DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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UPDATE TO THE DEVELOPMENT COMMITTEE ON KEY ISSUES AND WORLD BANK GROUP ACTIVITIES

Attached for the October 5, 2009, Development Committee Meeting is an update on key issues and World Bank Group activities since the past meeting for the Development Committee members. This is a note prepared by the World Bank Group Management as a information to delegations at Spring and Annual meetings.

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DEVELOPMENT COMMITTEE MEETING, OCTOBER 5, 2009

I. Introduction

1. While the global economy is showing tentative signs of recovery thanks to the extraordinary measures deployed by many developed and emerging market countries, developing countries - particularly low-income countries (LICs) - continue to suffer the consequences of the global recession. At the annual meetings in Istanbul, members of the Development Committee will be facing a fragile global recovery. The challenge will be greatest for LICs, which remain heavily dependent on commodity exports, remittances, FDI and ODA and lack the resources to mount an appropriate fiscal response to the crisis.

2. While the G20 meetings in Washington, London and Pittsburgh have helped to lay the foundations for economic recovery, strong leadership and multilateral cooperation continues to be needed to support and sustain the recovery, coherently address short-term challenges and long-term development objectives, and tackle the specific development needs of LICs. Failure to address these crisis-related challenges may jeopardize years of progress in combating poverty and improving the sustainability of economic growth, thereby undermining progress toward the MDGs. Large portions of the populations in many LICs, particularly in Africa, remain clustered around the poverty line and even mild downturns can have costly and long-lasting effects on human welfare, as families with few alternative employment opportunities and little or no access to credit are forced to reduce food intake, even for very young children, and pull children out of school.

II. Current Economic Environment and Implications for Meeting the MDGs.

3. Recent indications are that the global recovery is underway, driven by a strong rebound in Asian emerging market economies and with signs of stabilization in advanced economies. Growth is expected to strengthen over the next three quarters underpinned by substantial fiscal and monetary stimulus and the inventory cycle. Global GDP (aggregated using fixed-weight market exchange rates), after falling 2.1 percent in 2009, is expected to recover to a modest 2.6 percent in 2010, as banking sector consolidation, negative wealth effects, and risk aversion continue to weigh on demand. There remains some uncertainty as to the sustainability of the recovery over the medium-term in part because current levels of fiscal stimulus are not sustainable and because the extent to which the near-term acceleration will spillover into continued stronger consumer and investment demand is uncertain. A second dip in growth remains a real possibility, although a return to negative growth appears unlikely.

4. The drop in economic activity, combined with much weaker capital inflows to developing countries, is placing a large number of countries under serious financial strain. Many are having difficulty generating sufficient foreign currency from exports or borrowing to cover import demand. Critical investments in social and physical infrastructure will be cut back if additional resources cannot be mobilized and effectively deployed in 2010. GDP in low- and middle-income countries, which expanded by only 1.7 percent in 2009, is projected to increase by 5.3 percent in 2010 and 5.7 percent in 2011.

5. The emerging evidence confirms concerns that the crisis has slowed, and could potentially reverse, progress to date to achieving the MDGs, and that adverse outcomes could persist long after the global economy rebounds. Recent World Bank analysis suggests that 89 million more people will be living in extreme poverty (below $1.25 a day) by end 2010, than would have been the case without the crisis. The collapse in global demand has led to layoffs from export-oriented industries in many developing countries. While some laid off urban workers who had migrated from rural areas have returned to rural communities, others (particularly in East Asia) have switched to employment in the informal sector for reduced wages and diminished income and job security.

6. World Bank research estimates that the current downturn could result in 30 to 50 thousand additional infant deaths in Sub-Saharan Africa in 2009. These numbers will rise if the crisis deepens and growth in developing countries falters further. The severity of the current crisis threatens educational gains in many developing countries as teachers are laid off and facilities allowed to deteriorate. Experience from previous crises indicates that health budgets also often suffer during times in which demand for public health services may go up and when prices for pharmaceuticals increase due to currency depreciation. Anecdotal evidence and press reports from some LICs suggests the crisis may, at a minimum, limit the planned expansion of health programs and adversely affect the fight against HIV/AIDS and tuberculosis, threatening to reverse the gains made over the last few years.

