

Chapter 1

Overview of World Bank Activities in Fiscal 2001

In fiscal 2001 the World Bank intensified its efforts to help countries fight poverty. It accelerated support—jointly with the IMF—to help the world's poorest countries prepare poverty reduction strategies, thus advancing their eligibility for significant debt relief. It heightened collaboration with global partners around the international development goals to enhance prospects for their achievement and, in particular, to strengthen the fight against HIV/AIDS. And it articulated a new Strategic Framework that clarifies the key strategic directions of the Bank and emphasizes the need to consolidate and build on the significant progress of recent years.

GLOBAL CONTEXT: SLOWING RECOVERY, SLOW PROGRESS ON POVERTY REDUCTION

During 2000, the world economy continued its remarkable recovery from the 1997–98 financial crisis, but momentum faded as the year progressed. GDP growth of developing countries averaged 5.4 percent in 2000, a shade above the previous year. The fastest-growing region was East Asia and Pacific, at 7.5 percent; Sub-Saharan Africa trailed with 2.7 percent growth. South Asia continued on a steady growth path despite a major earthquake in India. Accelerated reform also helped growth in Europe and Central Asia's developing countries, boosted by the rise of Russian oil revenues to a record level; resolving setbacks to financial stability and attracting private investment remain challenges for the region. Latin America, on the whole, also recovered well, benefiting from a return to stability of global financial markets. Growth in the Middle East and North Africa continued, but serious challenges include the continued political uncertainty and high unemployment in the region. For the world as a whole, slower growth is expected for 2001.

Progress on poverty reduction has been slow, and the challenge of the international development goals remains immense (see page 4). Prospects for success, in some areas, are improving, however. Between 1990 and 1998 the proportion of people living in extreme poverty fell from 29 percent to 23 per-

cent, with China leading the decline. In at least 25 developing countries, infant mortality rates have been declining, putting them within likely reach of the 2015 infant mortality goal. The gaps between girls' and boys' enrollments have narrowed. But other data are sobering: estimates show that more than 113 million children remain out of school, 150 million children remain underweight, and maternal deaths average 440 per 100,000 in developing countries (compared with 21 in high-income countries). HIV/AIDS continues to present a formidable obstacle to reaching the goals, although a few countries are beginning to reap successes from prevention programs. And many countries, on present trends, are not on track to halving their poverty incidence by 2015.

FISCAL 2001 ASSISTANCE: FOCUS ON POVERTY, QUALITY

Higher lending volumes and special financing. At \$17.3 billion, new lending in fiscal 2001 was modestly above the previous year's level for IBRD and IDA combined (table 1.1). The increase resulted from higher IDA lending to Africa, consistent with IDA-12 goals and in particular to respond to the HIV/AIDS crisis, post-conflict situations, and oil price shocks. A multicountry, fast-track program for Africa to intensify the fight against HIV/AIDS deserves special mention for its innovativeness as well as scope for scaling up development impact (box 1.1). Overall, new IDA lending focused on investments aimed at reducing poverty, including investments in the social sectors and rural and community-driven development. Demand from IBRD borrowers, particularly in Europe and Central Asia and Latin America, was centered on strengthening financial sectors, investing in people, improving public sector management, and addressing needs in the transport sector. Institution building remained a strong priority. With respect to the number of projects, the year's total of 225 was about the same as last year, with IDA operations reaching a first-time-ever 60 percent of the total. The average size of operations increased to \$77 million in fiscal 2001

Table 1.1 World Bank Lending by Sector, Fiscal 1992–2001
(millions of dollars)

Sector	Classified on a loan-by-loan basis ^{a,d}				Classified on a loan component basis ^b	
	FY92–97 <i>Annual Average</i>	FY98–99 ^c <i>Annual Average</i>	FY00	FY01	FY00	FY01
Agriculture	2,913.3	2,700.0	1,336.7	1,456.8	1,150.0	1,448.4
Economic policy	2,339.6	5,812.7	1,286.7	1,323.8	1,301.0	652.0
Education	1,724.6	2,231.9	684.0	794.1	762.3	1,143.4
Electric power and other energy	2,547.2	1,253.6	994.2	824.4	990.5	944.9
Environment	738.3	711.5	514.1	515.9	918.8	791.2
Finance	1,632.5	4,247.6	1,676.5	2,231.3	1,774.0	2,231.7
Mining	218.1	845.8	54.5	36.0	20.0	36.0
Multisector	140.0	504.6	654.5	50.1	513.5	5.0
Oil and gas	550.9	78.8	167.0	81.6	166.7	155.1
Health, nutrition, and population	1,263.9	1,549.0	987.0	1,047.8 ^e	1,044.3	1,343.3 ^e
Private sector development	774.7	723.5	163.9	507.3	207.3	556.6
Public sector management	600.6	1,280.1	2,442.5	2,570.6	1,868.3	2,115.0
Social protection	757.2	2,190.4	990.0	1,672.5	1,517.9	1,882.7
Telecommunications	261.1	90.7	109.3	65.0	109.4	64.2
Transportation	3,060.2	3,183.1	1,690.0	2,969.9	1,612.3	3,024.6
Urban development	1,112.9	910.4	621.7	549.5	699.5	317.3
Water supply and sanitation	908.0	481.3	903.6	554.0	620.5	539.2
Total	21,543.1	28,795.0^c	15,276.2	17,250.6^g	15,276.3	17,250.6^g
Of which						
IBRD	15,368.4	21,634.3	10,918.7	10,487.1		
IDA	6,174.7	7,160.7 ^f	4,357.6	6,763.5 ^f		

