

Fiscal 1997 marked an escalation of the process of renewal at the World Bank, building on the vision of an institution that delivers development results and reflecting the Bank's guiding principles of greater selectivity in activities, strengthened partnerships, emphasis on client needs, increased results orientation, cost-effectiveness, and a strong commitment to financial integrity.

The Bank's regional assistance strategies in fiscal 1997 addressed the specific needs of its clients as they face the challenges of adjusting to a rapidly changing global economy. Examples include:

- Following a request for support by the Bank's African clients in fiscal 1996, capacity building remained high on the agenda. Efforts to mainstream capacity-building activities into all Bank operations were initiated, and development of a partnership framework began.

- In East Asia, where successful economic development has taken a heavy toll on the environment, and "brown environmental issues" such as air and water pollution are threatening health and sustainable development, the Bank increased its support for the sector with loans and related advice for water supply and sanitation, for example, which increased more than two-and-one-half times over the fiscal 1996 level.

- As the reforms of the 1990s took root in South Asian countries, the Bank supported its clients as they shifted their focus to a second generation of reform: In India this involved responding to several requests for assistance at the state level to help evaluate fiscal situations and identify policy options to promote fiscal sustainability.

- Strengthening safety nets to protect the most vulnerable people from the adverse effects of reform is a priority for many of the Bank's clients, especially in the Eastern Europe and Central Asia region. In fiscal 1997 the Bank supported innovations to generate income and create assets for the poor through social investment funds in a number of countries and through projects such as support to the Ukrainian authorities to protect people adversely affected by coal sector restructuring.

- In Latin America, where the legacy of recent years has made countries acutely aware of the importance of sound financial markets, the Bank supported a number of programs to restore confidence in financial systems, such as in Argentina, Mexico, and Venezuela.

- Supporting reform programs to speed growth by promoting international competitiveness and opening up to global markets was a focus for clients in the Middle East and

North Africa region. Loans to Jordan and Tunisia, for example, are helping promote private sector participation in the wider world economy and facilitating important recent initiatives such as the proposed association of MENA countries with the European Union.

One of the year's most significant achievements was the initiative to address the debt of the heavily indebted poor countries (HIPC), which combines powerful partnerships to meet new needs, using nonlending and lending services with funding drawn not only from the Bank but from other partners (*see box*). Another was the Executive Board's unanimous approval of the Strategic Compact in March 1997.

The Strategic Compact is a plan for fundamental reform to make the Bank more effective in delivering its regional program and in achieving its basic mission of reducing poverty. The compact is an expression of the Bank's business strategy and focuses on the external delivery of higher-quality products and services to the Bank's clients. The compact was the outcome of extensive consultation throughout the organization, reflects the input of clients and shareholders, and has the support and partnership of all the Bank's shareholders.

Through the compact, the Bank's shareholders and management are investing in and

THE HEAVILY INDEBTED POOR COUNTRIES (HIPC) DEBT INITIATIVE

In September 1996 the Interim and Development committees endorsed the program of action proposed by the Bank and the International Monetary Fund (IMF) to ensure that heavily indebted poor countries (HIPC) that have a sound track record of economic adjustment can attain a sustainable debt situation over the medium term. The committees requested the Bank and Fund to proceed quickly with implementation and to report on progress at the spring 1997 meetings.

Over the next six months the Bank and the Fund moved rapidly to implement the initiative and to consider the assistance that could be provided for the first group of eligible countries. This marked an important development in the support that the Bank and the Fund and the international community was to provide to the poorest, most heavily indebted countries.

The principal vehicles for Bank participation in the initiative were created in fiscal 1997. The Bank established the HIPC Trust Fund in November 1996 and subsequently allocated \$500 million from its IBRD surplus to this trust fund as an initial contribution. The IMF established the ESAF-HIPC Trust for financing special Enhanced Structural Adjustment Facility operations under the HIPC Debt Initiative.

