

Status Report

A Review of the World Bank Group in Fiscal Year 2006
The Nordic Baltic Office
August 2006

Acronyms and Abbreviations

AAP	Africa Action Plan
AfDF	African Development Fund
CBD	Community Based Development
CDD	Community Driven Development
CIS	Commonwealth of Independent States
CODE	Committee on the Development Effectiveness
DC	Development Committee
ECA	Europe and Central Asia Region
ED	Executive Director
EU	European Union
FAS133	Financial Accounting Standards No.133
FY	Fiscal Year
G8	Group of Eight (US, Japan, Germany, France, the UK, Italy, Canada and Russia)
G20	Group of Twenty (G7 and Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea, Turkey and the EU, represented by the rotating Council presidency and the European Central Bank).
GDP	Gross Domestic Product
GNI	Gross National Income
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IEG	Independent Evaluation Group
IDA	International Development Association
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LICUS	Low Income Countries Under Stress
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MDF	Multi-Donor Fund
MENA	Middle Eastern and North Africa
MIGA	Multilateral Investment Guarantee Agency
NBO	Nordic Baltic Office
PRS	Poverty Reduction Strategy
UN	United Nations
WBG	World Bank Group
WDR	World Development Report
WTO	World Trade Organization

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Foreword by Executive Director Svein Aass

NBO has, on earlier occasions, commented on what we called the “Wolfensohn Bank” as a World Bank that in many ways could be seen as a “Nordic-Baltic Bank”. By this we made clear that we meant that the World Bank over the past 10-15 years had taken up many of the development priorities and taken on many of the attributes of the development paradigm that are prevalent in the Nordic-Baltic constituency. A holistic approach to development, justice and fair income distribution, an effective and just/fair state, social and environmental aspects of development, the rights of children and women and betting on the poor – with a focus on Africa in particular, are the signposts.

On this background, it was not unnatural that a certain unease and a somewhat tentative attitude was to be observed when the World Bank was put “under new management”, literally speaking. In last year’s 2005 Status Report, it was too early to make a judgment on where the Bank was heading other than observing that the new Bank President offered a progressive program and vision in his introductory investiture.

It is now easier to make such a judgment. As this Status Report from the Nordic-Baltic Office in the World Bank Group shows, the World Bank is poised to remain a premier development institution and many features, priorities and policies that have grown to be dear to the Nordic-Baltic constituency still characterize the World Bank. Under President Wolfowitz, we have therefore been happy to be in a position to support i.a. a continued Bank commitment to equitable and sustainable development, empowerment of the poor, and a strong focus on Africa.

In addition, it is worth observing the renewed emphasis in the Bank on growth or enhanced growth – or as the correct jargon has it: “shared growth”. The upgraded priority given to infrastructure and energy makes extra good sense in this context – and is also a reflection of the Bank listening to its members, especially the developing country members, who have all voiced a strong demand more support for such investments. The confirmation that the Bank will continue to stay involved in all its developing country members should also be read into the efforts to elaborate a specific strategy vis-à-vis the middle-income countries. The same goes for the developing of new instruments such as sub-sovereign lending and the insistence of going forward with “country systems”.

The World Bank also continues to play an important role in the international financial and developmental architecture in analyzing, promoting and advocating global public goods such as an effective multilateral trading system, the safeguarding of the environment and fighting infectious diseases to name a few of the challenges which the international community has asked the Bank to contribute to solve. The Bank’s research capacity, its convening power vis-à-vis international policymakers and perhaps most importantly, its long track record of financial and policy dialogue with its member countries are reasons why groups like the G8, as well as groupings to which countries in our constituency belong, find it useful to ask the Bank to play a supportive role.

The importance of the above-mentioned issues notwithstanding, quite clearly there have been two issues that have more than anything characterized the work of the Bank – and thus also the Bank itself as a development institution in 2005-2006: radical cancellation of debt to the poorest member countries of the Bank through the “Multilateral Debt Relief Initiative”(MDRI) and the ambitious new stepped-up campaign to promote good governance and combat corruption. The issues are described in the following pages. Suffice it to say that from our perspective both issues show how the Bank is at the heart of the global development strategy. In both cases, it could be debated whether the process chosen to forward the initiatives has been the optimal one. But also in both cases, it also seems plausible to claim that the end result will turn out better than the point of departure. The work of the Board, capitals such as our own Nordic Baltic Constituency, IDA Deputies and World Bank Governors has been shown to be essential if major multilateral initiatives are to retain their legitimacy.

As in previous years our office has, I think, put up a convincing performance. According to our peers, we are seen as representing a certain “development profile”. Personally, I am most grateful to all and every staff member in the office, including our excellent administrative staffers, for good-natured and professional efforts beyond the call of duty. Likewise, we all in the NBO value the support and guidance received from capitals, all in a spirit of “never a discouraging word”, which has allowed us to be a “player” influencing the direction of the World Bank.

Introduction

During President Wolfowitz' first year in office the World Bank has seen a significant turnaround in senior management levels, the finalization of the Multilateral Debt Relief Initiative, and increased lending to many countries, especially for infrastructure. Africa is a priority and the Africa Action Plan is being implemented and refined. At the political level, the Development Committee (DC) has focused on financing for development and following up on progress towards the Millennium Development Goals (MDGs) as well as issue ranging from good governance to clean energy, trade and various aspects of aid effectiveness.

This report is produced by the Nordic Baltic Office in the World Bank and it takes stock of the past fiscal year (July 2005-June 2006); the Development Committee agenda, the overall strategy of the main arms of the World Bank Group as well as the regional operations and the financial status of the Bank. The report also includes sections on specific topics; this year we report on Human Rights and Independent Evaluation in the World Bank. Finally, the report includes short summaries of important research products and developments in the Bank.

Development Committee in FY2006

The Development Committee¹ met in September 2005 during the Annual Meetings and in April 2006 during the Spring Meetings. Overall, the DC agenda continued to focus on following up the commitments made at the 2002 Financing for Development Conference in Monterrey by developed and developing countries and on the progress towards the MDGs. As a concrete accountability instrument for the monitoring of these commitments the Bank, together with the IMF, prepare a Global Monitoring Report which is discussed annually at the DC Spring Meeting (see box 1 below). This year's report also served as a point of departure for the governance and anti-corruption discourse which will be on top of the agenda at the Annual Meetings in 2006. Other pertinent issues that were discussed in the DC during the last year were the Multilateral Debt Relief Initiative, the renewed focus on governance and anti-corruption and access to clean energy and infrastructure (see below). Furthermore, topics on the agenda included issues related to economic growth, "voice" and aid effectiveness.²

Related to economic growth, reports on fiscal policy, trade and infrastructure aimed at coming out with policies and financing in support for these aspects of the economic growth agenda in both low and middle income countries.

The "voice" discourse refers to a commitment from Monterrey to increase the role and influence of developing countries and countries in transition in the multilateral system, including in the Bretton Woods Institutions. The progress report issued for the 2005 An-

¹ The Development Committee is a 24 member ministerial body providing political guidance for the World Bank and the IMF on development issues (see also annex 1).

² See www.devcommittee.org for reports and statements from the DC.

nual Meetings noted some progress but also pointed to difficult trade offs. Formal discussions in the IMFC at the 2006 Annual Meetings in Singapore are expected to further this agenda.³

Box 1. Global Monitoring Report 2006

The Global Monitoring report, which is produced every year as the World Bank's contribution to following up on progress toward the MDGs, contains the message that growth continues to help people out of poverty but that many countries are not on track for meeting the human development MDGs. Poverty reduction has been sharpest in East Asia, and remains more or less on target for all other regions except for Sub-Saharan Africa which has only made the smallest of dents in the percentage of population living on less than USD 1 a day.

