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September 2009

Status Report FY09

Highlights of Events & Discussions in the World Bank Group

Foreword

The present Annual Report comes at a time when there are signs that the serious financial and economic crisis at the time of last year's annual report has been overcome. The World Bank was among the first to analyze the crisis and to correctly predict that it would be serious and worldwide. The Bank has played a very active role in the response to the crisis and a total commitment level from the WBG of about USD 60 bn is impressive and represents a 54% increase from the year before. Now could be the time to seriously consider and decide whether a capital increase should be the order of the day, both at the IBRD and the IFC.

After ten years at the Board of the World Bank (1984-1989 and 2004-2009) you will allow me a few personal reflections as your outgoing Executive Director. The World Bank was a smaller and more transparent organization in the 1980s compared with today. It is now a global actor with a vast array of activities. It is in the view of many perhaps the premier development institution. It is presently footloose and street smart – with a dedicated leadership and motivated staff. The swift and ambitious response to the financial and economic crisis shows that it has been on the mark. It reflects well on its President, management and staff as well as on the Board. I believe the movement towards much more country ownership and less conditionality has been going in the right direction. At the same time the "back to basics" involvement in energy, infrastructure, agriculture, etc., is a good omen that the priorities of developing countries are taken seriously.

I also believe that a successful organization needs to take a critical look at itself from time to time. My experience tells me that the Nordic-Baltic countries would be well served to leave Management a good measure of delegated authority to run the Bank's operations and business. The Board should not micromanage. On the other hand the financial crisis has reminded all of the need for effective oversight. Ideas recently to get rid of the Board or to get a non-resident Board, would, therefore, be a big mistake – especially for small countries like ours - presently shut out from many of the informal decision-making bodies. This latter point also needs to inform our views and final positions on the issue of increased "Voice" and participation by developing countries in the World Bank Group. The aim is clear: to strengthen the representation and shares of developing countries. However, several proposals on the table are not conducive to the interests of the Nordic-Baltic countries. In a context of marginalization from all kinds of new "G" groups, G20 in particular, continued adequate representation at the World Bank could be seen as crucial. We have a lot of financial and other wherewithal to make sure that our interests are taken seriously – if we want to.

Svein Aass
Executive Director
for Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden

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Acronyms and Abbreviations

DPL	Development Policy Lending
EBRD	European Bank for Reconstruction and Development
E/L	Equity Loan
GMR	Global Monitoring Report
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IP	Inspection Panel
LIBOR	London Interbank Offered Rate
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro Small and Medium size Enterprises
ODA	Official Development Aid
RSR	Rapid Social Response
SDPL	Special Development Policy Loan
UNODC	United Nations Office on Drugs and Crime
WBG	World Bank Group
WDR	World Development Report

I. Major Issues

Strategic Directions

The vision of the WBG is to contribute to an inclusive and sustainable globalization – to overcome poverty, enhance growth with care for the environment, and create individual hope and opportunity. The internationally-agreed Millennium Development Goals (MDGs) lay out a road map for setting priorities and measuring results. The WBG does not have a long-term strategy document but is guided by six broad Strategic Directions to further these goals: (i) help overcome poverty and spur sustainable growth in the poorest countries, especially in Africa; (ii) Address the special challenges of states coming out of conflict or seeking to avoid breakdown of the state; (iii) Develop a competitive menu of development solutions and customized services for middle-income countries; (iv)support development and opportunity in the Arab world; (v)Play a more active role in regional and global public goods; and (vi) Expand the WBG's role in global knowledge management and learning.

The WBG Response to the Financial Crisis

In FY09[1], the WBG committed USD 58.8 bn to help countries struggling amid the global economic crisis, a 54% increase over the previous fiscal year and a record high. The WBG supported 767 projects to promote economic growth, fight poverty, and assist private businesses, including USD 20.7 bn in infrastructure financing, a critical sector to provide the foundation for rapid recovery from the crisis and job creation. Support for safety nets and other social protection programs totaled USD 4.5 bn.

Box 1: Global Monitoring Report 2009 – A Development Emergency

Global Monitoring Report (GMR) is released annually by the World Bank (WB) and the International Monetary Fund (IMF) to follow up on the United Nations Millennium Development Goals (MDGs), and to discuss the role of developed and developing countries, as well as International Financial Institutions (IFIs), in reaching them.

The main message of this year's GMR is that in the current crisis, reaching the MDGs is increasingly difficult. Although the first goal of halving extreme poverty by 2015 from its 1990 level is still reachable based on current projections, risks abound. Low income countries are not insulated from global trends. They have begun to feel the crisis as well, but first through the real rather than the financial sector. Their exports, commodity prices, remittances, tourism, Foreign Direct Investment (FDI), and possibly even Official Development Aid (ODA) are going or anticipated to go down. The food crisis is also not over and there is limited fiscal space for many middle income and low income countries alike. The GMR lists 6 priority areas of action: (1) Ensure adequate fiscal response; (2) Shore up the private sector; (3) Redouble efforts toward the human development goals; (4) Scale up aid; (5) Avoid protectionism; and (6) Ensure that the multilateral system has the mandate, resources and instruments to support an effective global response to the global crisis. The special theme of the GMR 2009 is the role of the private sector in reaching the MDGs.
(*www.worldbank.org -> Data & Research -> Global Monitoring Report)*

[1] July 1, 2008 – June 30, 2009

Commitments from the WBG to sub-Saharan African countries - the Bank's top priority region - rose to USD 9.9 bn in FY09, up 36% from USD 7.3 bn in FY08. This included USD 7.8 bn from IDA, or 56% of total IDA commitments; USD 1.7 bn from IFC; USD 50.1 mn in MIGA guarantees for projects in the region; and USD 362 mn from IBRD.

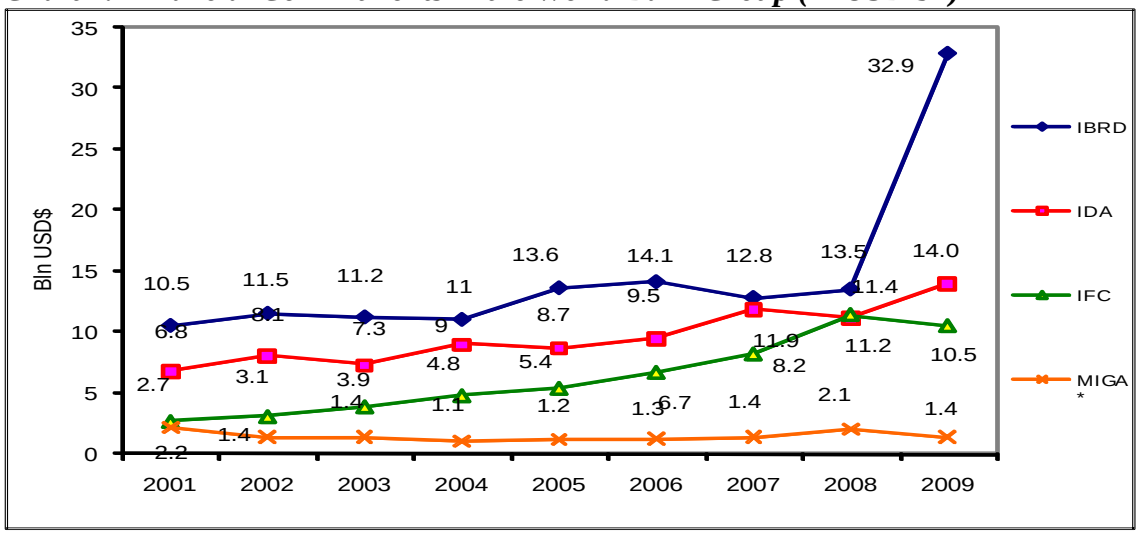
To help developing countries weather the impacts of the crisis, the Bank proposed a Vulnerability Fund - a call to action for each developed country to pledge the equivalent of 0.7% of its economic stimulus package as additional aid. There was a strong response to this call, with donor support to WBG crisis initiatives totaling USD 6.8 bn.

Commitments from the IBRD rose sharply in FY09 to USD 32.9 bn for 126 operations, from USD 13.5 bn the previous year. This exceeded the previous record set in FY99, when IBRD committed USD 22.2 bn to respond to the Asian financial crisis. Fast-disbursing Development Policy Loans (SDPL), providing critical budget support at a time of rising financing gaps, comprised nearly 47% of the overall total for FY09. IBRD also assisted countries to assess the social and structural sources of vulnerability, address underlying policy and institutional weaknesses, and manage the response to the consequences of the global crisis. Majority of the new commitments went to the Latin America and Caribbean (growth 218%); Europe and Central Asia (142%) and East Asia and Pacific (158%) regions. See Annex 5 for details.