Note: Numbers may not add to totals because of rounding. Please see appendix 10 in volume 2 for detailed IBRD and IDA lending by sector.

a. To better capture the evolving nature of Bank operations, the Bank's sector classification system is reviewed and changed as appropriate. In fiscal 2000, two new sector categories were created (Economic Policy and Private Sector Development) and one sector category was dropped (Industry). Economic Policy comprises operations that support macroeconomic policy, trade, and other economic and institutional reforms. It includes structural adjustment operations previously assigned to Multisector and some operations previously assigned to Finance. Private Sector Development comprises operations dealing with the business environment, private infrastructure, small scale enterprise, and privatization issues. As such, it includes some operations previously assigned to Industry and to Public Sector Management. Other operations previously included under Industry have been assigned to the Public Sector Management sector. In addition, a few individual operations approved in fiscal 1998–99 were reassigned, including a fiscal 1999 project from Agriculture to Water Supply and Sanitation.

b. This column shows lending by sector, based on a classification by major loan component. The example of a \$100 million public sector loan, with components aimed at addressing environmental, financial, and social protection needs, serves as an illustration. In the case of loan-by-loan classification, the full amount of the loan appears in the Public Sector Management sector; in the component classification, the full amount is split among the four sectors—Public Sector Management, Environment, Finance, and Social Protection. As a result, total lending of \$1,882.7 million for Social Protection in the component classification is the sum of all social protection components within loans approved in fiscal 2001.

c. Bank lending in fiscal 1998 and 1999 are presented together, the two being exceptional years due to the East Asia financial crisis.

d. The data in last year's *Annual Report* were slightly revised in fiscal 2001.

e. Includes \$287.2 million in IDA credits to seven countries under the Multi-Country HIV/AIDS Program for Africa, and \$40.1 million in IBRD loans to two countries under the Caribbean HIV/AIDS Initiative, for which the Bank earmarked funding of \$500 million and \$155 million, respectively, in fiscal 2001.

f. Excludes IDA HIPC grants of \$75 million to Uganda in fiscal 1998, \$154 million to Mozambique in fiscal 1999, and \$37 million and \$64 million to Honduras and Cameroon, respectively, in fiscal 2001.

g. Does not include special financing of \$104.8 million provided by the Trust Funds for East Timor, Gaza and the West Bank, Kosovo, and the Federal Republic of Yugoslavia.

from \$69 million the previous year, reflecting several large investment operations. The share of adjustment lending continued to stabilize at about one-third of total lending, significantly down from the fiscal 1999 peak of above 50 percent and approaching the typical adjustment lending shares in the early 1990s (before the financial crisis). In addition, 17 special financing operations were approved for a total commitment of \$104.8 million, compared with

12 operations and \$96.5 million in fiscal 2000. The beneficiaries were East Timor, Gaza and the West Bank, Kosovo, and the Federal Republic of Yugoslavia.

Accelerated debt relief. Significant progress was made in fiscal 2001 to provide deeper, broader, and faster debt relief to some of the world's poorest countries, many of them in Africa, under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative

Box 1.1 The Multi-Country HIV/AIDS Program (MAP) for Africa

The HIV/AIDS epidemic now poses the paramount threat to development in Sub-Saharan Africa. About 25 million adults and children are living with HIV/AIDS, as estimated by the Joint United Nations Programme on HIV/AIDS (December 2000). Some 17 million have already died from the disease, which may be costing the region 0.5 percent to 1.2 percent of per capita growth each year, with losses likely to grow.

In collaboration with partners (see page 103), the Bank launched in September 2000 the Multi-Country HIV/AIDS Program (MAP) for Africa—the first of its kind. Under MAP, flexible and rapid funding will be committed, on IDA terms, to individual HIV/AIDS projects developed by countries.

- The MAP seeks to dramatically increase access—especially by vulnerable groups—to HIV/AIDS prevention, care, and treatment programs.
- Communities and associations of people affected by HIV/AIDS will help design and implement activities and will control resources.
- Countries benefiting from the MAP in fiscal 2001 include Cameroon, Eritrea, Ethiopia, The Gambia, Ghana, Kenya, and Uganda.
- An initial amount of \$500 million covers the first of three phases. Phase 1 (expected to be fully committed by the end of calendar 2001) aims to help as many countries as possible intensify action against HIV/AIDS and cope with the unprecedented burdens of the epidemic. Phases 2 and 3, respectively, will stress mainstreaming and prevention.
- The MAP aims ultimately to avert millions of HIV infections, alleviate suffering for tens of millions, and protect the development prospects of entire nations.