The Bank chaired meetings of the multilateral creditors of the HIPC in November 1996 and March 1997 to discuss the implementation of the initiative as well as the status of their participation in it. At the end of the fiscal year, most of these creditors had either obtained or were well advanced in obtaining the appropriate institutional approvals to enable them to participate. The African Development Bank and the Inter-American Development Bank, both principal creditors of the HIPC, have obtained the necessary formal approvals in principle for them to participate. The African Development Bank will allo-

cate about \$260 million to \$330 million to the HIPC Trust Fund during the years 1997 to 2003. A number of bilateral donors have also made contributions or pledges to the World Bank's HIPC Trust Fund to help other multilateral creditors provide their share of debt relief under the initiative.

In April 1997 the executive boards of the IMF and the World Bank approved, in principle, assistance under the HIPC Debt Initiative for Uganda, the first country to reach the "decision point." Under this decision, which depends upon the participation of Uganda's other creditors and the implementation of agreed reforms, debt relief to Uganda, in net present value terms, will total about \$340 million. In view of Uganda's exceptional record of sustained and strong adjustment and reform, and under the program of economic reforms and social development to be pursued with the support of the IMF and the Bank, the boards agreed to shorten, on an exceptional basis, the normal three-year interim period to one year. The expected completion point, therefore, is April 1998. IDA will provide \$160 million of the debt relief, which will reduce nominal debt service to IDA by about \$430 million over time.

Bank and Fund staff have prepared debt-sustainability analyses for other countries that on the basis of their record of performance are approaching the decision point. The boards have discussed preliminary analyses for Bolivia, Burkina Faso, and Côte d'Ivoire, and consultations are underway that could progress to decision points for these countries in the summer of 1997. In addition, Bank and Fund staff are preparing debt-sustainability analyses with the governments of several other countries.

Total costs of the HIPC Debt Initiative, while tentative, are in the range of \$5.5 billion to \$8.4 billion in net present value terms.

implementing a series of changes over thirty months to transform the way the institution does business: improving its products, speeding up its processes, lowering its costs, making it more demand driven, and increasing its development impact. The compact will also establish clear performance criteria against which

progress will be measured and for which management will be held accountable.

The compact's vision is of a professionally excellent institution that responds quickly to the evolving and varying needs of its clients and provides a wide range of high-quality services; that operates through partnerships and acts as a catalyst for private-public collaboration; and

that builds capacity and knowledge for the entire development community.

The compact is rooted in the recognition of the need for change if the Bank is to be effective in the rapidly changing global economy where private capital flows are five times greater than official assistance, where many different actors (from multilateral banks to non-governmental organizations) now play a much greater role in development, and where technological change has revolutionized the way business is done. The Bank has been slow to respond to these changes in the past—with overly bureaucratic processes, weak capacity in key areas such as the social sectors, institution building, and banking, and the acceptance of insufficient development impact in the projects it supports. But as this *Annual Report* describes, change was well under way to meet the Strategic Compact's objectives by the end of the fiscal year.

The central objective of the compact is to make the Bank more efficient and to increase the development effectiveness of everything it does. In terms of lending effectiveness, for example, it is expected that the proportion of projects rated satisfactory will increase from 66 percent to 75 percent, meaning that an extra \$2 billion a year of the Bank's lending will have greater impact.

The compact takes a comprehensive approach to increasing the Bank's development effectiveness in four priority and related areas: refueling current business activities; refocusing the development agenda; retooling the Bank's knowledge base; and revamping institutional priorities. It will:

- Shift resources from overhead and administration to frontline operations, with the goal of frontline resources accounting for 60 percent of the budget and supporting activities accounting for 40 percent. The Bank's management has committed to redeploying \$170 million internally to support frontline operations because the basic business of the Bank needs to be better funded.

- Develop new financial products and advisory services—with the emphasis on increasing flexibility and timeliness for clients.

- Rebuild technical expertise in key areas of development and expand the Bank's focus in those areas—with the social sectors, institution building, and the private sector being immediate priorities.

- Further decentralize activities to the field to allow Bank staff to work more closely with clients in order to better customize country assistance strategies, design more appropriate conditionality, and build local ownership of development programs.

- Strengthen the Bank's information management system to collect, synthesize, and disseminate the best in development thinking.

- Create new and stronger partnerships with other organizations to enable the Bank to be more selective and to specialize in those areas where it has a comparative advantage.

