- Solomon Islands \$ 8.5m

WBG FINANCED PROJECTS TO 30 JUNE 2008

Year	2004		2005		2006		2007		2008		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
IDA - INTERNATIONAL DEVELOPMENT ASSOCIATION												
Cambodia			2	18					4	68.8	6	86.8
Kiribati												
Marshall Is.												
Micronesia												
Mongolia	1	18.00	2	18.3			1	16.5	3	32.8	7	85.6
Palau												
PNG							1	27.5	1	17.0	2	44.5
Samoa	1	2.08					1	2.71	1	3.0	3	7.79
Solomon Is.												
Vanuatu												
Total	2	20.08	4	36.30			3	46.71	9	121.6	18	224.69

IFC – INTERNATIONAL FINANCE CORPORATION												
Year	2004		2005		2006		2007		2008		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
Cambodia	2	16.00	1	6.00 ¹			1	17.5			4	39.5
Kiribati												
Marshall Is.												
Micronesia												
Mongolia	2	8.00					3	35.00	1	67.0	6	110.0
Palau												
PNG			1	3.20			1	40.0			2	43.20
Samoa							1	10.4			1	10.4
Solomon Is.												
Vanuatu												
Total	4	24.00	2	9.20			6	102.9	1	67.0	13	203.1

Grand Total: IDA Credits and IFC Loans \$427.8 million. All figures rounded

¹ Credit line of \$6.0m

ANNEX 4- CONSTITUENCY MEMBERSHIP

a) Constituency Voting Power - Percentage of Total and Number of Votes as of June 30, 2008

MEMBER	IBRD		IDA		IFC		MIGA	
	%	#	%	#	%	#	%	#
Australia	1.55	24,714	1.25	216,245	1.97	47,579	1.50	3,283
Cambodia	.03	464	.13	22,022	.02	589	.19	448
Kiribati	.04	715	.07	11,777	.01	262	---	---
Korea Rep. Of	.99	16,067	.66	113,868	.67	16,196	.48	1,055
FS Micronesia	.05	729	.11	18,424	.04	994	.14	314
Marshall Islands	.04	719	.03	4,902	.04	913	---	---
Mongolia	.04	716	.25	42,549	.02	394	.15	322
New Zealand	.46	7486	.30	52,225	.16	3,833	.03	777
Palau	.02	266	.02	3,804	.01	275	.14	314
Papua New Guinea	.10	1,544	.28	45,446	.06	1,397	.18	360
Samoa	.05	781	.13	21,741	.01	285	.14	314
Solomon Islands	.05	763	.24	40,908	.01	287	.14	314
Vanuatu	.05	836	.08	13,821	.01	305	.14	314
Total	3.45	55,800	3.55	607,732	3.03	73,309	3.23	7,815

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	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
TOTAL	13	13	13	13	11	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 2007– August 1, 2008

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

IBRD Governors' Resolutions

#	Resolution Title	Date
587	Financial Statements, Accountant's Report and Administrative Budget	October 22, 2007
588	Allocation of Net Income	October 22, 2007
589	Transfer from Surplus to Replenish the Trust Fund for Gaza & West Bank	June 4, 2008
590	Transfer from Surplus to Food Price Crisis Response Fund	June 13, 2008
591	Direct Remuneration of Executive Directors and their Alternates	July 28, 2008
592	2008 Regular Election of Executive Directors	August 1, 2008

IDA Governors' Resolutions

#	Resolution Title	Date
216	Financial Statements, Accountants' Report and Administrative Budget	October 22, 2007
217	Latvia – Change in Status	January 22, 2008
218	Membership of the Republic of Lithuania	April 3, 2008