This young boy is one of 8.1 million beneficiaries of Mexico's Second Basic Health Care Project, which is bringing modern basic health services to previously excluded rural poor people, especially women and children. A Third Basic Health Care Project was approved in fiscal 2001, focusing on increasing equity.

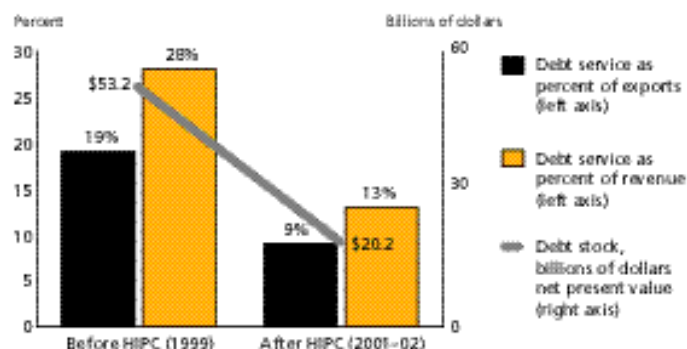
- Increase (based on early indications) social expenditures by an average of about \$1.7 billion a year during 2001–02, directed toward health, education, HIV/AIDS programs, basic infrastructure, and governance reform; and
- Reduce spending on debt service to about 2 percent of GDP—well below the average for developing countries; social expenditures, in comparison, are estimated at about 7 percent.

framework. As of June 30, 2001, 23 countries—compared with 7 a year ago—were receiving debt relief under this framework, amounting to more than \$34 billion over time from all creditors. Importantly, debt relief has begun to be delivered within a transparent and comprehensive Poverty Reduction Strategy Paper (PRSP) framework. PRSPs (discussed on page 30 under “Support to low-income countries”) are developed by countries after national consultations and aim to ensure a nationally “owned” poverty reduction framework for spending resources freed by debt relief. In addition, debt relief is delivered only to countries that have demonstrated the commitment and capacity to use the resources effectively. After HIPC (and combined with traditional) debt relief, the 23 countries will:

- Witness a two-thirds reduction in total debt, with debt service payments reduced by about \$1.1 billion a year (figure 1.1);

Evolving economic and sector work (ESW). ESW products numbered about 335 in fiscal 2001, including about 234 analytical reports and some 100

Figure 1.1 Reduced Debt Stock and Improving Debt Service Ratios before and after Assistance under the HIPC Initiative



policy notes and other products. In fiscal 2001 formal reports included 62 core diagnostic reports (such as poverty and gender assessments, public expenditure reviews, financial accountability, and procurement assessments); 75 other diagnostic reports (such as institutional and governance reviews, financial sector assessments, social protection reviews, and city development strategies); and 97 regional and country advisory reports. The Africa and Europe and Central Asia regions accounted for the highest share of the year's ESW. ESW provides the basis for the Bank's policy dialogue with clients. When undertaken in partnership with local institutions, it is also an effective vehicle for building institutional capacity. It underpins the country's own vision and the Bank's diagnosis of the country's development situation; it provides the analytical basis for HIPC and PRSP work in IDA countries; and it plays an important role in middle-income countries—underscored by the Development Committee's call for stronger analysis of structural, social, and sectoral issues and priorities. ESW helps the Bank develop its Country Assistance Strategies (CASs) and formulate and implement effective lending programs. In fiscal 2001 the Bank continued a reform effort to strengthen ESW and fill gaps in the availability of diagnostic reports, particularly in key areas such as public expenditure, procurement and financial management, and structural constraints to growth and poverty reduction.

Multidimensional support for poverty reduction.

Released in September 2000, the Bank's *World Development Report 2000/2001* emphasized opportunity, empowerment, and security as key to reducing multidimensional poverty. Examples of the Bank's efforts to reflect in its work the report's conclusions, through lending and nonlending services, include the following:

- Lending to fight communicable diseases amounted to over \$610 million—twice the average for the past four years, and including over \$418 million from IDA; support to combat HIV/AIDS and malaria has intensified, while the Bank is already the largest single source of external support for tuberculosis control in developing countries.
- Support for education is emphasizing access, quality, and equity; as of June 30, 2001, the Bank has supported 64 active projects worldwide with girls' education components; 55 of

these projects benefited from IDA financing.

- Also to benefit the vulnerable, the Bank is not only steadily expanding its social protection portfolio—whose quality is also improving—but also working at the global level, for example with the International Labour Organisation and the United Nations Children's Fund, to fight child labor.
- Working toward a cleaner, healthier environment has entailed extensive global consultations to inform a forthcoming environmental strategy, collaborative efforts to better manage Nile water resources, and more environmentally focused support for the energy, oil and gas, and mining sectors.
- Other progress to empower people is reflected in collaborative work on the Global Development Gateway—an initiative to make worldwide development knowledge more widely and interactively accessible—as well as using Bank lending to help build countries' information systems (75 percent of Bank projects have such components).
- A wide range of Bank Group services supports private sector development, ranging from investment climate surveys (of places as diverse as East Timor and the Russian Federation) and support for private provision of infrastructure to catalytic lending and innovative finance, including guarantees.
- A fast-growing area of support is law and justice, where Bank focus has evolved from specific law reform to encompass legal education for the public, anticorruption programs in the judiciary, indigenous dispute resolution mechanisms, and legal aid for poor women.
- A new operational policy to guide conflict-related work allows for a more systematic approach, including, in the area of conflict prevention, studies to identify root causes, support for transparent public expenditure management, and varied operational support (for demobilization and reintegration, for example).