Commitments from IDA, which provides interest-free loans and grants to the world's 79 poorest countries, totaled a record USD 14 bn in FY09, up 25% from USD 11.2 bn in FY08. This included USD 11.4 bn in credits and USD 2.6 bn in grants to support 177 operations. To rapidly support countries affected by the crisis, USD 990 mn of this lending was provided under an IDA Fast-Track facility. For FY10, IDA projects commitments in a range of USD 12-16 bn.

As the largest provider of multilateral financing for the private sector development, the IFC launched a number of crisis-response initiatives, including: (i) A USD 3 bn IFC Capitalization Fund to strengthen systemically important banks, with a leveraged impact of USD 75 bn; (ii) A USD 5 bn Global Trade Liquidity Program to help reverse the decline in trade flows to support USD 50 bn in trade; and (iii) A USD 2.4 bn Infrastructure Crisis Facility to ensure that projects critical for development get built. In addition, IFC introduced the USD 500 mn Microfinance Enhancement Facility to provide credit to micro enterprises, and expanded advisory services aimed at helping clients manage risks and address non-performing loans. The WBG's political risk insurance agency, the MIGA issued USD 1.4 bn in guarantees.

Chart 1: Financial Commitments in the World Bank Group (in USD bn)



* *Guarantees issued*
Source: Financial statements

Rapid Social Response as Part of the WBG Crisis Response

The food, fuel and financial (FFF) crises threatens current and future gains in human development in several ways. Given the shared need to promote a global response to the social impact of the crisis in developing countries, the World Bank is establishing a Rapid Social Response (RSR) Program as part of its overall crisis response framework. The objectives of the RSR Program are to safeguard lives and livelihoods during the global crisis by promoting social protection measures such as social safety nets and maintaining access to basic health, education, and other vital services for communities, especially poor and vulnerable groups, in middle and low- income countries. The RSR program serves two parallel purposes. First, it coordinates, monitors and reports the Bank's crisis response in the thematic areas of safety nets, labor markets and access to basic social services across all client countries. Second, the RSR can channel additional donor contributions to leverage IDA resources to support crisis-related programs in the three thematic areas in low-income countries.

Social Protection lending has increased significantly in the wake of the Food, Fuel and Financial Crises, including lending to Social Safety Nets – by July 2009 total allocations towards RSR thematic areas amounted to USD 7.5 bn. The increased lending activities underscore a rapidly growing portfolio which is adjusting to different country crisis scenarios. Regionally, the Latin America portfolio dominates, albeit there are a number of emerging activities in Africa and South Asia. An upward trend is predicted, particularly for low-income IDA countries.

Country Cases:

Hungary

Hungary was one of the first emerging economies affected by financial crisis. In the past two years, the government had undertaken strong efforts to address the serious fiscal and

macroeconomic imbalances. However, the crisis reduced overall risk tolerance and Hungary eventually lost access to foreign exchange funding in the second half of 2008 which led to a request for a multilateral funding package. The government launched a comprehensive reform program and requested support for this program from the IMF, the European Commission and the World Bank, notwithstanding the fact that Hungary had graduated from IBRD in 2007.

Box 2: Special Development Policy Lending Revised

During the year Management has elaborated on a revision of the Special Development Policy Lending (SDPL) instrument. The revisions are argued to be a way for the World Bank to meet needs for a quick disbursing crisis lending instrument. Management briefly noted that three basic changes were suggested to the existing SDPL: 1) abolishing the linkage between a country's Country Assistance Strategy (CAS) and a possible sDPL; 2)
The instrument should only be used as part of an IMF led international support package for countries in or approaching financial and economic crisis, thus including IMF emergency assistance; and 3) The pricing and maturity of the product would be set to mirror IMF terms (As for other Bank instrument the revised SDPL would be part of annual price reviews.) with a minimum fixed spread over LIBOR of +200 bp.

The requested financial rescue package amounts to Euro19.8 bn, including Euro12.3 bn from the IMF, Euro 6.5 bn from the European Union, and Euro1 bn from the World Bank. The IMF and the EU operations were approved in October and November 2008, and Euro14.1 bn have been disbursed.

The World Bank loan will support reforms in four main policy areas: (a) fiscal reforms, including further reduction in the fiscal deficit, introduction of legally binding fiscal rules and structural measures; (b) a comprehensive financial sector stability program; (c) pension reforms in the public sector and privately funded pillar, and (d) health sector reforms.

Latvia

Following its accession into the EU in 2004, the Latvian economy experienced rapid economic growth averaging over 10 percent per year. The growth was driven almost entirely by domestic demand, encouraged by rapid credit growth, large real wage increases, and expectations of a progressive catching-up with European Union (EU) living standards. New investments were concentrated in the non-tradable sectors, creating a real estate boom. Government spending was pro-cyclical and real public expenditures grew by 80 percent between 2003 and 2007. Driven by high domestic demand, the current account deficit increased from 12.8 percent of GDP in 2004 to almost 23 percent in 2007.

The growth in domestic credit, which fuelled the domestic demand and was largely financed through external borrowing, resulted in rising household and corporate indebtedness. As a result, Latvia's external debt to GDP rose from 90 percent of GDP in 2004 to 127 percent by 2007. Overall, Latvia entered the financial crisis with significant vulnerability, in particular a large current account deficit, high external debt, and a very high loan to deposit ratio in the financial sector, and the economic downturn proved much more severe than expected. The economy is expected to decline by 18 percent in 2009 and by 4 percent in 2010.

These developments led the Government to seek external financial support supported by: the EC, the IMF, EBRD, Nordic and Central European countries, and the World Bank. The requested rescue package amounted to Euro 7.5 bn, equivalent to 35 percent of GDP, including: Euro 1.7 bn from the IMF; Euro3.1 bn from the European Union; Euro 1.8 bn from Nordic countries; Euro 0.1 bn from the EBRD; Euro 0.4 bn from the Czech Republic, Poland, and Estonia; and Euro 400 mn from the World Bank.

Latvia graduated from World Bank financing in 2007 and became a donor to the International Development Agency (IDA) of the World Bank Group during the 15th replenishment of IDA.

The proposed World Bank program will support reform agenda in the financial and social sectors. The financial sector Development Policy Lending (DPL) aims to build Latvia's capacity to (i) address financial sector challenges that arise in the context of the global crisis; (ii) accelerate mortgage- and corporate debt-restructuring; and (iii) strengthen the regulation and supervision of the financial sector. The social safety net DPL, which would be presented to the Board at the end of 2009, will support measures to (i) mitigate short social costs of fiscal consolidation; (ii) ensure fiscal consolidation creates an opportunity for reform that will improve long-term performance and outcomes in the social sectors and public administration; and (iii) protect vulnerable groups during the deep economic recession with emergency safety net support.

Voice and Participation

The issue of Voice and Participation has continued to receive much interest and attention this year as the reform moves into Phase II. Since our last Status Report, Phase I of the exercise to enhance Voice and Participation of Developing and Transition Countries in the WBG, has been approved. An additional chair in the Board for Sub Saharan Africa was agreed. In addition Developing and Transition Countries (DTC) voting shares in IBRD and IDA will increase, giving a special emphasis to smaller members.

During the year our former Executive Director chaired all meetings in the Committee on Governance and Administrative Matters on this topic. This allowed us to play an active double role enabling us to move forward in accordance with the mandate given by the DC Deputies.

At this junction discussions are at a very technical level, trying to thrash out a formula that will ensure all members due representation, in accordance with the Bank's development mandate. The formula will over time significantly increase current DTCs voice, while protecting the voice of the poorest members. The Board will continue its work with an aim to present proposals for the Spring Meetings 2010.

Internal Governance

The Zedillo's High Level Commission on the Modernization of World Bank Group Governance, which was expected to deliver its results before the Annual Meetings in Istanbul, will most likely be delayed and deliver its report after the meetings.

The Climate Change Agenda

At the Annual Meetings in October 2008, the Development Committee endorsed the Strategic Framework on Development and Climate Change for the WBG. In line with its mandate, the Bank supports first and foremost development, while it aims to offset costs that stem from climate change through climate-dedicated finance. The strategy also highlights the need for action and interaction among all countries for the greater global good. According to the strategy, WBG works to:

- Support climate actions in country-led development processes;
- Mobilize additional concessional and innovative finance;
- Facilitate the development of market-based financing mechanisms;
- Leverage private sector resources;
- Support accelerated development and deployment of new technologies; and
- Step up policy research, knowledge, and capacity building.