III. Stronger, Sustainable and More Inclusive Economic Growth

7. **Economic Growth and Social Progress.** For many countries affected by the crisis, counter-cyclical fiscal stimulus is the preferred response. G20 countries, for example, have adopted, or plan to adopt, fiscal stimulus measures averaging 0.5 percent of GDP in 2008, 2.0 percent in 2009 and 1.5 percent in 2010. Many developing countries, on the other hand, lack the fiscal space for similar action as they find themselves with fewer resources to meet growing needs. Revenues have declined and access to international capital markets, where it exists, has become more difficult. At the same time, more resources are needed to combat the impact of the crisis on economic growth and poverty—to provide fiscal stimulus to cushion the impact on growth, finance social safety nets for vulnerable groups, and protect core development expenditure.

8. Core spending should be sustained and, if possible, expanded during economic downturns to secure the viability of public programs essential for meeting development goals (especially when households may be forced to curb their own spending on basic education and health services). Priority should also to be given to maintaining existing public infrastructure to prevent a further widening of infrastructure gaps, and meeting the additional costs of social protection during the crisis. The global recession is estimated to have put at risk core spending of $11.6 billion (equivalent to about 1.1 percent of GDP) in the poorest countries in 2009. States in fragile situations, including a number in SSA and those emerging from conflict, account for 58 percent of this figure.

9. While LICs are striving to mobilize additional resources through many channels, the options open to them are limited. Maintaining core spending during the downturn will require supplemental support, largely from external sources. In this environment, the development community should reaffirm commitments to provide adequate international assistance in the form of aid, debt relief, and investment and trade opportunities.

10. **Development Assistance.** While the environment in which poverty reduction is pursued has become more difficult and donors face significant domestic fiscal pressures, increased and more effective aid remains critical to continued progress to the MDGs in many poor countries. While ODA from OECD members reached a record $120 billion in 2008, donors are lagging well behind their Gleneagles commitments. With a little over one year in which to deliver on their promises, they show "little sign yet of such raised levels of ambition."

11. LICs require financing beyond existing ODA commitments to meet the incremental needs arising from the global recession. To this end, the World Bank Group is proposing establishing a Crisis Response Facility to provide an integrated platform to channel additional resources to LICs.

12. Dealing with bottlenecks that have constrained agricultural sector growth, hampered efforts to promote food security, and stranded millions of rural residents in poverty is also critical to tackling the current crisis. The pledge at the G-8 Summit in L'Aquila of $20 billion for agricultural development is an important signal of support to food security and rural development in poor countries. It is important to move forward quickly with implementation by coming to agreement on scope, process, and a governance framework satisfactory to stakeholders consistent with the principle of country ownership and focusing on results and effectiveness. Clarifying how donor commitments will be met, while addressing concerns over "additionality", are important next steps.

13. **Public Sector Management and Governance.** The crisis also calls for a sharper focus on effectiveness and efficiency of expenditure. The Bank continues to work with client countries to mobilize and effectively deploy domestic resources and is engaging with partners to curb illicit international financial flows. It remains critical to accelerate implementation of the Governance and Anti Corruption (GAC) agenda at the project, country, and global levels, removing governance constraints to development effectiveness. At the global level, the Bank and United Nations Office on Drugs and Crime (UNODC) Stolen Asset Recovery (StAR) initiative has sought to integrate anti-corruption efforts with policy initiatives aimed at improving the integrity of financial markets, notably by promoting implementation of key Financial Action Task Force (FATF) recommendations, ratification and implementation of the United Nations Convention Against Corruption (UNCAC), and by providing support to a rapidly growing number of partners in their efforts to trace and recover the proceeds of corruption.

14. **Trade.** The crisis increases the urgency of bolstering multilateral cooperation on trade, as a key instrument to accelerate growth and reduce poverty in developing countries. The international community should continue to promote a multilateral trading system more supportive of development, most notably through renewed commitment to complete the Doha Round as quickly as possible, to refrain from raising tariff and non-tariff barriers to trade and investment, and to resist the pressure to impose measures that could distort trade. Donors should also help LICs position themselves to take advantage of the eventual recovery in the global economy by fulfilling their Aid for Trade commitments, and cooperating with development partners to improve the effectiveness of Aid for Trade programs.

