



## Chapter 4

### Thematic Perspectives

Poverty Reduction and Economic Management	60
Investing in People	65
Toward Environmentally and Socially Responsible Growth	69
Supporting Private Sector Development and Infrastructure	73
Building Strong Financial Systems	78
Promoting Appropriate Legal and Judicial Systems	81

# Poverty Reduction and Economic Management

The Poverty Reduction and Economic Management network seeks to expand the knowledge base that leads to better design of policies to promote pro-poor economic growth, and to promote an enabling international environment in which developing countries can carry out such policies in a sustainable manner.

## POVERTY REDUCTION STRATEGY PAPERS AND RELATED ACTIVITIES

Most of the world's poorest people live in low-income countries. The World Bank's strategy for attacking poverty in these countries continues to be founded in the Poverty Reduction Strategy Paper (PRSP) approach. During fiscal 2003 the Executive Directors considered 21 more full country-owned PRSPs and 2 Interim PRSPs (I-PRSPs), bringing the totals to 28 and 46, respectively. Work to strengthen the role of stakeholders in the PRSP process has included a "Democratizing Development" conference for non-governmental organizations and a program for parliamentarians in PRSP countries. Regional outreach has included an initiative in Africa for trade unions and regional poverty forums in the Commonwealth of Independent States-7 (CIS-7) and the Balkans. Dissemination of guidance on the PRSP approach has included extensive distribution of the PRSP Good Practice pamphlet, updating of the PRSP Sourcebook, and development of the Attacking Poverty course for Bank staff. (See [www.worldbank.org/poverty/strategies](http://www.worldbank.org/poverty/strategies).)

Key challenges for the Bank are to strengthen the alignment of its assistance strategies with countries' poverty reduction strategies (PRSPs), and to support the knowledge base and skills for carrying out these strategies. To improve alignment, Bank and International Monetary Fund (IMF) staff, consulting with other donors, have outlined a framework for coordinating budget support with countries' implementation of their PRSPs. With the IMF and the United Kingdom, the Bank has cosponsored a workshop on macroeconomic analytical issues arising from poverty reduction strategies to identify and fill knowledge gaps.

Important initiatives were undertaken during fiscal 2003 to support countries in preparing and implementing their PRSPs and to improve the results orientation of the Bank's own poverty reduction activities.



*In today's economically integrated world, trade matters more than ever before. Countries that have strengthened their links with the global economy have usually grown more rapidly over a sustained period and have consequently experienced larger reductions in poverty.*

One such effort was the launch of a work program in the area of pro-poor growth. The program is designed to enhance understanding of the relationship between growth and poverty, and of the key operational levers to increase the impact of growth on the well-being of poor people. A workshop in March 2003 laid out the scope of work, which is expected to include six to nine focused country studies as well as cross-cutting analytical work.

A second initiative that moved forward during the year was work in the field of poverty and social impact analysis (PSIA), which informs policy choices by analyzing the impact of reforms on poor and vulnerable people and the tradeoffs among alternative policy options. During fiscal 2003, the Bank and other donors have supported PSIA activities within the PRSP process in 20 countries. The Bank has also employed PSIA in its own work, initially concentrating on PRSCs. (See [www.worldbank.org/psia](http://www.worldbank.org/psia).)

The Bank expanded its support for the empowerment agenda during the year. The Empowerment Sourcebook for staff was published in July 2002, and groundbreaking work was undertaken during the year on measuring empowerment, establishing a Bank-wide community of practice on empowerment issues, and supporting a national strategy for civil society

capacity building and empowerment in Ethiopia. (See [worldbank.org/poverty/empowerment](http://worldbank.org/poverty/empowerment).)

## TRADE

The Bank's primary objectives on international trade are to promote a world trading system that is more conducive to economic development and to assist countries in capturing the benefits of global opportunities. Evidence suggests that increased trade raises productivity, and hence growth, which in turn is key for reducing poverty. In fiscal 2003 the Bank created a new Trade Department. This action substantially increased the Bank's capacity, activities, and engagements in trade. It led to strengthened partnerships with international organizations, the increased publication of research relevant to the pro-development trade agenda, and intensified efforts to integrate trade into country and regional strategies such as the PRSP.

With the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD), the Bank is the main coordinating and implementing agency for the Integrated Framework (IF) Initiative, and it plays a key role in advancing the program (see box 4.1). Much of the Bank's global effort on trade this year is directed toward the next milestone in the international trade arena—the WTO Ministerial meeting in Cancun in September 2003—that will review progress on the development agenda launched at the Doha Ministerial meeting in 2001.

The Bank provided support to key actors in the global trading system, including studies on the impact of trade and services liberalization on income distribution for Brazil; an analysis of WTO accession implications for Russia; and assistance to India on the design of a collaborative program on WTO-related issues such as services. Capacity-building activities were delivered through the World Bank Institute (WBI) to help countries analyze the economic implications of national trade policies and regulatory frameworks and to assist policymakers in formulating domestic trade reform agendas and international negotiating strategies. The Bank is expanding its assistance to low-income countries not eligible for the IF through, in the first instance, diagnostic trade studies that cover both the border and “behind-the-border” (that is, internal impediments) trade agendas.

Two aspects of the behind-the-border agenda to which the Bank has been paying increasing attention are trade facilitation and compliance with

### BOX 4.1 THE INTEGRATED FRAMEWORK FOR TRADE

The Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries assists these countries in expanding their participation in the global economy. Participating agencies are the IMF, the International Trade Center, UNCTAD, the United Nations Development Programme, the World Bank, and the WTO. The Bank and country stakeholders play lead roles during the diagnostic phase, when country constraints to integration into the global economy are analyzed and technical assistance needs are identified and prioritized. The analysis examines external and domestic investment climate factors as well as a country's institutional capacity for trade policy formulation, strategy, and development.

In fiscal 2003 the Integrated Framework Steering Committee extended the IF to Burundi, Djibouti, Ethiopia, Guinea, Lesotho, Mali, Nepal, Senegal, and the Republic of Yemen. In addition, participating countries such as Cambodia and Lesotho held programmatic discussions with donors, and Ethiopia, Malawi, and Nepal are planning national workshops to validate results of IF analysis. Finally, Burundi and Mali are in the process of analyzing key constraints to trade integration.

international product standards. Bank support for trade facilitation includes both analytical work and lending operations. Lending for trade facilitation makes up by far the largest amount of Bank trade lending. During the last two fiscal years, lending to support trade facilitation—including lending for institution building and physical infrastructure and for trade financing—made up 86 percent of total Bank lending to trade. The Bank has been increasing its support for client-country capacity building in standards development and implementation both at the country level (through lending operations) and at the cross-country level (such as through the launching of a Standards and Trade Development Facility with the WTO, the World Health Organization, and the Food and Agriculture Organization).

In advance of the Cancun Ministerial meeting, the Bank released *Global Economic Prospects 2004*, an annual publication that is one of the key Bank tools for analysis and advocacy of the global trade agenda. Other

key research products related to the global trade agenda in fiscal 2003 include *Agriculture, Trade, and the WTO*; *Options for Global Trade Reform: A View from the Asia-Pacific*; and *Regional Integration and Development*.

### **Trade Law**

During the past year, demand continued for training dealing with the practical aspects of international trade law and policy in such matters as market access, antidumping, countervailing measures, the General Agreement on Trade in Services, trade-related aspects of intellectual property rights, regional integration, environment, and labor standards, as well as dispute-settlement mechanisms in the WTO. Among other related seminars, the Bank sponsored an Afro-Latin Seminar on International Trade Law and Policy in December 2002. This distance learning program was carried out in partnership with the WBI, the International Law Institute, the Uganda African Center of Legal Excellence, and the Fundação Getulio Vargas of Brazil. It linked approximately 90 participants in Kampala, Paris, São Paulo, Vienna, and Washington, D.C. Led by world trade law experts, participants shared knowledge on international trade law and policy and explored new areas for Bank operational work, including relevant legal reform activity.

Bank operations have also provided support for legal and regulatory activities to implement WTO members' specific commitments in telecommunications and to assist accession countries in meeting their WTO accession goals. (See also "Promoting Appropriate Legal and Judicial Systems" in this chapter.)

### **Transportation and Trade**

Transportation is a critical element of trade competitiveness. In March 2003 the transportation sector and the Trade Group of the Bank's Poverty Reduction and Economic Management Network agreed to establish a joint Transport and Trade Facilitation Task Force. The Task Force was developed to help the Bank address the issues identified by the WTO as priorities in the Doha Development Agenda. This joint unit will help client nations identify and take action to alleviate the constraints to wider external trade and economic growth.