Improved development effectiveness. The number of projects considered "at risk" in the Bank's portfolio has been cut in half over the past five years and is now the lowest it has been in many years. As a result, some \$16 billion of loans and credits are better positioned to deliver results to clients. The quality of project appraisal and supervision has also improved substantially; a similar trend is emerging with respect to nonlending services. These results are beginning to be reflected steadily in improved project

outcomes: the independent Operations Evaluation Department (OED) estimates that 78 percent of closed projects had satisfactory outcomes in fiscal 2000, compared with 73 percent in fiscal 1999. Institutional development and sustainability of results are also improving, slowly but steadily. Particularly noteworthy are quality improvements in the Africa region, which reflect in part IDA's growing effort to focus new lending on countries with good policy performance. The quality of adjustment lending has also improved markedly. Also notable toward ensuring more effective use of aid is the greater attention, Bank-wide, to safeguard and fiduciary policies. Highlights include an improved tracking system, recognizing the potentially high social and environmental costs of noncompliance; efforts to harmonize safeguard requirements across donors; and a steady strengthening of project financial management resulting from systematic efforts to improve governance and cost effectiveness. A growing priority of OED is to strengthen borrowers' capacity for evaluation.

PRESERVING FINANCIAL STRENGTH TO SUPPORT DEVELOPMENT NEEDS

IBRD net income in fiscal 2001 was \$1.5 billion, lower than the previous year primarily because of higher provisioning expenses. IBRD retained \$618 million out of fiscal 2001 operating income in its General Reserve—lower than in the previous year, when \$1.1 billion was retained in keeping with IBRD's strategy to preserve long-term financial strength and support other development needs. As part of its regular financing operations, IBRD raised \$17 billion in international debt markets in fiscal 2001. It continued to borrow at favorable costs, in turn enabling low borrowing costs for client countries. Funding volume was above the previous year's level, reflecting financing for loan disbursements and refinancing of debt retirements. IBRD maintained adequate liquidity in fiscal 2001 to ensure uninterrupted cash flow to meet its obligations. As of June 30, 2001, the liquid asset portfolio was \$24.2 billion.

FORMALIZING THE COUNTRY BUSINESS MODEL AND GLOBAL PRIORITIES

Country business model. "Supporting Country Development: World Bank Role and Instruments in Low- and Middle-Income Countries"—a paper pre-



More and more people are taking advantage of child health services in Ugandan villages covered by the country's Nutrition and Early Childhood Development Project, whose communications component is making a dramatic difference to community participation. Here, a child is weighed.

pared for the Annual Meetings in September 2000—described the changing paradigm for development assistance and outlined the way the Bank is adapting its approach to better reflect the lessons of experience and respond to new needs for development services. In particular, the paper noted the increasing focus on policies and institutions, the role of the private sector, and country ownership and partnership as articulated in the Comprehensive Development Framework (CDF). The paper also formalized the Bank's results-focused country business model, which is grounded in the country's own vision of development and diagnostic work on the priorities and constraints for change, and set out in the CAS.

Evolving Country Assistance Strategies. In fiscal 2001 the Board discussed 37 CASs, including 8 Transitional or Interim Support Strategies for post-conflict economies such as East Timor, Ethiopia, Kosovo, and Sierra Leone. More than ever, CASs are being prepared in consultation with countries and with attention to transparency. Emphasis on disclosure continued, with disclosure of 100 percent of IDA (including "blend") and 71 percent of IBRD country assistance documents, for an overall disclosure ratio of 87 percent Bank-wide. It is expected

Box 1.2 Scaling Up Results, Targeting the Vulnerable, Building on Success, Supporting Private Enterprise: Illustrations of Projects Approved in Fiscal 2001

Health. *The Second National Leprosy Elimination Project* (IDA, \$30 million) supports national programs in India to improve diagnosis, treatment, and monitoring at the state level, building on its predecessor, under which registered cases nationwide were cut in half between 1993 and 2000.

Rural development. *Brazil's Land-Based Poverty Alleviation Project* (IBRD, \$202 million) will scale up the results of two successful Bank-financed pilots that tested a community-based approach to provide faster access to land by the rural poor, thereby helping raise the incomes of about 50,000 families.

Regional integration. *The Regional Trade Facilitation Project* (IDA, \$110 million)—the first of its kind—will support poverty reduction through private sector-led growth in seven African countries, helping increase credit availability for productive activities and providing startup funds for the Africa Trade Insurance Agency.

Social protection. *The Emergency Demobilization and Reintegration Project and the Emergency Recovery Project* (IDA, \$400 million) will have a significant impact on reducing poverty in war-torn Ethiopia by helping veterans restart their lives and jump-starting the economy, while also addressing basic needs and scaling up HIV/AIDS-related interventions.