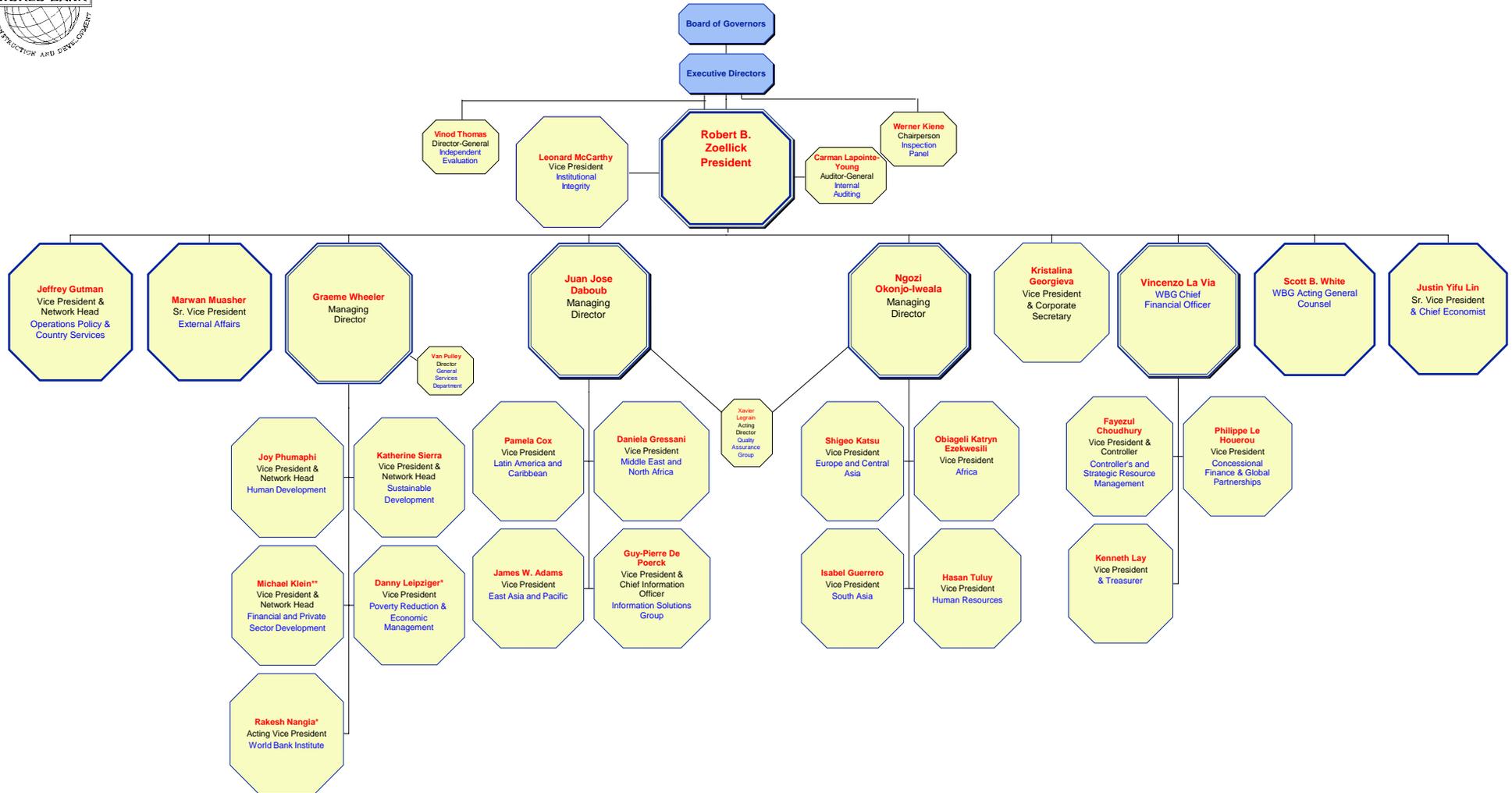
IFC Governors' Resolutions

#	Resolution Title	Date
246	Financial Statements, Accountants' Report, Administrative Budget and Designations of Retained Earnings	October 22, 2008
247	Membership of the State of Qatar	June 13, 2008