At the Annual Meetings and the Spring Meetings 2009 the Bali Breakfasts for ministers to discuss specific climate change topics were also continued.

After extensive consultations on the strategy the previous year, FY09 has been a year of the strategy rollout, of which the first account of results will be given to the Board in fall 2009.

Box 3: World Development Report 2010 – Development and Climate Change

World Development Report (WDR) is the World Bank's main annual flagship publication. To make a constructive contribution to the Copenhagen negotiation process, the WB dedicated this year's WDR to Development and Climate Change, combining climate science, economics and policy in one volume.

The crux of the WDR is as follows. Act now – act together – and act different. Climate smart development is possible but requires urgent action from all countries, everyone taking up responsibility of their own conduct, and changing fundamentally the ways we operate. New pressures emerge and new instruments, both public finance and market-based, are needed, with additional resources on a massive scale. Stringent Greenhouse Gas targets in high-income countries will lead not only to actual GHG reductions but also to innovations, which could make a major impact in developing countries, too. In energy, all options, both existing and new technologies, need to be used to reach targets. The World Bank has to work to ensure that as much financing as possible is available for climate smart solutions to those in need. All climate change financing is not ODA, but lessons from development finance apply.

For the WB, the currently ongoing sector strategy revisions, including that of the energy sector, will be an important opportunity to act on lessons learnt in the WDR. An overview of the Report will be published on September 15 in several languages. Nordic countries have provided a large share of the funding for WDR 2010.

Currently, the WBG has a large number of both lending and knowledge climate change projects underway. The 2010 edition of the World Development Report (WDR) focuses on development in a changing climate (see Box 3). Climate change adaptation considerations are being integrated into Country Assistance Strategies. Screening tools

for assessing development projects for potential sensitivities to climate change are developed and the Bank is also piloting innovative climate risk insurance. The Global Facility for Disaster Risk Reduction and Recovery, which helps countries integrate disaster planning into their development strategies, is including long-term climate risk with the programs.

The World Bank manages just over USD 2 bn in 10 carbon finance funds and facilities. In 2007, the Bank continued expanding its carbon finance efforts with the Forest Carbon Partnership Facility and the Carbon Partnership Facility. The Climate Investment Funds (CIF) were set up in 2008-2009 with over USD 6 bn in pledges. The Clean Technology Fund (CTF) will help scale up investment in low-carbon technologies, while the Strategic Climate Fund will support programs that test innovative approaches to climate action, both adaptation and mitigation (see Box 4). The Bank is also active in the Global Gas Flaring Reduction partnership.

Box 4: The First Clean Investment Funds (CIF) Loans

The first CTF loan of USD 100 mn was received by Turkey for its Private Sector Renewable Energy and Energy Efficiency Project in May 2009. The main objective of the project is to help increase privately owned and operated energy production from indigenous renewable sources within the market-based framework of the Turkish Electricity Market Law, thereby helping to enhance energy efficiency and curb greenhouse gas emissions as a result. In addition to the CTF the project received financing of USD 500 mn from the IBRD. Along Turkey, Egypt and Mexico are among the first to have their ambitious investment programs in renewable energy, energy efficiency and mass transit financed partly by the CTF. The three countries are set to receive USD 250 mn, USD 300 mn and USD 500 mn, respectively, from the fund. Their plans mesh with the fund's goal of accelerating the commercialization of advanced energy and transport technologies.

(Detailed CTF investment plans for Turkey, Egypt and Mexico: http://go.worldbank.org/XBM5OZFIW0)

The share of energy efficiency and renewable energy projects in the Bank Group's energy portfolio was 40 percent in FY08, a two-fold increase from a year earlier. Overall, in response to demand from developing countries, WBG financing for energy infrastructure development has been strong in recent years, reaching USD 7 bn in FY08.

The focus on Climate Change includes the Bank Group's own activities. The WB is the first multilateral development bank to become carbon neutral and is committed to reducing its GHG emissions at the Washington, D.C. offices by 7% from a 2006 baseline by 2011. A new WB website dedicated to climate change was launched in July 2009 (http://beta.worldbank.org/climatechange)

II. WBG Financial Overview

Capital Adequacy

Chart 2: IBRDs Capital Adequacy Ratio

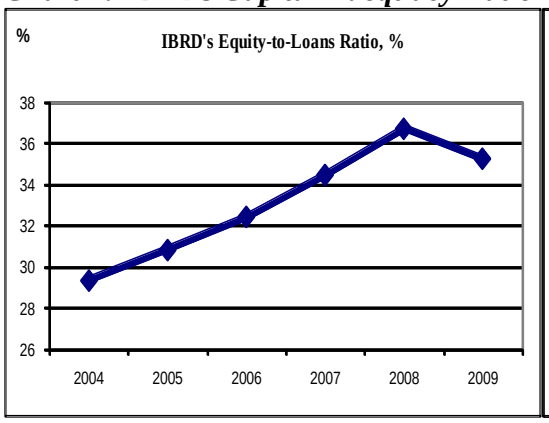
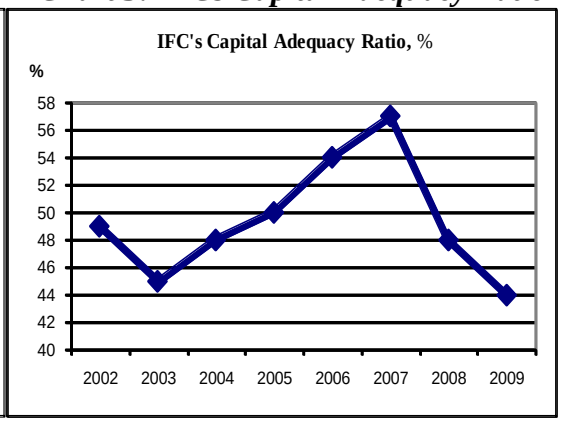


Chart 3: IFCs Capital Adequacy Ratio



Source: IBRD and IFC audited financial statements

Demand for IBRD loans has increased tremendously: in FY09 USD 33 bn of new commitments was delivered and lending in the first quarter of FY10 is projected to be a record high of USD 8-11 bn. Lending of USD 30-50 bn is expected for FY10. IBRD's current capital position is adequate, but in order to meet the increased demand over the medium term, IBRD would likely need to augment its financial capacity.

IBRD has already taken a number of actions to expand its financial capacity by stretching its existing capital. These actions include: (i) allowing flexibility in its main capital adequacy measure (E/L ratio); (ii) introducing a new exposure management framework; (iii) diverting risk capital intended for its pilot Long-Term Income Portfolio to support loan growth; and (iv) actively working with relevant shareholders to release their existing national currency paid-in capital. In addition, the IBRD Board approved a 20 basis-point general loan price increase as part of its annual loan pricing review in August, 2009. The additional income generated through the pricing increase will be allocated to reserves in order to strengthen IBRD's capital position. For current loan prices, please see Annex 6.

Further options to enhance IBRD's financial capacity, including increases in paid-in capital (through a General Capital Increase or, in association with the governance reform agenda, through a Selective Capital Increase) as well as pricing increases on longer maturity loans, have been discussed by IBRD's Board.

The financial crisis has also highlighted the demand for IFC's services and the increased need for IFC to be able to play a counter-cyclical role. Although IFC's current capital position is adequate, the severity of the current crisis has had a negative impact on IFCs FY09 financial performance and on the outlook for its capital position over the medium-term. To offer more support to the private sector at a critical time, IFC would likely need

to augment its financial capacity. Possible options include hybrid capital[2] from shareholders that could in a later stage be replaced by a capital increase.

A review of IBRD and IFC financial capacity with consideration of options to enhance these capacities will be considered by the Development Committee meeting during the Annual Meetings on October 5, 2009.

Budget

The Board approved the Bank's (IBRD and IDA) FY10 net administrative budget of USD 1,741.3 mn. As in previous years the budget is flat in real terms and will be administered within the +/- 2% flexibility band. Over the past 3 fiscal years, the Bank's expenditure has been below the flat real budget on average. Given the need for additional flexibility during the financial crisis, the Bank was authorized to tap additional budget flexibility of up to USD 33 mn (2%) for crisis-related needs that were unplanned at the time of budget approval.