15. **Debt.** Despite substantial debt relief under various initiatives, maintaining debt sustainability in the face of growing fiscal pressures remains problematic for a number of countries at high or moderate risk of debt distress. LICs should proceed cautiously with regard to incurring additional non-concessional debt since they face a period of uncertainty and possible protracted stagnation in the global economy. The Bank and Fund have increased the

flexibility of the Debt Sustainability Framework for Low-Income Countries. It is important to recognize, however, that the current recessionary environment poses challenges for LICs. Indeed, what might be most valuable to countries in these circumstances is additional concessional lending, such as that provided through the IDA framework, in which higher levels of debt distress trigger increased availability of grant financing. However, such mechanisms are limited by the availability of grant resources. Looking ahead, LICs need to implement sound borrowing policies and urgently strengthen their capacity to manage their public debt. IDA has scaled up its debt management technical assistance to LICs through the Debt Management Facility established in November 2008.

16. **Private Sector Development.** Recovery in developing countries will depend on whether their domestic business sectors can rebound, grow, and create jobs. SMEs are the foundation of the private sector and will be critical to the eventual resumption of growth. Renewed efforts are needed to create a sound regulatory and institutional environment and to tackle financing and capacity constraints that constrain the private sector, and SMEs, in particular. The World Bank Group is expanding its work in support of SMEs through business environment reform and doubling its mobilization of finance by 2013. Governments, working with development partners, need to move quickly on this front. Donors should provide resources to strengthen the SME sector; encourage agreement on global standards for branchless banking; and develop financing mechanisms to support cross-border investment.

17. **Infrastructure.** In many countries action will be needed to support infrastructure investment, both publicly-financed as well as public-private partnerships (PPP). There are indications that spending on new infrastructure may be at risk as client countries approach borrowing limits and prioritize spending on social safety nets and the maintenance of existing infrastructure. This makes good sense. Experience from earlier crises points to the need to preserve existing infrastructure by protecting spending on operations and maintenance. If neglected, costs of replacement in the longer term can be considerably higher. World Bank estimates indicate that every dollar spent on road maintenance in Africa saves four dollars in rehabilitation. Annual preservation requirements (not including new roads) are estimated to be about $3 billion over the next 20 years. However, longer-term development also requires that progress be made in closing infrastructure gaps.

IV. The World Bank Group Role and Strategy

18. **WBG's response to the crisis.** The World Bank Group has moved quickly to help countries respond to successive crises: first, by addressing, in coordination with UN partners ,the food crisis in beginning in 2007, then the energy crisis in mid-2008, and now the global economic recession. The Global Food Price Response Program, the Energy for the Poor Initiative, and the IDA Fast Track initiative, as well the IFC facilities, have been important parts of the World Bank Group's (WBG) support to countries in need. The result has been record levels of activity—nearly $60 billion committed in FY09 from IBRD, IDA, IFC and MIGA, a 54 percent increase over the previous year, and a record high.

19. **IBRD and Middle Income Countries (MICs).** IBRD lending almost tripled in FY09, to $33 billion—a new record—from $13.5 billion in 2008, with fast-disbursing Development Policy Loans (DPLs) comprising about 45 percent of the total. For FY10, the demand for IBRD lending is projected to be at least $40 billion, with another $55-60 billion projected over the following two years. Beyond FY12, developing countries' financing gaps are expected to

remain high, particularly because important long-term development projects will have been delayed, while financing will also be needed to address the increased numbers of newly poor in LICs and MICs and accelerate progress to the MDGs.

20. Projected lending requirements exceed the level that can be supported by IBRD's existing capital resources. With commitments of $33 billion already in FY09 and strong pipeline development for FY10, expectations for crisis lending are beyond IBRD's existing financial capacity. Under a reasonable forecast for lending demand, total new commitments are projected to reach over $130 billion over FY09-12. In a more prolonged recession scenario, lending commitments could be closer to $150 billion over FY09-12, well beyond the $100 billion called for in the Development Committee's Spring Communiqué.