### **Trade Research**

The Bank's newly created Trade Department has identified several areas for research, many of which

### **BOX 4.2 RESEARCH, POLICY, AND LEARNING**

The World Bank Institute works closely with the Bank's development economics research group (DEC) and its Poverty Reduction and Economic Management (PREM) Network to better align its capacity and knowledge programs with corporate priorities and country needs.

The three units provide support to the Bank's clients through an integrated set of tools that include research findings, policy recommendations, and capacity-building services tailored to specific country needs. For example, the DEC/PREM/WBI joint international trade department builds client countries' capacity in trade negotiations and in applying the World Trade Organization's regulations to best advantage.

The Bank will be developing similar internal partnerships for poverty reduction and governance.

are already ongoing: behind-the-border trade policies and institutions, focusing on policies and institutions that directly affect trade costs; the effects of trade liberalization on poverty, focusing on the direct impact of changes in the prices of goods as a result of trade liberalization on the welfare of poor people; the ways in which multilateral and regional trade agreements can be used to maximum advantage in supporting the development process; the sources of growth and their effects on poverty reduction, economic structure, and trade, focusing on ways to link trade policy more fully to development policy; the effect of international product standards on trade volumes and patterns; the existing pattern of payments for the use of intellectual property rights and the likely impact of stronger enforcement of property rights laws on developing countries; ongoing work on impacts of trade liberalization on services performance, in particular telecom services, and on other infrastructure services such as port facilities and international transportation; and the compiling of new data on trade and trade policy to be made available to the wider research community. (See box 4.2.)

### **GENDER AND DEVELOPMENT**

There was substantial progress during the initial year of carrying out the Bank's gender mainstreaming

strategy. Work included the integration of gender equality issues in the majority of country assistance and poverty reduction support strategies, and increased attention to gender issues in Bank-financed projects, particularly in education, health, and social protection.

More than 20 borrowing countries conducted gender assessments. Progress in mainstreaming gender is strong in countries and sectors where relevant gender analysis has already been completed, reinforcing the key role of gender assessments in addressing critical development issues and priorities.

Ongoing Bank-supported operations that promote gender equality include an HIV/AIDS project in Zambia, a community-based empowerment project in southern India, and a tourism and regional development project in Honduras. Innovative initiatives in gender-based development, such as a rural roads project in Peru, a women's empowerment and rural electrification project in Bangladesh, and a water and sanitation project in Ghana, continue to receive funding and technical assistance from the Bank. A new research initiative on gender and economic policy is developing a substantial body of analytical work to enhance policies in areas such as trade and competitiveness and public sector streamlining. The Bank also promoted research on measuring women's empowerment, partnering with international development agencies on research that empirically demonstrates the importance of gender equality to all of the MDGs. Investment climate assessments prepared by the Bank this year have incorporated questions to capture gender-based differences.

## GOVERNANCE AND PUBLIC SECTOR REFORM

Considerable research and country experience have shown that good governance, development, and poverty reduction are fundamentally linked. An increasingly important area of the Bank's work, approximately \$2.5 billion in loan commitments in fiscal 2003 promote governance and public sector reform. The Bank's strategy for governance and public sector reform notes that change-resistant institutions can best be reformed through systematic approaches, such as revising institutional rules and processes, and promoting demand for reforms through citizen participation, transparency, accountability, and

partnerships. Successful reforms reflect the nuances of a country's institutional setting, and are based on careful analysis of institutions, incentives, and influence.

In fiscal 2003 the Bank and the IMF prepared joint papers on public expenditure issues and an update on implementation of the heavily indebted poor countries' action plans, and collaborated on civil service reform. The Bank is developing a second generation of governance indicators in tandem with intermediate indicators of progress on governance projects. A flagship Governance and Anticorruption Core Course was launched in fiscal 2003. The Bank organized a day-long conference with Transparency International on ways to enhance the effectiveness of our anticorruption and governance work.

## ECONOMIC POLICY

Sound macroeconomic analysis underpins the Bank's operational and policy work in these areas: economic growth; debt management, fiscal sustainability, and volatility management; subnational economic management; integrative policy analysis; and country strategy development.

In fiscal 2003 a series of thematic group handbooks is being produced to provide guidance to practitioners on policy design and implementation issues at the forefront of the development agenda. The Bank actively supports regional development efforts through



*Communities in Ghana have a tradition of self-organization and self-governance, as well as community development experience that can enhance their participation in the country's overall development.*

#### BOX 4.3 DEVELOPMENT POLICY REVIEW—A NEW AND INTEGRATED VIEW OF A COUNTRY'S DEVELOPMENT POLICY AGENDA AND PRIORITIES

The Development Policy Review (DPR) synthesizes the findings of available analysis across sectors and offers an integrated view of a country's development priorities and links. Fiscal 2003 marks the second successful year for DPR implementation. Nine DPRs are expected in fiscal 2003, including Bangladesh, Colombia, the Gambia, Guyana, India, Indonesia, Russia, the Slovak Republic, and Togo.

Mark Baird, country director for Indonesia—the first country to produce the DPR—remarked that the DPR “offers a systematic framework for thinking about policy priorities. It forces us to think through the

broader and longer-term development agenda. The feedback from our clients, especially those in the private sector, has been fantastic. The brief, easy-to-read text made a major contribution to international and popular understanding of Indonesia's development challenges.”

The DPR, which will be regularly produced in line with the CAS cycle for all active Bank client countries, has the key role of underpinning the CAS, the policy dialogue, and the Bank's increasingly programmatic approach to country assistance.

diagnostic reports such as the Development Policy Review and Country Economic Memoranda. These reports provide an integrated view of a country's development priorities and cross-sectoral links to poverty

reduction. As such, the reports have a key role in underpinning policy dialogue, the Bank's Country Assistance Strategies (CASs), and the Bank's approach to policy-based lending. (See box 4.3.)

# Investing in People

The challenge of reducing global poverty and improving the human welfare of millions of poor people could scarcely be more powerful. In 2002 almost 11 million children died before their fifth birthday. Most of these deaths occurred in developing countries, with 4.5 million in Sub-Saharan Africa alone, and many others in South Asia. Maternal mortality is 20 times higher among the poorest quarter of the world's population than among the richest quarter. In 2002, 3.1 million people died from HIV/AIDS. Life expectancy has fallen by as much as 20 years in those countries with the highest infection rates, and hard-won improvements in child mortality have been reversed. Some 115 million primary-school-age children in developing countries do not go to school; 64 million of them are girls.

The World Bank stands by its commitment to scale up efforts to help countries achieve universal primary education, combat communicable diseases, reduce child mortality, improve maternal health, and protect vulnerable populations from crisis.

## EDUCATION

In fiscal 2003 the World Bank provided vigorous support for education to help countries attain the Education for All (EFA) Millennium Development Goals (MDGs), while equipping themselves to compete in dynamic, knowledge-driven global markets. This dual thrust is key to empowering people and fostering economic growth—and, as a result, reducing poverty.

Universal primary completion is increasingly seen as the most attainable of the MDGs, and one that enables progress toward the other 2015 targets. In partnership with developing countries, donors, development institutions, and civil society, the Bank supports the EFA Fast-Track Initiative (FTI). (See box 4.4.) In the last year the FTI has matured significantly with new donor financial and technical support, and many more countries are expected to benefit from the lessons learned.

FTI has raised the profile of education, strengthened government commitment, and focused on outcomes—including primary school completion. It has produced tangible progress in donor harmoniza-



*The goal of the Bank's Human Development Network is to harness global knowledge and experience to enhance the assistance provided by the Bank to clients in the areas of education, health, nutrition, population, and social protection.*

tion, leading to a more unified policy dialogue, expanded flexible aid for primary education, and donor commitment to cost-effective standards for school construction.