- Reform the Bank's human resources system to create a more flexible, performance-based, and diverse institution.

- Eliminate cumbersome, inefficient processes to make the Bank quicker, leaner, and more cost-effective.

Client benefits promise to be substantial: higher-quality and more relevant products and services backed by an effective, modern knowledge-management system; and a staff that combines state-of-the-art technical skills and global experience within the context of a flatter, faster, more flexible, and more decentralized organization.

The compact's overall costs will be met through a stringent program of savings and re-deployment. Net additional investment under the compact is \$250 million. This funding will be phased in to ensure that it is in line with the Bank's absorptive capacity: \$100 million annually in fiscal 1998 and 1999 and \$50 million in fiscal 2000; budgets will return to the fiscal 1997 level, in real terms, by fiscal 2001. Approval of the compact's funding will be contingent on the Executive Board's annual review of the Bank's budget and work program.

The fundamental retooling of the Bank's operations must be judged by its impact on development effectiveness. Therefore, a broad range of specific measures for gauging effectiveness

and accountability are being developed. These include:

- tracking development progress made by the Bank's client countries (using the expanded *World Development Indicators*¹);

- setting targets for responding to clients. Clearly defined business standards have been set for managing the portfolio and for lending and nonlending services: for example, the Bank is aiming to get projects approved within five months of appraisal and economic and sector reports to clients within five months of onset; and

- monitoring the main determinants of what makes projects go well or badly, such as ensuring that projects are well prepared, well supervised, and that implementation problems are recognized and dealt with quickly.

In line with the Bank's aim for increasing results, portfolio management programs to improve the current portfolio accelerated during fiscal 1997 through the quality-at-entry and portfolio improvement programs. A key innovation was the concept of projects at risk, which is helping to identify the potential as well as actual problem projects. The concept continues to be refined but already is serving as an additional tool for portfolio management as well as enabling more accurate reporting on the status of the portfolio.

Staff were encouraged to recognize problems early and to address them proactively. The portfolio improvement program, for example, targeted poorly performing segments of the portfolio for special attention. Coupled with improvements in quality-at-entry for new operations, these intensified portfolio management efforts should lead to higher rates of satisfactory outcomes.

"Stretch targets" for client responsiveness are providing a measure for improving results and client focus. They included substantial cuts in elapsed time for provision of services during the fiscal year: The average time elapsed between appraisal and board consideration was reduced from 9.3 months in fiscal 1996 to 7.8 months in fiscal 1997, and projects are becoming effective more quickly. The average time between board approval and effectiveness is down from

6.6 months in fiscal 1996 to 6.1 months in fiscal 1997.

By the end of the fiscal year, 96 percent of the backlog of Implementation Completion Reports (ICRS) was cleared. ICRS lay the foundation for a better future lending program based on strategies that are well grounded in experience, evaluation, and lessons learned.

A more cost-effective, results-oriented Bank will lead to a stronger International Development Association (IDA). IDA borrowers will get a better-quality product, and IDA donors will have greater confidence that their contributions are being used even more effectively.