The key policy messages from the report include:

- Progress is too slow in improving the business climate, including infrastructure in order to sustain growth in many poor countries.
- Critical to help countries meet the human development goals is to increase the ability of aid to cover recurrent costs to pay for salaries of teachers and health service providers and for governance reforms to improve service delivery.
- Multilateral trade negotiations need to be accelerated. Aid transfers need greater predictability, less fragmentation, better alignment with needs and better targeting. Debt relief threatens to become a substitute for aid. 60 percent of the increase in total Official Development Assistance between 2001 and 2004 was directed to Afghanistan, the Democratic Republic of Congo and Iraq, although these countries account for less than 3 percent of the poor people in developing countries.
- International Financial Institutions need to manage for outcomes rather than for inputs.
- Governance should be monitored regularly to track progress, generate greater accountability and build demand for good governance.
- Good governance is everyone's responsibility.

Aid Effectiveness is an over-arching priority for the World Bank. Some of the major policy developments discussed by the DC in the last year include reviewing the Poverty Reduction Strategies as tools for countries to articulate their own development agenda, the increased focus on managing, measuring and monitoring for results, the World Bank conditionality⁴ and the Paris Declaration on Aid Effectiveness. The main thrust over the

³ Informal political discussions in the so called G20 have centered on their wish to increase the shares of some emerging economies.

⁴ The review, to which the Nordic and Baltic countries also contributed analytically, was finalized in the summer of 2005. It was summarized in last year's Status report, while being part of the agenda for the 2005 Fall meeting of the Development Committee. Noteworthy follow-up papers include a set of Bank wide Best Practice Guidelines on Conditionality which were issued in September 2005, a Development Policy Retrospective report and a stock-taking report of Policy Conditions in World Bank Investment Lending which both were submitted to the Board of Executive Directors in the summer of 2006.

last year has been to continue implement these ambitious objectives (see for example Box 2 below).

Box 2. Review of the Poverty Reduction Strategy approach

A review of the Poverty Reduction Strategy approach was on the agenda for the September meeting of the Development Committee in 2005. The PRS core principles were summarized as a system of development assistance relying on country-driven, broadly participative reform programs, medium- to long term in perspective, comprehensive, and oriented towards results and partnerships. The main conclusions, fully endorsed by the DC, were that the PRS approach needs to:

- Support a balance in accountabilities between governments (to their domestic constituents for improved policies, governance, and development results) and donors (to provide more and better aid in ways that support rather than detract from domestic accountability).
- Provide a platform for scaling up aid and demonstrating tangible results at the country level.

Multilateral Debt Relief Initiative

In September 2005, the Committee welcomed the proposal by the G8 countries to cancel the debt owed by the HIPC countries to the IDA, the AfDF and the IMF. The objective of the initiative, later named as the Multilateral Debt Relief Initiative (MDRI), is to increase resources for making progress towards the MDGs. MDRI reduces the debt service obligations of the beneficiary countries while maintaining the financial integrity and capacity of the IFIs involved to ensure that MDRI relief is additional for the developing countries. Subsequent to the September DC meeting, IDA Deputies met several times in order to agree on the financing package for the donor countries while the other implementation details were delegated by Governors to the Executive Board. Finally, on March 28, 2006 the IDA Executive Board endorsed the implementation package and following the April DC meeting and the subsequent adoption of the draft Resolution by the Board of Governors the MDRI became effective on July 1st, 2006 and the first 18 countries received 100 percent debt cancellation on their eligible debt to IDA.

Going forward, it will be important to monitor that the promised dollar-for-dollar donor compensation is adhered to in order to avoid a drop in IDA's financial commitments to the client countries. For their part, the MDRI beneficiary countries need to ensure that the saved reflows will be used efficiently for poverty reduction programs that also aim to improve the countries capacity to carry debt in the future. After the MDRI much attention has been devoted to the need to ensure that the beneficiary countries do not immediately re-accumulate unsustainable levels of debt. In this context, the Board has held discussions on how to mitigate the problem of "free riding", namely that the debt relief will cross-subsidize non-concessional lending to post-MDRI countries. Enhancing information transparency related to debt flows, improving creditor coordination as well as carefully designed incentives will be part of the policy package aiming to mitigate such "free riding" concerns.

Governance and Anti-Corruption

The idea to reform the process of sanctioning companies and individuals found to be involved in corruption in WB projects was first discussed in 2004 (and the subject of an extensive review by former US Attorney General Dick Thornburgh). It was resumed this year in early spring after an increased emphasis of the new Bank management on anti-corruption, and the formation of an Anti-Corruption Task Force of Multilateral Development Banks (MDBs) with the aim to develop a uniform Framework for Preventing and Combating Fraud and Corruption.

Simultaneously, a much broader set of issues related to good governance has also come into focus. In the Spring Meeting 2006 the most hotly debated issue was the chapter on governance in the Global Monitoring Report 2006 (see above). Several developing countries expressed fear that the Bank, which has a non-political mandate as regards allocation of resources to its membership, would start to use explicit political conditionality for its loans. At the same time the DC recognized the importance of good governance for sustained growth and poverty alleviation. A main conclusion of the DC discussion was to ask management to come up with a comprehensive framework for strengthening governance and fighting corruption for the Annual Meetings in Singapore this year.

Box 3. Sanctions and Voluntary Disclosure Program

The sanctions reform expands the possibility to sanction firms and individuals that have engaged in corruption, broadens the definition of corruption to include private to private corruption, and aims to harmonize definitions and approaches across the MDBs. The new rules, approved by the Board, stipulate i.a. that any breach of the undertaking in the Anti-Corruption Guidelines would permit the Bank to suspend the loan in question. The suspension would also be imposed if the borrower has been declared ineligible to participate in Bank-financed projects for having engaged in fraud and corruption in another Bank project.

The Voluntary Disclosure Program (VDP), approved by the Board, is an attempt at creating incentives for firms to stop engaging in corrupt and fraudulent behavior while providing the Bank with vital information. Under the VDP, firms may avoid sanctions (and have their identity kept confidential to the best ability of the Bank) if they:

- 1) disclose to the Bank the results of their internal investigations regarding past corrupt and fraudulent behavior in Bank-financed or supported projects;
- 2) commit to stop engaging in such behavior;
- 3) implement a robust, monitored compliance program;
- 4) cover most of the costs associated with the VDP process.

However, if the national authorities independently discover a participant's violation of its national laws, the latter's participation in the VDP will not protect that participant from prosecution.

Clean Energy and Infrastructure development

The profile of the World Bank's work in the area of both energy and infrastructure more broadly has been increased substantially over the past few years. Following previous dis-

cussions at the Development Committee and in other fora, both the links between clean energy and development, as well as the Bank's activities in the infrastructure sector, were discussed by ministers at the DC meeting in April 2006. The Bank was requested at that meeting to review, in close coordination with other partners, existing financial instruments and to explore the potential value of new financial instruments to accelerate investment in clean, sustainable, cost effective and efficient energy. As part of its sector strategy, the Bank is using several tools ranging from policy advice for energy sector reform and work on developing the carbon market to specific investments in new energy related infrastructure. Increasingly, the focus of the Bank is also on helping developing countries adapt to climate change. DC ministers will receive an update on progress made towards developing an investment framework for clean energy at the Annual Meeting in Singapore. In the area of renewable energy specifically, the Bank committed in 2004 to increasing its lending for renewable energy and energy efficiency projects by 20 percent annually for the next five years.

The Nordic-Baltic countries have shown interest in cooperating with the Bank in the area of renewable energy, and there is also an understanding in the Bank that the broad experiences of Nordic countries in that field could be valuable in many developing countries. The cooperation between our constituency and the World Bank's energy experts has been further enhanced by visits in both directions.

The Bank has also made further progress in scaling up its support to infrastructure projects more broadly than in the energy sector and in implementing the Infrastructure Action Plan that was launched in July 2003. The total Bank lending commitments⁵ for infrastructure in FY06 reached USD 8.14 bn, which represents a 9.7 percent increase over the FY05 level and a cumulative growth of close to 50 percent over the past three years.

