Chapter 2

Overview of World Bank Activities in Fiscal 2003

FISCAL 2003 HIGHLIGHTS

- **IBRD lending** totaled $11.2 billion this year, with robust lending of $5.7 billion to Latin America underlying the lending program. **IDA commitments** of $7.3 billion are the third highest on record, with the largest share, $3.7 billion, going to Africa.
- At the **Annual World Bank Conference on Development Economics (ABCDE)** held in May in Bangalore, India, with the theme of "Accelerating Development," more than 300 researchers, academics, development practitioners, and students from across India, South Asia, and around the world exchanged ideas for speeding poverty reduction based on research and practical development experience. This year marked the first time the conference has been held in a developing country. (See **www.econ.worldbank.org/abcde**.)
- In April, the Bank and three partner organizations launched an innovative financing program supporting the **eradication of poliomyelitis** worldwide by 2005. **The Investment Partnership for Polio**—comprising the Bank, the Bill & Melinda Gates Foundation, Rotary International, and the United Nations Foundation—will "buy down" an IDA credit supporting polio eradication, and convert it to a grant, once the government successfully achieves the objectives outlined in the project. (See **www.worldbank.org/hnp**.)
- The Bank's involvement in the **Education for All (EFA)** and the **EFA Fast-Track Initiative (FTI)** continued, along with strong efforts to support early childhood development, basic education, girls' education, and addressing the needs of children with disabilities, orphans, and vulnerable children. In March 2003, the FTI donors made additional pledges of more than $200 million in support of universal primary completion for 2003–05. At the same time, new analytical work urged countries to recognize the crucial role of tertiary education in creating dynamic knowledge societies that are key to economic survival. (See "Investing in People," chapter 4.)
- The Bank's **Development Marketplace** (DM) promotes innovative development ideas, providing seed funding that links entrepreneurs with innovative approaches to poverty reduction to partners with resources. In fiscal 2003, the DM held nine decentralized Country Innovation Day (CID) competitions throughout the world and awarded a total of $2.5 million in grant money, $1.5 million of which was mobilized by the Bank's coordinating Country Offices. The nine CIDs were held in Brazil, Burkina Faso, Central Asia, Egypt, Ethiopia/Sudan, Guatemala, and, Peru, Ukraine/Belarus/Moldova, and Vietnam. They identified innovative project ideas ranging from organic fertilizer made from coffee waste in Guatemala to a motorcycle-based fire engine for the old cities of Vietnam.

  Since 1998, the Development Marketplace has awarded over $16 million to public and private organizations, including civil society organizations (CSOs), universities, and private sector companies, for over 230 groundbreaking projects in more than 50 countries. (See **www.developmentmarketplace.org**.)
- In December 2002, the Bank sponsored the first **Urban Research Symposium,** where 280 attendees including Bank staff, researchers, representatives of public and private organizations, and members of research networks from around the world reviewed recent research relevant to urban poverty in developing and transition countries. The event marked the Bank's renewed commitment to urban poverty research and highlighted the richness and diversity of research being conducted worldwide. Material from the symposium, and announcements regarding the 2003 symposium, can be accessed at the symposium Web site: **www.worldbank.org/urban/symposium2003**.
- **The Johannesburg Summit 2002—the World Summit on Sustainable Development (WSSD).** This 10-year follow-up to the Rio Earth Summit took place in Johannesburg, South Africa, from August 26 to September 4, 2002. The Summit brought together tens of thousands of participants, including heads of state and government, national delegates, and leaders from CSOs and businesses to focus the world's attention on improving people's lives through environmentally and socially responsible growth strategies in a world with a growing population and ever-increasing demands for food, water, shelter, sanitation, energy, health services, and economic security. (See **www.worldbank.org/sustainabledevelopment**.)

Chapter 2

Overview of World Bank Activities in Fiscal 2003

The sustainable global growth that was predicted to occur as a result of renewed investment spending in high-income countries has not materialized. The threat of war in Iraq was one factor that had a negative impact on worldwide growth in the first half of 2003 as oil prices rose and investor confidence fell. The growth in output for low- and middle-income countries was 3.3 percent in calendar 2002, up from 2.8 percent in 2001. Growth in developing countries was affected by the lack of a strong recovery in the industrial countries and by financial and political uncertainties in several large emerging markets. The demand for developing-country exports grew by only 2.5 percent, whereas prices for non-oil commodities rose by 5.1 percent. Net debt flows were weak, especially to Latin America, and foreign direct investment declined by $16 billion.

During 2002 growth differed considerably across the major regions of the developing world, largely as a result of domestic conditions.

East Asia's growth was 6.7 percent, fueled by China's growth of 8 percent and conducive policies in other countries. At the other end of the spectrum, gross domestic product (GDP) growth in Latin America and the Caribbean dropped by 0.8 percent because of the banking collapse and government debt default in Argentina, uncertainty regarding Brazilian elections, a worsening of conditions in the República Bolivariana de Venezuela, and a decrease of over $30 billion in financial market flows. In Europe and Central Asia, growth was 4.6 percent, resulting from a sharp recovery of activity in Turkey following its 2001 crisis, as well as continued gains linked to higher oil prices in Russia and the Commonwealth of Independent States countries. The continued strength of domestic demand in India led to gains of 4.2 percent in South Asia, despite the disruptions in regional conditions associated with the war on terrorism. Growth in Africa and in the Middle East and North Africa was sluggish, with the regions both registering growth rates of 2.8 percent and 3.1 percent respectively.

Growth in developing countries overall is projected to accelerate to 4 percent in 2003 and to 4.9 percent in 2004. This forecast partly reflects the end of crisis conditions in several countries where output was severely compressed in 2002. But it is also founded on a number of crucial assumptions about the conditions facing developing countries, including some disruptions from military action in Iraq but no severe, lasting effects; the expansion of world trade by 4.6 percent in 2003 (double the 2.3 percent growth in global GDP); and a slight rebound in the flows of foreign direct investment as well as in modestly positive net debt flows from private sources.

In this context the World Bank continued to adapt its activities in responding to country needs for knowledge and advisory services, and for lending.

KNOWLEDGE SHARING AND LEARNING SERVICES

The Bank's store of development knowledge has always been an important element of its assistance to client countries. Knowledge activities range from carrying out country research, to developing analytical and conceptual frameworks for country assistance, to initiating outreach that enables client countries to access the available global knowledge. The Bank's knowledge activities in fiscal 2003 are described below.

Research

Country research forms the core of the Bank's knowledge base, and it culminates in a number of knowledge products, including policy research working papers, development data, development prospects analysis, and a wide range of development publications. Three of these research activities are highlighted here.

A construction project in Senegal demonstrates the importance of strengthening the capacity of poor communities to design and manage development activities that have an impact on their welfare.

Investment Climate. The Development Economics Group (DEC) works closely with other Bank units and local partners to carry out investment climate surveys—large, random surveys of private firms in specific sectors, such as garments, electronics, and information technology. This research helps clients understand the main problems in their investment climates, identify the reforms that would effect the biggest results, and implement those changes.

The surveys focus on the key bottlenecks that firms face, such as poor infrastructure, inefficient government bureaucracy, and corruption. Because these samples are large, Bank researchers can relate differences in firm performance to various investment climate indicators. From this work, they can conduct thought experiments: for example, estimating what Bangladeshi firms would experience in terms of faster growth if Bangladesh's investment climate reached the mean level of China's investment climate. Thus, one aspect of the Bank's work is to measure the investment climate objectively and link it to firm performance so that countries (and cities within countries) can gauge their progress and identify priority areas for reform.

A more important objective, however, is to stimulate real change. These surveys can only be done with the close cooperation of the business community—both local and foreign—in each country. A second stage in the survey process is to work with these private sector partners to bring this information into the political debate and to identify specific reforms that are priorities for private sector development. The World Bank and other donor assistance can then support the identified reforms. (See also "Supporting Private Sector Development and Infrastructure" in chapter 4.)