Also IFC's FY10 regular administrative budget of USD 522 mn is flat and will provide resources for IFC to: (i) deliver about 460 new commitments; (ii) strengthen its IDA focus; (iii) support further mobilizations with Crisis Initiatives; and (iv) manage IFC's response to crisis, including portfolio management. IFC will carry forward 5% of its FY09 total administrative budget (USD 33.6 mn) which will constitute a contingency for FY10. In addition, IFC was authorized to carry-forward to FY10 an additional USD 7 mn, which can only be used with prior Board approval. These carry-forwards are a strategic and restricted reserve to be used only in exceptional circumstances, such as to undertake further crisis management in the event of a further downturn.

Allocation of Net Income

IBRD reported allocable net income of USD 500 mn for the FY09 (see Annex 2) and was authorized by the Board of Executive Directors to fully use it for its IDA15 contribution. IBRD transferred an additional USD 283 mn to IDA15 from its surplus account (from FY08 net income) that was established to protect IBRD's IDA15 transfer undertakings from possible downside income variation. In total, IBRD was authorized to transfer USD 783 mn (i.e. USD 200 mn more than the USD 583 mn previously planned) to IDA15. The net amount retained in surplus after the transfer is USD 257 mn.

IFC reported income of USD 299 mn before grants to IDA for the FY09 and net loss of USD 151 mn after them (see Annex 3). Given that IFC had no net income for FY09, it was proposed and authorized by the Board of Executive Directors to reallocate USD 200 mn of retained earnings to IDA15.

[2] "Hybrid" refers to a financial instrument that has some characteristics of both debt and shareholder's equity. IFC would structure its hybrid capital with strong equity-like features.

Single Borrower Limit

In August 2009, IBRD Board increased its Singe Borrower Limit (SBL) by USD 1 bn, to USD 16.5 bn, to be effective in FY10. The limit applies to IBRD's largest borrowowing countries which have achieved investment-grade status. This the second increase in SBL in two years, following the USD 1 bn increase in FY08.

III. Cross-Cutting Themes and Sectors

Gender Action Plan (GAP)

The Second Year Progress Report of the WBG GAP "Gender Equality as Smart Economics" presented important achievements in the implementation of the GAP so far, particularly in mainstreaming gender in Bank lending and core operational work, executing research, and improving the collection and use of sex-disaggregated statistics. The year 2008 was also marked by new commitments to women's economic empowerment[3] and the launch of new GAP initiatives: the Adolescent Girls Initiative (AGI) and the Private Sector Leaders' Forum[4]. Success in mobilizing resources for the implementation of GAP demonstrated partners' and donors' confidence in the GAP initiatives.[5] During FY08 the GAP expanded its country coverage from 56 to 72 countries. Next steps in terms of implementation include allocation of GAP funding to support the process to engender the Bank's emergency responses in relation to the financial and food crises on women and families.

Women's Economic Opportunity Index

As part of GAP's efforts to improve the collection of gender-disaggregated data and further advance the agenda for women's economic empowerment, the Women's Economic Opportunity Index (WEOI) has been developed by the Economist Intelligence Unit (EIU) in cooperation with the World Bank. This index provides countries with indicators to measure the business environment for women, evaluate how different indicators affect countries' performances, and even compare different regions and countries. Currently the WEOI is undergoing a data validation process within the World Bank which approximately will continue for 6 months.

Health, Nutrition and Population

The global aid architecture in health has changed over the past decade, with the adoption of the Millennium Development Goals (MDGs) and a major expansion of the levels and sources of development assistance, particularly for low-income countries. While key

[3] The Bank's new commitments to promote gender equality were announced by President Zoellick at a side-event to the 2008 Spring Meetings.

[4] President Zoellick launched the Adolescent Girls Initiative (AGI) at an event on the sidelines of the 2008 Annual Meetings in October, while Managing Director Okonjo-Iweala chaired the first meeting of a Private Sector Leaders' Forum at the World Economic Forum in Davos in January 2009.

[5] Total pledges to date from the original four-year budget of USD 24.5 mn increased to USD 60.9 mn. By the end of 2008, Australia, Canada, Denmark, Finland, Germany, Iceland, Italy, the Nike Foundation, Norway, Spain, Sweden, and the UK had pledged a total of USD 48.2 mn to the GAP.

health outcomes such as infant survival and nutritional stunting have improved over the decade in every developing region, nearly three-quarters of developing countries are either off track or seriously off track for achieving the MDG for reducing under-five mortality.

The World Bank Group, now one of many large players in international Health, Nutrition, and Population (HNP) support, accounts for only about 6 percent of the total (WBG) down from 18 percent in the 1990s—and is reassessing its comparative advantage in the context of the new aid architecture. The World Bank Group's support for HNP has been sustained since 1997 - nearly USD 17 bn have been committed to 605 HNP projects in more than 120 countries.

Box 5: Advanced Market Commitments

In FY09, the United Kingdom, Canada, Italy, Norway and Russia—as well as the World Bank and the Gates Foundation—joined forces to launch the Advance Market Commitment (AMC) for vaccines, a new market-based mechanism to cut the cost of drugs for life-threatening and pervasive diseases in the developing world. The AMC platform is being supported through the IBRD's balance sheet, effectively insuring the full value of the USD 1.5 bn from donors that provides the AMC incentive to vaccine manufacturers.

The World Bank's 2007 strategy, *Healthy Development: The World Bank Strategy for Health, Nutrition, and Population Results,* aims to improve HNP outcomes on average and among the poor; prevent poverty due to illness; improve health system performance; and enhance governance, accountability, and transparency in the sector.

In 2008 the Independent Evaluation Group (IEG) prepared a report that evaluates the efficacy of the Bank Group's direct support for HNP to developing countries since 1997 and draws lessons to help improve the effectiveness of this support. The evaluation reviewed findings and lessons for three prominent approaches to raising HNP outcomes over the past decade — communicable disease control, health reform, and Sector Wide Approaches (SWAps).

The main findings from the evaluation are: (i) the Bank Group now funds a smaller share of global support for health, nutrition, and population than it did a decade ago, but its support remains significant; (ii) The Bank Group has an important role in helping countries to improve the efficiency of health systems; (iii) About two-thirds of the Bank's HNP projects show satisfactory outcomes. Performance can be substantially improved by reducing project complexity, strengthening risk assessment and mitigation, conducting more up-front institutional analysis, and incorporating more evaluation to promote evidence-based decisions; (iv) The accountability of Bank Group investments for demonstrating results for the poor has been weak. The Bank's investments often have a pro-poor focus, but their objectives need to address the poor explicitly and outcomes among the poor need to be monitored.

The recommendations offered by the evaluation report will be used in updating *The World Bank Strategy for Health, Nutrition, and Population Results,* and further strengthening the implementation of strategy.
(For a full IEG Report see http://www.worldbank.org/ieg/.)

Inspection Panel (IP) Cases

Albania – Integrated Coastal Zone Management and Clean-Up Project

The Albania Integrated Coastal Zone Management and Clean-Up Project was approved by the Board of Executive Directors on June 21, 2005. On November 1, 2007, the Executive Directors of the World Bank authorized an Inspection Panel investigation of the Project relating to the demolition of fifteen buildings in the community of Jale. On February 17, 2009 the Board discussed the Inspection Panel's report on Albania Integrated Coastal Zone Management and Clean-Up Project. The Panel found that the project was linked to the demolitions that occurred in Jale in April 2007; the project was not well designed and supervised; critical communications from Bank management to the Board were in error; and, Bank fact-finding efforts omitted key events and information. Management prepared an Action Plan, under which a series of measures have been undertaken including: a case-by-case legal review of the demolitions in the project area, the appointment of an Independent Observer to monitor the legal review and report back to the Bank, and the payment of legal aid for the review of each of the Requesters' claims.

Disbursements under the Project were suspended on January 9, 2009. Management is proceeding with project restructuring and proposes to re-allocate the funds originally destined for land use planning to other project activities. The restructured project will be presented to the Board before the end of 2009.

Ghana –Second Urban Environmental Sanitation Project

The project to construct a modern landfill had been approved by the Board in 2004 but no development on the location of the project had occurred since then, due to several delays deriving from complaints by the Requestor. The Panel noted that Management's Action Plan addressed the issues raised by the IP in a proactive and comprehensive way and stressed that in this case Management could not be blamed for all the difficulties surrounding the project. A new Environmental Assessment (EA) is being undertaken which may impact on the Resettlement Action Plan (RAP). The findings and results of the EA will determine if the discussed site will be used as a sanitary landfill or not. Management would report back to the Board in six month on the implementation of the action plan. During the Board discussion it was noted that the issue at hand largely was a land tenure issue, where it was difficult to determine land ownership with some claiming that the settlements where illegal according to local law. At the same time it was important to look closer into to the issue of how to correctly handling situations where a small group penalized a project by refusing to communicate with the Bank and the Government. The Bank would work to improve their baseline studies. At the same time it

was noted that there were also costs involved for people when projects were delayed or not undertaken.