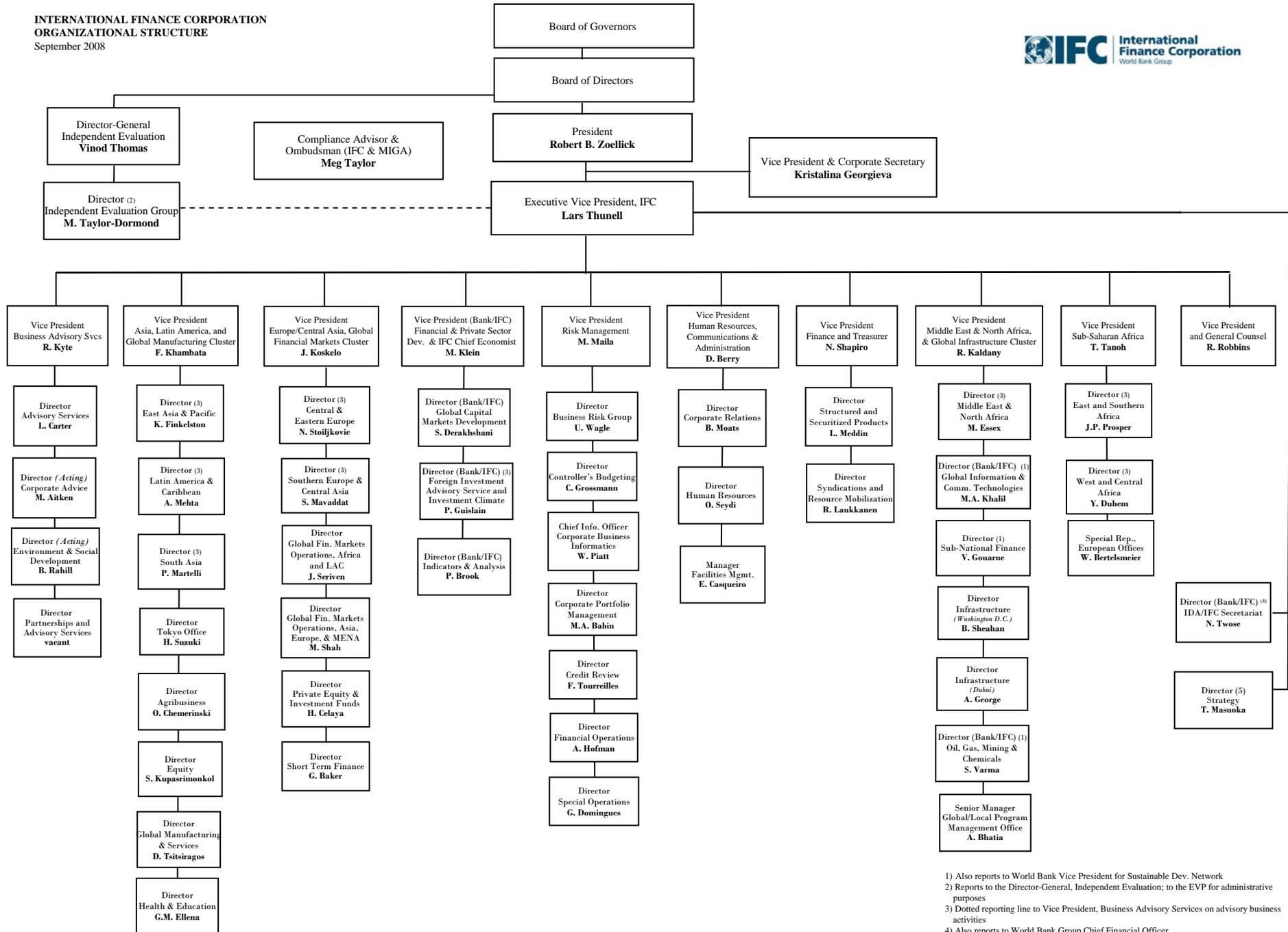
MIGA Governors' Resolutions

079	Financial Statements and Accountants' Report, and Administrative Budget	October 22, 2007
080	Regular Election of Directors	August 1, 2008

While most Constituency members are quick to respond to a request for a vote from Governors, our office continues to be concerned about a number of Constituency members who have difficulty in returning their vote and / or do not take the opportunity to vote.