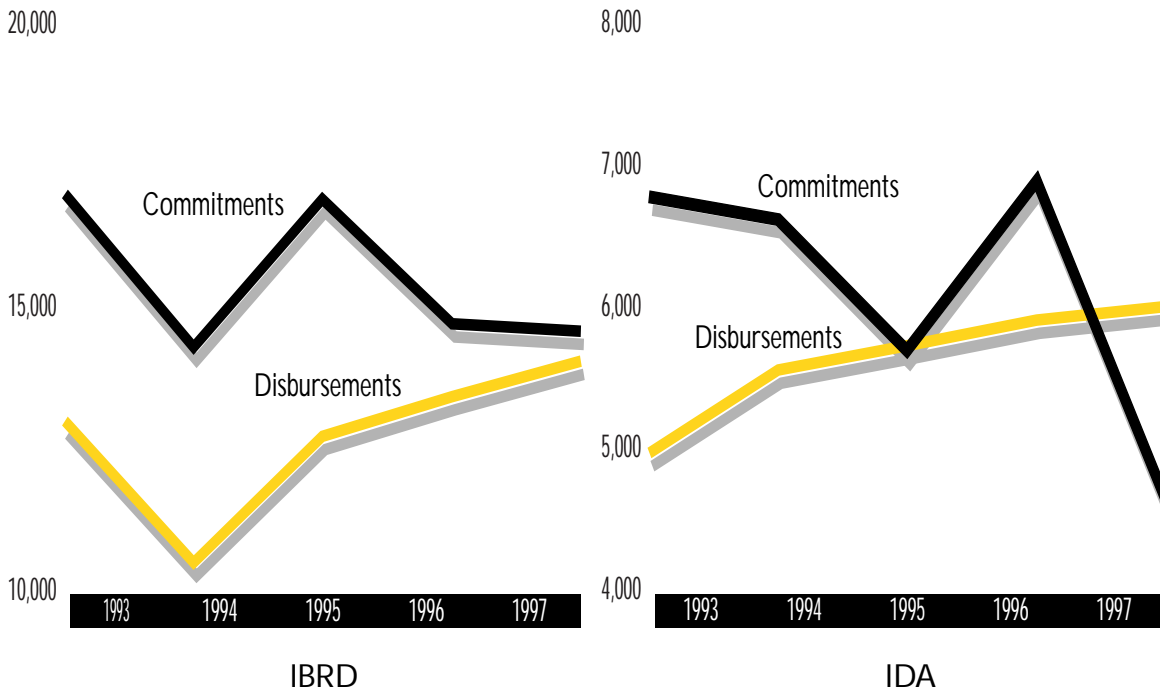
In fiscal 1997, disbursements from IDA continued to increase (*see figure 1*), reflecting greater emphasis on implementation. Disbursements reached a record \$5,979 million, of which \$4,815 million was for investment projects.

The temporary decline in new IDA commitments in fiscal 1997 reflects both increased selectivity and the concentration of IDA resources on improving implementation and the quality of the existing portfolio. Selectivity is based on attaching increased importance to the policy prerequisites for IDA lending of all types. Improvements in policy performance in many countries are expected to be reflected in future increases in IDA commitments. While it is not yet possible to measure fully the transitional effect of the reorganization of the Africa regional office, it is estimated to have been small. To the extent that this may have contributed to delays in new commitments during fiscal 1997, the now completed renewal program should result in fiscal 1998 commitments returning to at least the level of fiscal 1996 (in SDR terms) as delays are overcome and a quicker, more effective regional program ensues.

Promoting transparency, accountability, and institutional capacity is critical to successful, sound, and equitable development and has been a key aspect of the Bank's development agenda in recent years. Building on these principles, the Bank's president, in his 1996 Annual Meetings speech, emphasized the importance of eliminating corruption. The anticorruption measures

1. World Bank. 1997. *World Development Indicators*. Washington, D.C.

Figure 1. IBRD and IDA Commitments and Disbursements, Fiscal Years 1993–97
(US\$ millions)



Note: Excludes guarantees and loans to the IFC.
IBRD data for 1996 includes the refinanced/rescheduled overdue charges of \$168 million for Bosnia and Herzegovina.

contained in the Bank's procurement guidelines, its standard bidding documents, and its legal technical assistance were strengthened in fiscal 1997. Many governments have strongly committed themselves to fight corruption, and the Bank has worked with them to support their efforts to improve governance and public sector management programs that aid efficient resource allocation and reduce the possibilities for corruption, through lending and nonlending services. The Economic Development Institute's (EDI)² Governance Program, initiated in fiscal 1994 to build national integrity systems to fight corruption, is one example. EDI held more than thirty governance-related activities in more than a dozen countries across five regions in fiscal 1997.

Creating new and stronger partnerships with other organizations is enabling the Bank to be more selective and specialize in those areas where it has a comparative advantage. In fiscal 1997, progress was made in developing joint programs and information sharing with interna-

tional financial institutions, United Nations organizations, academia, foundations, business, nongovernmental organizations (NGOs), and others. Some of these partnerships are described throughout this *Annual Report*. A framework for cooperation in financial sector activities was agreed between the World Bank Group and the International Monetary Fund (IMF), and a cooperation agreement was finalized with the World Trade Organization. It will facilitate closer working relations for promoting global trade and helping developing countries adopt open policies to support growth and eliminate poverty.