West African - Gas Pipeline Project

In the IP's Report several shortcomings where highlighted in the Bank's support to the West African Gas Pipeline (WAGP), in which the Bank is providing risk guarantees (not supporting a conventional lending operation).

In the Managements Action Plan three main areas of concern were acknowledged: 1) Social Impact Assessment and Mitigation Measures; 2) Environmental Assessment and Mitigation Measures; and 3) Project Supervision. Since the approval of the Action Plan progress has been made in several areas including for example:1) Completion of the process of additional payment for land, crops, and trees in Nigeria for relevant groups; 2) Completion of the first phase of verification of Project Affected Persons (socioeconomic information), and ongoing progress on the final phase; 3) Completion of the Emergency Response Plans and safety training; 4) Dissemination of summaries of the Environment Management Plan, Resettlement Action Plan, and Emergency Response Plans, translated into the local dialect, and discussed with village leaders and affected people; and 5) Strengthening of supervision activity through undertaking of five field visits, one supervision mission, and one visit by the Environment and Social Advisory Panel during the first six months after the Board discussion.

Due to the delays, the capital cost has escalated from the originally-estimated level of USD 590 mn to over USD 1 bn. The higher price will have to be borne by the shareholders in proportion to their shareholding in WAPCo as per the Project Agreement.

The StAR Initiative

During the year the secretariat function for the Stolen Asset Recovery (StAR) Initiative and the trust fund supporting the activities was forwarded to the Board of Executive Directors on a non-objection basis. StAR is a partnership between the World Bank and UNODC and the work includes working with the financial sector in countries such as Switzerland, Luxembourg, UK, France, Lichtenstein and Singapore, to build awareness and find ways of addressing the issues of freezing and potentially return of stolen assets. The ambition is simultaneously to build capacity in developing countries to avoid fraud and corruption of public resources as well as to work with actual recovery operations, involving advanced forensic accounting etc.

It will take time to develop demand for StAR support on asset recovery initiatives in victim countries. The complexity of asset recovery processes, asset recovery programs at the country level will take time to deliver results. StAR's success will also likely depend on its ability to encourage financial centers and other jurisdictions to lower the barriers to asset recovery.

Building on projects launched in early 2008, StAR's work plan covers the period November 2008 to December 20105.

The resent financial and following economic crisis has highlighted the need for improvements in financial sector transparency. Changes in the international regulatory framework are already under discussion. StAR seeks to ensure that reforms aimed at improving governance, facilitating asset recovery and deterring asset theft are addressed as part of this reform agenda.

StAR's work plan is financed by a combination of Bank and UNODC's own resources and the StAR Multi-Donor Trust Fund (MDTF). The costs of Bank regular staff assigned to the StAR Secretariat and working on StAR activities are currently covered from the Bank's own resources.

The financing requirement for the StAR MDTF is estimated at USD 6.5 mn for the two year period. Confirmed contributions currently stand at USD 4 mn (Norway USD 3 mn and Sweden USD 1 mn). However, several partners have expressed interest in funding StAR and existing partners have indicated that they may be able to expand their contributions based on performance. Consequently, the Secretariat will continue to plan on the basis of MDTF financing at USD 6.5 mn, whilst ensuring that commitments of MDTF financing to activities remain within the limits set by the confirmed contributions.

Doing Business 2010

Despite the many challenges, in 2008/09 a record 131 governments implemented regulatory reforms aimed at making it easier to do business—more than in any year since 2004, when the IFC-World Bank Doing Business (DB) project started to track reforms through its indicators. The DB 2010 recorded 287 reforms between June 2008 and May 2009, up 20 percent from the previous year. Reformers around the world focused on making it easier to start and operate businesses, strengthening property rights, and improving commercial dispute resolution and bankruptcy procedures. Singapore ranks top on the ease of doing business, a position it has kept for the fourth year running, followed by New Zealand, Hong Kong, United States and United Kingdom. ***All Nordic and Baltic countries rank among top 30 as follows: Denmark (6), Norway (10), Iceland (14), Finland (16), Sweden (18), Estonia (24), Lithuania (26), and Latvia (27).*** For the first time a Sub-Saharan African economy - Rwanda – was listed as the world's top reformer of business regulation, making it easier to start businesses, register property, protect investors, trade across borders, and access credit.

IV. IDA

The IDA 15 negotiations concluded in a record replenishment providing for USD 42 bn to be allocated to the world's poorest countries over three years. In FY09 IDA committed USD 14,041 mn of development grants and credits, which represents a 25% increase over FY08 (in FY08 IDA commitments amounted to USD 11235 mn). Africa and South Asia account for 86% of the FY09 commitments. Gross disbursements, including grants, amounted to 9,219 mn in FY09, which is an increase of 59 mn from FY08, but in FY08 disbursements were higher than normal due to pre-arrears clearance grants. In FY07 gross disbursements amounted to 8,579 mn.

IDA financed operations and strategies must reflect the IDA 15 policy framework. The framework calls for IDA to support low-income countries by increasing its activities in combating climate change, facilitating regional integration and cooperation, boosting infrastructure investment and providing greater support to post-conflict countries, notably in Africa. The framework furthermore focuses on three themes centering on IDA's role in i) the global aid architecture, ii) country-level effectiveness and iii) fragile states. The IDA 15 Mid Term Review (MTR) will be held in November 2009 in Washington DC.

Earlier this year the Bank completed a comprehensive, independent review of internal controls over IDA operations in order to assure stakeholders that IDA complies with its articles and policies, and that the funds it provides for development purposes are used as intended and have measurable results. The review found that IDA's internal controls framework operates to a high standard overall, giving reasonable assurance that controls operate effectively, although it did identify weaknesses in parts of the framework. Bank Management has formulated a robust plan to address the results of the IDA Controls Review and an independent Implementation Overview Panel has been established to monitor, oversee and advice on the implementation status and progress achieved.

IDA's response to the crisis is termed the Fast Track Facility (FTF). IDA replenishment provides for finite amount ant therefore the FTF, which amounts to 2 bn USD, does not entail any new funds. The FTF is designed to frontload funds to IDA countries at a time when many sources of finance seem to be drying up. Funds allocated from IDA under the FTF will be allocated in accordance with the IDA 15 framework, based on a request from the country in question. The Facility thus provides for early disbursement, but does not entail any new terms of disbursement or any additional funds to disburse. In the end of FY09 ten operations totaling 990 mn and covering 8 counties have been brought forward for fast track processing.

IDA Country Cases:

Afghanistan

The new Interim Strategy Note (ISN) covers FY09-11 and envisages a grant program of around USD 600 mn. The Bank will continue to bolster core government systems as the basis for credible state building, through efforts to strengthen public financial management, fiscal sustainability, and improved transparency and accountability. Key to the Bank's approach in the country is enhancing partnerships with other donors to ensure aid is used effectively. Given the enormous needs and the overall importance of the rural economy for growth and poverty reduction; support to the rural economy and livelihoods will remain a strong priority. The WBG will also continue supporting growth of the formal private sector through lending and advisory work as well as identify and address specific measures that catalyze business growth. It will also invest directly in local companies, including banks, to help them expand business. In FY09, IDA commitments to Afghanistan amounted to USD 197 mn. Since re-engagement in 2002, total World Bank commitments to Afghanistan have reached USD 1.89 bn, comprising USD 1.45 bn in IDA grants and USD 436.4 mn in IDA credits. Since 2002, IFC has provided USD 93

mn of equity financing while MIGA has guaranteed USD 107 mn of foreign direct investment. The WB also manages the USD 3 bn Afghanistan Reconstruction Trust Fund.

Liberia

During spring 2009 the Liberia Country Assistance Strategy (CAS) was endorsed by the Board marking another important step in Liberia's strong efforts to move beyond the havocs during the civil war. In an effort to ease the administrative pressure on the authorities the Bank (including IFC) had undertaken the CAS exercise together with the African Development Bank. The positive occasion was enhanced by the hugely successful Buy-Back operation that had been announced the day before the Meeting. With the operation, supported i.a. by Norway and a few other donors, US 1.2 bn of privately held debt to Liberia had been cancelled. Still, the level of support from donors will need to continue for a long time. Even if Liberia has the potential to grow quickly it is still today very much beneath its own GDP level of the 70s. What is seen at the moment is largely a catching up process, in particular as regard rehabilitation of basic infrastructure.