World Development Report. This annual flagship publication incorporates research from across the Bank. *World Development Report 2004: Making Services Work for Poor People* examines how education, health, water, energy, and sanitation services are failing poor people because of inadequate access, insufficient quantity, and poor quality. The service delivery chain involves three sets of actors: poor people as clients, the providers of services, and the politicians who set policy for service delivery. Improving services for poor people requires reforming and strengthening the three relationships in the chain—between poor people and providers, between poor people and policymakers, and between policymakers and providers. Governments, citizens, and donors can make services work by putting poor people at the center of service provision, by enabling them to monitor service providers, by amplifying their voices in policymaking, and by strengthening the incentives for providers to serve poor people.

Poverty Research. Since 1993 the Bank's Poverty Reduction and Economic Management network has produced an annual poverty progress report, *Poverty Reduction and the World Bank*. The report reviews the effect of the Bank's activities on poverty reduction. (See **www.worldbank.org/poverty**.)

Economic and Sector Work

The Bank's approach to creating, sharing, and applying knowledge helps augment its IBRD and IDA lending activities, generating a greater impact on development. Bank advisory services include economic and sector work (ESW). ESW products include core diagnostic reports that underpin the analysis for the Country Assistance Strategy (CAS) and the Bank's overall policy dialogue; other diagnostic work that provides upstream analysis for formulating and implementing effective lending programs and assessing their results; country advisory and regional reports that provide advice on special topics; and other more informal products, including policy notes, and events such as workshops and conferences. As the main analytical and advisory tool, the ESW program is closely monitored by the Bank. Table 2.1 shows ESW products delivered by all regions from fiscal 1998 through fiscal 2003.

In recent years core diagnostic work has been a fairly constant share of the Bank's ESW program, reflecting the high priority assigned to this product line (see table 2.1). At the same time there has been a pronounced shift from other diagnostic and advisory reports to informal products, the result of an increased emphasis in Bank work on capacity building, knowledge dissemination, and the provision of "just-in-time" advice to clients. Financial and private sector development, public sector governance, and economic management were themes with the largest share of total ESW output in fiscal 2003. The Bank also carried out substantial ESW focusing on human development, social protection, risk management, trade, and rural development, which help provide the diagnostic bases for project design and country programming. More than 25 percent of the fiscal 2003 program was delivered by Africa, followed by Europe and Central Asia (24 percent), and East Asia and the Pacific (14 percent). Country reports were supplemented by regional reports concentrating on such issues as regional trade and transportation, health, income distribution, and achieving the Millennium Development Goals (MDGs). ESW is being more tightly integrated into the overall country assistance program, with increasing emphasis on country ownership, participatory processes, partnerships, and capacity building. For example, the Middle East and North Africa region and East Asia and the Pacific focused systematically on programmatic ESW, and the Middle East and North Africa deepened its involvement in the reimbursable Technical Cooperation Program along with its existing and more traditional ESW portfolio. In fiscal 2003, 591 products were delivered to country clients, compared with 457 products delivered in fiscal 2002. Of these, 120 were core diagnostic reports, such as poverty assessments, public expenditure reviews, country economic memoranda and development policy reviews, country financial accountability assessments, and country procurement assessments. These help underpin CASs, Poverty Reduction Support Credits (PRSCs), and other adjustment lending, and help facilitate policy dialogue with clients.

Sector Strategy Papers

Sector Strategy Papers (SSPs) examine the major economic sectors and thematic areas in which the Bank is engaged. These comprehensive reports are crafted after thorough research and extensive dialogue among staff and major stakeholders, and they represent a comprehensive body of knowledge. They provide strategic options and guidance for operations staff. In addition, they identify the Bank's strategic priorities for each of the areas of work and present a plan for carrying out the SSP in the context of CASs. Bank management regularly monitors how well the SSPs are being implemented.

Table 2.1 **Economic and Sector Work Product Deliveries by Type, Fiscal 1998–2003**

Product type	Number of ESW products delivered					
	1998	1999	2000	2001	2002	2003
Core diagnostic reports	60	75	63	62	90	120
Other diagnostic reports	134	118	100	74	35	39
Country advisory reports	75	132	79	71	101	124
Regional reports	38	47	50	28	22	36
Total reports	307	372	292	235	248	319
Other products	21	28	86	100	209	272
Total ESW products	328	400	378	335	457	591

BOX 2.1 **THE GLOBAL DEVELOPMENT LEARNING NETWORK**

The Global Development Learning Network (**www.gdln.org**) represents a growing partnership of public and private organizations committed to development and poverty reduction. In more than 50 distance learning centers around the world, partners use interactive technologies for knowledge sharing, coordinating, consulting, and training with the goal of capacity building. Recently the network provided a forum on the stigma and discrimination related to HIV/AIDS for decisionmakers and community leaders across regions. The forum enabled participants in Barbados, China, Moldova, Tanzania, Thailand, and Uganda to address the challenges of living with HIV/AIDS and to explore various initiatives to raise awareness and combat discrimination.

In fiscal 2003 the Bank produced three SSPs: "Reaching the Rural Poor," "Water Resources Sector Strategy: Strategic Directions for World Bank Engagement," and "A Revised Forest Strategy for the World Bank Group."

"Reaching the Rural Poor" renewed the Bank's approach to agriculture and rural development by adopting holistic pro-poor rural development; fostering rural economic growth not only through agricultural but also through nonfarm economic activities and the private sector; promoting cross-sectoral, long-term approaches by addressing the entire rural space; and increasing broad-based stakeholder participation in projects and programs.

The water resources SSP emphasized the critical role of water resources management and development in poverty reduction and sustainable economic growth, and called for engaging in both management and development of water resources infrastructure; taking the political economy of reform into account; developing and maintaining appropriate stocks of well-performing hydraulic infrastructure mobilizing both public and private financing; and meeting appropriate environmental and social safeguards.

The revised forest strategy, aimed at making an effective contribution to poverty reduction and environmental management, was built on three interrelated pillars: harnessing the potential of forests to reduce poverty, integrating forests in sustainable economic development, and protecting vital local and global environmental services and values.

Capacity Building: The World Bank Institute

The World Bank Institute (WBI) builds capacity in client countries through training courses, policy advice, knowledge products, and services aimed at helping countries achieve their development goals. WBI's services are designed to help government and civil society stakeholders upgrade their skills, acquire global knowledge from multiple sources, and then adapt the new knowledge to their country institutions and policies. WBI also helps World Bank operations teams design and deliver the capacity-building components of lending projects. In fiscal 2003 WBI delivered programs in the key corporate priority areas of human development, poverty reduction and economic management, environmentally sustainable development, and finance and private sector development.

In fiscal 2003 WBI adopted a country-focused business model, customizing its capacity-building programs to countries' priority needs, applying best-practice pedagogy, maintaining a sustained presence at the country level, and collaborating with key figures who can implement policy decisions. The Bank identified 41 countries for customized learning and knowledge programs. Among them were Afghanistan, Somalia, and Sudan, where knowledge and learning activities dominate the Bank's engagement strategy; Albania, Kenya, and the Lao People's Democratic Republic, where learning programs are particularly important to complement and support other Bank activities; and Brazil, China, and India, large countries where many people live in poverty and where there is a strong demand for strategic management of the knowledge economy.

Capacity-enhancement needs assessments—comprehensive, country-owned reviews of capacity gaps and priorities—are being pilot-tested in countries such as Burkina Faso, Nigeria, and Tajikistan. When gaps and needs have been assessed, WBI prepares a strategy for how best to address them and to define WBI's role, which becomes part of the Bank's CAS.

Among WBI's other products is the Knowledge for Development Program, which provides client countries with an analysis of their preparedness for the knowledge economy, using a set of 69 structural and qualitative variables to benchmark how an economy compares with its neighbors, competitors, and those countries it wishes to emulate. This knowledge assessment helps identify the problems and opportunities that a country faces.

To increase its reach, WBI works with partners and makes use of distance learning tools and technologies. It helps clients gain access to information resources through e-learning, Web-casting facilities (B-SPAN), Web sites, and the Global Development Learning Network, which reached more than 36,000 participants in fiscal 2003 via videoconference-based distance learning (see box 2.1). WBI also helps its clients gain access to global knowledge through knowledge-sharing services and tools for building communities of learning and practice. The Bank's Knowledge and Learning Advisory Service, managed by WBI, provides Bank staff with access to best practices across the institution.