Support at the global level included important analytical work on the role of tertiary education and on new challenges arising from the need for lifelong learning in dynamic, knowledge-driven global markets. A Conference on Lifelong Learning and the Knowledge Economy, held in Stuttgart October 9–10, 2002, explored education and training policies to respond to the knowledge economy. Also contributing to this discussion was *Closing the Gap in Education and Technology*, a comprehensive study of the role of skills and technology in closing

#### BOX 4.4 EDUCATION FOR ALL AND THE FAST-TRACK INITIATIVE: A CLOSER LOOK

- **Education for All** dates to 1990, when the world community at the Jomtien Conference called for universal primary enrollment by 2000. In 2000, at the Dakar Education for All Conference, countries reiterated their commitment to EFA and set six specific goals. In September of that year 189 countries gave additional impetus to EFA by including, as part of the MDGs, two of EFA's six goals—universal primary completion and gender equity in education—and pledging to achieve these by 2015.
- Despite these global commitments and strong efforts by many developing countries, on current trends, more than 70 developing countries are at risk for not achieving universal primary completion by 2015.
- The Bank's wide-ranging actions on EFA in fiscal 2003 included:
  - Strong efforts to support basic education, which typically accounts for about half of all lending for education and which increased by about 70 percent in fiscal 2003
  - Support for the participation of orphans and vulnerable children in schooling, and enhancing HIV/AIDS prevention, through work with partners in the Joint United Nations Programme on HIV/AIDS Interagency Task Team for Education, and the Association for the Development of Education in Africa
  - Focus on girls' education through such activities as important new analysis on investment returns (an additional year of female schooling reduces child labor by 1.4 to 3.8 percentage points and raises children's immunization rates by 3.5 percentage points). (See [www.girlseducation.org](http://www.girlseducation.org).)
  - Expansion of efforts to address the needs of children with disabilities, who are believed to account for a large share of grade repeaters and dropouts
  - Increased lending for early childhood development to \$102 million in fiscal 2003 (nearly double the fiscal 2000 figure), reflecting countries' growing awareness of the importance of children's early years for learning outcomes throughout their lifetime
- Provision of country-specific support to adult basic education and development of new global indicators for literacy.
- **The Fast-Track Initiative** is a partnership of education donors and low-income countries focused on accelerating progress toward the education MDGs. The FTI commits donors to provide additional policy, data, capacity-building, and financial support to countries, which, in turn, are strongly committed to the requisite policies and are ready to be held accountable for results. An initial 18 countries—11 in Africa—have been invited to join the initiative because they have in place a PRSP and an education sector plan agreed upon with donors. Five other high-population countries were also invited to receive technical support to strengthen policies and capacity, with the ultimate goal of increased investment for EFA.
- In November 2002 the FTI donors pledged more than \$200 million in additional support for primary education for the period 2003–2005 in the first seven FTI countries (Burkina Faso, Guinea, Guyana, Honduras, Mauritania, Nicaragua, and Niger). This funding represents approximately 40 percent more official development assistance resources for primary education and will help educate about 4 million additional girls and boys through the support of hiring of new teachers, building new schools, providing books and materials to improve school quality and learning, and providing targeted subsidies to help keep AIDS orphans and other vulnerable children in school.
- In March 2003 FTI donors at a Paris meeting achieved consensus on a framework paper to guide the FTI process and committed to supporting three additional countries: the Gambia, Mozambique, and the Republic of Yemen. Donors also affirmed their commitment to actions to harmonize aid delivery and reduce transactions costs for FTI recipient countries, for example, by planning joint sector review missions and accepting a common reporting framework in FTI countries.

the productivity gap in Latin America and the Caribbean.

At the country level, support for education gathered momentum. At \$2.3 billion, lending to the education sector increased for the third consecutive year in fiscal 2003. Support for education components in other sector projects also increased in fiscal 2003 to \$577 million, compared with \$435 million the previous year.

The Latin America and the Caribbean region accounted for the largest share of lending (\$785 million). (See table 6.12.)

Africa received support for education sector reform and basic education (\$424 million, all IDA funding), as well as assistance for “development learning centers” to tap into global knowledge on diverse developmental issues to be drawn from in preparing national poverty reduction strategies.

Increased policy and analytical support included both country- and regionwide (East Asia, Africa) policy notes, reports, and dialogue, as well as in-depth analytical contributions in the areas of tertiary education, girls’ education, and service delivery (*World Development Report 2003: Making Services Work for Poor People*).

Recent data from the Bank’s Operations Evaluation Department (fiscal 2002, partial) showed that 95 percent of education projects had satisfactory outcomes, compared with 83 percent in fiscal 2001 and 74 percent five years earlier.

## HEALTH, NUTRITION, AND POPULATION

Communicable diseases, poor maternal and child health, and poor nutrition account for much of the disease burden and many of the deaths among poor people. Each year more than 500,000 women die from pregnancy-related complications. An estimated 140 million children under the age of five are underweight, almost half of them in South Asia. Of almost 11 million deaths in children under five, over half are attributable to preventable and treatable diseases.

During fiscal 2003 the Bank worked with partners and countries to accelerate progress toward the health, nutrition, and population-related MDGs. The improved alignment of the Bank’s work with the MDGs was reflected in total new commitments of \$1.6 billion to the health sector in 63 new projects.

Scaling up and expanding coverage of basic services to achieve the MDGs require well-functioning



*This year the World Bank celebrates the 40th anniversary of its education sector, with sector lending at a four-year high. More than 700 education projects have been financed since education lending began, with support for basic education through tertiary and lifelong learning.*

health care systems. The Bank’s health systems agenda this year emphasized institutional and structural reforms, sustainable financing, strengthening governments’ stewardship role (e.g., policymaking, regulation, monitoring and evaluation, and creating demand-side incentives to improve accountability of public providers to patients). New commitments for health system performance amounted to almost \$505 million.

Communicable diseases, including HIV/AIDS, continued to be a dominant theme, amounting to over \$442 million in new commitments. New lending for population and reproductive and child health reached \$407 million. Support for nutrition noted significant gains, accounting for more than \$199 million.

Innovative approaches to addressing the MDGs are key. This year the Bank approved projects to support global efforts to eradicate polio in Nigeria and Pakistan. These projects include an IDA “buy-down” mechanism, whereby IDA credits are converted to grants if agreed performance criteria are met. Contributions from Rotary International, the United Nations Foundation, and the Bill and Melinda Gates Foundation are making these projects possible.

Finally, the Bank continued to address the growing epidemic of noncommunicable disease and injury. Throughout the negotiations of the Framework Convention for Tobacco Control, *Curbing the Epidemic*, a Bank publication on tobacco, was frequently cited as

the authoritative summary of the evidence on the economic issues. Work on risk factor surveillance and collaboration with external partners on issues related to water, sanitation and hygiene, indoor air pollution, and road safety continued to grow.

## PROTECTING THE MOST VULNERABLE PEOPLE

Lending for social protection and risk management (including natural disaster management) totaled \$2.3 billion in fiscal 2003, including \$1.1 billion to Latin America and the Caribbean.

Coping measures and social protection, such as risk reduction and mitigation, are essential to protect vulnerable people. In 2003 such mechanisms helped countries create viable old-age income security for poor people, support the unemployed, develop equitable labor markets, eliminate child labor, and provide social safety nets and social funds for vulnerable groups. In addition, the Bank analyzed the effectiveness of social sector interventions and the appropriate mix of national interventions.

In 2003 the Bank took significant steps to integrate social protection within a number of country PRSPs. These activities began with a series of distance learning events (March–April 2002, with 21 countries and 170 participants), five Quality Enhancement Reviews (June 28–July 17, 15 countries), followed by three workshops: in Paris in April 2002 (17 countries and 101 participants); in Addis Ababa in November 2002 (12 countries and 145 participants), and in Paris in July 2002 (100 participants).

The Bank implemented the social protection strategy that was adopted in September 2000. This included undertaking risk and vulnerability assessments and social safety net assessments in Latin America and the Caribbean, South Asia, Europe and Central Asia, and East Asia and the Pacific, including two regional studies that profiled the risks to which poor people are exposed, the instruments they have to manage these risks, and actions to reduce their vulnerability. Guided by two new Bank-wide advisers, the work on children and youth, orphans and other vulnerable children, and disabled people gained new momentum.

In 2003 the Bank is concluding a comprehensive overview of international and national programs and interventions, and qualitative and quantitative data on child labor in Guatemala, Morocco, and the

## BOX 4.5 DISABILITY IN DEVELOPING COUNTRIES

Of the nearly 500 million disabled people in the world, 80 percent of them live in developing countries. Disabled people are regularly shunned, isolated, and stigmatized by their societies. Because they are kept from attending school or finding work, they also tend to be among the poorest of poor people, especially women and children.