Strategy and Operational Performance

World Bank⁶ Strategy and Performance

The World Bank's fundamental strategy remains based on the two pillars of investing in and empowering people and promoting a favorable investment climate for private sector led economic growth. As part of its annual cycle of strategy discussions, the Board in May 2006 endorsed several priority areas for the coming years, where the Bank intends to intensify its efforts to respond to development challenges.

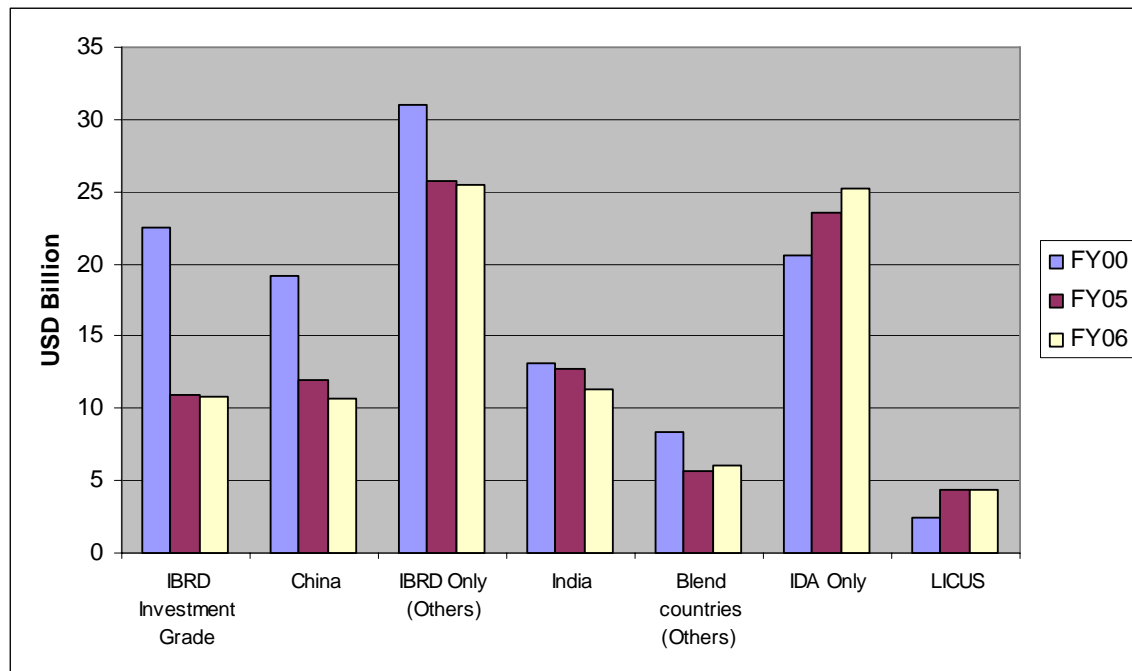
The first priority for the Bank is its work in Africa. To that end, the Africa Action Plan has been developed, which describes 25 specific initiatives to be undertaken during the IDA14 implementation period. Secondly, the institution is currently deepening its work on governance (see above) through its country-level work with governments, as well as by reviewing some of its own operational procedures. Other priority areas where the Bank is making an effort to deepen its expertise and development impact are education, health, infrastructure, energy and sustainable development, and agriculture.

⁵ Including IBRD, IDA, GEF, Special Financing product lines and guarantees

⁶ World Bank here refers to IBRD and IDA.

Looking at the portfolio by client grouping and comparing FY00 data to FY05 and FY06, the largest decline over the past five/six years is in the group of IBRD countries classified as Investment Grade. The other group of countries showing a significant increase in portfolio includes the Low Income Countries under Stress (LICUS). Issues related to aid effectiveness in LICUS are receiving significant attention from the international community, including the Bank.

Figure 1. Portfolio by Client Grouping (FY00, FY05, FY06)



In response to the decline of lending to IBRD clients and in order to increase Bank's competitiveness, the Bank has intensified its efforts in reviewing the Bank's strategy for IBRD clients. The outcome of those efforts will be submitted to the Development Committee in September. The proposed strategy will most likely entail a clear commitment to increase lending and advisory services for this business line; providing stable financing to countries with little or volatile access to financial markets and advisory services on growth and poverty alleviation as well as in the area of global commons.

Box 4. Sub-national Development Program

As many developing countries move towards fiscal decentralization, sub-national levels of government become increasingly important to the World Bank Group. In the summer of 2006 the Board approved a sub-national development program on a three-year pilot basis, comprising two main instruments:

- Technical assistance to build institutional capacity (e.g. in financial management)
- Financial support without sovereign guarantees

Organizationally, President Wolfowitz has started a process to consolidate the work of the bank in its many central thematic units. The networks/departments for infrastructure, agriculture, environment and social development will be merged into a central network for sustainable development. Similarly, the financial sector and private sector development units will be merged together. In the regions, there is a process to gradually increase the number of countries in the portfolio of each country director, thus empowering both country directors and country managers, to whom much of the Bank's day-to-day operations will have to be delegated. In conjunction with looking over its organizational structure, the Bank also continues to developing its strategic planning tools, to better measure the effectiveness of the Bank's work and to strengthen the alignment of resources with operational priorities. This work has been closely monitored and guided at the Board level by the Budget Committee, of which the NBO has been an active member.

Box 5. Gender Action Plan

The High Level Consultation on the Gender Equality MDG in February 2006, sponsored by the Bank in partnership with the Government of Norway, UNIFEM and others, resulted in a commitment to prepare a "**Gender Action Plan**". The Plan is likely to focus on the promotion of economic opportunities with the aim to empower women, partly because of the Bank's comparative advantage and also as a response to the fact that mainstreaming of gender issues has been stronger in the social sectors than in the non-social sectors in the Bank. The Draft Action Plan consists of the following four action areas:

- 1) Intensify gender mainstreaming in Bank and IFC operations and in key regional analytical products
- 2) Mobilize resources to implement and scale up Results-Based Initiatives (RBIs) and other innovative actions that empower women economically
- 3) Improve knowledge and statistics on women's economic participation and the relationship between gender equality, growth, and poverty reduction
- 4) Undertake a targeted communications campaign to foster partnerships and improve project execution.

IFC Strategy and Performance

It is now a year since the Board approved an ambitious three-year growth strategy for IFC (aiming at a level of USD6-7 bn by FY08, a 35 percent increase) and the early results are promising. The level of commitments in FY06 showed a sharp increase in FY06 and reached ca USD6.7 bn, compared with USD5.4 bn in FY05. Business volumes are also up in Africa and the Corporation is doing well as measured by other key indicators of development impact. In addition, management has suggested to extend the expected growth path in lending volumes to FY09 as part of their updated three-year forecasts.

In May 2006, the Board reinforced the following five strategic priorities for IFC:

- strengthening the focus on frontier markets (e.g. Sub-Saharan Africa)
- building long-term partnerships with emerging global corporations in developing countries
- differentiating through sustainability competencies

- addressing constraints to private-sector growth in infrastructure, health and education
- developing local financial markets through institution building and innovative financial products

Technical assistance and advisory services continue to be a key area of activities for IFC and an important ‘market differentiator’ for the Corporation. All IFC’s technical advisory work is now organized into five business lines and a new system is being introduced to measure the development outcomes and effectiveness of these activities. Among new topics, IFC, in line with the rest of the Bank Group, is trying to define its potential role in the fight against corruption. Given the recent exceptionally strong financial results of the Corporation, the Board this year for the first time suggested to Governors to approve a transfer from IFC’s net income to IDA (in the amount of USD150 mn). The funds would be used by IDA as grants to support the growth of private enterprise in countries that are members of both IFC and IDA.