WORLD BANK LENDING IN FISCAL 2003

The World Bank comprises cooperative institutions that mobilize financing from member shareholder equity, by borrowing from the international capital markets (for IBRD), and by means of outright contributions from the richer member countries (for IDA). It channels these resources for the benefit of poor people in borrowing countries.

The Bank's lending focuses on work at the country level and reflects the Bank's focus on achieving the MDGs. Lending is tailored to individual country needs, with lending instruments that are becoming increasingly flexible.

The clients of IBRD are generally the middle-income countries and, because of the limitation on IDA resources, some of the larger low-income countries that are deemed creditworthy for borrowing. IBRD offers loans that have long maturities and reflect its own favorable market costs. In fiscal 2003 IBRD provided loans totaling $11.2 billion in support of 99 projects in 37 countries.

The clients of IDA are the poorest countries, which usually cannot afford to borrow on commercial terms. IDA offers concessional, no-interest loans (called "development credits") to these countries, which are normally repayable in 35 to 40 years including a 10-year grace period. In fiscal 2003 IDA provided $7.3 billion in financing for 141 projects in 55 low-income countries.

Figure 2.1 **The Project Cycle**

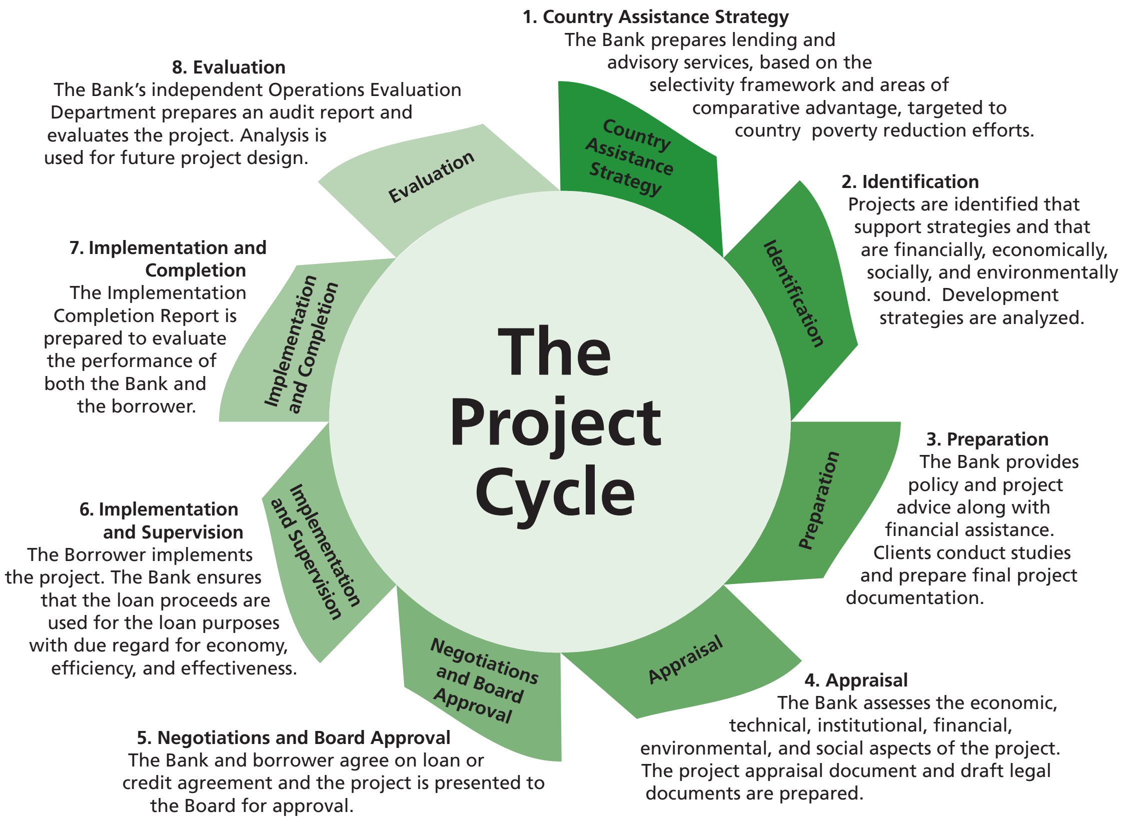


Figure 2.2 **Total IBRD-IDA Lending by Region, Fiscal 2003**
Share of total lending of $18.5 billion

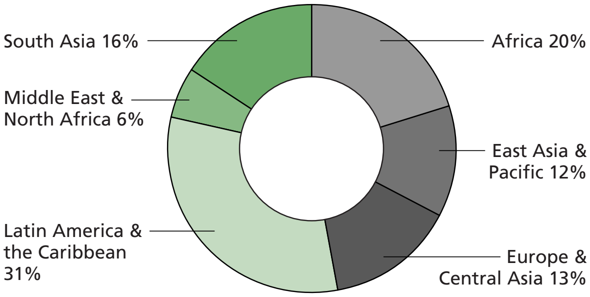
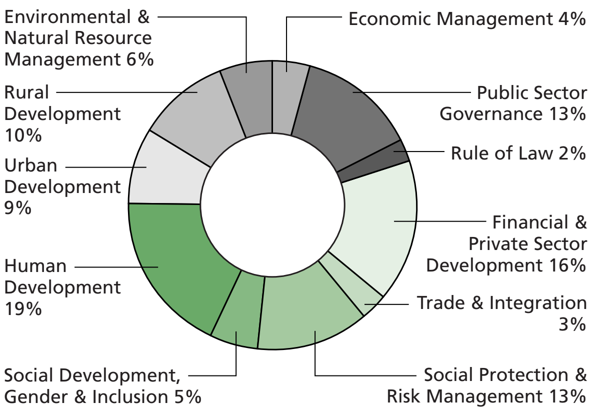
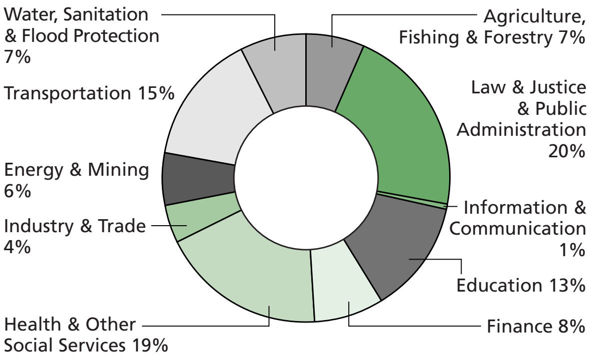


Figure 2.3 **Total IBRD-IDA Lending by Theme, Fiscal 2003**
Share of total lending of $18.5 billion



Note: See table 2.2.

Figure 2.4 **Total IBRD-IDA Lending by Sector, Fiscal 2003**
Share of total lending of $18.5 billion



Note: See table 2.2.

Poverty reduction is at the core of lending from both IBRD and IDA, through investments that support growth as well as investments in basic public services. Through partnerships with other institutions, co-financing and trust funds also are made available for projects. Figure 2.1 shows the typical cycle of a Bank project. Figures 2.2 to 2.4 show IBRD/IDA lending by region, theme, and sector. Table 2.2 shows World Bank lending by theme and sector. A detailed explanation of the Bank's financing is contained in volume 2 of this *Annual Report.*

The Role of IBRD

Countries with a per capita income of less than $5,115 that are not IDA-only borrowers are eligible to borrow from IBRD. Countries with higher per capita incomes may borrow under special circumstances or as part of a graduation strategy. It is important to note, however, that the amount that IBRD is prepared to lend to eligible countries at any given time depends on their creditworthiness as individual IBRD borrowers. Thus, countries may be eligible to borrow but may not have access to IBRD resources because of poor creditworthiness. In addition, net IBRD loans outstanding to any individual borrower, irrespective of the borrower's creditworthiness, currently may not exceed $13.5 billion.