2. The Economic Development Institute designs and delivers training programs for Bank clients, providing policy lessons, skills building, and outreach to civil society. EDI issues its own annual report, which is available from: New Products and Outreach, The Economic Development Institute, The World Bank, 1818 H Street, N.W., Washington, D.C. 20433, USA.

The Business Partnership Center, launched early in the fiscal year to serve as a focal point of contact for the business community and for developing strategic partnerships with business groups, handled over 1,000 inquiries from members of the business community, had over 90,000 visitors to its World Wide Web site, and featured in more than forty international conferences. It is discussing potential partnership arrangements with more than fifteen groups worldwide.

The high level of NGO involvement in Bank-supported development activities was maintained in fiscal 1997, with 47 percent of projects involving NGO participation in some capacity and with NGO liaison staff now active in seventy-two of the Bank's resident missions.

The country assistance strategy (CAS) positions the country client at the center of the Bank's operational work. It is the key tool for shaping and driving the Bank's country-level work. Management and the board worked closely together to improve the strategic focus of CASS in fiscal 1997. The CAS has evolved considerably in its seven-year history, mirroring many concomitant changes in the Bank itself—for example, this year, social issues of development began to be integrated into CAS work. Greater efforts were also made to further build the results of poverty assessments into CASS; and to strengthen the private sector focus, a number of CASS were prepared jointly by the Bank and the International Finance Corporation (IFC) in fiscal 1997, including those for Brazil, Indonesia, Mexico, and Poland. As part of a larger strategy to link lending and learning activities, EDI helped prepare the CAS for Russia.

The CAS starts with a diagnosis of country challenges and client governments' concerns and priorities. It takes into account what others are doing and the lessons learned about what has worked and what has not worked in the Bank's and others' programs in the country. CASS are discussed with the authorities of the borrowing country and increasingly with other partners and stakeholders.

Bank operations in countries emerging from conflict are an increasingly significant part of the Bank's work, and the document "A Framework for World Bank Involvement in Post Conflict Reconstruction"³ provided a conceptual and operational framework for Bank staff working to help countries move from conflict to sustainable economic development.

Much of the Bank's postconflict reconstruction work has been in rebuilding infrastructure, but capacity is also needed to promote economic adjustment and recovery, to address social sector needs, and to build institutional capacity. Some lending operations in fiscal 1997 involve unique postconflict elements, including clearing land mines in Bosnia and Herzegovina and Croatia, demobilization and reintegration of ex-combatants in Bosnia, and reintegration of displaced people in Bosnia and Rwanda.

Two overall objectives for Bank intervention are set out in the framework: to facilitate the transition to sustainable peace after hostilities cease and to support economic and social development. The framework outlines a five-stage process for Bank involvement corresponding to various phases of postconflict reconstruction.

Sound financial systems are key to economic development, yet one in five developing countries is at risk of facing banking problems. The Bank has speeded up its response to clients facing financial crisis and supported those vulnerable to such risk. It prepared a series of loans to help the Bulgarian government implement a stabilization and reform program to address its financial crisis, for example. The first loan, in August 1996, helped to restructure enterprises and supported banking sector rehabilitation and the acceleration of privatization. This was followed by a loan in May 1997 to reduce shortages of vital commodities and build public confidence in the reform program.

3. World Bank. 1997. "A Framework for World Bank Involvement in Post Conflict Reconstruction." Environment and Social Policy Division, Environment Department, Washington, D.C.

To explore how the World Bank Group might better help its clients promote and facilitate private sector involvement in infrastructure, and in response to the proposal made by the Governor for Japan during the 1996 Annual Meetings, an infrastructure working group was established in fiscal 1997. It will report to the 1997 Annual Meetings on how public-private partnerships might be expanded to meet the growing investment gap.

The Bank helped refocus the international community's attention on the needs of the 70 percent of the poor in developing countries who live in rural areas by calling for a renewed focus on agriculture and rural development in fiscal 1997. The Executive Board endorsed the paper, "Rural Development: From Vision to Action,"⁴ which set out a strategy for supporting rural development by improving rural strategy formulation and consensus building; improving project quality; increasing international awareness; and building staff capacity.