Box 6. Doing Business in 2007: How to Reform

The Doing Business Report is a joint Bank/IFC analytic study that provides for a comparison of the regulatory burden that companies face in 175 countries. For an initiative that was originally planned only as a three-year pilot project, the success of the Doing Business Report has been quite notable. By its third year, the Doing Business report had already become the most quoted annual publication of the World Bank Group. The appeal of the Doing Business Initiative is its straightforward approach to use objective indicators to measure and benchmark countries on the time and cost of completing administrative processes that an entrepreneur has to go through. It also provides a unique perspective for a World Bank publication as the business environment in both developing and industrialized countries is evaluated using identical measures.

The main theme of the next year’s edition (4th overall) will be “How to Reform” and it will present an analysis of 50 case studies that could be useful for countries that are considering similar regulatory changes. The main messages that emerge from the analysis are:

- Africa is reforming
- What gets measured gets done – there are 43 reforms informed by the Doing Business initiative
- Reform while you can – most radical reforms usually closely follow election victories.

Referring to the performance of the Nordic and Baltic countries, one can be pleased to see that members of our constituency are well represented both among the top economies in terms of ease of doing business, as well as top reformers over the past years. The Doing Business Report together with extensive background information is available from www.doingbusiness.org.

MIGA Strategy and Performance

MIGA seems to be on a way of recovery judging from the increased volume of guarantees, a strong pipeline going forward, as well as a more diversified portfolio. At the same

time MIGA's operating income shows a decreasing trend – at USD 17.2 mn in FY06 as compared to USD 24.1 mn in FY05, despite an increase of USD 268 mn in exposure. FY06 cancellations were USD 665 mn – similar to previous year's level. The Board approved MIGA's three-year business plan and the requested budget for FY07 of USD 36.922 mn, representing a 3 percent decrease over the previous year's request in real terms.

In FY06, MIGA issued USD 1.3 bn in guarantee coverage for projects in its priority⁷ areas: 23 projects in frontier markets, totaling USD 481 mn in guarantees, 10 projects in conflict-affected countries, with USD 165 mn in coverage, 14 infrastructure projects totaling USD 469 mn in coverage, 15 South-South investments, supported by USD 389 mn in guarantees; 13 guarantee projects and 13 technical assistance projects in sub-Saharan African countries; 21 guarantee projects and 20 technical assistance projects in IDA-eligible countries.

The regional breakdown of guarantees issued by MIGA in fiscal 2006, in terms of number of guarantees issued, shows that sub-Saharan Africa was the top guarantee destination, with 21 contracts in support of 13 projects, totaling USD 180 mn in coverage. LAC generated the second highest number of guarantees with 19 contracts, totaling USD 242 mn in coverage. Europe and Central Asia (ECA) was the third region in terms of number of guarantees issued. As regards sector diversification, during FY06, infrastructure accounted for the largest share of guarantee activity, in terms of number of contracts issued (25), projects supported (14), and the amount of coverage (USD 469 mn).

The Small Investors Program (SIP) approved in FY04 became fully operational this fiscal year, and proved to be popular among smaller investors who find the streamlined underwriting process more user-friendly and appropriate to their needs. During FY06 nine contracts worth USD 24 mn were signed under the SIP.

Sector and Thematic issues

Human Rights

The Nordic-Baltic countries have pushed for reinforcing the Bank's development and poverty reduction mission by enhancing attention to human rights considerations. Tangible results include the establishment of a joint Justice and Human Rights Trust Fund (JHRTF) in late June of 2006.

In the fall of 2005 the Nordic-Baltic capitals produced a joint working paper titled "The World Bank and Human Rights" outlining why and how the Bank should engage more in the human rights domain which generated a broad discussion with different stakeholders on ways and means to further promote the human rights agenda in the Bank. The paper partly came about as a result of an emerging, less restrictive legal interpretation of the Bank's mandate – which, traditionally, has been interpreted as limiting the degree to which the institution could take non-economic factors into account in its work. A copy of

⁷ investment in infrastructure development; investment into frontier markets; investment in conflict-afflicted environments; and investment among developing countries (South-South investments)

the paper was presented to President Wolfowitz at his meeting with the Nordic and Baltic Governors in Stockholm in October. A new legal opinion on the subject of human rights by the Bank's former General Counsel was presented to management in January 2006, shortly before he stepped down. The main conclusions and argumentation of this internal paper are aligned with the reasoning in the Nordic Baltic position paper.

Further deepening the joint Nordic-Baltic process was a series of interlinked seminars in the spring/summer of 2006. Organized in close collaboration with the Bank's Legal department, these events constituted an opportunity for a diverse group of representatives of our constituency countries, the Bank, the UN system, and academic institutions to discuss complicated operational, methodological and policy aspects of human rights and their links to development. Specifically, a seminar in Oslo in May dealt with the question of how to measure justice and human rights and a workshop in Stockholm in June focused on human rights dialogues at the country level. At the third seminar in Copenhagen in June the objectives and preliminary work program of the JHRTF were discussed before the formal launch of the trust fund. Based on total commitments from the Nordic countries of USD 22.6 mn the trust fund is expected to be operational as of the fall of 2006.

Independent Evaluation

To assist management in monitoring and evaluating the effectiveness of WB operations, the Quality Assurance Group and other units contribute to a complex system of internal checks and balances, largely relying on self-evaluation at all levels. Assisting the Board in its oversight function, the Independent Evaluation Group validates country and project teams' self evaluations. Besides throwing a critical light on project and country level results IEG also produces evaluations on more aggregate and thematic level, in publicly disclosed evaluation reports.⁸ On request from the members of the Committee on Development Effectiveness (CODE), IEG's evaluations are discussed in the Committee, along with a formalized Management Response.

This year, besides more in depth Country Assistance Evaluations on for example Turkey, Yemen, Senegal, IEG published evaluations on thematic areas such the Bank's support to Low Income Countries Under Stress, the support for education, the combined efforts of the World Bank Group support improvements to countries investment climates, the support for trade, the support for community driven development and the support for financial sector to mention some of the more important publications. Below, two of these studies, and the response to them by the Board, are summarized.

Assessing community based development

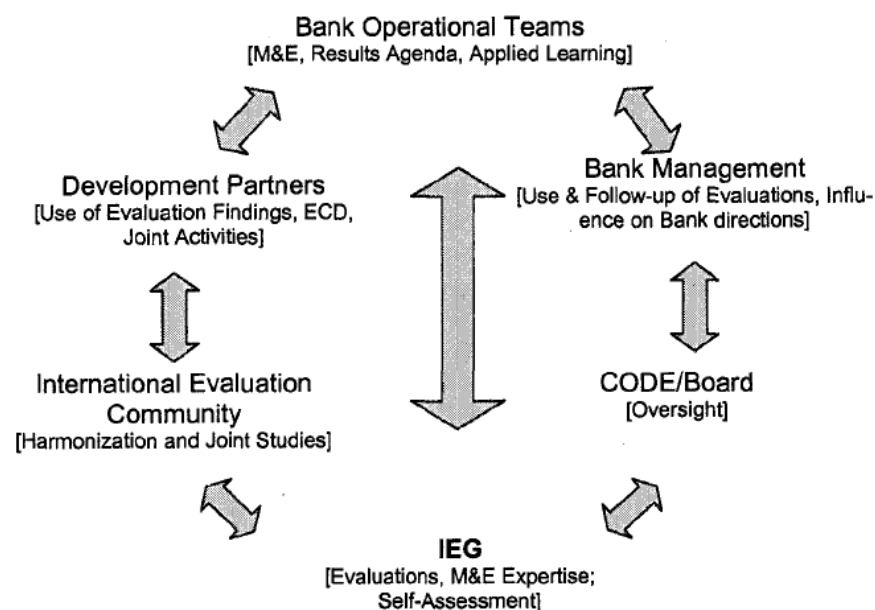
The main conclusions of IEG's evaluation of the Bank's lending for Community Based and Community Driven Development (CBD and CDD) were that, over the 1994-2003 period, CBD/CDD projects in many cases had increased access to service delivery infrastructure like schools and health centers for remote communities, and in conflict and post-conflict countries they had helped to rehabilitate infrastructure and provide impor-

⁸ The IEG changed name from Operations Evaluations Department to IEG this year after a merger with the independent evaluations outfits for MIGA and IFC – see www.worldbank.org/ieg for reports.

tant benefits to the local population. At the same time monitoring and evaluation of CBD/CDD projects were found to have been lagging, and costs and benefits had not always been systematically assessed. In some instances, the Bank's parallel implementation arrangements have hindered long-run enhancement of local government capacity.