“The challenge is to help disabled people lead a normal life, provide them with an opportunity to work, to become self-sufficient, and to contribute to their community,” said World Bank president, James D. Wolfensohn. “This brings benefits to the disabled individual, the family, the community, society, and the economy.”

Accessible infrastructure can help integrate disabled people into mainstream society, by providing them with access to education and employment.

The World Bank is leading work on disability, integrating the issue into dialogue with client countries and country-based analytical work, and supporting policies, programs, and projects that take people with disabilities fully into consideration in developing countries.

In December 2002 the World Bank hosted a conference on disability and development, which focused on how preventing disability and integrating already disabled people into mainstream society are central to dealing with poverty.

Republic of Yemen. The Bank is also completing a strategy to streamline its work on children and youth. In May the Bank held a second workshop on orphans and vulnerable children. And finally, the Conference on Disability and Development (see box 4.5) brought together Bank staff, bilateral development organizations, and nongovernmental organizations to discuss the role of the Bank in reducing poverty. Regional working groups on disability and development have been formed, and research is under way to further address disability in the Education for All movement, in combating HIV/AIDS, and in data and access issues. The Norwegian Trust Fund for Disability and Development continues to be an important source of support for all activities in this area, including projects in the field.

# Toward Environmentally and Socially Responsible Growth

During fiscal 2003 the World Bank has been advocating for the vision of responsible growth that was put forth in the *World Development Report 2003* and affirmed at the World Summit on Sustainable Development (WSSD) in Johannesburg, South Africa, in August 2002.

At the summit a consensus emerged on moving toward a new development path that will combine growth with environmental responsibility and social equity, in both rich and poor countries. Poverty reduction is much more than a development aid issue—it is also an issue of global stability, the summit emphasized.

One key message emerging from Johannesburg and the Bank's own operational experience is clear: enlightened public policy, a responsible and accountable private sector, and proactive civil society organizations are needed to achieve the WSSD targets and the Millennium Development Goals (MDGs) by 2015. The spirit of cooperation and of constructive engagement generated among all stakeholders in Johannesburg is a promising start. (See [www.johannesburgsummit.org](http://www.johannesburgsummit.org).)

## STRATEGIES FOR THE ENVIRONMENT

In fiscal 2003 the Bank's Board of Executive Directors endorsed a suite of sector strategies, titled "Reaching the Rural Poor," "Water Resources Sector Strategy: Strategic Directions for World Bank Engagement," and "A Revised Forest Strategy for the World Bank Group," with a corresponding forest policy. Together with the environment strategy, now in its second year, these represent a clear movement toward sustainable use of natural resources. They are aligned with the MDGs and are consistent with WSSD development priorities.

Through its environment strategy, the Bank is paying particular attention to the links among the environment, poverty, and development, along with how the environment affects the health, livelihoods, and vulnerability of poor people. (See [www.worldbank.org/environmentstrategy](http://www.worldbank.org/environmentstrategy).)

Progress has been made, especially in three key areas:

1. *Establishing poverty-environment links.* Providing targeted environmental inputs to Poverty



*The world community is making renewed commitments to urgently needed poverty reduction in the developing world. The World Bank is working to make development sustainable, looking to the future to guide today's actions.*

Reduction Strategy Papers (PRSPs), and identifying "best practices" through a review of environmental content in PRSPs (for example, in the Republic of Yemen paper). The Bank is also increasing the use of programmatic approaches and lending instruments (for example, in the Mexico Environment Structural Adjustment Loan) to enhance environmental policies and institutions.

2. *Undertaking strategic analyses.* The Bank is using Country Environment Analysis in India and Tunisia, Strategic Environmental Assessments (such as the Nile Basin Initiative), Poverty-Environment Analyses (such as the Poverty-Environment Nexus in East Asia), and economic indicators to strengthen development outcomes. In fiscal 2003, 52 new projects with environmental lending amounting to \$1.1 billion were approved. This represents 6 percent of total Bank new lending in fiscal 2003.
3. *Realigning institutional incentives and resources.* To complement changes in the Bank's lending and analytical work in client countries, the Bank is also strengthening its incentive structure and



*To achieve the goal of poverty reduction—as agreed to at the 2002 Monterrey Conference and in the Earth Summit in Johannesburg, and outlined in the Millennium Development Goals—increased growth will be key. This growth needs to be one that puts social equity and environmental responsibility at the center.*

institutional resources. *Green Awards* have encouraged environmental mainstreaming. Environmental and safeguards training—both within the Bank and for our clients—has increased substantially. The Bank is using the Mainstreaming Fund for the Environment to support strategy implementation and cross-sectoral analysis. Through a new database, the Bank is now providing up-to-date environmental indicators and trends.

Moreover, the Bank is helping its client countries meet their commitments under the global environmental conventions—biodiversity, land degradation, ozone, persistent organic pollutants, and climate change—through the Global Environment Facility ([www.gefweb.org](http://www.gefweb.org)) and the Multilateral

Fund of the Montreal Protocol ([www.worldbank.org/montrealprotocol](http://www.worldbank.org/montrealprotocol)).

## SAFEGUARD POLICIES

In fiscal 2003 the Bank's executive directors and senior management reaffirmed the importance of continued compliance with safeguard policies. In line with this affirmation, the Bank drafted a framework paper for improving development effectiveness for safeguard policies, which is now posted on the Web for public comment from borrowers and other stakeholders. (See [www.worldbank.org/safeguards](http://www.worldbank.org/safeguards).) This framework paper included provisions for the use of safeguard pilot programs to test new approaches to meeting the safeguard policy objectives of the Bank, including undertaking pilot programs concerning harmonizing national procedures, developing review mechanisms for new lending instruments, testing the use of borrower safeguard systems, and examining innovative approaches. The Bank also worked closely with the members of the International Financial Institutions Working Group on Environment to develop a common approach for environmental impact assessment that was issued at the High-Level Forum on Harmonization in Rome (February 2003, [www1.worldbank.org/harmonization/romehlf](http://www1.worldbank.org/harmonization/romehlf)). In addition, the Bank approved a new operational policy for forests in November 2002, which also addresses safeguard issues. The Bank continued to support extensive safeguards capacity-building and training activities for staff, borrowers, and other stakeholders at headquarters and in the field, focusing on their application in project identification, preparation, appraisal, and supervision.

## AGRICULTURE, RURAL DEVELOPMENT, AND FORESTS

In fiscal 2003 lending volumes were \$1.9 billion for rural development. The Bank's new rural strategy will promote broad-based rural growth that enhances agricultural productivity by focusing on poor people, addressing the entire rural area, building alliances with stakeholders, and identifying the impacts of global developments such as trade protectionism and climate change. (See box 4.6, box 4.7, and [www.worldbank.org/ruralstrategy](http://www.worldbank.org/ruralstrategy).)

#### BOX 4.6 AGRICULTURAL SCIENCE AND TECHNOLOGY INTERNATIONAL ASSESSMENT

At the World Summit on Sustainable Development, the World Bank launched a nine-month consultative process to hear the views of stakeholders on the role of agricultural science and technology in reducing hunger, improving rural livelihoods, and stimulating environmentally sustainable economic growth ([www.agassessment.org](http://www.agassessment.org)). The stakeholders included farmers and other producers, nongovernmental organizations, researchers, the private sector, governments, consumers, and others throughout the world. During this process, which will last through mid-2003, stakeholders will exchange ideas on how agricultural science and technology can help end hunger and rural poverty. At the conclusion of the process, a steering committee comprising all the stakeholder groups will advise the Bank on the value of an international assessment, the ideal scope of such an assessment, and a governance structure for the assessment.

The Bank is the world's largest financier of protected forests. To meet this challenge it has created a new forests strategy, which covers all forest types and focuses on three areas:

1. Protecting vital local and global environmental services and values provided by forests
2. Harnessing the potential of forests to reduce poverty
3. Integrating forests into sustainable economic development.

The new policy will seek to expand the 8 percent of forest areas under protection in developing countries and maintain a strict ban on logging in these critical forests. In addition, by reengaging in areas of forests outside the protected areas, the livelihoods of poor people will be improved. A revised Operational Policy, which covers all forest types rather than focusing specifically on tropical moist forests, allows support for sustainable harvesting operations located in forests identified as “noncritical,” but *only* when these operations comply with independent certification standards.