Nonlending activities are an increasingly important service to clients. The Operations Evaluation Department (OED) conducted a review of the Bank's self-evaluation processes for nonlending services as well as a review of the EDI. Its recommendations for stronger evaluations across all areas of the Bank's work have been incorporated into strengthened self-evaluation programs that will be carried out by management over the coming years.

Building a sound knowledge base to support nonlending (as well as lending) activities is at the heart of the Strategic Compact. The Bank is made up of an unmatched repository of experience and understanding about development issues, which too often has been underused. Too much knowledge has been locked up in reports that do not provide real-time and relevant advice to clients, colleagues, and partners. To meet client needs more effectively and better equip Bank staff, work began on developing a knowledge management system in fiscal 1997 to dis-

seminate and apply lessons of experience among staff and clients. Through this system, complex information is distilled into usable formats for delivery to those who need it: policymakers, parliamentarians, NGOs, and journalists, in ways that build vital understandings in member countries.

Four networks established in fiscal 1997 are at the center of the new knowledge-based Bank. They are:

- Human Development;
- Environmentally and Socially Sustainable Development;
- Finance, Private Sector and Infrastructure; and
- Poverty Reduction and Economic Management.

The networks link staff who work in related sectors across the Bank so they interact more effectively across the organization and with partners outside the Bank and play a major role in strategic thinking. In fiscal 1997 the Human Development network prepared the first of a new World Bank product—sector strategy papers—for the health, nutrition, and population sector. Sector strategy papers are cross-cutting studies that are the sector equivalent of CASS. They present the World Bank's corporate strategy for the sector.

The regional renewal programs began in fiscal 1996 moved toward completion during fiscal 1997. They aim to de-layer and simplify decisionmaking and delegate increased responsibility to the field—twenty-one country directors have been or are being relocated to field offices.

During fiscal 1997, the IBRD's Executive Board approved new policies governing the concentration of its loan portfolio and the size and management of its liquid assets. These changes were designed to enhance the IBRD's flexibility in managing its finances and thereby better meet the changing needs of its clients

4. World Bank. 1997. "Rural Development: From Vision to Action." Agriculture and Natural Resources Department. Washington, D.C.

TABLE 1. OPERATIONAL AND FINANCIAL OVERVIEW, FISCAL YEARS 1993–97

(millions of us dollars unless otherwise noted)

Item	FY93	FY94	FY95	FY96	FY97
IBRD					
Commitments ^a	16,945	14,244	16,853	14,656 ^b	14,525
Disbursements ^a	12,942	10,447	12,672	13,372 ^b	13,998
Net disbursements to all borrowers ^a	2,331	(731)	897	1,213	2,094
Net disbursements to current borrowers, ^a excluding prepayments ^a	2,865	19	1,651	2,100	3,258
Net income	1,130	1,051	1,354	1,187	1,285
Financial return on average investments	6.07%	3.53%	5.69%	4.43%	5.00%
New MLT borrowings in FY after swaps	12,676	8,908	9,026	10,883	15,139
Average cost of new MLT borrowings in FY after swaps	5.97%	4.99%	6.31%	5.28%	5.01%
Subscribed capital	165,589	170,003	176,438	180,630	182,426
Statutory lending limit	179,787	185,865	195,248	197,785	198,705
Loans and callable guarantees outstanding as a % of statutory lending limit	104,606	109,468	123,676	110,369	105,954
Headroom	58%	59%	63%	56%	53%
Interest coverage ratio	75,181	76,397	71,572	87,416	92,751
Reserves-to-loans ratio	1.16%	1.16%	1.19%	1.18%	1.22%
	11.7%	13.9%	14.3%	14.1%	14.0%
IDA					
Commitments	6,752	6,592	5,669	6,861	4,622
Disbursements	4,947	5,532	5,703	5,884	5,979
Net disbursements	4,580	5,110	5,205	5,322	5,364
Development credits outstanding	56,158	62,810	72,032	72,821	76,124
Accumulated surplus	1,194	1,365	1,995	1,790	1,998
IBRD/IDA Joint Activities					
Administrative expenses	1,254	1,389	1,540	1,376	1,188

a. Excludes guarantees and loans to the IFC.

b. Includes the refinanced/rescheduled overdue charges of \$168 million for Bosnia and Herzegovina.

while preserving a strong, conservative financial standing.