In response, Bank management criticized IEG's definition of CBD and CDD as being much broader and bearing little resemblance to the set of operations management tracks under this heading, thus possibly rendering the conclusions of the report misleading and limited in their usefulness. The discussion around this report thus served the purpose of focusing on what all agree are important challenges to the CDD/CDB approach and also raised principal questions on the role of independent oversight and of how to oversee it.

Figure 2. Independent Evaluation in the World Bank – links with Bank operations⁹



Assessing World Bank support for trade

The ongoing discussions on how to strengthen aid for trade in the World Trade Organization and in the Bretton Woods institutions is expected to result in a further increase in World Bank assistance for trade. Providing timely input to this work, in January 2006 IEG presented an assessment of how the World Bank Group had performed in supporting trade reforms in its members countries. In the period 1987-2001 countries that pursued trade reform with the help of the World Bank were found to have had higher rates of economic growth than those who reformed without the help of the World Bank. At the same time, the evaluation found that the Bank often supported trade liberalization reforms in spite of serious macroeconomic instability, that compliance with complementary policies

⁹ This figure is from the 2006 Annual Report on Operations Evaluation, which is a synthesis report done by the IEG group, which also takes stock of how to improve the IEG function. This report, which can be found on the IEG website, also contains a more detailed overview of monitoring and evaluation within the World Bank Group.

recommended for improving the investment climate were less successful and that the Bank did not adequately focus on the poverty and distributional impact of trade reforms.

After a period where the trade department was scaled down and overall trade related lending went down from USD 4.3 bn/year in the period 1987-94 to USD 1.7 bn in the period 2000-2004, the program was revamped in 2001, to focus on analysis, global advocacy on behalf of developing countries and on mainstreaming so called “behind-the-border” issues such as infrastructure and trade facilitating regulation in Country Assistance Strategies. The evaluation found that mainstreaming trade in operations has been less successful than the advocacy pillar. The report also stresses that more attention will need to be paid to poverty and distributional aspects of trade reform, not least to address short term adjustment costs.

Regional perspectives

Sub-Saharan Africa

From the beginning of his tenure President Wolfowitz has made it clear that achieving poverty reduction and better development outcomes in Africa is one of his major priorities. Progress towards the MDG poverty targets lags the rest of the developing countries and today close to 320 mn Africans live on less than USD 1 a day, a doubling over the past 25 years. Of the world’s 48 poorest countries 34 are situated in Africa. Inadequate infrastructure and finance limit their international competitiveness. The HIV/AIDS pandemic also has economic costs in the order of 1 percentage point of per capita growth a year, malaria kills approx. 2.800 Africans every day and millions of children do not attend school. On the positive side, economic growth in Africa has picked up over the last years as macroeconomic management and structural policies have improved, intra-regional trade intensified and the incidence of conflicts fallen. Fifteen African countries have averaged growth of 5 percent p.a. over the past decade and, more generally, African per capita incomes are now rising on par with those of other developing countries. Oil exporters and a group of “good performers” has been able to sustain economic growth over a longer time period while other countries face less optimistic growth trajectories.

With a portfolio of projects under implementation of USD 18.4 bn the World Bank remains the largest single donor in the Africa region. FY06 saw new IDA commitments of USD 4.7 bn and aggregate Bank disbursements of USD 4.01 bn. All of these activities are anchored in the Bank’s Africa Action Plan (AAP), developed in late FY05 in response to a request from the Board and endorsed by the Governors at the Annual Meeting in September 2005. The AAP aims at helping all African countries to achieve as many of the MDGs as possible by supporting country-led efforts to achieve results, advance a shared growth agenda, build more capable states and improve governance, and encourage partnerships for Africa at the country, regional and global levels. On the lending side, there are new commitments for infrastructure (USD 1.8 bn), regional integration (USD 500 mn) and projects under the Malaria Booster Program (USD 190 mn). In response to the governance and capacity development challenge the Bank’s Task Force on Capacity Development in Africa issued a set of practical recommendations in the report *Building Effective States, Forging Engaged Societies*, which are currently being translated into en-

hanced efforts on the ground via the so-called Capacity Development Management Action Plan (CDMAP).

Box 7. Uganda Joint Assistance Strategy

In Uganda the Bank and ten other development partners, including bilateral agencies from some of our constituency countries, have aligned their support in one joint strategy, the Uganda Joint Assistance Strategy (UJAS). The UJAS – approved by the Board in January 2006 – is an important example of transforming into practice the Rome/Paris principles of aid effectiveness. It centers on the following three principles:

- 1) Supporting implementation of Uganda’s Poverty Eradication Action Plan to achieve the MDGs
- 2) Collaborating more effectively
- 3) Focusing on results and outcomes.

Under the leadership of the Ugandan government the development partners have all committed to increasingly harmonize programming and policy dialogue, including by rationalizing their engagement in sectors, their choice of aid instruments, and their advisory capacity, with each partner concentrating its efforts in line with its comparative advantage. The UJAS constitutes the first case of the Bank signing up to governance/political economy indicators that are shared with other donors. While individual donors are still free to react to possible governance changes according to their own assessment, the shared framework will enable the Government to get a better picture of all of their partners’ concerns and thereby also the potential consequences of its own decisions. See http://www.finance.go.ug/peap_revision/.

South Asia

Domestic reforms and external assistance in South Asia have helped fuel rapid economic growth averaging 5.5 percent a year for the past two decades. This strong performance has put South Asia on track to achieve the MDGs by 2015. However, South Asia faces enormous human development challenges. India has among the highest number of HIV-infected people in the world and the region is subject to frequent and severe natural disasters.

The Bank approved lending of nearly USD 3.8 bn to South Asia in fiscal 2006. Bank support is designed to help accelerate human development in the region by focusing on four cross-cutting issues: equity and inclusion, HIV/AIDS, regional integration, and public accountability. The Bank continued its support for rural development, education, and health. The Bank has committed some USD 380 mn in South Asia to support HIV/AIDS projects in Bangladesh, Bhutan, India, Pakistan, and Sri-Lanka and to HIV/AIDS work in Afghanistan and Maldives.

Infrastructure is fundamental to accelerating growth in the South Asia region. This fiscal year, the Bank supported road network development and maintenance in Sri Lanka, urban infrastructure in India, Afghanistan, and Pakistan, and private provision of infrastructure in Bangladesh. A project to increase reliable power exchanges between the regions and states of India was approved.

New country assistance strategies for Bangladesh, Bhutan and Pakistan were discussed by the Board in FY06. The overriding theme of the Bangladesh strategy is governance with a plan to increase transparency, institutional accountability, and provide better service delivery; the Bhutan strategy focuses on connecting communities to markets and promoting private sector development, and the Pakistan strategy sets forth a broad-based plan for addressing poverty in various dimensions, including human development, infrastructure, governance, and vulnerability.