Nepal

The new Interim Strategy Note (ISN) covers FY10-11 and supports the promotion of consensus and unity to address key elements of the peace process, including the foundations for state building, growth, and improved basic service delivery for Nepal's poor. The World Bank's strategy is organized around three themes: (i) Promoting institutions to address the cluster of challenges in adapting and constructing the public systems, institutions and capacities needed for the new Nepal; (ii) laying the foundation for sustainable, inclusive and equitable economic growth with focus on job-creation, productivity, connectivity and sustainability; and (iii) Enhancing equitable access to the benefits of growth, services and social inclusion. Over the FY10-11, Nepal can potentially benefit from an allocation of about USD 782 mn from the IDA. The IFC can potentially commit USD 15-20 mn on average annually, depending on the availability of viable investments and improvements in the business climate. In FY09, IDA commitments to Nepal amounted to USD 139 mn. A Country Assistance Strategy (CAS) for Nepal will be prepared in FY2012.

Pakistan

In FY09, the Bank committed USD 1.7 bn to help Pakistan cope amid the global economic crisis, the institution's highest ever year-on-year support to the country. The Bank's financial support and technical assistance focused on helping the country maintain economic stability, steer the economy back onto a higher growth path and help the government to put in place the systems and procedures to realize its vision to adequately and effectively protect the poor from economic shocks. Key to the Bank's program in Pakistan is scaling up existing programs that are delivering results. The Bank also continued to invest in education in Punjab and Sindh - in FY09, USD 650 mn was committed to support the provincial governments' own education reform programs which aim to increase school participation and progression, reduce gender and rural-urban disparities, and improve quality and education sector governance. In addition, the Bank,

together with the Government of Japan, helped to mobilize USD 5 bn in additional donor resources for Pakistan.

West Bank Gaza

After the ceasefire basic services have been resumed by the authorities in Gaza. It is estimated that reconstruction costs after the war will be to the tune of at least USD 500 mn. The efforts by the Bank are geared towards rebuilding and mending damaged property rather than scaling up activities. Most businesses are closed in Gaza, which in effect means that the local authorities have little or no tax base. There is a real decrease in GDP per capita.

As opposed to houses, water and sanitation infrastructure in Gaza is relatively intact. The real problem is water quality. As scarce water is withdrawn from underground reserves, contaminated water from untreated sewer seeps in. It is estimated that about 60% of all health problems are related to poor quality of water. There have been reports of problems with blue baby syndrome[6] caused by poor water quality.

The Trust Fund for Gaza and the West Bank was enhanced with an additional USD 55 mn. The lion's share of cost for reconstruction is for private and public buildings.

Zimbabwe

The Bank has kept a fairly low profile in Zimbabwe and has, unlike the IMF and the African Development Bank, never left country. The ambition is to stay engaged and to work together with other donors. However, without substantial positive changes, the Bank will not be able to engage deeper and brother than it does at present.

During the last two years the Bank has been engaged in Zimbabwe with funding from the Bank's Low Income Countries Under Stress (LICUS) Trust Fund (TF). Support has been given to the health sector including a HIV project and to the central statistical office in Harare in an effort to support improvement of poverty data.

Regular Bank lending is presently impossible due to Zimbabwe's arrear to the Bank and IMF. Instead the Bank operated through the LICUS TF as well as the Multi Donor (MD)TF (MDTF). The Bank has been supportive in establishing a new MDTF (II). The Government will take a lead role in the MDTF II which will likely be up and running in a few months time. Several new parties like AfDB and UN organizations have voiced their interest to support MDTF II.

Several important steps have been taken by the Government to further economic and social development and political stability during the year. An inclusive government had been formed; a Short Term Emergency Recovery Program (STERP), including a multi-currency strategy, has been adopted; inflation has been suppressed. However, numerous problems persisted. Bad governance is widespread. A delicate issue is property rights.

[6] High levels of nitrate, caused by human waste cause blood disorder in infants under six months of age, commonly called "blue-baby" syndrome; in which there is a reduction in the oxygen-carrying capacity of blood.

The Reserve Bank's image is currently so tainted that the Government has set up its own accounts to hold resources.

V. IFC

In a year when private capital flows to emerging markets decreased by almost half, IFC, with its international AAA credit rating, quickly directed resources toward the poorest countries and regions most affected by the current global economic and financial crisis. However, the financial crisis affected IFC's financial capacity which limited its ability to continue the recent growth in investments. In FY09, IFC financing for private sector development decreased to USD 14.5 bn[7] from a record high of USD 16.2 bn in FY08. The volume of new commitments declined in all regions except Sub-Saharan Africa where a commitment growth of 32% was recorded (see Annex 5 for details). The number of IFC's projects rose 18% to 447, of which 50% were in IDA countries. Demand for IFC investments and advisory services remains strong.

While IFC's core priorities have not changed – frontier markets, climate change, infrastructure, agribusiness, and financial markets (with particular focuses on MSMEs) – the Corporation's overall strategy has shifted from an emphasis on growth to focus on its countercyclical role while at the same time working to enhance risk management, stabilize its portfolio, mobilize partners and help existing clients weather the financial crisis. For FY10, IFC estimates commitments of USD 11-12 bn from its own account.

IFC has been an effective conduit of funds to the private sector development countries, with every USD 1 of capital typically leveraging approximately USD 17.5 in project costs and generating about USD 11.5 of benefits. IFC's continues to have strong focus on development impact: both in FY09 and FY08, about 71% of IFC projects had high developmental outcomes. For example, In FY09, IFC client companies lent more than USD 9 bn to about 8.5 mn microfinance borrowers, and made over USD 90 bn worth of loans to 1.3 mn small and midsize businesses.

VI. MIGA

After excellent results reached in FY08, this year in light of the financial crisis and decreased cross-border flows to emerging markets MIGA faced a significant decline in its business volume: in FY09 gross new guarantees issued totaled USD 1.38 bn (a 34% decrease over FY08)[8]. At the same time, run-off from existing portfolio was USD 555 mn (about 40% lower compared to FY08). As a result, the size of MIGA's total gross guarantee portfolio continued to grow, to a record high of USD 7.3 bn as of end-FY09 (USD 822 mn increase over FY08). During FY09, MIGA issued 30 new guarantees in 20 countries, compared to 38 contracts in 18 countries in FY08. The regional breakdown of gross new guarantees issued in FY09 was 88% in ECA, 4 % in Africa, 2% in LAC, and 6% in Asia. The high concentration of new business in the ECA region was the direct result of a demand pattern heavily centered on the banking sector in Eastern Europe

[7] Includes USD 4.0 bn mobilized through syndications and structured finance

[8] While it was a drop from the last year, the new business volume equaled the annual average of new issuances for the period FY04-08.

which MIGA made a priority to support as part of its financial crisis response[9]. Beyond the necessary response to the current financial crisis, MIGA reaffirmed its commitment to the four strategic priorities for operational focus in FY10-12, i.e. IDA countries, post-conflict countries, complex infrastructure projects, and South-South investments.

In FY09, MIGA began the first stage of a two-part institutional reform effort toward the long-term goal of liberalizing MIGA's mandate. In April 2009, MIGA's Board of Directors approved substantial changes to the agency's Operational Regulations in order to meet changing circumstances and market conditions.[10] In June 2009 MIGA management presented to the Board of Directors several options to amend MIGA's Convention.

[9] In March 2009, MIGA has introduced a new Financial Sector Initiative in Response to the Global Financial Crisis. Under this initiative MIGA issues individual contracts of guarantees to financial institutions on cross-border investments into their subsidiaries in emerging and developing countries.

[10] These changes provide MIGA greater flexibility in its product offerings through the addition of a new area of coverage, enhancements to several existing areas of coverage, and clarification or streamlining of some existing procedures as to coverage and eligibility.