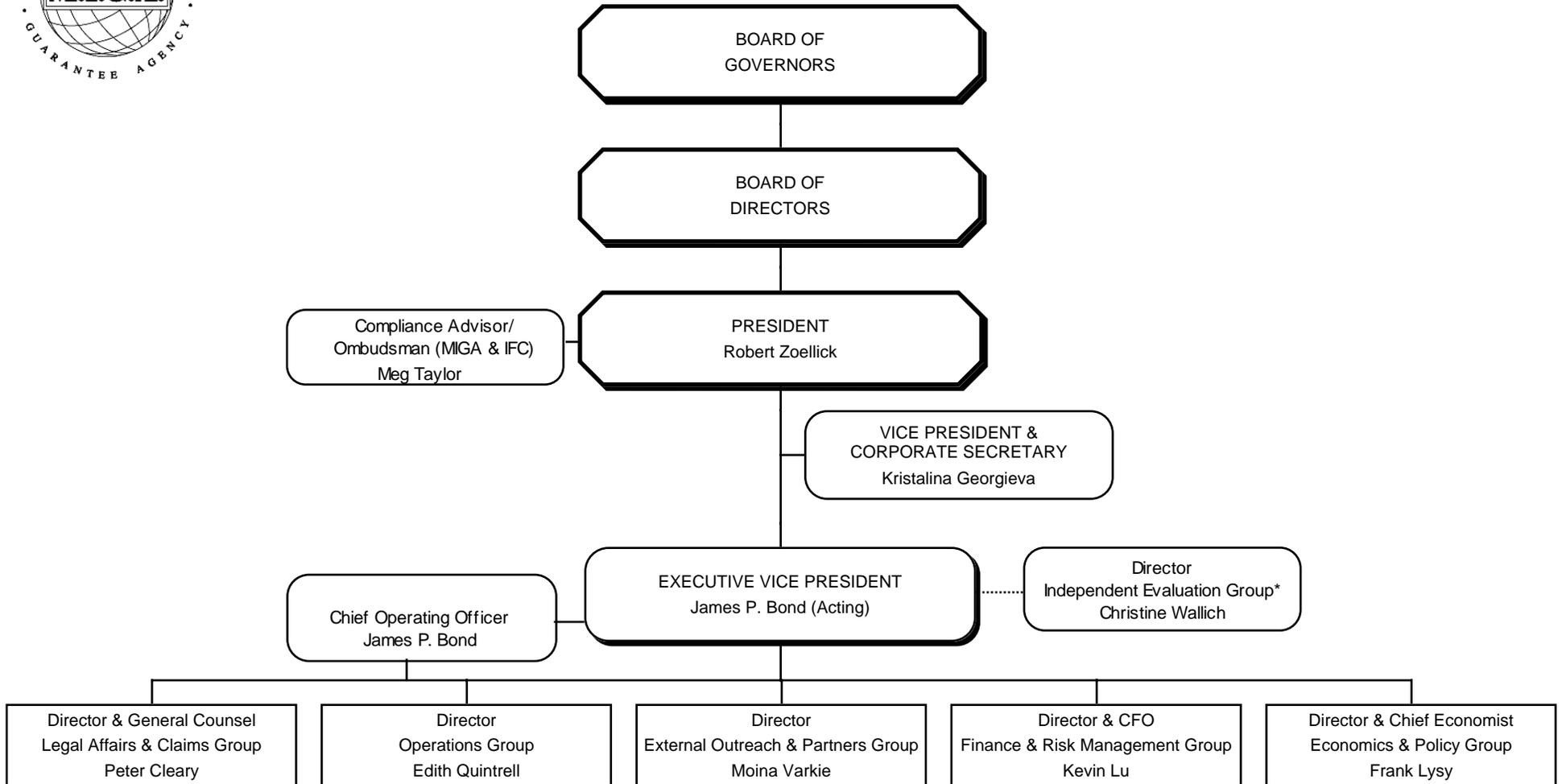


* Dotted line to Sr. Vice President & Chief Economist
 ** Reports to IFC Executive Vice President on IFC Business



1) Also reports to World Bank Vice President for Sustainable Dev. Network
 2) Reports to the Director-General, Independent Evaluation; to the EVP for administrative purposes
 3) Dotted reporting line to Vice President, Business Advisory Services on advisory business activities
 4) Also reports to World Bank Group Chief Financial Officer
 5) Dotted reporting line to Vice President, Risk Management

**ORGANIZATION CHART OF THE MULTILATERAL INVESTMENT GUARANTEE AGENCY
AUGUST 15, 2008**



* Reports operationally to IEG (Independent Evaluation Group) and administratively to EVP (MIGA)