Box 8. Natural Disasters

The October 2005 earthquake in northern Pakistan led the Bank to focus on emergency preparedness. Following the massive earthquake in Pakistan, which left 73,000 people dead, more than 70,000 severely injured or disabled, and more than 2.8 million without shelter, the World Bank and the Asian Development Bank undertook a joint Damage and Needs Assessment that estimated the cost of the disaster to be USD 5.2 bn. Two weeks after the earthquake, the Bank was able to provide USD 470 mn to help with reconstruction and safeguard ongoing reform and poverty reduction programs. In December, an additional USD 400 mn was approved to reduce immediate suffering and restore livelihoods, reconstruct housing, and finance needed imports. These commitments – mostly IDA credits- were part of the institution’s overall pledge of USD 1.0 billion for earthquake recovery.

An IEG evaluation of the Bank’s assistance for natural disasters, discussed by CODE in March 2006, concludes that the more than 500 disaster projects in the Bank, since 1984, has performed better than average – but in almost half of the Bank financed disaster reconstruction projects, disaster prevention had not been given any attention in the country assistance strategy. Accordingly, the report stresses the need for disaster risk to be built into development planning from the beginning. Furthermore, it is recommended that the Bank involves vulnerable communities more actively in disaster-prone areas in planning, preparation and rebuilding efforts, and supports systematic maintenance of essential infrastructure in disaster-prone areas. A new global facility for disaster reduction and recovery is being established as a means for the international community to provide speedy and effective technical assistance to countries hit by natural disasters.

East Asia and the Pacific

The Bank’s strategy for the region is to support broad-based economic growth, promote trade and integration, enhance environment for good governance, increase social stability, and achieve the MDGs. To help reach those goals, the Bank approved USD 3.4 bn for East Asia and the Pacific region in FY06.

The World Bank’s new Country Partnership Strategy (CPS) for China aims to assist country integration into the world economy, address poverty and inequality, manage resource scarcities and environmental challenges, strengthen the financial sector, and improve public and market institutions.

With an updated strategy for assistance to Indonesia, the Bank has reinforced its support for anti-corruption efforts and improvements in the investment climate. Post-tsunami reconstruction in Aceh has accelerated significantly. The World Bank became the trustee of the Indonesia Multi-Donor Fund for Aceh and Nias (MDF) with grant pledges of USD 526 mn from 15 donors. The Bank is supervising six of the MDF's 12 projects, providing assistance for housing, roads, water supply, health, livelihood support, capacity building in housing reconstruction, as well as coastal management and project implementation. The World Bank assisted the Indonesian Government in finalizing a damage and loss assessment to ascertain the scale of the devastation after the earthquake in Yogyakarta and Central Java and estimate the cost of rebuilding at USD 3.1 bn.

The Bank is also working closely with technical agencies and governments to prevent, prepare for, and control the spread of Avian Flu, which continues to be a major threat in East Asia. Construction on the Nam Theun 2 Hydropower project in Laos is moving ahead satisfactory with the aim to ensure that construction progress is matched by efforts to mitigate the impact on people and the environment.

Box 9. World Development Report 2007

The World Development Report is by tradition the premier research product of the institution. It often provides a first class synthesis of a thematic area while contributing to the production of new research as well, with an aim to come up with policy relevant conclusions.

This year's report bears the title *Development and the Next Generation*. It deals with the potential opportunities and challenges facing the youth of today – the 1.2 bn people who will enter the labor market and form families over the next decade. The report validates the demographic shift even in developing countries which will result in this generation of young people having fewer dependants due to changing patterns in family formation. Thus the report provides hope for increased welfare and per capita growth in many parts of the world, while highlighting the challenge of an ageing population for the future. The key policy messages in the report can be summarized as:

- Expand access to and improve the quality of education and health services, facilitate the start to a working life and give young people a voice to articulate their needs and interests.
- Recognize young people as decision-making agents and help ensure that decisions are well informed.
- Provide an effective system of second chances – to catch up from bad luck or bad choices - through targeted programs.

Europe and Central Asia

Economically and socially ECA is a region which covers a range of countries from low income countries in Central Asia (all except Kazakhstan) to upper-middle income EU member countries. FY06, was generally quite successful for the region with overall posi-

tive growth rates going hand in hand with re-activation of forgotten reforms. GDP in ECA Region grew by 5.7 percent in 2005, comprising 4.5 percent in Central and Eastern Europe, 6.7 percent in CIS and 6 percent in Turkey. The Czech Republic completed the graduation process from the Bank and the Riga office of the World Bank – the last in the Baltic countries - was closed on June 9, 2006.

The Board approved 63 projects of total value of USD 4.0 bn, including unplanned emergency responses to avian flu with 7 operations approved (Albania, Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Turkey). The Bank also found ways to stay engaged in booming Middle Income Countries such as Kazakhstan and Russia, implementing new cost sharing mechanisms for analytical and advisory services and through sub-sovereign lending operations.

Following the tragic events in Andijon, assistance to Uzbekistan, with the exception of disbursement of previously contracted loans, was suspended. After several board discussions on this topic, management presented the board with an Interim Strategy Note which is more short term and less ambitious than a full-blown country assistance strategy.

Latin America and the Caribbean

The Latin American and Caribbean (LAC) region includes middle income countries on the verge of graduating from IBRD, as well as poor and fragile states. LAC countries face persistent poverty challenges with the share of the population living on less than USD2 a day remaining roughly the same as in the late 1980s – about 25 percent of the population. The region has suffered from low and volatile growth and entrenched, high inequality with average measures of household income inequality among the highest in the world for most countries.

The World Bank strategy for the LAC region focuses on these two challenges in supporting infrastructure, education, health, investment climate reforms and public sector reforms, tailored to country circumstances. IBRD and IDA lending was USD 5.9 bn for LAC in FY06, up from USD 5.2 bn in FY05. During the last business year, Colombia received several large scale program and project loans, and the Bank added a pillar in its strategy for Colombia in support of the peace process, actively supporting demilitarization and the rolling out of social services to areas previously not under government control. In Mexico, the Bank has pioneered the use of country systems in environmental and social safeguards, sub-sovereign financing and output based aid. In the Caribbean, the Bank has stepped up its efforts, trying innovative measures such as community based aid in Haiti, a joint strategy for a cluster of small island states, as well as developing Catastrophic Risk insurance for the region as a whole.

Middle East and North Africa

The Middle East and North Africa (MENA) is an economically diverse region that includes both the oil-rich economies in the Gulf and countries that are resource-scarce in relation to population. The region's economic fortunes over much of the past quarter century have been heavily influenced by two factors – the price of oil and the legacy of economic policies and structures that had emphasized a leading role for the state. Because of

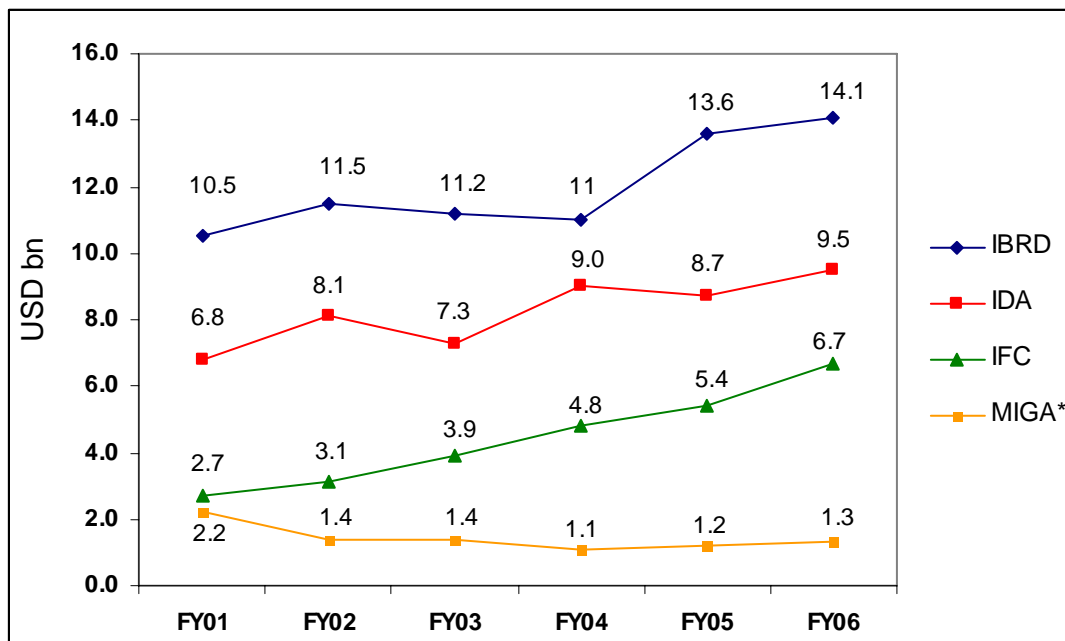
the diverse nature of the region, the World Bank country programs in MENA differ considerably in their focus. Although the Bank is using a very broad menu of lending and knowledge services, there are a number of cross-cutting challenges for client countries in the region – governance, private sector development, education and gender. Given the rapidly growing and urbanizing population, support for creating new employment opportunities is at the core of the Bank’s assistance in all countries in the region.