Access to fresh water is vital to agriculture and rural development. By integrating better management of water resources with the development of infrastructure, the new water resources strategy will contribute to halving poverty by 2015. To provide more security against climatic variability, the strategy will assist countries in developing and maintaining well-performing hydraulic infrastructure, in continuing policy reform, and in mobilizing public and private financing. Support for water infrastructure will be provided based on a business model that not only meets high social and environmental standards but also provides for more rapid and consistent decisionmaking. (See [www.worldbank.org/water](http://www.worldbank.org/water).)

The Bank also supports the Consultative Group on International Agricultural Research (CGIAR). In fiscal 2003 three countries and one private foundation—Israel, Malaysia, and Morocco, and the Syngenta Foundation—joined the CGIAR, strengthening the partnership. In addition, such key members as Canada, Spain, and the United States announced increased support for the CGIAR. As part of a reform program, a new science council was established to ensure the quality and relevance of CGIAR science, and innovative challenge programs were launched to tackle globally significant problems, such as micronutrient deficiencies and water scarcity.

#### SOCIAL DEVELOPMENT

To ensure that Bank projects and programs integrate principles of social sustainability, the Bank is consolidating its approach to social development. The effort is based on stock-taking exercises, as well as extensive consultations with external partners. (See [www.worldbank.org/sdstrategy](http://www.worldbank.org/sdstrategy).)

The Bank has also been assisting governments in introducing social accountability in public programs, including budget management, service delivery, and formulation of poverty reduction strategies. It developed and has started pilot testing frameworks and tools for assessing the environment for civic engagement. (See [www.worldbank.org/participation](http://www.worldbank.org/participation).)

In community-driven development, the Bank's portfolio has stabilized at approximately \$2 billion, emphasizing partnerships between local governments and community-based organizations.

Moreover, the Bank is working on increasing the impact of community-driven development, as well as on the links between it and other areas, such as broader decentralization reform, conflict, social capital, and community foundations. (See [www.worldbank.org/cdd](http://www.worldbank.org/cdd).)

Recognizing the importance of social analysis, the Bank is developing guidance on its application projects and policy. (See [www.worldbank.org/socialanalysisourcebook](http://www.worldbank.org/socialanalysisourcebook).) It is also applying poverty and social impact analysis (PSIA) to determine the

consequences of policy reform on social groups. As part of this effort, the Bank launched the first “User’s Guide for Poverty and Social Impact Analysis.” (See [www.worldbank.org/psia](http://www.worldbank.org/psia).)

During fiscal 2003 the Post-Conflict Fund approved grants worth more than \$9.1 million to continue its support to conflict-affected countries, particularly the vulnerable low-income countries under stress. The Bank has also been exploring the links between conflict and natural resource management. (See [www.worldbank.org/conflict](http://www.worldbank.org/conflict).)

# Supporting Private Sector Development and Infrastructure

The World Bank's Private Sector Development and Infrastructure Networks promote private initiatives for poverty reduction and support infrastructure development in poor countries. Two separate vice presidencies were created from the former Private Sector Development and Infrastructure Vice Presidency in fiscal 2003. The Infrastructure Vice Presidency, which now consolidates the Bank's infrastructure departments and infrastructure-related global programs, commenced operations as a separate network in May 2003. So also did the new Private Sector Development Vice Presidency, which is responsible for strategic integration between the Bank and IFC on private sector development, investment climate issues, and long-term strategy for the IFC. The material presented in this chapter, however, primarily covers the period under which both vice presidencies and networks still operated as one.

## HARNESSING PRIVATE INITIATIVE FOR DEVELOPMENT

The World Bank Group's private sector development strategy, approved in fiscal 2002, articulates the key role that private initiative can play in promoting growth and poverty reduction. During fiscal 2003, 22 diagnostic firm surveys on the investment climate were launched. They identified the constraints to firm productivity and income growth. Seven country investment climate assessments were prepared, building on the firm surveys and providing a detailed picture of the business environment. The Doing Business Project was also launched. It surveyed experts and derived five sets of indicators—contract enforcement, credit markets, entry regulation, labor regulation, and bankruptcy—to provide a snapshot of the investment climate for 130 countries, including 55 IDA countries. The World Bank Group continued to provide advisory services to its member countries in building the investment climate, particularly through the work of the Foreign Investment Advisory Service.

The private sector development strategy also proposed the pilot testing of output-based aid approaches to support the delivery of basic services, including



*Road construction in Cambodia.*

infrastructure, health, and education, by private providers. In fiscal 2003 work was done on a portfolio of 25 operations across various sectors and regions. The Global Partnership on Output-Based Aid was established in 2003 to support such pilot initiatives with initial support from the Bank and the United Kingdom's Department for International Development. (See also figure 4.1.)

Increased efforts are being made to exploit the synergies between the financing instruments of the World Bank, IFC, and MIGA. The Pamir Private Power Project in Tajikistan, approved in June 2002, exemplifies synergies between the commercial discipline and private sector orientation of IFC financing and the potential of IDA funds to address affordability concerns by subsidizing poor consumers. An example of IDA and MIGA cooperation is a guarantee facility being jointly prepared by them to catalyze private investments in small and medium-sized infrastructure and privatization projects in eligible Union Economique et Monetaire Ouest Africaine member countries.

Major efforts are being made across the Bank Group and in particular by IFC to enhance support to small and medium enterprises (SMEs) and to direct it away from firm-level financial assistance to support for intermediaries, and from firm-level advice to

creation of a market for business development services for SMEs.

## INFRASTRUCTURE

The Bank made a substantial investment in infrastructure this year, recognizing that inadequate and inefficient infrastructure constitutes a major barrier to growth and poverty reduction. In the water and sanitation sector, effective poverty reduction will require dramatically increased investments from both the public and private sectors. The Bank continues to help its client countries in promoting strong legal and regulatory environments for the delivery of water and sanitation services, for example, in Armenia, Jordan, Nigeria, Sri Lanka, and St. Lucia.

In all infrastructure work, the Bank emphasizes the establishment of appropriate regulatory frameworks. There are strong links among the legal and regulatory issues facing the private delivery of water, sanitation, electricity, gas, information and communication technologies (ICTs), and transportation services, whether or not a single multisector regulatory regime itself makes sense. And, as is true of regimes for banking and corporate activity, a clear legal and regulatory framework needs to be in place to ensure an appropriate, transparent, and

predictable operating context. (See “Promoting Appropriate Legal and Judicial Systems” in this chapter.)

## Water Supply and Sanitation

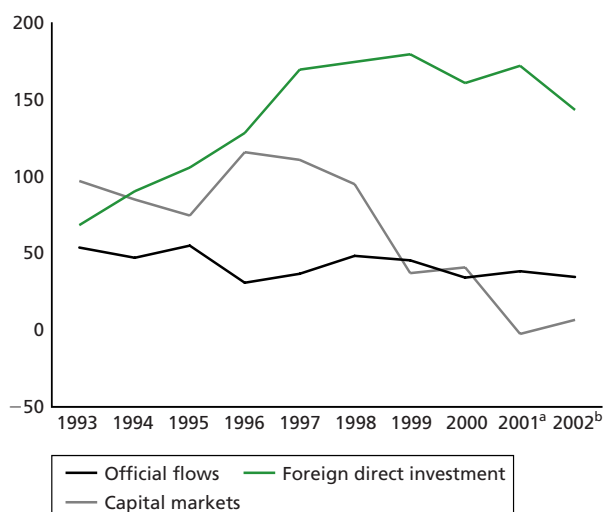
The emergence of the Millennium Development Goals (MDGs) has moved water supply and sanitation to the heart of the global poverty reduction agenda. In fiscal 2003 the World Bank continued to help shape the international water agenda through active participation in a number of international meetings. These included the International Conference on Financing for Development held in Monterrey, Mexico; the World Summit on Sustainable Development in Johannesburg; the 3<sup>rd</sup> World Water Forum in Japan; and the G8 Summit in Evian les Bains, France. In addition, the Report of the World Panel on Financing Water Infrastructure, chaired by Michel Camdessus, underscores the need to operate in all aspects of the water sector—water resources, service delivery, and broad poverty-targeted interventions—and calls on the international community to accelerate its efforts. The quality of new Bank projects and the performance of existing projects have improved significantly, whereas total annual IBRD/IDA financing commitments for water supply and sanitation declined in recent years from a high of \$1.7 billion in fiscal 1994–97 to \$493 million in fiscal 2002. This year commitments rose to \$1.3 billion, and sector assistance is projected to increase over the next three years.