Seventy-five percent of people who live on less than $1 a day live in countries that receive IBRD lending. The borrowers typically are middle-income countries that enjoy some access to private capital markets. Some countries are eligible for IDA lending as a result of their low per capita incomes, but they are also creditworthy for some IBRD borrowing. These countries are known as "blend borrowers." Even excluding IBRD loans to the blend countries, a full 25 percent of those who live on less than $1 a day live in countries that are IBRD borrowers. IBRD provides important support for poverty reduction by helping clients gain access to capital in larger volumes, on good terms, with longer maturities, and in a more sustainable manner than the market provides.

IBRD is a AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments. Its member borrowers have a voice in setting its policies. IBRD loans (and IDA credits) typically are accompanied by nonlending services to ensure more effective use of funds. And, unlike commercial banks, IBRD is driven by development impact rather than profit maximization.

Table 2.2 **World Bank Lending by Theme and Sector, Fiscal 1994–2003**
(millions of dollars)

	1994–97 (annual average)	1998–99[a] (annual average)	2000	2001	2002[b]	2003
THEME						
Economic Management	1,033.9	1,952.7	799.6	895.3	1,408.0	777.7
Public Sector Governance	1,582.5	2,552.4	2,142.5	2,053.7	4,247.2	2,465.5
Rule of Law	323.0	362.9	373.6	410.0	273.2	456.6
Financial and Private Sector Development	5,933.3	9,486.0	3,368.4	3,940.9	5,055.4	2,957.5
Trade and Integration	711.9	813.2	426.4	1,059.9	300.9	560.9
Social Protection and Risk Management	1,162.6	2,653.9	1,895.0	1,651.0	1,086.4	2,345.8
Social Development, Gender, and Inclusion	1,061.3	1,320.5	800.8	1,469.7	1,385.7	1,003.1
Human Development	1,869.0	2,484.8	1,190.3	1,134.7	1,756.1	3,356.3
Urban Development	2,099.5	2,403.3	1,036.6	1,458.6	1,482.4	1,576.3
Rural Development	2,327.5	2,746.4	1,413.7	1,822.3	1,600.0	1,910.9
Environmental and Natural Resource Management	2,859.7	2,018.6	1,829.4	1,354.6	924.0	1,102.6
Theme Total	**20,964.1**	**28,794.8**	**15,276.2**	**17,250.6**	**19,519.4**	**18,513.2**
SECTOR						
Agriculture, Fishing, and Forestry	1,572.7	2,097.1	837.5	695.5	1,247.9	1,213.2
Law and Justice and Public Administration	3,241.8	6,127.2	4,525.4	3,843.0	5,199.6	3,947.5
Information and Communication	220.4	179.4	273.8	216.9	153.2	115.3
Education	1,661.5	2,154.3	728.1	1,094.7	1,384.6	2,348.7
Finance	2,060.9	5,167.1	1,580.9	2,253.4	2,862.4	1,455.3
Health and Other Social Services	1,891.3	3,114.5	1,491.7	2,521.2	2,366.1	3,442.6
Industry and Trade	1,714.0	2,922.7	1,036.7	718.3	1,394.5	796.7
Energy and Mining	3,362.0	2,311.0	1,572.4	1,530.7	1,974.6	1,088.4
Transportation	3,281.0	3,511.3	1,717.2	3,105.2	2,390.5	2,727.3
Water, Sanitation, and Flood Protection	1,958.5	1,210.2	1,512.6	1,271.7	546.0	1,378.3
Sector Total	**20,964.1**	**28,794.8**	**15,276.2**	**17,250.6**	**19,519.4**	**18,513.2**
Of which IBRD	15,027.4	21,634.3	10,918.6	10,487.0	11,451.8	11,230.7
Of which IDA	5,936.8	7,160.5	4,357.6	6,763.6	8,067.6	7,282.5

Note: Lending is summarized in the 11 main theme categories and 10 main sector categories in the new thematic-sectoral coding system, which includes 68 themes and 57 sectors. Numbers may not add to totals because of rounding. Please see appendix 11 in volume 2 for detailed IBRD and IDA lending by theme and country. Lending numbers exclude guarantees.

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

b. Due to a recoding of one project there is a discrepancy between these figures and the figures in the 2002 annual report (table 2.2). This discrepancy of 2.2 million shows up in the commitment amounts in fiscal 2002 for Social Protection and Risk Management and Rural Development (with the two themes showing 2.2 million higher and 2.2 million lower, respectively).

IBRD Lending

New lending by IBRD in fiscal 2003 was $221 million less than the previous year's level, whereas the number of new operations approved was higher than last year's, at 99. The new approvals reflect smaller average commitment volumes per operation, as the share of adjustment lending returned to normal levels after a record high last year. The decline in adjustment lending commitments was offset somewhat by investment lending commitments, which

Table 2.3 **World Bank Adjustment Commitments, Fiscal 2000–03**

	2000		2001		2002		2003	
	Millions of dollars	Percent	Millions of dollars	Percent	Millions of dollars	Percent	Millions of dollars	Percent
Adjustment commitments by region								
Africa	495	10	908	16	1,437	15	789	13
East Asia and Pacific	552	11	250	4	17	0	100	2
South Asia	251	5	500	9	850	9	615	10
Europe and Central Asia	950	19	1,132	20	4,743	48	710	12
Latin America and the Caribbean	2,860	56	2,788	48	2,517	26	3,639	60
Middle East and North Africa	0	0	185	3	263	3	165	3
IBRD and IDA adjustment commitments								
IBRD	4,426	87	3,937	68	7,383	75	4,187	70
IDA	682	13	1,826	32	2,443	25	1,831	30
Total adjustment loans	5,108	100	5,763	100	9,826	100	6,018	100
Total World Bank lending commitments								
IBRD	10,919		10,487		11,452		11,231	
IDA	4,358		6,764		8,068		7,283	
Total IBRD + IDA	15,276		17,251		19,519		18,513	
Share of adjustment loans		33		33		50		33

Note: Numbers may not add to totals because of rounding.

grew to $7 billion, representing the largest volume since fiscal 1999.

Underlying the IBRD lending program in fiscal 2003 was robust lending to Latin America, with $5.7 billion or 50 percent of total lending, followed by Europe and Central Asia with $2 billion and East Asia and Pacific with $1.8 billion. Lending was not as concentrated as it was in fiscal 2002. Whereas only two countries, Brazil and Turkey, made up roughly 45 percent of total lending last year, 5 countries, including Argentina, Brazil, China, Colombia, and Mexico had a combined commitment volume equaling 49 percent of total lending in fiscal 2003.

Law and Justice and Public Administration was the leading sector for IBRD lending, receiving $2.6 billion, or 23 percent of the total. Lending to Health and Other Social Services was second, representing $2.1 billion, or 18 percent of the total.

The thematic distribution of lending in fiscal 2003 was led by Financial and Private Sector Development and Human Development. Figures 2.5 through 2.7 show IBRD lending by region, theme, and sector. Table 2.3 shows World Bank adjustment commitments in fiscal 2000–03.

IBRD Resources

As part of its regular financing operations, IBRD raised $17 billion at medium- to long-term maturities in international capital markets in fiscal 2003. This funding volume was below the $23 billion raised in fiscal 2002. IBRD issued loans with a wide range of maturities and structures in fiscal 2003. Product diversification helps IBRD expand its investor base and reduce lending rates on its loans. IBRD's financial strength is based on the support it receives from its shareholders and on its array of financial policies and

Figure 2.5 **IBRD Lending by Region, Fiscal 2003**
Share of total lending of $11.2 billion

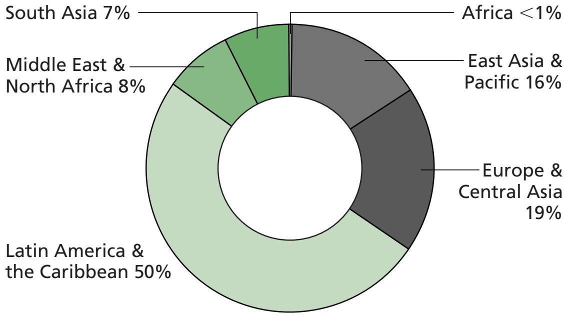


Figure 2.6 **IBRD Lending by Theme, Fiscal 2003**
Share of total lending of $11.2 billion