Lending volumes in MENA increased in FY06 (reaching ca USD 1.7 bn) and the quality of the portfolio improved, in spite of challenging environments such as Iraq and West Bank and Gaza. In Iraq, the Bank’s engagement has been supported by the WB Iraq Trust Fund and an allocation of USD 500 mn of IDA credits. When the new Iraqi full-term government was formed in May, management informed the Board of their plans to increase the Bank’s presence in Baghdad as soon as the security situation permits. Until now, the Bank’s operational work in Iraq has relied on a growing cadre of professional Iraqi staff based in Iraq, regular meetings with Iraqis outside of Iraq, use of the Bank’s videoconferencing facilities in Baghdad, and close support from the Interim Office for Iraq in Amman.

Financial Overview

Volume of business

Figure 3. Financial Commitments in the World Bank Group, in USD bn



* Guarantees issued

In FY06, IBRD/IDA lending operations were approved for USD 23.6 bn, which represents a year-on-year increase of around 6 percent. IBRD’s FY06 commitments increased by 4 percent from last year’s level to USD 14.1 bn and IDA’s commitments in FY06 in-

creased by 9 percent to USD 9.5 bn compared to USD 8.7 bn in FY05. On a fiscal year basis, it's the highest volume of IDA commitments in the history of IDA. According to the latest projections, total IBRD/IDA commitments for FY07 are expected to be in the range of USD 22-26 bn. MIGA's volume of new guarantee business in FY06 amounted to USD 1.3 bn, which represents a modest USD 76 mn increase from last year.

Table 1. Regional breakdown of IBRD/IDA lending for FY05-FY06

Region	Lending Volume			
	FY05		FY06	
	\$ bn	Share (%)	\$ bn	Share (%)
Africa	3.9	17.4	4.8	20.3
East Asia and Pacific	2.9	13.0	3.4	14.4
Europe and Central Asia	4.1	18.3	4.0	17.0
Latin America and the Caribbean	5.2	23.2	5.9	25.0
Middle East and North Africa	1.3	5.8	1.7	7.2
South Asia	5.0	22.3	3.8	16.1
Total IBRD+IDA	22.4	100.0	23.6	100.0

Financial Statements

In FY06, operating income¹⁰ of IBRD was USD 1.74 bn, USD 420 mn more than in FY05. After the application of FAS133 (Financial Accounting Standards No.133¹¹) and Board of Governors-approved transfers¹², IBRD reported net loss of USD 2.4 bn (see Annex 2 for more on IBRD's financial data).

Income from loans increased by USD 709 mn during FY06 in comparison with FY05 mainly because of higher lending rates. However, the effect of higher lending rates was partially offset by a reduction in income due to lower average loan balances outstanding. A positive impact to a higher income had made a USD 724 mn release of provision of losses on loans and guarantees. Income from investments increased also by USD 429 mn in FY06 because of higher average short-term interest rates. However, at the same time borrowing expenses increased by USD 904 mn due to the increase in USD six-month LIBOR in FY06.

IDA incurred an operating loss of USD 2.0 bn for FY06, compared with a loss of USD 986 mn in FY05. After applying expenses for HIPC Debt Initiative and MDRI¹³, net loss of IDA is reported at USD 35 bn. IDA's income from investments decreased significantly from almost USD 2 bn in FY05 to only USD 24 mn in FY06 on net basis because of the combined effects of different investment instruments. Income from development credits

¹⁰ Operating income refers to net income before the effect of FAS 133 (see footnote 11).and the Board of Governors-approved transfers (see footnote 12).

¹¹ FAS133 refers to US GAAP and International Standards, which require all derivatives to be reported at their market values. The IBRD marks all its derivatives to market and reflects those changes on the income statement. However, according to FAS133, movements in interest and foreign exchange rates are reflected only on the IBRD's derivatives side, but not in the offsetting position.

¹² Following external auditors' recommendations, in FY06 Financial Statements Board of Governors-approved transfers are reported as expenses while previously such transfers have been reported as dividends.

¹³ The provision for MDRI is recorded as a reduction of the disbursed and outstanding development credits and as a charge to income. Following the start of the MDRI implementation by IDA, the applicable development credits will be written off and the provision reduced accordingly for the first group of post-completion point HIPC countries eligible for MDRI relief, and subsequently upon reaching completion point for the other HIPC countries.

was USD 72 mn lower than in FY05. Development grants provided by IDA were also lower by USD 96 mn in FY06.

Allocation of Net Income and Waivers to Loan Charges

Taking into consideration the financial position and outlook of the institution, the Board approved the following allocations from the IBRD's FY06 Net Income:

- USD 1,036 mn to the General Reserve
- USD 140 mn to be retained as surplus
- USD 500 mn to IDA
- USD 300 mn of the net income previously retained as surplus earmarked for future transfers to IDA, HIPC and/or reserves, would be transferred to IDA.

Commitment charge waivers of 50 basis points will be maintained for all payment periods commencing in FY07 on an unconditional basis, and interest charge waivers of 25 basis points and 5 basis points will be maintained on new loans and old loans, respectively, to eligible borrowers for payment periods commencing in FY07. Most importantly, the Board also decided to completely waive the front-end fee on all new loans in order to improve the pricing competitiveness of IBRD compared to other multilateral development banks.

Financial Capacity

The financial capacity of the Bank, as measured by the Equity-to-Loans ratio (E/L) and capital adequacy, continued to improve in FY06. IBRD finished FY06 with an E/L ratio of 33.1 percent, up from 31.4 percent at end-FY05. The ratio is expected to keep rising over the coming years, reaching 37 percent by FY08. The Bank has also seen a further improvement in the credit quality of its loan portfolio, continuing the positive trend that started already in FY03.

A key analytical tool used to assess IBRD's capital adequacy is the income-based stress test. It helps to evaluate the adequacy of financial capacity by determining whether projected net income could absorb probable risks while retaining an adequate earnings base for supporting future loan growth and being able to respond in a crisis affecting the Bank's members. For FY06, the maximum "post-shock" loan growth that IBRD could support, consistent with maintaining its E/L ratio above the desired minimum level over a ten-year horizon is 16.5 percent. This compares to 9.9 percent at end-FY05. Reflecting the improvements in the Bank's portfolio, the size of the credit shock that the Bank could face at the 95 percent confidence level measured as a share of accrual loans outstanding has decreased from 16.3 percent at end-FY05 to 12.2 percent. In terms of loan loss provisioning, because of the improved credit quality, total provisioning requirements for the IBRD portfolio declined from USD 3.0 bn at end-FY05 to USD 2.3 bn at end-FY06.