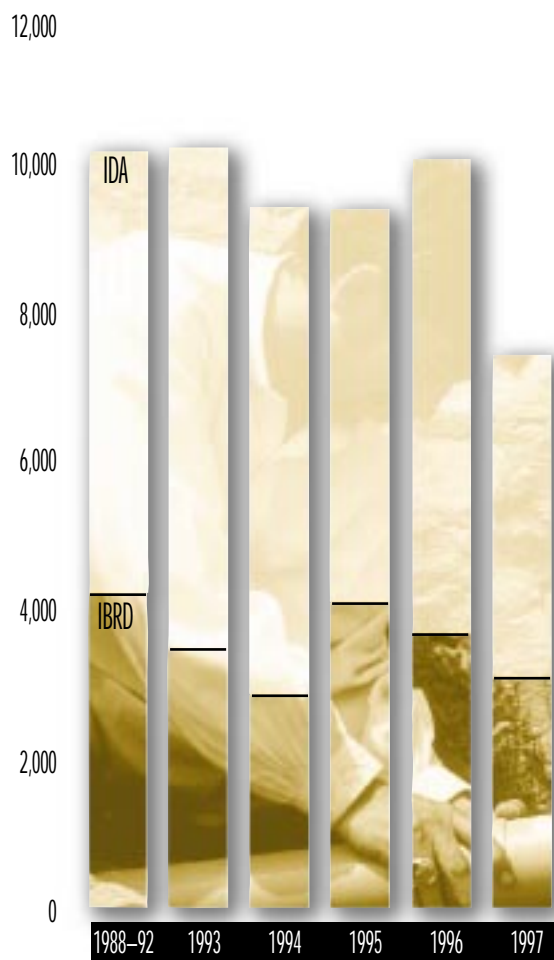
Fiscal year in review

Against this background, commitments by the Bank were \$19,147 million—\$14,525 million from the IBRD and \$4,622 million from IDA; 36 percent of those, totaling \$1,646 million, were from the Interim Trust Fund. A total of 241 projects were approved, 141 by the IBRD

and 100 by IDA. Seven loans on IDA-like terms, totaling \$83.5 million from resources provided by the Trust Fund for Gaza and the West Bank, were approved for the West Bank and Gaza.

Three partial guarantees, totaling \$420 million, were approved. Gross disbursements amounted to \$19,977 million—\$13,998 million from the IBRD, and \$5,979 million from IDA. Table 1 presents a comparative overview of Bank operations and finances for fiscal years 1993–97.

Figure 2. IBRD and IDA Lending to the Poorest Countries, Fiscal Years 1988–97 (US\$ millions)



Note: The poorest countries are defined as those with a per capita income of \$785 or less in 1996 U.S. dollars.

Assistance to the poorest countries—those with a per capita gross national product of \$785 or less (in terms of constant 1996 United States dollars)—totaled \$7,442.9 million—\$3,080.9 from the IBRD and \$4,362.0 from IDA (see figure 2).

Some 29 percent of total Bank investment lending during the year directly targeted the poor compared to 32 percent the year before. These projects supported activities to increase the productivity and economic opportunities of

the poor, to develop their human resources, and to provide social safety nets (for a description of each such targeted project, turn to the project summaries after Section Three).

During fiscal 1997, fifty-five out of sixty-two borrowers (89 percent) took advantage of the new single-currency loans first made available in fiscal 1996. Measured in terms of volume, \$12.9 billion out of \$14.5 billion (89 percent) in new loan commitments were in single-currency loans.

The IBRD has 180 members. At the end of the fiscal year, action was pending on membership in the IBRD for Palau and the Federal Republic of Yugoslavia (Serbia/Montenegro). IDA has 159 members. At the end of the fiscal year, action was pending on membership in IDA for Barbados, Ukraine, Venezuela, and the Federal Republic of Yugoslavia (Serbia/Montenegro).