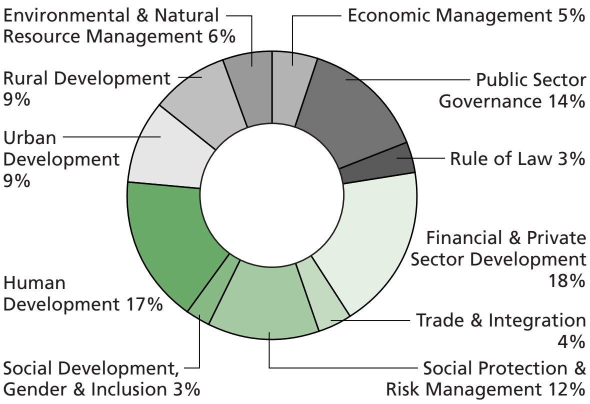
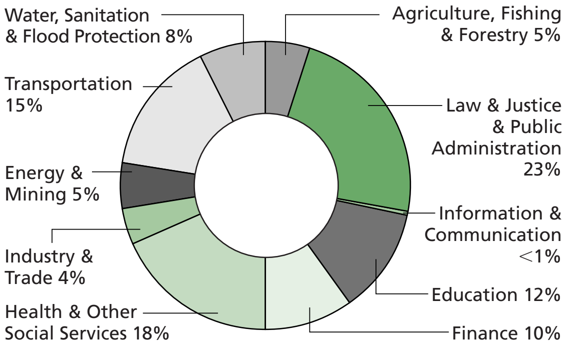


Figure 2.7 **IBRD Lending by Sector, Fiscal 2003**
Share of total lending of $11.2 billion



practices designed to maintain a high credit standing in the international markets.

IBRD Financial Strength. IBRD's operating income in fiscal 2003 was $3,021 million, and allocable net income (that can be allocated to reserves and development activities) was $3,050 million. IBRD retained $2,410 million out of allocable net income in its general reserve—higher than the previous year, when $1,291 million was retained—in keeping with IBRD's strategy to preserve long-term financial strength and support other development needs. IBRD also added $100 million of the fiscal 2003 income to the surplus account. IBRD maintained adequate liquidity in fiscal 2003 to ensure sufficient cash flow to meet its obligations. As of June 30, 2003, the liquid asset portfolio was about $27 billion.

Managing Returns to Maintain Strength. As a cooperative institution IBRD seeks not to maximize profit but to earn a return on assets sufficient to ensure its financial strength and sustain its development activities on an ongoing basis. IBRD achieved an annual net return on assets of about 1 percent per year. The net return on assets for fiscal 2003, however, rose above the 2 percent level due to a reduction in the provision for loan loss. Figure 2.8 shows the net return on average earning assets for fiscal 1999–2003.

Managing Risk. Consistent with its development mandate, the principal risk taken by IBRD is the country risk inherent in its portfolio of loans and guarantees. Risks related to interest and exchange rates are minimized, although the Bank remains highly active in global credit markets to deliver financial instruments on the finest terms that are best suited to the needs of borrowers. One summary measure of the Bank's risk profile is the ratio of loans to balance sheet equity, which is closely managed in line with the Bank's financial and risk outlook. Figure 2.9 shows the equity-to-loans ratio as of June 30, 2003.

Achieving Efficient Intermediation. IBRD enjoys an exceptional franchise in capital markets, thus reflecting the capital commitments of its sovereign shareholders and the preferred creditor status accorded by its borrowing members that provide it with a high credit rating (AAA) and allow it to borrow for long maturities on favorable terms. This is reflected

Table 2.4 **Select IBRD Financial Data**
(millions of dollars)

	Fiscal 2003	Fiscal 2002
For the fiscal year[a]		
Income from loans	5,742	6,861
Income from investments	418	734
Borrowing expenses	(3,594)	(4,903)
Administrative expenses	(882)	(876)
Other	1,337	108
Operating income[b]	3,021	1,924
Allocable net income	3,050	1,831
Loan commitments	11,231	11,452
Loan disbursements	11,921	11,256
At fiscal year end[a]		
Cash and liquid investments	26,620	25,056
Loans outstanding	116,240	121,589
Borrowings outstanding[c]	(103,017)	(111,205)
Equity	(37,918)	(32,313)

a. Excerpted from the audited financial statements presented in volume 2 of this *Annual Report*.
b. Excludes FAS 133 adjustments.
c. Outstanding borrowings, net of swaps.

in the relatively low cost basis of its new lending, an average spread of about 37.8 basis points (1 basis point equals 0.01 percent) below London InterBank Offered Rate in fiscal 2003, and the high volumes it can intermediate relative to its paid-in capital and retained earnings.

In fiscal 2003 the Bank's outstanding borrowings from capital markets exceeded $103 billion (net of swaps), and its total disbursed and outstanding loans were approximately $116 billion. The size of borrowings was about three times the size of its equity. Figure 2.10 shows the Bank's borrowings and investments as of June 30, 2003. Table 2.4 shows select IBRD financial data for fiscal years 2002 and 2003.

Generation and Distribution of IBRD's Net Income

IBRD earns income from the interest margin on its loans (returns on loans less cost of borrowings), interest margin on investments, and contribution from its equity. Barring unexpected credit events, IBRD generates net income after allowing loan loss–provisioning expenses and administrative expenses, including its contribution to the staff retirement accounts.

IBRD's allocable net income serves several purposes related to the Bank's mission. A portion of net income is retained annually to ensure IBRD's financial integrity. The general reserve allows IBRD to assume credit risk in lending to countries at the lowest funding costs, which in turn benefits borrowers. Income retention has enabled IBRD to maintain financial soundness through past periods of both deteriorating loan quality and surging loan demand.

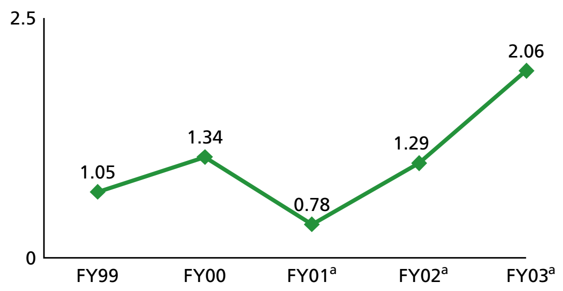
Support to IDA has consistently been a priority. Over the last five years $1.570 billion (or about 18 percent of IBRD's net income) has been transferred to IDA.

Support for the Heavily Indebted Poor Countries (HIPC) Debt Initiative has also been important. Over the last five years, transfers to the HIPC Trust Fund have amounted to a total of about $1,030 million, averaging about 12 percent of annual IBRD net income.

IBRD's allocable net income helps meet other development needs from time to time. It enables IBRD to respond to unforeseen humanitarian crises and provide grants or other support for worthy causes. IBRD also regularly shares income with its borrowing members through partial waivers of the commitment fees and, for qualifying borrowers, through waivers of contractual interest charges on loans.

Financial strength and standing in the markets allow IBRD to leverage its equity by four times in the international bond markets. This leverage increases IBRD's ability to lend for development activities.

Figure 2.8 **Net Return on Assets**
(percent)



a. In fiscal 2001 IBRD adopted Statement of Financial Accounting Standard No. 133 and International Accounting Standard No. 39, which require that derivative instruments be reported at fair value. The returns shown above for fiscal 2001, 2002, and 2003 are presented before the effects of these standards in order to facilitate comparison with prior years. With the inclusion of the effects of these standards, the ratios would be 0.87, 1.87, and 3.64 for fiscal 2001, 2002, and 2003, respectively.