Finance. *The Second Poverty Alleviation Microfinance Project* (IDA, \$151 million) expands rural microcredit in Bangladesh to reach those who have to date been left out or underserved, while also ensuring that microlending will be sustainable into the future; 1.2 million new borrowers and 19,500 microentrepreneurs are expected to benefit.

Education. *The Mali Education Sector Expenditure Program* (IDA, \$45 million) is a 10-year program aimed at increasing gross primary enrollment from about 56 percent in 2000 to 95 percent in 2010, helping Mali's future ability to respond to competitive market conditions.

Transport. *The Third Inland Waterways Project* (IBRD, \$100 million) will improve market access of, and power supply to, remote inland areas of China's Hunan province and provide more economic inland waterway transport, reducing transport bottlenecks, strengthening institutional capacity, and benefiting nearly six million poor residents.

Natural disasters. *The Natural Disaster Management Project* (IBRD, \$404 million) will help reduce human, economic, and financial costs of natural disasters in Mexico by focusing on recovery and prevention of loss of life and infrastructure damage.

Public sector reform. *The Budget Systems Modernization Project* (IBRD, \$24 million) will modernize and expand Algeria's capacity for growth by promoting efficient, transparent, and effective governance.

Environment. *Russia's Coal and Forestry Sector Guarantee Facility* (IBRD, \$200 million) will help foster a better business environment in the coal and forestry sectors and support commercially viable enterprises.

Water supply. *The Rural Water Supply and Sanitation Project* (IDA, \$20 million) will expand sustainable water supply and improve sanitation service coverage to over 400,000 of the Republic of Yemen's mostly poor rural population, improving health and freeing girls from water-fetching chores to attend school.

that, after July 1, 2002, each IDA CAS presented to the Bank's Board would normally be based on a PRSP, which would provide the context for all IDA lending and nonlending activities. The Board has already considered a number of CASs based on PRSPs, including Burkina Faso and Uganda. A total of 17 of the year's CASs were prepared jointly with the IFC, underscoring the importance of private investment to these countries' strategies. While the poverty focus of CASs has been improving, the Bank has been steadily raising the standard for its assistance. Key priorities include good poverty diagnosis, integration of economic and sector work, selectivity in assistance, appropriate sequencing of instruments, and capacity building to monitor PRSP outcome indicators—currently a major challenge. Projects approved over the past year attest to the strong poverty focus of Bank assistance (box 1.2).

Support to low-income countries. The Boards of the Bank and the IMF considered Full and Interim PRSPs prepared by 32 countries in fiscal 2001, compared with 12 the previous year. Since their introduction in December 1999, PRSPs have become the principal vehicle for implementing the principles of the CDF in low-income countries. The accelerated preparation of PRSPs (including 29 Interim ones to enable countries' preliminary qualification for debt relief under the enhanced HIPC framework) signals progress, but the strong participatory process, still to come in the Full PRSPs, will be crucial. The approach is still in its early stages; linking public actions to priority poverty reduction outcomes will be critical as the process evolves. Progress of a different kind—donor coordination—is reflected in the European Union's decision to base its assistance to the Africa, Caribbean, and Pacific regions on the PRSP framework. Growing adoption of the PRSP approach attests to the expanding acceptance of CDF principles, which emphasize country ownership based on national consensus and strong participatory processes, long-term vision, results focus, and partnership. The Bank's Poverty Reduction Support Credit (PRSC) will help implement these strategies. On May 31, 2001, the Board of the World Bank approved a \$150 million PRSC for Uganda, the first IDA credit to support the implementation of a country's poverty reduction strategy as set out in its PRSP

(see page 43). A PRSC for Vietnam was also approved in fiscal 2001.

Support to middle-income countries. With the support of Ministers at the Joint Bank-Fund Annual Meetings in September 2000, the Bank Group created a task force to consider how best to respond to the needs of middle-income countries (those eligible to borrow from IBRD). A clear consensus emerged from extensive consultations with client countries, shareholders, and other partners: the Bank Group has a crucial role to play in middle-income countries. With nearly 80 percent of people who live on under \$2 a day residing in middle-income countries, any plan for successful global poverty reduction will require the Bank's continued active engagement in these countries. The Bank's global reach, broad sectoral knowledge, and specific private sector engagement through the IFC and MIGA enable it to provide strong support for sound policies and institutions; its financial support "crowds in" private capital and reduces vulnerability to market volatility; and, through its work in middle-income countries, the Bank gains valuable experience, informing its work in low-income countries. The task force highlights, however, the need for a catalytic and selective role, with the Bank focusing on assistance that others cannot or will not provide. At the Joint Bank-Fund Spring Meetings in April 2001, Ministers welcomed the task force-based proposals put forward by the Bank noting that they would support more structured and streamlined Bank-Fund cooperation. Proposals included the strengthening of the Bank's analysis of the country situation, including expanding, in concert with its partners, support for local capacity building; a deferred drawdown option for adjustment loans to reforming countries; and a more systematic and developmental role for adjustment lending.