In light of IBRD's increased risk bearing capacity and improved portfolio quality in recent years, Management proposed and the Board approved a USD 1.0 bn increase of the present USD 13.5 bn Single Borrower Limit (SBL) in FY05. It was decided not to change the SBL in FY06, in order to not overly increase the exposure to any individual borrower and to maintain a conservative risk framework.

ANNEX 1 – The World Bank and the Nordic-Baltic Office at a glance

The World Bank was established in 1944 to help rebuild Europe after the Second World War. Today, the Bank's mission has shifted to help reduce poverty in developing world. The Bank is one of the UN specialized agencies, with its 184 member countries as its shareholders. Along with the rest of the development community, the World Bank focuses its efforts on reaching the Millennium Development Goals (MDGs) by 2015¹⁴.

The World Bank Group consists of five separate organizations. The IBRD and the IDA provide low-interest loans, interest-free credit, and grants to developing country governments. The IFC promotes private sector investment by investing in equity and providing loans to companies in developing countries. The MIGA provides guarantees against political risk to investors in and lenders to developing countries. And the ICSID settles investment disputes between foreign investors and their host countries.¹⁵

The World Bank's highest decision making body is its Board of Governors. The Governors, generally finance and development ministers from its member countries, meet twice a year at a 24 member Development Committee meeting providing political guidance for the Bank. The daily decision making is delegated to the Executive Board, which consists of 24 Executive Directors representing one or several of the 184 shareholders. The Nordic and Baltic countries are represented at the Executive Board by one Executive Director (ED). The ED is assisted by the Nordic Baltic Office (NBO) that has the following composition at the time of writing:¹⁶

Executive Director	Svein Aass (Norway)
Alternate Executive Director	Pauli Kariniemi (Finland)
Senior Advisor	Madis Muller (Estonia)
Senior Advisor	Pernille Falck (Denmark)
Senior Advisor	Erik Eldhagen (Sweden)
Advisor	Jurgita Kazlauskaite (Lithuania)
Advisor	Gints Freimanis (Latvia)
Advisor	Anna Hjartardottir (Iceland)
Executive Assistant	Gun-Maj Ramberg
Program Assistant	Colleen Martin

The Nordic Baltic chair has been a member in two permanent Board committees, the Committee on the Governance and Administrative Matters (COGAM) and the Budget Committee (BC). NBO also is a member of the Committee on the Development Effectiveness (CODE) Subcommittee.

¹⁴ For more information on the MDGs see <http://ddp-ext.worldbank.org/ext/MDG/home.do>

¹⁵ The International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

¹⁶ Svein Aass became Executive Director on July 1st, 2006, having served as Alternate Executive Director during FY06 with Thorsteinn Ingolfsson as Executive Director for FY06. Pauli Kariniemi became Alternate Executive Director on July 1st, having served as Senior Advisor during FY06. Pernille Falck and Erik Eldhagen became Senior Advisors on July 1st 2006, having served as advisors for FY06. Anna Hjartardottir joined the office as an advisor in July 2006.

ANNEX 2 – Selected financial data of IBRD

Fiscal years 2002-2006, in USD millions

	2006	2005	2004	2003	2002
Lending					
Commitments	14,135	13,611	11,045	11,231	11,452
Gross Disbursements	11,883	9,722	10,109	11,921	11,256
Net Disbursements	(1,741)	(5,131)	(8,408)	(7,996)	(812)
Reported Basis					
Loan Income	4,864	4,155	4,403	5,742	6,861
Provision for Losses on Loans and Guarantees decrease (increase)	724	502	665	1,300	15
Investment Income	1,057	628	304	418	738
Borrowing Expenses	(3,941)	(3,037)	(2,789)	(3,594)	(4,907)
Net Non-interest Expense	(964)	(928)	(887)	(845)	(783)
Operating Income	1,740	1,320	1,696	3,021	1,924
Transfers Approved by the Board of Governors	(650)	(642)	(645)	(540)	(402)
Effects of applying FAS133	(3,479)	2,511	(4,100)	2,323	854
Net Income (Loss)	(2,389)	3,189	(3,049)	4,804	2,376
Net return (%) on Average Earnings Assets ¹⁷ after the effects of FAS133 and Transfers Approved by the Board of Governors	1.34 (1.84)	0.96 2.32	1.18 (2.12)	2.06 3.27	1.29 1.60
Return on Equity (%) after the effects of FAS133 and Transfers Approved by the Board of Governors	5.05 (6.84)	3.90 9.26	5.21 (8.88)	10.32 14.55	7.09 8.34
Equity to Loans Ratio (%) ¹⁸	33.06	31.45	29.35	26.59	22.90
Total Assets	212,326	222,008	228,910	230,062	227,454
Loans Outstanding	103,004	104,401	109,610	116,240	121,589
Accumulated Provision for Loan Losses	(2,296)	(3,009)	(3,505)	(4,045)	(5,053)
Borrowings Outstanding	95,835	101,297	108,066	108,554	110,263
Total Equity	36,474	38,588	35,463	37,918	32,313
Current Value Basis					
Net Income	640	402	484	2,896	2,451
of which current value adjustment	(446)	(273)	(513)	394	881
Net return (%) on Average Earnings Assets	0.49	0.28	0.33	1.90	1.60
Return on Equity (%)	1.86	1.17	1.44	9.41	8.65
Equity-to-Loans Ratio (%)	32.54	30.83	29.07	26.36	23.10
Cash and Liquid Investments	24,888	26,395	31,126	26,620	25,056
Loans Outstanding	103,885	107,549	112,608	122,593	126,454
Borrowings Outstanding	95,258	105,691	109,675	116,695	114,502
Total Equity	37,590	36,943	36,421	35,675	32,466

¹⁷ Before the effects of FAS133 and Board of Governors approved transfers

¹⁸ Before the effects of FAS133 and Board of Governors approved transfers

ANNEX 3 – Selected financial data of IFC

Fiscal years 2002-2006, in USD millions	As of and for the fiscal years ended June 30				
	2006	2005	2004	2003	2002
Net Income highlights:					
Interest income and fees from loans	807	660	518	477	547
Income from liquid asset trading activities	444	358	177	475	524
Charges on borrowings	-603	-309	-141	-226	-438
Income from equity investments	1,228	1,365	658	145	160
Of which:					
Capital gains on equity sales	928	723	386	52	288
Dividends and profit participations	327	258	207	147	141
Other	-27	384	65	-54	-269
Release of (provision for) losses	-15	261	103	-48	-389
Net non-interest expense	-362	-344	-304	-295	-243
Expenditures for technical assistance and advisory services	-55	-38	-29		
Expenditures for performance based grants	-35	0			
Operating income	1,409	1,953	982	528	161
Net gains (losses) on financial instruments	-131	62	11	-41	54
Net income	1,278	2,015	993	487	215
Balance sheet highlights					
Total assets	38,420	39,560	32,361	31,543	27,739
Liquid assets, net of associated derivatives	12,730	13,325	13,055	12,952	14,532
Loans and equity investments	12,731	11,489	10,279	9,377	7,963
Borrowings withdrawn and outstanding	14,967	15,359	16,254	17,315	16,581
Total capital	11,076	9,798	7,782	6,789	6,304
Key financial ratios					
Return on average assets	3.60 %	5.40 %	3.10 %	1.80 %	0.60 %
Return on average net worth	13.70 %	22.60 %	13.70 %	8.20 %	2.70 %
Cash and liquid investments as % of next three years' estimated net cash requirements	112 %	142 %	116 %	107 %	109 %
Debt to equity ratio	1.5:1	1.8:1	2.3:1	2.6:1	2.8:1
Cash flows from loans and equity investment activities					
Loan disbursements	-3,717	-2,868	-2,684	-2,646	-1,250
Equity disbursements	-711	-588	-468	-313	-285
Loan repayments	2,752	2,283	1,935	1,402	1,350
Equity redemptions	2	29	4	5	23
Sales of loans and equity investments	1,456	1,338	975	271	638