Water supply and sanitation feature prominently in a diverse range of World Bank operations, including social protection, health and education, rural development, city management, and slum upgrading. At the country level the Bank’s new water strategy supports the trend toward holistic development, identifying future approaches for better engagement with client countries and partners across the spectrum of water uses. Conceptual work has focused on sanitation and hygiene, better integration of water supply and sanitation into country programs, sector reform, and innovative financial instruments, such as output-based aid, subsovereign instruments financing, and risk mitigation instruments.

## Energy

Progress has been made in early implementation of the energy business renewal strategy, which envisions a transition from traditional to modern energy use for poor households and an energy sector that is

Figure 4.1 **Net Long-Term Resource Flows to Developing Countries, 1993–2002** (billions of dollars)



a. Preliminary. Net long-term resource flows are defined as net liability transactions or original maturity of greater than one year.

b. Estimate.

Source: World Bank. 2003. *Global Development Finance 2003*. Washington, D.C.

efficient, reliable, and better able to support growth and fiscal stability. In Africa about 40 percent of the new lending commitments in fiscal 2003 had access expansion components, as in the Uganda Energy for Rural Transformation Project and the village electrification scheme under the Songo Songo Gas Development Project in Tanzania. Bangladesh and the Philippines, with IBRD assistance, have embarked on aggressive rural electrification programs that also support provision of renewable energy.

Reduction of large quasi-fiscal deficits in the energy sector is a key focus of the Bank's interventions in eastern Europe and elsewhere, and major energy conditions are included in adjustment lending in Bulgaria and Romania. In China the Bank is supporting a major effort to restructure the power and gas industry and introduce a proper regulatory system underpinned by a reform of the legal framework.

Projects to support renewable energy and reduce greenhouse gas emissions were approved and are being implemented in a host of countries. The Jepirachi Carbon Off-Set in Colombia will promote 19.5 megawatts of wind-based electricity generation. The Liepaja Region Municipal Solid Waste Management project in Latvia will use energy cells for enhanced degradation of easily biodegradable waste and will use the resulting landfill gas to generate electricity.

Financing commitments in fiscal 2003 to support the development of energy infrastructure and services in client countries amounted to \$1 billion in 14 projects. In addition to lending for projects, the Bank supports a range of analytical and policy work in the sector, and more than \$2.5 million was spent on this in fiscal 2003.

### **Helping to Bridge the Digital Divide**

The joint World Bank–IFC Global Information and Communications Technology (GICT) Department helps countries maximize the development impact of information and communications technology. In fiscal 2003 GICT's policy division was involved in grant-funded operations covering every Bank region in addition to 2 credit and lending projects.

Three World Bank projects approved this year harness the output-based aid concept to accelerate access to telecommunications services for poor and rural communities in less-developed countries. Providing public telephones to previously unserved communities has been linked to improved delivery of

government services, the expansion of SMEs, and growth in incomes.

The Bank uses approaches that can be applied even in complex environments or small economies. In Afghanistan the government has licensed a second mobile operator, catalyzing significant foreign direct investment in the sector and a rapid rollout of telecommunications services both in Kabul and beyond. The Bank is providing support to create the regulatory and legal underpinnings required for that expansion and is managing investment support under the Afghan Reconstruction Trust Fund. A project approved this year for Samoa supports telecommunications and reform to bring access to Samoans currently on the wrong side of the digital divide.

GICT also manages *infoDev*, a donor-funded grant-making initiative that supports innovative use of ICT to improve livelihoods in developing countries. Its portfolio contains about 40 pilot projects and technical assistance activities in ICT development. This year *infoDev* launched an initiative that will establish a network of incubators to facilitate the emergence and development of small and medium-sized ICT enterprises in developing countries.

### **Transportation**

Transportation has an essential intermediate contribution to make to each of the MDGs, and lending to the transportation sector increased to \$2.7 billion in fiscal 2003. (See also under "Transportation and Trade" in the "Poverty Reduction and Economic Management" section of this chapter.)

The close link between the transportation and health sectors has also been recognized. Transportation and health staff from across the Bank have been working in close collaboration with World Health Organization counterparts on a World Report on Road Traffic Injury Prevention. This report will be launched on April 7, 2004, World Health Day. This is an annual event devoted to a different topic each year. The focus of World Health Day 2004 will be the promotion of "Safe Roads."

The World Report on Road Traffic Injury Prevention will be a flagship product for both institutions. Its main message is that road traffic injuries are a major but neglected public health and development problem requiring concerted efforts for effective and sustainable prevention. It is projected that by 2020 road traffic injuries will rise from 9<sup>th</sup> to 3<sup>rd</sup> place

as the leading contributor to disability-adjusted life years in the developing world. Road crashes increase the burden on already overburdened medical treatment facilities. It is also believed that road crashes have a disproportionate impact on the poorer sections of the community. The costs of hospitalizing a family member who suffers injury or lasting disability can often drive a family into poverty, even if individuals work and earn reasonable incomes by local standards.

## URBAN DEVELOPMENT

In fiscal 2003 the 15 urban projects presented to the Board ranged in focus from traditional concerns such as urban upgrading, including a national program for Mexico, to economic development in St. Petersburg, social development in Djibouti, disaster management in Iran, asset management in Morocco, cultural development in Lebanon, and structural adjustment in Uruguay. Lending for urban development totaled \$1.6 billion in fiscal 2003. (See also box 4.7.)

In addition, urban poverty analysis and strategies are being developed with the governments of Lima and Lagos, and local economic development strategies are being prepared by 25 pilot towns and cities in the Baltics and the Balkans. These participatory strategies help identify and then prioritize measures that the public and private sectors can undertake to improve the local investment climate and improve the local economy. To further support local infrastructure investment, the Bank is working with the IFC on a newly created pilot program to finance subsovereign credits and guarantees.

The Urban Development Group is launching with the Global HIV/AIDS Unit a joint initiative to support local governments' response to the disease. This recognizes the fact that HIV/AIDS has significantly undermined income growth and service provision in urban areas.

## DISASTER MANAGEMENT FACILITY

Natural disasters are a key source of risk for poor people. The Disaster Management Facility serves as a central resource for technical support, policy guidance, knowledge generation, and capacity building to reduce disaster risk in the operations of the Bank and its partners. The Facility works with partners in the private and public sectors and civil society through the

### BOX 4.7 LENDING IN URBAN AND RURAL AREAS

Across developing countries the urban transition involves major movements of population and changes in the sizes and character of settlements. The widespread trends of political and fiscal decentralization have also raised the importance of sub-national units of governance. The Bank recognizes the significance of spatial analysis and of spatially disaggregating lending information.

The Rural and Urban Development departments collaborated this year in a detailed analysis of project documents for all lending operations approved in fiscal 2003, assessing for each project its spatial context. Approximately 40 percent of IBRD/IDA commitments were directed to rural areas and some 30 percent to urban areas. Some 30 percent of combined investment and adjustment lending affects rural or urban areas only indirectly. Also, there are differences in the split between urban and rural lending across the Regions. The balance within a given Region may require further attention to strengthen the spatial alignment with factors such as population dynamics and poverty incidence and approaches adopted at the national level toward poverty reduction. Further analysis of the spatial content of the lending portfolio is under way by both departments.

ProVention Consortium to develop practical learning activities aimed at mitigating disasters and contributing to sustainable development.

## PROJECT FINANCE AND GUARANTEES

The recent global economic slowdown has increased the risk aversion of the private sector toward investments in frontier markets. Guarantees are important in mobilizing new investments for critical infrastructure projects exposed to sovereign risk. Over the last year the Bank has developed a number of innovative uses of the guarantee instrument. Guarantees are now being offered to cover regulatory risk in projects and to support privatization of state-owned entities in all sectors. They are also offered through facilities that provide guarantees for small and medium-sized infrastructure projects. In addition, guarantee structures that could

support output-based arrangements, mobilize local currency loans, and mitigate currency devaluation risk are being developed. The portfolio now includes a number of projects in the water, oil, gas, and transport sectors.

During fiscal 2003 an IDA partial risk guarantee of \$75 million in support of the Phu My 2 Phase 2 Power Project in Vietnam addressed fiscal issues of the government by shifting investment cost to the private sector. The IDA guarantee is expected to serve as an important milestone for attracting further private capital flows to the country. During the year the guarantee facility approved by the Board in fiscal 2001 in support of the coal and forestry sectors in Russia became effective.