Support for global public goods. The 2000 Annual Meetings also set near-term priorities for Bank engagement in global collective action: communicable diseases; environmental commons; economic governance and financial stability; trade and integration; and the information and knowledge revolution. The Bank has since moved forward in each of these areas, whose links to poverty reduction are strong. Progress has consisted of sharpening strategy, work-

ing with global partners on major initiatives, and integrating efforts into country-level work. An urgent task at the international level is to develop solid estimates of financing requirements for each priority area. That pending, the Bank is relying on innovative IBRD and IDA program and project lending to support strong national programs (such as the Multi-Country HIV/AIDS Program) as a basis for later global approaches, while also exploring a limited expansion of IDA's grant capability and a restructuring of the Bank's Development Grant Facility. The Bank's approach toward global public goods is based on careful selectivity in priorities and partnerships, and measured deployment of resources.

Sector Strategy Papers (SSPs). SSPs help organize the Bank's work on global priorities such as disease eradication or the environment. They are a launching point for promoting public action at the global level, pulling together global programs and partnerships, and providing incentives for client countries to take action. More generally, SSPs help shape the Bank's approach and activities in a given sector or thematic area to enhance impact on poverty reduction and growth. SSPs also lay out strategic options for sector and thematic areas identifying aspects of relatively weak country performance for priority attention. They are developed with broad stakeholder consultation, and their implementation is regularly monitored. In fiscal 2001 the Board reviewed three SSPs, including: "Strategy for the Financial Sector," "Reforming Public Institutions and Strengthening Governance: A World Bank Strategy," and "Social Protection Sector Strategy: From Safety Net to Spring Board."

A CHANGING WORLD BANK

Compact Assessment. In fiscal 2001 the Bank conducted an assessment of the Strategic Compact, launched in April 1997 between the Bank and its shareholders to renew itself to become more effective, with \$250 million in additional administrative resources over a three-year period. The Compact was ambitious in its time frame and scope; the challenge was heightened by unanticipated external developments—financial crises, post-conflict situations, and natural disasters—as well as the rising demands of partnership linked to the CDF-PRSP-HIPC work in many countries.

Table 1.2 The Changing World Bank

	Bank Group in 1996	Bank Group Today
Increased poverty focus		
■ Understanding of poverty	Economic focus	Multidimensional focus
■ Country-owned poverty reduction strategies	—	4 Full PRSPs, 32 Interim PRSPs
Broader development agenda		
■ Comprehensive Development Framework	—	Pilots in 12 countries
■ Anticorruption, good governance programs	—	Programs in 95+ countries
■ Lending commitments to combat HIV/AIDS	\$35 million	over \$393 million
Response to war-torn and indebted poor countries		
■ Post-conflict lending and advice	15 countries	35 countries
■ Debt relief operations	—	23 countries
■ Total committed debt relief (nominal)	—	\$34 billion over time (from all creditors)
Greater operational impact		
■ Satisfactory project outcomes (% of total projects)	69%	78%
■ Share of projects at risk	29%	12%
■ Quality of economic and sector work (% satisfactory)	72% (FY98)	86%
Improved client service		
■ Country directors in the field	0 out of 24	29 out of 53
■ Share of Bank staff in the field	38%	45%
■ Time for project preparation	24 months	15 months
More effective private sector promotion		
■ Private provision component in infrastructure projects	21%	39%
■ IFC investment commitments	\$2.1 billion	\$2.4 billion
■ MIGA guarantee coverage	\$0.8 billion	\$1.6 billion
■ Joint Bank-IFC departments	—	6
Increased knowledge sharing		
■ Number of distance learning centers	—	16
■ Number of “communities of practice” supported by the Bank’s thematic networks	less than 30	about 110
Greater openness and participation		
■ Published country assistance strategies (% of total)	None	87%
■ Share of projects with civil society involvement	less than 50%	more than 70%
■ Community-driven development components in projects (estimated approximate value)	\$0.7 billion	\$1.4 billion
Broader product base		
■ Lending product innovations		Examples include learning and innovation loans, adaptable program loans, and IDA guarantees; single currency loans, and e-bonds; and institutional and governance reviews, and financial sector assessments
■ Financial product innovations		
■ Advisory product innovations		

Significant progress has been made, in a relatively short time. Under the Compact, the Bank was to refuel business activity, refocus the development agenda, retool its knowledge base, and revamp institutional capabilities. Important gains have been made in improving operational quality and expanding the Bank’s portfolio of products and services (table 1.2). A changed Bank has meant making “Spring Meetings” documents publicly available for the first time; well-coordinated support from the Bank Group, including the IFC, for small and medium enterprises; and speeding up response to clients during periods of crisis through a greater

presence in the field. The Bank has also delivered on its commitment to return in fiscal 2001 to the fiscal 1997 net administrative budget in real terms.