Figure 2.9 **Equity-to-Loans Ratio as of June 30, 2003**
(percent)

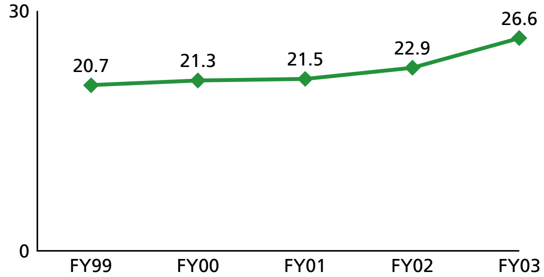


Figure 2.10 **Borrowings and Investments as of June 30, 2003**
(billions of dollars)

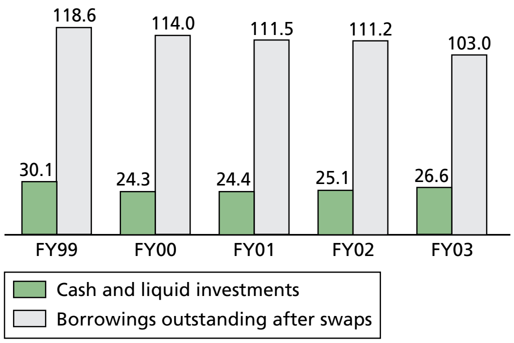
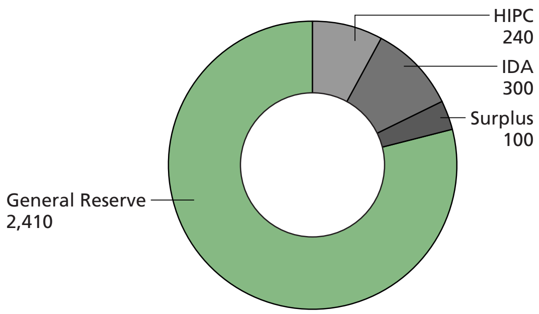


Figure 2.11 **Proposed Allocation of Fiscal 2003 Allocable Net Income of $3,050 Million**
(millions of dollars)



Note: Proposal to the Board of Governors.

Figure 2.11 shows the proposed allocation of the Bank's net operating income.

The Role of IDA

IDA is the world's largest single source of concessional financial assistance for the poorest countries, and it invests in basic economic and human development projects. Eligibility for access to IDA resources is governed by two basic criteria: a country's relative poverty (as measured by per capita income) and its lack of creditworthiness for IBRD resources. The operational income cutoff for IDA eligibility in fiscal 2003 was a per capita gross national income of $875. The amount of IDA resources that countries receive depends on the quality of their policies to promote growth and reduce poverty, which are assessed on an annual basis. In exceptional circumstances IDA extends eligibility to countries that are above the income cutoff but are not fully creditworthy to borrow from IBRD, such as small island economies.

IDA recipient countries face complex challenges in striving for progress toward the MDGs. Policy priorities include strengthening the fight against the spread of communicable diseases, including HIV/AIDS; building a healthy investment climate as a prerequisite for private sector investment; promoting gender equality; and improving the quality of basic education and poor people's access to it.

IDA assistance is in the form of highly concessional credits, and since the beginning of fiscal 2003 the Association has also introduced an expanded use of grants, in line with the arrangement for the 13th Replenishment of IDA (IDA-13) that governs IDA operations in financial years 2003 to 2005. The grants are specifically to address hardships faced by the poorest and most vulnerable IDA countries. On this basis the grants are used to finance operations in the poorest and most debt-vulnerable countries and in countries recently emerging from conflict, and to finance HIV/AIDS programs and natural disaster reconstruction.

IDA is financed by its own resources and by donor governments, which come together every three years to decide on the amount of new resources required to fund IDA's future lending program and to discuss lending policies and priorities. Since 2001, senior-level borrower representatives also participate in these replenishment discussions. Thirty-eight countries are now IDA donors.

Donor contributions historically have been determined on the basis of countries' relative economic

Figure 2.12 **IDA Commitments by Region, Fiscal 2003**
Share of total lending of $7.3 billion

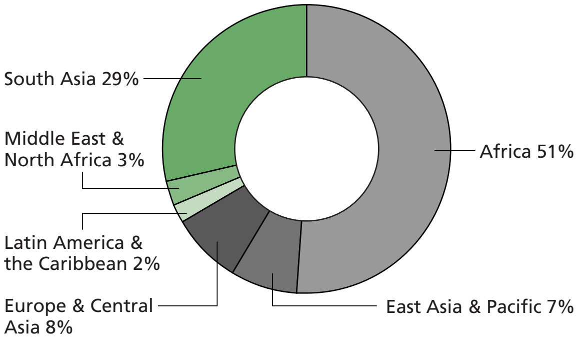


Figure 2.13 **IDA Commitments by Theme, Fiscal 2003**
Share of total lending of $7.3 billion

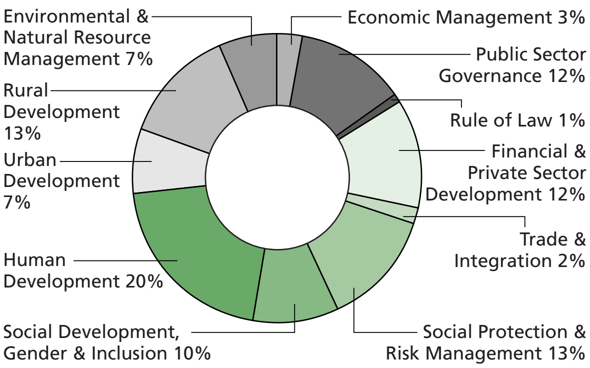


Figure 2.14 **IDA Commitments by Sector, Fiscal 2003**
Share of total lending of $7.3 billion

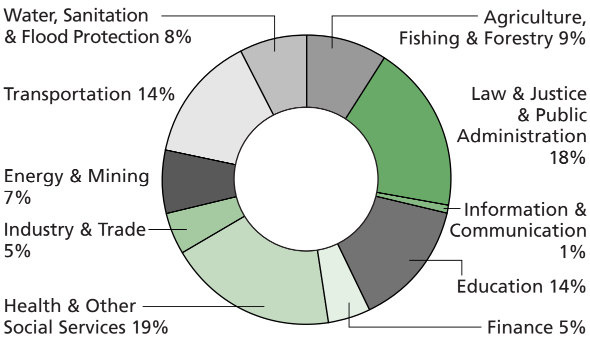
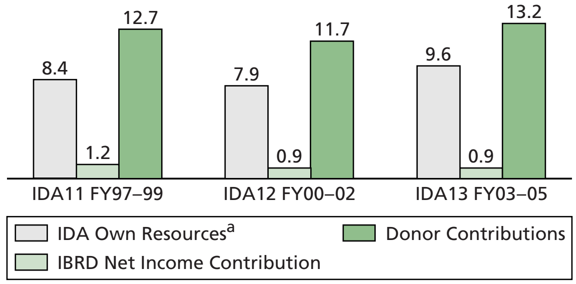
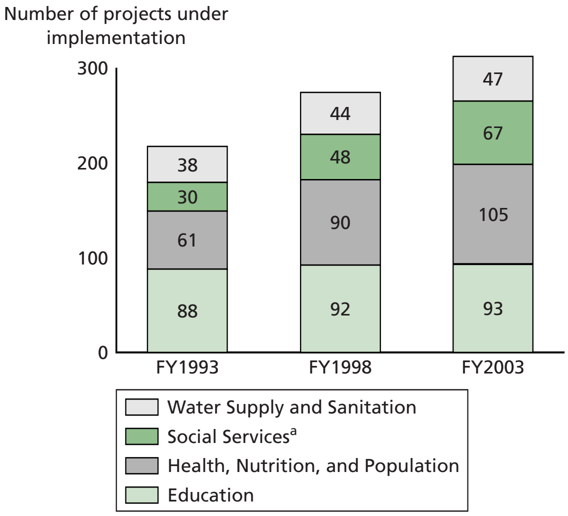


Figure 2.15 **Sources of IDA Funding**



a. IDA Own Resources include principal repayments, charges less administrative expenses, and investment income.

Figure 2.16 **IDA's Stepped-up Efforts in the Social Sectors**
297 projects ongoing (compared with 190 a decade ago)



Note: Number of projects under implementation includes projects in both IDA-only and blend countries. IDA commitment value of ongoing social sector projects: 1993, $10.1 billion; 1998, $14.2 billion; 2003, $14.0 billion.

a. Social Services is the sum of Social Development and Social Protection.

strength and on their commitment to poor countries; as such the major industrial nations have been the largest contributors to IDA. Donor nations also include developing and transition countries—some of them IBRD borrowers and former IDA borrowers—such as Argentina, Brazil, Hungary, the Republic of Korea, the Russian Federation, and Turkey. IDA's financial strength is based on the strong and continued support of its donors, as well as on repayments of past credits. (See IDA at **www.worldbank.org**.)