## **REDUCING POVERTY THROUGH MICROFINANCE**

The Consultative Group to Assist the Poorest (CGAP) is a multilateral organization of 30 donors housed at the World Bank. Its objective is to build

financial systems for poor people. As part of its efforts to increase the scale of microfinance, CGAP continues to work in partnership with a broad range of institutions (banks, credit unions, networks, and others) that deliver a variety of financial services, including savings, insurance, fund transfers, and credit.

CGAP's key activities in fiscal 2003 included the launch of donor peer reviews, an initiative aimed at improving aid effectiveness, whereby the microfinance policies and operations of major development agencies were reviewed. Ten international agencies underwent peer reviews in 2003, and several have made significant changes based on the recommendations of the reviews. CGAP also launched an appraisal and monitoring service for promising microfinance institutions on behalf of interested donors.

The Microfinance Gateway, launched in 2001, is now the most comprehensive source of microfinance information on the Internet, attracting over 11,000 individual users and approximately 400,000 hits per month.

# Building Strong Financial Systems

The World Bank has long recognized that poverty reduction and economic growth depend on effective and strong national financial systems. Financial systems that develop unevenly and lack transparency and proper regulation are more vulnerable to financial shocks and prone to distress. Extensive Bank research has proven that these shocks and crises disproportionately affect poor people. Weak financial systems in developing countries also exacerbate poverty levels by providing inadequate access to capital and financial services to individuals and to small and medium enterprises, which are key to economic growth. The Bank contributes to these financial sector priorities in three ways: knowledge dissemination, lending and technical assistance, and partnerships.

## KNOWLEDGE: RESEARCH, LEARNING, AND DISSEMINATION

In collaboration with outside groups the Bank produces cutting-edge contributions on financial sector topics to help practitioners and governments make better policy decisions. The vast majority of this research (publications and data) is downloadable from our Web site: [www.worldbank.org/finance](http://www.worldbank.org/finance).

This year the World Bank has been at the forefront of analysis on an emerging issue of our time—electronic finance and electronic security. Electronic finance, which is becoming key to financial infrastructure, presents great opportunities to reduce the costs of financial and commercial transactions. It also presents new electronic security risks. Careful development of information technology infrastructure within the financial sector will be increasingly needed to address the electronic and related operational risks associated with e-finance. A thorough discussion of this topic is presented in the Bank's paper, "E-Security: Risk Mitigation in Financial Transactions," available with other useful material at [www.worldbank.org/finance](http://www.worldbank.org/finance) (click on E-security).

The Bank actively disseminates research and knowledge in a variety of ways. The Financial Sector Knowledge and Information Services, a dedicated team of analysts, serves as a hub of communications, research, and resources on financial sector issues for



*A money exchange market in Afghanistan in 2002. A study on Informal Funds Transfer Systems (IFTS) was conducted by the World Bank.*

World Bank staff, client-country authorities, and non-governmental organizations.

The Financial Sector Learning Program, a well-developed unit of the World Bank Institute, emphasizes policy dialogue and collaborative problem solving by participants. These activities take the form of conferences, regional and global workshops, and distance learning through videoconferencing and the Internet. As an excellent example of using first-hand research and creative knowledge tools, the Learning Program has followed up the joint World Bank–International Monetary Fund publication, *Developing Government Bond Markets: A Handbook*, with a series of regional hands-on seminars both for senior officials responsible for developing government bond markets and for individuals responsible for operating the bond markets. To date, regional workshops have been held in Brazil, China, Tunisia, and Turkey, serving to deliver research and policy advice to our client-country authorities who can use it to strengthen their financial systems. (See [www.worldbank.org/wbi/banking](http://www.worldbank.org/wbi/banking).)

## LENDING AND TECHNICAL ASSISTANCE

The Bank shares the increased global concern over money laundering and the financing of terrorism, particularly as the devastating economic and social

consequences are magnified for developing countries with fragile financial systems. In response, the Bank intensified its work in this area, establishing a strong, systematic program to help client countries build institutional capacity. Since September 2001 the Bank and the International Monetary Fund (IMF) have completed, initiated, or agreed to deliver 52 technical assistance programs to 40 countries and 12 regions. More than half of the country technical assistance projects involved advice or assistance in drafting legislation, with a small but increasing proportion involving laws to combat terrorist financing. In addition, with the IMF the Bank developed the Anti-Money-Laundering (AML)/Combating the Financing of Terrorism (CFT) Global Assistance Coordination Database. The database tracks technical assistance priorities or gaps in delivery among donors on these topics and enhances the information flow between international bodies by serving as a clearinghouse for all technical assistance services being provided. In a complementary effort, the Bank and IMF launched a pilot program of assessments using the AML/CFT methodology endorsed by the Bank and IMF Boards in September 2002. The assessments will be incorporated into the Financial Sector Assessment Program (FSAP) on a pilot basis.

Many Bank client countries lack access to financial services, which is a critical problem. In Cameroon, the Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon (representing a total population of more than 30 million people), less than 3 percent of the people have access to day-to-day bank and payment services, compared with more than 90 percent in developed countries. Regarding the clearing and settlement of payment transactions, in these Central African countries the average number of transactions exchanged among banks per inhabitant per year is less than 0.05, compared with approximately 0.10 in West Africa, 3.0 in Tunisia, and 200.0 in Europe.

To address these issues, the Bank has provided assistance to BEAC (the regional Central Bank of the above-cited Central African countries) in defining large payment infrastructure reform. Using a participatory approach, the Bank has supported a project that has involved all stakeholders and is supported by a credit of \$14.4 million provided by IDA (total project cost is approximately \$22 million). The



*Development of the financial infrastructure has made banking services more accessible in Africa.*

Bank is widening access to financial services in this region, as well as in others where similar projects are carried out, by improving the efficiency of both country and regional payment infrastructures and by promoting the delivery of payment instruments and services to individuals and to small and medium enterprises.

## **FINANCIAL SECTOR POLICY ADVICE**

The Bank's partnerships are essential to its ability to offer financial sector policy advice. The joint World Bank–IMF Financial Sector Assessment Program, established in 1999, helps identify financial system strengths and vulnerabilities and helps reduce the potential for crisis. In fiscal 2003 20 FSAPs have been delivered. Over the past year, heavy focus has been put on follow-up technical assistance work. A new multidonor partnership, Financial Sector Reform and Strengthening, has been established as a mechanism to support technical assistance follow-up. (See box 4.8.)

The Bank continues its strong partnerships with international organizations and standard-setting bodies such as the Basel Committee, International Organization of Securities Commissions, and the International Association of Insurance Supervisors (IAIS). The Bank responded to a direct request from the IAIS for training targeted at midlevel supervisors in our client countries. Bank insurance experts

#### BOX 4.8 THE FIRST INITIATIVE

The Financial Sector Reform and Strengthening (FIRST) Initiative seeks to respond to the demand for assistance following Financial Sector Assessment Programs and Reports on the Observance of Standards and Codes. The World Bank, the IMF, Canada, the Netherlands, Sweden, Switzerland, and the United Kingdom established the \$53 million global fund. FIRST delivers technical assistance and capacity building to low- and middle-income countries and provides a framework for the international donor community to coordinate and cofinance work in

the financial sector. Two examples during fiscal 2003 were:

- A regional workshop on AML/CFT in Russia in December 2002 provided participants with the practical steps needed to establish an AML/CFT regime and with examples of best practice.
- FIRST advised the West African Monetary Institute on the steps needed to develop the common banking supervisory authority in the West Africa Monetary Zone.

were able to train 250 supervisors in 23 countries over the last two years through the use of videoconferencing, the Internet, video, and chat rooms. The Bank's senior insurance experts cover topics such

as risk-based approaches to supervision, the use of early warning tests, and the regulatory ladder. Exposing supervisors to international standards and skills helps strengthen the financial sector in client countries.

# Promoting Appropriate Legal and Judicial Systems

Healthy legal and judicial systems are essential to strong and effective development. Yet in many World Bank client countries, the process of lawmaking and the enforcement of laws and contracts remain less than predictable and transparent.

An essential part of the Bank's mandate is to deliver law- and justice-related products and activities in support of the Millennium Development Goals, in the context of client countries' poverty reduction strategies and the Bank's Country Assistance Strategies. The Bank is proactive and strategic in providing a disciplined, consistent approach to legal and judicial reforms, while working closely with partners in both public and private domains. (See [www.worldbank.org/legal](http://www.worldbank.org/legal).)