ANNEX A – The World Bank and the Nordic-Baltic Office at a glance

The World Bank was established in 1944 primarily to help rebuild Europe after the Second World War. Today, the Bank's mission has shifted to help reduce poverty in the developing world through economic and social development and reconstruction. The Bank is formally one of the UN specialized agencies, entirely with its own autonomous financing and decision-making, with 18 member countries as shareholders. Along with the rest of the development community, the World Bank focuses its efforts on supporting countries in the challenge to reach the Millennium Development Goals (MDGs) by 2015. The World Bank Group consists of five separate organizations. The IBRD and the IDA respectively provide low-interest loans, interest-free credit, and grants to developing country governments. The IFC promotes private sector investment by investing in equity and providing loans to companies in developing countries without sovereign guarantees. The MIGA provides guarantees against political risk to investors in and lenders to developing countries. And the ICSID settles investment disputes between foreign investors and their host countries.[11]

The World Bank's highest decision making body is its Board of Governors, representing member countries as government shareholders. The Governors, generally finance and development ministers from all member countries, meet once a year for an annual meeting, jointly with the International Monetary Fund (IMF) and twice a year at a 24 member Development Committee meeting providing political guidance for the Bank. The daily decision making is delegated from Governors/Ministers to the 24 Executive Directors, representing one or several of the 186 shareholders. The Nordic and Baltic countries are represented at the Executive Board by one Executive Director (ED). The ED is assisted by the Nordic Baltic Office (NBO) where the following persons worked during the time covered by the report:[12]

Executive Director	Svein Aass (Norway)
Executive Director	Anna Brandt (Sweden)
Alternate Executive Director	Jens Haarlov (Denmark)
Senior Advisor	Erik Eldhagen (Sweden)
Senior Advisor	Lina Vanagiene (Lithuania)
Advisor → Senior Advisor	Anna Katrin Vilhjalmsdottir (Iceland)
Advisor → Senior Advisor	Ulle Lohmus (Estonia)
Advisor → Senior Advisor	Stefan Isaksson (Sweden)
Advisor	Tuuli Juurikkala (Finland)
Advisor	Inguna Dobraja (Latvia)
Advisor	Dovile Jasaitiene (Lithuania)
Executive Assistant	Gun-Maj Ramberg
Program Assistant	Betsy Alejandra Barrientos

The Nordic Baltic Executive Director has been the chair for the Committee on the Governance and Administrative Matters (COGAM) until the termination of Mr. Aass' term in the NBO. The Alternate Executive Director is a member of the Subcommittee of the Committee on the Development Effectiveness (CODE).

[11] The International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

[12] Inguna Dobraja joined the office as an Advisor September 2008. Dovile Jasaitiene joined the office as an Advisor February 2009. Anna Brandt joined the offices as an Executive Director August 31, 2009. Anna Katrin Vilhjalmsdottir became a Senior Advisor August, 2008. Ulle Lohmus became a Senior Advisor, October, 2008. Stefan Isaksson became a Senior Advisor June 2009. Lina Vanagiene left the office January 2009. Erik Eldhagen left the office May 2009. Svein Aass left the office in September 2009. Ola Storberg, Norway, will join the office as an Advisor in September 2009.

ANNEX B – Selected financial data of IBRD

Fiscal years 2004-2009, in USD mn

	2009	2008	2007	2006	2005	2004
Lending						
Commitments	32,911	13,468	12,829	14,135	13,611	11,045
Gross Disbursements	18,564	10,490	11,055	11,883	9,722	10,109
Net Disbursements	8,344	(2,129)	(6,193)	(1,741)	(5,131)	(8,408)

Reported Basis	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Loans Income	3,835	5,497	5,467	4,864	4,155	4,403
Provision for Losses on Loans and Guarantees decrease (increase)	(284)	684	405	724	502	665
Investment Income	603	1,066	1,281	1,107	627	304
Borrowing Expenses	(2,739)	(4,017)	(4,519)	(3,987)	(3,037)	(2,789)
Net Non-interest Expense	(1,087)	(959)	(975)	(968)	(928)	(887)
Reported Net Income (Loss)	3,114	1,491	(140)	(2,389)	3,189	(3,049)
Transfers Approved by the Board of Governors	(738)	(740)	(957)	(650)	(642)	(645)
Effects of applying FAS133	3,280	(40)	(842)	(3,479)	2,511	(4,100)
Operating Income	572	2,271	1,659	1,740	1,320	1,696
Allocable Net Income	500	2,144	1,608	1,676	1,252	1,675
Net return (%) on Average Earnings Assets[13]	0.45	1.87	1.34	1.34	0.96	1.18
After the effects of FAS133 and Transfers Approved by the Board of Governors	2.38	1.23	(0.11)	(1.84)	2.32	(2.12)
Return on Equity (%)	1.53	5.96	4.64	5.05	3.90	5.21
After the effects of FAS133 and transfers approved by the Board of Governors	8.01	3.73	(0.37)	(6.84)	9.26	(8.88)
Equity to Loans Ratio (%)[14]	34.53	37.62	35.05	32.96	31.45	29.35
Total Assets	275,420	233,311	207,601	212,982	221,609	228,910
Loans Outstanding	105,698	99,050	97,805	103,004	104,401	109,610
Accumulated Provision for Loan Losses	(1,632)	(1,370)	(1,932)	(2,296)	(3,009)	(3,505)
Borrowings Outstanding	110,040	87,402	87,460	95,491	100,898	108,066
Total Equity	40,037	41,548	39,796	36,474	38,588	35,463

Fair Value Basis	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**
Net Income	(225)	1,135	900	640	402	484
Net Income before Transfers	513	1,875	1,875	1,290	1,044	
Net return (%) on Average Earnings Assets	0.40	1.52	1.49	0.98	0.74	0.76
Return on Equity (%)	1.41	4.93	5.21	3.74	3.04	3.36
Equity-to-Loans Ratio (%)	35.26	36.71	34.47	32.44	30.83	29.07
Cash and Liquid Investments	38,579	23,103	22,258	24,929	26,435	31,126
Loans Outstanding	101,918	98,392	96,144	101,102	104,057	112,608
Borrowings Outstanding	110,022	89,946	89,484	95,258	105,691	109,675
Total Equity	38,316	40,128	38,483	37,590	36,943	36,421

[13] Before the effects of FAS133 and Board of Governors approved transfers
[14] Before the effects of FAS133 and Board of Governors approved transfers

ANNEX C – Selected financial data of IFC

Fiscal years 2004-2009, in USD mn	**2009**	**2008**	**2007** as restated	**2006** as restated	**2005** as restated	**2004**
Net Income highlights:						
Income from loans and guarantees	871	1,065	1,062	804	660	518
Income/loss from equity investments	(42)	1,688	2,292	1,224	1,365	658
Income from debt securities	71	163	27	7	-	-
Release of (provision for) losses	(438)	(38)	43	(15)	261	103
Income from liquid asset trading activities	474	473	618	444	358	177
Charges on borrowings	(488)	(782)	(801)	(603)	(309)	(141)
Other income	153	113	99	109	86	75
Other expenses	(629)	(555)	(500)	(477)	(423)	(383)
Forex gains (losses) on non-trading activities	10	(39)	(5)	6	(7)	4
Expenditures for technical assistance and advisory services	(129)	(123)	(96)	(55)	(38)	(29)
Expenditures for performance based grants	(6)	(27)	-	(35)	-	-
Net gains (losses) on financial instruments	452	109	(99)	(145)	61	11
Income before grants to IDA	***299***	***2,047***	***2,640***	***1,264***	***2,014***	***993***
Grants to IDA	(450)	(500)	(150)	-	-	-
Net income	(151)	1,547	2,490	1,264	2,014	993
Balance sheet highlights						
Total assets	51,483	49,471	40,599	38,547	39,560	32,361
Liquid assets, net of associated derivatives	17,864	14,622	13,269	12,730	13,325	13,055
Loans and equity investments	22,214	23,319	15,796	12,797	11,489	10,279
Borrowings withdrawn and outstanding	25,711	20,261	15,879	14,967	15,359	16,254
Total capital	16,122	18,261	14,017	11,141	9,798	7,782
o/w Undesignated retained earnings	12,251	12,366	10,604	7,868	6,894	5,193
Designated retained earnings	791	826	606	852	562	225
Capital stock	2,369	2,366	2.365	2.364	2.364	2.361
Accumulated other comprehensive income	711	2,703	442	57	1	3
Key financial ratios						
Return on average assets	(0.3)%	3.4%	6.3%	3.2 %	5.6 %	3.1 %
Return on average net worth	(0.9)%	9.6%	19.8%	12.1 %	22.9 %	13.7 %
Cash and liquid investments as % of next three years' estimated net cash requirements	75%	62%	85%	112 %	142 %	116 %
Debt to equity ratio	2.0:1	1.4:1	1.3:1	1.5:1	1.8:1	2.3:1
Capital adequacy ratio	44%	48%	57%	54%	50%	48%
Loan loss reserves	7.4%	5.5%	6.5%	8.3%	9.9%	14.0%
External funding liquidity level	163%	96%	95%	n/a	n/a	n/a

ANNEX D – Development Committee in FY2009

The financial crisis remained in the forefront of both the 2008 Annual Meetings and 2009 Spring Meetings of the Development Committee (DC), as Governors focused on the effects of the crisis and the countercyclical role of the Breton Woods Institutions. Other important topics of the Annual and Spring Meetings were climate change and voice and representation.