IDA Commitments

IDA commitments in fiscal 2003 totaled $7.3 billion for 141 operations, consisting of $6.1 billion in credits (not including an IDA guarantee of $75 million to Vietnam), and $1.2 billion in grants. Although below last year's record high, IDA lending commitments in fiscal 2003 still represent the third highest on record and are above the average annual total for the last five years.

The largest share of IDA resources went to Africa, with $3.7 billion for 60 operations, constituting 51 percent and 43 percent of total IDA commitments and operations, respectively. South Asia followed with $2.1 billion for 29 operations. Among countries, Bangladesh, the Democratic Republic of Congo, Ethiopia, India, and Uganda represent the largest single recipients of IDA financing.

In fiscal 2003 about 17 percent of total IDA operational financing came in the form of grants in the following categories: operations benefiting the poorest countries, $241 million; poorest and debt-vulnerable countries, $406 million; postconflict countries, $306 million; HIV/AIDS projects and components, $214 million; and natural disasters reconstruction projects, $65 million.

Health and social services and law and justice and public administration were the leading sectors for IDA support, each receiving $1.4 billion, or 19 percent of the total.

The most prominent theme of resource commitments in fiscal 2003 was human development, which accounted for 21 percent of commitments. Major attention was also paid to social protection and risk management; rural development; public sector governance; and financial and private sector development.

IDA Resources

Fiscal 2003 marked the first year of IDA-13, which will fund commitments for fiscal years 2003 through 2005. IDA-13 will provide a total of special drawing rights (SDRs) 18 billion (about $24 billion) of concessional resources to IDA-eligible borrowers over the three-year period. This amount includes SDR 10 billion (approximately $13 billion) of new donor contributions; IDA internal resources, including repayments of principal from past credits and service charges on the order of SDR 7.3 billion (about $10 billion); IBRD net income transfers (if available) of SDR 0.7 billion; and a small carryover of donor resources from the previous replenishment. Figure 2.15 shows the sources of IDA's funding over the last three replenishments. Figure 2.16 shows IDA's stepped-up efforts in the social sectors.

Under IDA-13 arrangements a major initiative was launched to strengthen IDA's focus on results. This included the development of a system to measure and monitor the results of IDA's assistance across countries and to track the contribution made by IDA programming to country outcomes.

TRUST FUNDS

Trust funds, which are separate from the Bank's own resources, are financial and administrative arrangements with external donors that lead to grant funding of high-priority development needs, such as technical assistance, advisory services, debt relief, postconflict transition, and cofinancing. Trust funds help the Bank leverage its poverty reduction programs by promoting innovative approaches for projects, forging partnerships, and expanding the scope of development collaboration.

Many industrial countries, a few of the larger developing countries, the private sector, and foundations make trust funds available to the Bank for specific agreed-on purposes. The Bank also provides some of its own grant resources to selected trust funds.

Contributions, Disbursements, and Balances

The Bank's trust fund portfolio expanded in fiscal 2003. The contributions received from donors totaled $4.44 billion, an increase of $1.83 billion, or 70 percent over fiscal 2002, and funds held in trust rose from $5.33 billion to $6.89 billion (a 30 percent increase). These figures reflect contributions received on a cash basis for all trust funds except HIPC, the Global Environment Facility (GEF), and the Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM), for which contributions are accounted on an accrual basis (starting in fiscal 2003 for GEF and GFATM). The top 10 donors, shown in table 2.5, accounted for 79 percent of all contributions.

Disbursements during the year totaled $2.56 billion, an increase of $0.63 billion, or 33 percent over fiscal 2002. The five programs with the largest disbursements were HIPC ($751 million), GEF ($409 million), Afghanistan Reconstruction Trust Fund ($182 million), Consultative Group on International Agricultural Research ($118 million), and GFATM

Table 2.5 **Top Ten Trust Fund Donors**
(millions of dollars)

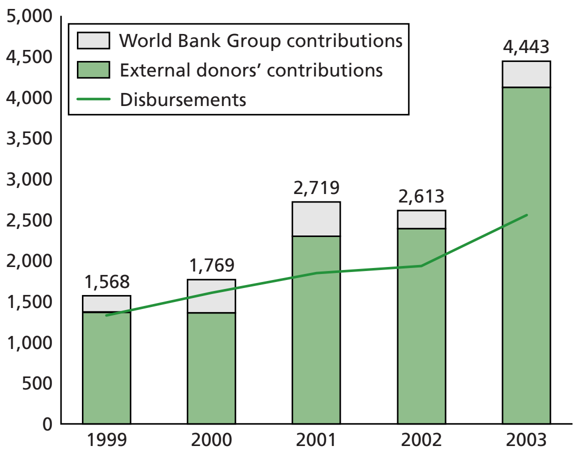
	FY02	FY03
U.S.	640	1,085
Japan	316	500
World Bank Group	222	329
Netherlands	114	269
U.K.	268	252
European Community (EC)	187	241
France	80	217
Sweden	81	201
Germany	44	194
Gates Foundation	15	170
Other donors	696	985
Total contributions	**2,663**	**4,443**

($64 million), totaling $1.52 billion, or 60 percent of total disbursements. Disbursements for all trust funds are reported on a cash basis. Figure 2.17 shows trust fund contributions and disbursements for fiscal years 1999–2003.

Major New Trust Fund Programs

Responding to emerging development challenges, the donor community agreed to establish several major new trust fund programs for Bank administration during fiscal 2003. These included the Financial Sector Reform and Strengthening Initiative, the Global International Comparison Program, the Global Program to Eradicate Poliomyelitis, and the Least Developed Countries Fund for Climate Change.

Figure 2.17 **Trust Fund Contributions and Disbursements, Fiscal 1999–2003**
(millions of dollars)



Donor Consultations and Trust Fund Policy Reforms

During fiscal 2003 the Bank continued its consultations with trust fund donors on the ongoing trust fund policy reforms and launched a new framework for managing consultant trust funds. The main thrust of these trust fund–related reforms is aimed at standardizing trust fund policies and procedures; aligning trust fund activities with Bank strategies and priorities; improving staff accountability in managing trust funds through a trust fund learning and accreditation program; enhancing the financial controls over trust funds; improving access to financial reporting; and simplifying and standardizing audit arrangements for trust funds.

COFINANCING

Cofinancing describes funds committed to specific Bank-funded projects by official bilateral and multilateral partners, export credit agencies, and private sources. It enables the Bank to leverage its resources with additional financing, at concessional terms, to benefit the recipient country. In fiscal 2003 IBRD and IDA financing was supplemented by $3.0 billion from such sources. Major cofinancing partners in fiscal 2003 included the Inter-American Development Bank, the Global Environment Facility, and the European Investment Bank.

In fiscal 2003 the largest share of cofinancing funds went to the following regions: Latin America and the Caribbean ($0.87 billion), Africa ($0.85 billion), and East Asia and Pacific ($0.64 billion). Figure 2.18 shows cofinancing funds allocated by region.

Major Project Cofinancing in Fiscal 2003

A total of 103 projects were cofinanced by the Bank and its partners during fiscal 2003. Examples of projects with significant cofinancing include (a) the Colombia Social Sector Adjustment Program ($390 million); (b) the Ghana Health Sector Program Support Project II ($310 million); (c) the Mexico Rural Finance Development Structural Adjustment Loan ($300 million); and (d) the Jordan Education Reform for Knowledge Project ($120 million).