In the law and justice sector, the Bank analyzes country and sector conditions, including legislative and related institutional regimes. It formulates diagnostic assessments, advises on policy reforms, reviews client-country policy statements and draft legislation, and assists in capacity building in public sector institutions to improve enforcement of contractual obligations, laws, and regulations. (See box 4.9.)

During fiscal 2003 the Bank has been focusing greater attention on the legal aspects of its work in investment climate and finance, environmental sustainability, the promotion of gender equality (see box 4.10), infrastructure (see page 74), and trade (see page 61).

## INVESTMENT CLIMATE AND FINANCE

The Bank is actively engaged in improving the climate for investment and finance through its work in the areas of legal and judicial reform and financial systems improvement.

The first step toward improving the investment climate is to assess the current situation. Legal advisers appraise the results of country-specific investment climate assessments produced by the regions, and then assist in country dialogues aimed at prioritizing, mainstreaming, and implementing needed legal and judicial reforms.

During the past year the Bank has expanded its capacity to assess weaknesses in legal and judicial systems and to assist in promoting the rule of law. Legal and judicial reform is now one of the key

structural and institutional development competencies of the Bank. Work in this sector has contributed to improving the investment environment in client countries. (See [www.worldbank.org/legal](http://www.worldbank.org/legal).)

Predictability, transparency, effectiveness, and adherence to the principles of due process by judicial institutions are all factors that contribute to a secure investment climate. During fiscal 2003 the Bank trained judges in commercial law in Ecuador and Sri Lanka, in bankruptcy in Croatia, and in effective and efficient court management in El Salvador and Mongolia. The promotion of alternative dispute resolution mechanisms, such as commercial mediation in Albania and Sri Lanka, is also being carried out.

### BOX 4.9 ALL-AFRICA CONFERENCE ON LAW, JUSTICE, AND DEVELOPMENT, FEBRUARY 4–7, 2003

In mid-2000 a coalition of African jurists was formed to foster the sustainable development of Africa through the promotion of the rule of law and justice for all. Under the leadership of the Chief Justice of Nigeria, this coalition convened an All-Africa Conference on Law, Justice, and Development in February 2003 in Abuja. Conference support was forthcoming from the World Bank and bilateral donors and organizations, including France, Germany, Italy, Nigeria, the United Kingdom, the African Development Bank, and *l'Organisation Internationale de la Francophonie*. In highly interactive sessions, senior-level representatives from 41 anglophone and francophone African countries readily voiced their concerns and shared their experiences regarding law, justice, and development. Numerous chief justices, other members of judiciaries, ministers of justice, attorneys general, ministers of finance, representatives of bar associations and academia, as well as human rights activists and private legal practitioners confirmed that the challenges faced in these respects do not divide on linguistic or on civil law/common law grounds and that the sharing of relevant lessons from successes and failures is particularly important throughout Africa.

#### BOX 4.10 GENDER AND LAW

The Bank addresses gender disparities and inequalities that are barriers to development and assists client countries in formulating and implementing gender and development goals.

The Bank's gender mainstreaming strategy calls for the preparation of gender assessments in client countries. The assessment includes an analysis of the country's legal and regulatory framework for its gender and development goals and commitments, including international conventions such as the Convention on the Elimination of All Forms of Discrimination, frequently described as the "international bill of rights for women." In addition, the assessments review national plans aimed at promoting gender equality and eliminating discrimination against women.

In March 2003 the Bank sponsored the Fifth Annual Gender and Law Conference, titled "Laws, Institutions, and Gender Equality." The United Nations (U.N.) Special Rapporteur on Violence Against Women presented her study on the causes of violence against women, and the economic and social costs of violence. The conference also addressed customary, religious, and statutory laws; citizenship and women's relationship to the state and labor markets; and gender-based violence. Supreme Court justices from Brazil and Guatemala, a member of the Special Court for Sierra Leone investigating war crimes against women, and a member of the Office of the U.N. High Commissioner for Human Rights participated in the conference.

In the broader law and justice sector, the Bank assists law-enacting bodies, law reform commissions, bar associations, legal educational institutions, civil society, and the media. In the area of law reform, the Bank recognizes that many of our client countries still lack transparent legal frameworks that encourage appropriate market incentives and equitable and affordable access to enforcement remedies that are essential to a secure investment climate.

Well-functioning financial systems are essential for private sector-led growth, without which poverty alleviation will not be possible. They also help prevent or mitigate financial crises that would otherwise burden countries with crippling costs and increased poverty. The Bank encourages financial system reform



*Justice Effie Owuor of the Kenya Court of Appeals making a contribution from the floor during one of the sessions of the All-Africa Conference. The picture was taken by a Nigerian photographer.*

and the strengthening of individual financial institutions and markets. As part of this effort, in conjunction with other international organizations and in accordance with its mandate and specific competencies, the Bank assists client countries in their anti-money-laundering efforts and is actively involved in assessing the legal and regulatory environments for combating money laundering and terrorism.

In response to a need for standards in the area of insolvency and creditor rights, the Bank, in collaboration with the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, IFC, IMF, OECD, the United Nations Commission on International Trade Law, INSOL International, and the International Bar Association, has developed the World Bank Principles and Guidelines for Effective Insolvency and Creditor Rights Systems. The Principles form the basis for Bank-led assessments of insolvency and creditor rights systems under a joint program with the IMF to develop Reports on the Observance of Standards and Codes (ROSCs). To date, 14 insolvency ROSCs have been completed and another 7 are in progress. These ROSCs support diagnostic and strategic work, underpin policy dialogue and lending operations, and provide input for technical assistance and capacity-building efforts (e.g., in Argentina, Bolivia, Brazil, Croatia, the Czech Republic, Slovakia, and Turkey). Notably, the Principles have been used by countries to assess ongoing law reform efforts even where no ROSC has been undertaken (e.g., in Kosovo, Poland, and Serbia). In the Slovak Republic, insolvency reform has been a core component of

the Bank's overall work on strengthening the financial sector.

The Bank is also working to develop principles on the insolvency of financial institutions, in collaboration with the IMF, the Bank for International Settlements, and a core consultative group of experts.

In January 2003 the Bank convened a Global Forum on Insolvency Risk Management to discuss standards and strategies for the next decade. (See [www.worldbank.org/firm](http://www.worldbank.org/firm).) One of the main objectives of the forum was to explore ways to address institutional and regulatory capacity-building challenges to promote more reliable investment systems. This led to collaboration with the International Association of Insolvency Regulators in developing a compendium of regulatory practices and experience that can assist legislators and policymakers. The Bank also sponsored a Global Insolvency Judges Forum in May 2003 at which judges from some 90 countries considered ways to expand the understanding of insolvency issues by the international community through the use of distance learning tools and the Bank's Global Insolvency Law Database. (See [www.worldbank.org/gild](http://www.worldbank.org/gild).)

## SUSTAINABLE DEVELOPMENT

The World Summit on Sustainable Development held in September 2002 identified the key role of law in achieving sustainable development. During this past year the Bank has made significant efforts to protect the global environment through the use of legal and institutional reform as well as other legal instruments, including those it pioneered for the purchase of independently verified reductions of greenhouse gas

emissions. Through workshops and a fellowship program the Bank has also provided legal capacity building for developing countries and countries with economies in transition, which has helped them participate actively in the emerging carbon market.

The latest titles in a series of monographs on Law, Justice, and Development include *The Legal and Regulatory Framework for Environmental Impact Assessments*, and *Conflict and Cooperation on South Asia's International Rivers*. Legal studies concerning public participation, land titling, and the flexible mechanisms of the Kyoto Protocol are also in preparation.

Integral to the Bank's day-to-day business are the 10 environmental, social, and legal safeguard policies that provide templates for sustainable development at the project level. (See [www.worldbank.org/safeguards](http://www.worldbank.org/safeguards).)

Other policies are being reviewed as part of the effort to achieve sustainable development. For example, Bank funds may not be used to purchase land, a policy that reflects earlier concerns about serious distortions common in client-country real estate markets and frequent legal uncertainties with respect to purchases of land. The Bank, however, has come to recognize that land markets in many countries are now more stable and reliable. As a result, in this past year the Bank has begun testing a new model of large-scale land reform for application especially in poorer countries. To date, one community-managed project in India has been approved by the Bank's Executive Directors for oversight by a cross-sectoral Community Land Purchase Committee. In addition, the Bank is in the process of preparing a further project in Malawi for consideration by the Executive Directors.