In addition to the Development Committee meetings, the Ministers also participated in special ministerial meetings on climate change during both the Annual and Spring Meetings. This meeting series has become known as the Bali Process. The process sets up a number of ministerial meetings for finance and/or development ministers, in parallel with the UNFCCC negotiations, and accordingly, it will culminate in Copenhagen in 2009.

During the Annual Meetings meeting on October 12, 2008, the DC focused on the financial crises, the voice and participation reform in the World Bank as well as the Bank Group's strategic framework on climate change. More specifically the DC considered the following topics:

- **Recent Economic Developments, and their effect on long term growth and overcoming poverty: the role of the World Bank and the IMF in protecting the vulnerable:** The mood of the meeting was largely influenced by the financial situation which weighed heavily on the minds of those present. Governors shared a general concern over the implications of the financial market meltdown, both globally and/or domestically, and focused on how to respond to the crises.
- **Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform:** Governors generally accepted a phased approach to the voice reform, thereby concluding the first phase, including the making of an additional chair for Sub-Saharan Africa. Governors furthermore highlighted the importance of the second phase as discussions on the realignment of IBRD shares commenced.
- **Development and Climate: A Strategic Framework for the World Bank Group:** Governors demonstrated a strong support for the framework and generally accepted the importance of addressing climate change and its detrimental effect on developing countries

During the luncheon DC members informally discussed progress on the Bank Group's strategic directions and as well as the financial crisis.

The DC received progress reports and follow-ups on the following issues:

- **Development and Climate Change: A Strategic Framework for the World Bank Group;**
- **Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Options for Reform.**

During the Spring Meetings in April 2009 the DC considered the following topics:

- **Implications of the Global Economic Crisis for Developing Countries and the Role of the International Financial Institutions.** Governors focused on the effects of the crisis on the poorest and discussed ways to strengthen the Bank's response, new initiatives designed to mobilize more resources and the need for a strong multilateral response to the crises.
- **Update on Voice and Participation Fragile Situations and Post-Conflict States**: The DC agreed to accelerate work on the second phase of the reform with a view to reach an agreement by the 2010 Spring Meetings and noted that this must involve all shareholders in a transparent, consultative and inclusive process.

During an informal Ministerial Breakfast, the DC Ministers further discussed the global economic crisis.

The Committee furthermore received the following background documents:

- **Global monitoring report 2009**
- **Enhancing Voice and Participation of Developing and Transition Countries in the World Bank Group: Spring 2009 Progress Report**
- **Review of Bank Group Internal Governance**

ANNEX E – Regional breakdown of new commitments

Table 1: Regional breakdown of IBRD + IDA commitments for FY06-FY09

Region	Lending Volume							
	FY06		FY07		FY08		FY09	
	$ bn	*Share (%)*	$ bn	*Share (%)*	$ bn	*Share (%)*	$ bn	*Share (%)*
Africa	4.8	*20.3*	5.8	*23.5*	5.7	*23.1*	8.2	*17.5*
East Asia and Pacific	3.4	*14.4*	4.0	*16.2*	4.5	*18.2*	8.2	*17.5*
Europe and Central Asia	4	*17*	3.8	*15.4*	4.2	*17.0*	9.4	*20.0*
Latin America and the Caribbean	5.9	*25*	4.6	*18.6*	4.7	*18.9*	14	*29.9*
Middle East and North Africa	1.7	*7.2*	0.9	*3.6*	1.5	*5.9*	1.7	*3.6*
South Asia	3.8	*16.1*	5.6	*22.7*	4.2	*16.9*	5.4	*11.5*
Total IBRD+IDA	**23.6**	***100***	**24.7**	***100***	**24.7**	***100***	**46.9**	***100.0***

Source: Quarterly Report to the Board: FY09 Q4

Table 2: Regional breakdown of IBRD and IDA commitments in FY08 and FY09

Region	**IBRD**			**IDA**		
	FY08	FY09	*Change, %*	FY08	FY09	*Change, %*
Africa	0.0	0.4	*1.105*	5.7	7.8	*39*
East Asia and Pacific	2.7	6.9	*158*	1.8	1.2	*-30*
Europe and Central Asia	3.7	9.0	*124*	0.5	0.4	*-16*
Latin America and the Caribbean	4.4	13.8	*218*	0.3	0.2	*-34*
Middle East and North Africa	1.2	1.6	*29*	0.3	0.2	*-36*
South Asia	1.5	1.3	*-14*	2.8	4.1	*50*
Total	**13.5**	**33.0**	***144***	**11.2**	**14.0**	***25***

Source: Quarterly Report to the Board: FY09 Q4

Table 3: Regional breakdown of IFCs new commitments for FY06-FY09

Region	New Commitments								
	FY06		FY07		FY08		FY09		
	$ bn	*Share (%)*	$ bn	*Share (%)*	$ bn	*Share (%)*	$ bn	*Share (%)*	*% change*
Sub-Saharan Africa	0.7	*10.4*	1.4	*17.0*	1.4	*12.1*	1.8	*17.3*	32.2
East Asia and Pacific	1.0	*14.9*	0.9	*10.9*	1.6	*14.3*	1.2	*11.3*	-26.7
South Asia	0.5	*7.5*	1.1	*13.3*	1.3	*11.1*	1.2	*11.5*	-3.9
Europe and Central Asia	2.1	*31.3*	1.8	*21.8*	2.7	*23.5*	2.1	*20.3*	-20.0
Latin America and the Caribbean	1.7	*25.3*	1.8	*21.8*	2.9	*25.8*	2.7	*25.8*	-7.5
Middle East and North Africa	0.7	*10.4*	1.2	*14.6*	1.4	*12.6*	1.3	*11.9*	-12.6
World	0.01	*0.1*	0.04	*0.5*	0.06	*0.5*	0.18	*1.7*	228.6
Total IFC	**6.7**	***100***	**8.2**	***100***	**11.4**	***100***	**10.5**	***100.0***	-7.5

Source: Annual Portfolio Performance Review

ANNEX F – Loan Prices

Table 1: IBRD's Loan Terms

IFL loan pricing as of Aug. 5, 2009				
	Variable Spread	**Fixed Spread**		
		10 years and less*	Greater than 10 and up to 14 years*	Greater than 14 years*
Contractual Lending Spread	+0.50%	+0.50%	+0.50%	+0.50%
Market Risk Premium	-	+0.10%	+0.10%	+0.15%
Funding Cost**	-0.33%	+0.30%	+0.55%	+0.75%
Lending Rate in USD	**LIBOR+0.17%**	**LIBOR+0.90%**	**LIBOR+1.15%**	**LIBOR+1.40%**
Lending Rate in EUR	**LIBOR+0.17%**	**LIBOR+0.90%**	**LIBOR+1.15%**	**LIBOR+1.40%**
Lending Rate in JPY* **	**LIBOR+0.17%**	**LIBOR+0.80%**	**LIBOR+1.05%**	**LIBOR+1.30%**
Front-end Fee	0.25%	0.25%		

*As measured by average repayment maturity of the loan at commitment
**The variable spread includes the actual funding cost; the fixed spread includes the *projected* funding cost over the life of the loan.
*** A basis swap adjustment of -0.10% is applicable to the JPY fixed spread

Table 2: Pricing for Development Policy Loans with a deferred Drawdown Option (DDOs)

	DPL DDO	**CAT DDO**
Interest Rate	IFL variable or fixed spread in effect at the time of withdrawal	
Front-end Fee	0.75%	0.50%
Renewal Fee	0.50%	0.25%

Table 3: Pricing for IBRD partial risk, partial credit, and policy-based guarantees.

Pricing for IBRD Partial Risk, Partial Credit, and Policy-Based Guarantees	
Front-end Fee	0.25%
Guarantee Fee	0.50%

This information is also available on the Treasury website where the Bank posts its lending rates.