Figure 2.18 **Cofinancing Funds by Region, Fiscal 2000–03**
(millions of dollars)

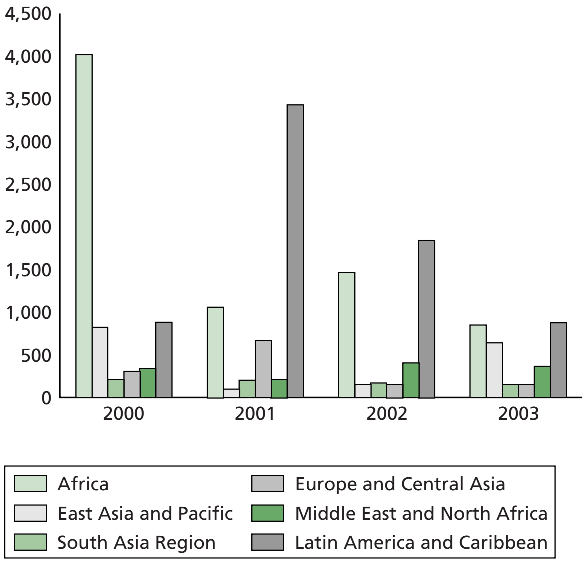


Figure 2.19 **Total Bank Lending vs. Cofinancing, Fiscal 2000–03**
(billions of dollars)

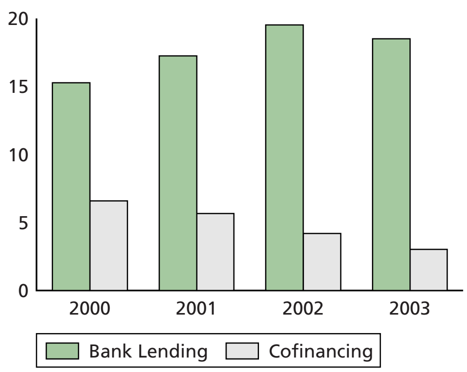


Figure 2.19 shows total Bank lending and cofinancing for fiscal 2000–03.

SPECIAL ASSISTANCE IN FISCAL 2003

Accelerated Debt Relief

Efforts to provide debt relief to the world's poorest and most heavily indebted countries continued to make good progress in fiscal 2003. As one part of a comprehensive development strategy, the HIPC Initiative is well on the way to achieving its fundamental goal of giving a fresh start to HIPC by cutting their external debt to a manageable level. Twenty-six countries—two-thirds of the eligible HIPC—are now receiving relief that will amount to more than $40 billion from all creditors over time. Of these countries, Benin and Mali recently completed the program, bringing to eight the total number of countries that have reached the point of program completion. The other six countries that have completed the program are Bolivia, Burkina Faso, Mauritania, Mozambique, Tanzania, and Uganda.

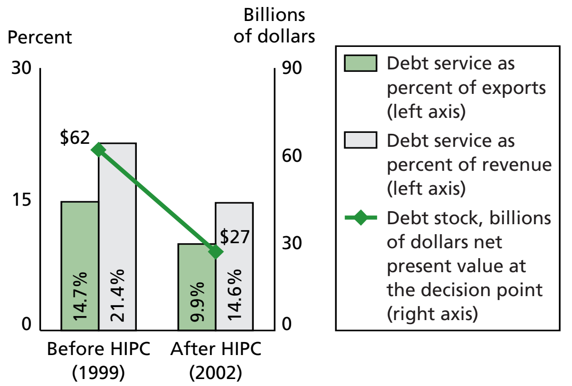
Key challenges facing the HIPC Initiative include (a) encouraging countries, many of which are conflict-affected, to reach the decision point while maintaining the policy performance standards in the framework; (b) encouraging countries in the interim period to proceed expeditiously toward meeting the requirements of the completion point; (c) working within the Poverty Reduction Strategy Paper (PRSP) framework after the completion point to achieve the MDGs in heavily indebted countries while maintaining long-term debt sustainability; (d) improving participation by certain non–Paris Club official bilateral, commercial, and some small multilateral creditors; and (e) continuing to support heavily indebted countries' pro-poor growth strategies, recognizing that the Initiative is one instrument that will contribute to achieving this objective. Figure 2.20 shows HIPC debt relief. Trends in social spending before and after HIPC relief are shown in figure 2.21.

A major focus of attention in fiscal 2003 has been to develop strategies that ensure that low-income countries do not relapse into problems of indebtedness. Workshops have been organized in collaboration with bilateral donors to address longer-term issues of debt sustainability, and it is expected that those initiatives will become a continuing feature of Bank work. Complementary to those efforts, the Bank's CASs for HIPC and some other low-income countries now include assessments of debt sustainability.

Most of the countries that are still unable to participate in the program have been affected by conflict. The HIPC Unit is working closely with the Low-Income Countries Under Stress (LICUS) Initiative to address the special problems of these countries. The Bank is also supporting other initiatives, including a Transitional Support Strategy in Burundi; country reengagement strategies in both the Central African Republic and Sudan; postconflict funds in the Republic of Congo; and the Somalia Aid Coordination Body.

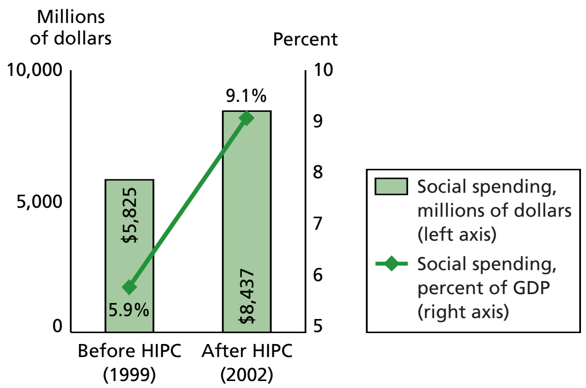
Countries eligible for HIPC debt relief must prepare Interim Poverty Reduction Strategy Papers (I-PRSPs) to reach completion points. The PRSP

Figure 2.20 **Heavily Indebted Poor Countries (HIPC) Debt Relief—Reduced Debt Stock and Improving Debt Service Ratios**



Note: Weighted averages for the 26 countries that had reached the decision point as of end-March 2003.
Source: World Bank: Heavily Indebted Poor Countries (HIPC)—Status of Implementation, September 28, 2002; Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update, March 2003.

Figure 2.21 **Trends in Social Spending before and after Assistance under the HIPC Initiative**



Note: Weighted averages for the 26 countries that had reached the decision point as of end-March 2003.
Source: World Bank: Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update, March 2003.

provides a nationally owned framework within which savings from debt relief can be redirected to support programs for reducing poverty. These programs reflect locally established priorities prepared on the basis of a broad consultative process that incorporates the views of country stakeholders, including civil society organizations. The PRSP process, with its emphasis on pro-poor growth, long-term poverty reduction, and working toward achieving the MDGs, has extended beyond countries eligible for the HIPC Initiative to cover a wider group of countries that receive IDA financing. For those countries, Bank CASs are now normally expected to be based on country-owned PRSPs.

Poverty Reduction Support Credits

The PRSP approach enables development strategy and development assistance to be grounded in a broad-based, participatory, and country-owned process. PRSCs are designed to support this process in countries with good policies and sound public institutions. PRSCs provide customized support to country-developed and country-owned reform programs after extensive consultations among stakeholders. They focus on building government capacity and institutions, particularly those that serve poor people.

PRSCs have been approved this year for Burkina Faso, Ghana, Guyana, Sri Lanka, Tanzania, Uganda, and Vietnam. Continued dialogue with representatives from PRSP countries, development partners, and civil society organizations reinforces the importance of adapting PRSP processes to specific country circumstances, setting realistic priorities and targets in country-owned PRSPs, and supporting their implementation through improved harmonization of donor policies.

Afghanistan

The $108 million Emergency Transport Rehabilitation Project financed by an IDA credit will help remove transportation bottlenecks and promote rehabilitation of the country's highway and aviation networks. The fiscal 2002 $42 million Emergency Public Works and Community Empowerment Project provided for the rehabilitation of the Salang Tunnel. The tunnel covers a critical section of the highway connecting the city of Kabul to eight provinces and is Kabul's only entry point for humanitarian aid and other goods and for refugees returning from the north.

Iraq

In line with Development Committee discussions in April 2003, the Bank's Board authorized its management to undertake a needs assessment for Iraq, including dispatching fact-finding missions to Iraq to assess rebuilding needs. The Bank is assessing the most pressing needs for the country's reconstruction, working with the United Nations, the Islamic Development Bank, and the European Union, among others. (See "Middle East and North Africa" in chapter 5 of this report.)