The efficiency gains foreseen under the Compact have proved more difficult to realize. A number of new priorities and processes have increased the complexity and—in the short term—the cost of doing business. Supervision costs are higher because of the greater emphasis on quality as well as compliance with safeguard and fiduciary policies; the costs of preparing CASs have risen in step with growing attention to stakeholder consultations and disclosure; and the introduction of services

Table 1.3 Aligning Resources with Corporate Priorities: Selected Items in the Bank's Budget
(millions of dollars)

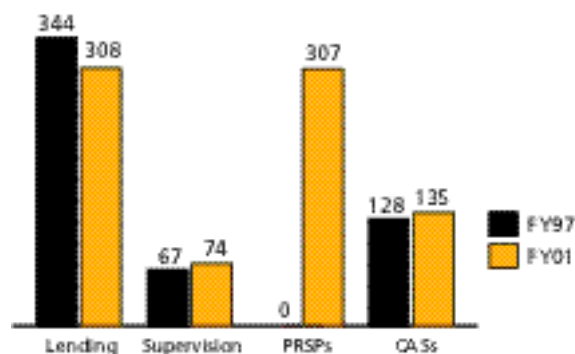
	Fiscal 2001	Fiscal 2002	Comments
Project Supervision	130	149	Higher fiduciary and safeguard standards
Lending	94	101	Increased emphasis on poverty reduction in Africa and South Asia
Country ESW	50	78	Increased funding for poverty assessments, public expenditure reviews, financial accountability as well as procurement assessments, and other key diagnostic work
Country Program Support	55	61	Continued support for PRSP preparation in low-income countries and policy dialogue in middle-income countries
Quality Assurance	19	23	Strong focus to maintain quality standards, attention to monitoring and evaluation
Selected Operational Support Services	54	42	Finance, administrative, and corporate services expected to decline as cost efficiency achieved

such as PRSP support and Financial Sector Assessments has entailed significant added cost (see figure 1.2). The Bank has also faced higher costs in terms of the stress levels of staff, who played a crucial role in the progress made under the Compact. Lessons from the Compact experience are reflected in the Strategic Directions Paper (SDP) as well as in the Bank's administrative budget for fiscal 2002, approved at the end of fiscal 2001 (see table 1.3).

World Bank Institute (WBI). A major emphasis of the "new" Bank is empowerment of people through knowledge and capacity building. Renewed during the Compact period, WBI is an important contributor to this objective (others being the Bank's research and advisory services, its thematic networks' "communities of practice," and information technology-based efforts). WBI facilitates learning on development issues for staff as well as Bank clients—including policymakers, ministry staff, academics, and increasingly, parliamentarians, journalists, the private sector, nongovernmental organizations, and other segments of civil society. At the end of fiscal 2001, WBI was reaching 48,000 participants annually in client programs in about 150 countries through nearly 600 learning activities. Programs continue to be scaled up through distance learning, global knowledge networks, and extended partnerships, and by harnessing the newest learning technologies. Over the past year WBI developed an Attacking Poverty Program aimed at building national capacity to prepare and implement the PRSP process. WBI programs are having an impact, as seen in these examples:

- A year-long anticorruption program in Paraguay (cosponsored by the U.S. Agency for International Development) culminated in an action plan approved by the country's president, to be implemented by the government and civil society.
- An independent evaluation has shown that students of the World Links Program, which links 100,000 students across 27 countries, have acquired new skills, knowledge, and attitudes—which explains growing demand from such countries as Peru, Senegal, Sri Lanka, and Turkey for scaled-up assistance.
- As an outcome of a PRSP forum in Côte d'Ivoire, elected officials and civil society representatives of eight participating country delegations created regional networks to facilitate consultations on their poverty reduction efforts.
- In an early example of WBI's "wholesaling" policy, the Administrative Staff College of India regularly offers—now on its own—a course on resettlement policy originally designed jointly with WBI.

Figure 1.2 Unit Cost of Operational Processes
(thousands of dollars)



Development impact. The Strategic Compact's ultimate aim was to improve development outcomes. Clear gains are emerging. In the areas of human development, institutional strengthening, and post-conflict assistance, for example, the Bank has helped:

- In Ethiopia, to improve access by four million people to health and sanitation facilities, and access by 600,000 children—half of them girls—to school;
- In Senegal, to advance prospects for more than halving the female illiteracy rate to 30 percent by 2005;
- In Brazil, to achieve a 38 percent drop in the number of AIDS-related deaths since 1993;
- In Mexico, to reduce the number of people with no health coverage from 10 million to 1.5 million;
- In some Caribbean countries, to reduce telephone and Internet charges by up to 50 percent;
- In Guatemala, to streamline the country's financial management system and make its budget available online;
- In Poland, to make corruption a high-profile issue;
- In Tunisia, to cut the public share of hospital financing from 69 percent to 35 percent;
- In Rwanda, to return to normal social and economic life some 1.3 million refugees of the civil war and to strengthen the country's economic recovery;
- In Bosnia and Herzegovina, to create 100,000 jobs through support for microcredit, following the brutal war of the early 1990s;
- In East Timor, to set up 400 village development councils under a project that is already funding over 500 subprojects selected by the communities themselves.

STRATEGIC FRAMEWORK AND FUTURE DIRECTIONS

Strategic Framework. Aimed at building on the progress made under the Compact, a Strategic Framework Paper and an SDP were presented to the Board in fiscal 2001 (see page 9). The papers reiterate the Bank's mission of fighting poverty, with the international development goals representing a prime commitment. They set out the two inter-related pillars that will underpin Bank assistance to countries and at the global level: building the climate for investment, jobs, and sustainable growth; and empowering poor people to participate in develop-

ment. The SDP emphasizes a catalytic role coupled with the need for selectivity along three dimensions—within countries, across countries, and for global programs. The Bank will articulate in the CAS its selectivity within a country; use income, poverty, and performance as the key criteria for selectivity across countries; and be guided by corporate and global public goods priorities at the global level. In addition, the papers center assistance to low-income countries on CDF-based poverty reduction strategies as well as debt relief and post-conflict needs, while clarifying the Bank's role in middle-income countries and at the global level.

Role of partners. The strategy papers emphasize the central role of collaboration with partners at the country, as well as global, level. Closely involving client governments, civil society, the private sector, and multilateral and bilateral partners at all stages and levels of country assistance—policy dialogue, formulation of Bank CASs, and design and implementation of lending and nonlending services—has become the norm. Collaboration with major institutional partners, such as the IMF and the United Nations (U.N.), has intensified. Operational cooperation and coordination with multilateral development banks (MDBs) has advanced significantly, and several technical working groups are launching efforts to promote coherence in approaches and harmonization of policies and procedures (on matters ranging from environmental assessments and financial management to corruption and gender). For global public goods, strategic partnerships with national governments, civil society, international organizations, bilateral donors, and the corporate sector have become fundamental to the Bank's engagement. In many arenas, joint work with U.N. agencies, the IMF, and MDBs is crucial. Important examples are the Global Alliance for Vaccines and Immunization focusing on prevention of communicable diseases, the Financial Stability Forum helping to prevent and manage financial crises, the Prototype Carbon Fund that addresses climate change issues, the Global Development Gateway aimed at increasing access worldwide to development knowledge, and work with the World Trade Organization and other partners on integrating least developed countries into the multilateral trade system.

Future Directions. For all the collective progress noted in this report, the world has far to go to win the fight against poverty. The Bank Group has an important role to play. Core assets are its financial strength, experience and knowledge, global reach,

Table 1.4 Cumulative IDA Subscriptions and Contributions, as of June 30, 2001

Member	Millions of dollars	Percent of total
United States	25,841.8	23.8
Japan	24,078.1	22.1
Germany	12,309.0	11.3
United Kingdom	8,013.1	7.4
France	7,468.5	6.9
Canada	4,767.5	4.4
Italy	4,410.0	4.0
Netherlands	4,026.4	3.7
Sweden	2,770.6	2.5
Saudi Arabia	2,158.2	2.0
Australia	1,810.0	1.7
Belgium	1,759.0	1.6
Denmark	1,457.3	1.3
Switzerland	1,398.6	1.3
Norway	1,371.3	1.3
Top 15 donors	103,639.4	95.3
Other members*	5,084.7	4.7
Total	108,724.1	100.0

*For a complete list of other subscribers and donors, see IDA's Special Purpose Financial Statements, page 75 of the *World Bank Annual Report 2001: Volume 2, Financial Statements and Appendixes*.

independence that enables objectivity, ability to integrate the major elements of sustainable development, and capacity to deliver services and resources to countries. Going forward, the Bank will maintain its global *diagnostic* capacity across the whole range of developmental sectors, while being much more selective in its areas of *implementation* capacity. Increasing effectiveness will continue to be a priority, built around a strong quality culture. Country focus will dominate Bank assistance, complemented by carefully selected cross-border and global issues. Measuring the Bank's performance—particularly difficult in areas such as policy support and capacity building—will also be important, as will be the transparent reporting of results.

As laid out in the Strategy Framework Paper, Bank assistance will emphasize governance as well as institutional and policy structures, including the regulatory framework for infrastructure, to create a positive investment climate—key to expanding jobs and achieving sustainable growth. It will equally emphasize the need to invest in people and empower them to participate in development, in part through community-driven development. Building poor people's assets, promoting gender equality, and protecting the most vulnerable will all be central to the poverty reduction effort. Investment and adjustment lending will both be set in the context of a sound program of policy and institutional development, capacity building, and strong government commitment.

Partnership, based on institutional comparative advantages will be key to progress at the country,

regional, and global levels. There is now unprecedented consensus worldwide on what is needed for poverty reduction. The Bank has called for a "compact" between rich and poor countries, with each doing its part. Rich countries need to increase market access to developing countries' exports, and provide debt relief and new concessional finance for the poorest countries; developing countries, for their part, need to ensure sound policy and institutional environments to promote growth as well as the effective use of aid, making sure also that the benefits of growth reach poor people. The CAS will continue to spell out the Bank's focused business strategy in support of a country's program, working in partnership with governments and together with the IMF, MDBs, the U.N., bilateral agencies, the private sector, and civil society. The IDA-13 Replenishment, which is expected to be decided by the end of calendar 2001, will crucially guide the Bank's efforts going forward; IDA donors (table 1.4) have been considering ways to increase aid effectiveness. Collaboration with the IMF will continue to be paramount. The agenda with MDBs includes harmonizing operational policies and division of labor on countries' social and structural issues. Division of labor on global public goods will be the shared challenge in work with the U.N. The Bank will be flexible, explicitly stepping back where another partner's comparative advantage is clear.