21. To begin expanding its financial capacity to support higher scenarios of lending, the IBRD has already adopted various measures to stretch its existing capital. These actions include:

    - allowing flexibility in its main capital adequacy measure (E/L ratio), relative to the long-term strategic range;
    - introducing a new exposure management framework that makes more efficient use of existing capital through the allocation and reallocation of credit across countries;
    - diverting risk capital intended for its pilot Long-Term Income Portfolio (LTIP) to support loan growth; and
    - actively working with shareholders to release existing national currency paid-in capital (NCPIC) so that more of it can be used as risk capital in support of lending operations.

22. In addition, the IBRD approved a 20-basis-point general loan price increase as part of its annual loan pricing review at the end of FY09. While the objective of this pricing increase was to improve the sustainability of lending, it will also gradually enhance IBRD's capital position and lending capacity. Further options to enhance IBRD's financial capacity, including increases in paid-in capital (through a General Capital Increase or, in association with the governance reform agenda, through a Selective Capital Increase) as well as pricing increases on longer maturity loans, have been discussed by IBRD's Board. A review of IBRD and IFC financial capacity is being considered by the Development Committee in Istanbul.

23. In August 2009, IBRD increased its Single Borrower Limit (SBL) by $1 billion, to $16.5 billion, effective FY10. This limit applies to IBRD's largest borrowing countries that have achieved investment-grade status. This is the second increase in the SBL in two years, following the $1 billion increase in FY08. Additionally, a flexible mechanism is in place within the overall limit set by the SBL to allow countries with expressed demand above their allocated exposure share to go above their limit when demand from other countries is below their allocated exposure.

24. **IDA and Low-Income Countries.** IDA commitments hit a record level of $14 billion in FY09, 25 percent above a year earlier. Results were driven by strong delivery to Africa (53 percent) and South Asia (33 percent). Development Policy Operations composed about 20 percent of the total. IDA can deliver $28 billion in additional financing in FY10 and FY11. Despite significant increases in overall replenishment levels, funds available fall short of country needs as a result of the onset of the food and fuel crises nearly two years ago and the subsequent global financial crisis.

25. In addition to increasing lending commitments, the Bank has streamlined procedures and facilitated project restructuring to speed disbursements through the IDA Financial Crisis

Response Fast-Track Facility. This provides front-loading of up to 50 percent of country allocations and fast-tracks an initial $2 billion of IDA15 resources, with the potential to increase the amount in the future. As of August 2009, $1.5 billion has been approved under the Facility. IDA also plans to adjust the implementation of its Non-Concessional Borrowing Policy to further enhance financial flexibility at the country level and ensure consistency with guidelines on debt limits in IMF-supported programs. To help tap the considerable potential for commercially-viable and fiscally-attractive foreign-exchange-earning projects in many IDA countries, the Bank is also developing an approach to expand the use of IBRD resources for specific projects in IDA countries based on the IBRD Enclave framework for loans and/or partial risk guarantees for critical infrastructure and natural resource projects.

26. Addressing the challenges of countries with fragile institutions and affected by conflict remains one of the WBG's strategic priorities. These countries are generally less resilient to exogenous shocks and the Bank has made additional resources available to countries under stress, particularly given the risk that civil conflict could intensify. The Bank is implementing reforms to its operational policies to strengthen rapid response financing and to locate more staff in country offices, especially in Africa. It is strengthening partnerships with the UN system following the signing of partnership agreements in October 2008 and is contributing to the preparation and follow up to the report of the UN Secretary General on peace building. The 2011 World Development Report will be on fragility and conflict.

27. **The WBG's operational response to the crisis includes targeted initiatives to protect the most vulnerable.** Initiatives focus on three themes: (i) protecting the most vulnerable from the fallout of the crisis; (ii) maintaining long-term infrastructure investment programs; and (iii) sustaining the potential for private sector-led economic growth and employment creation, particularly through SMEs and microfinance. The themes are addressed through three operational platforms—the Vulnerability Financing Facility (VFF), the Infrastructure Recovery and Assets (INFRA) platform, and the IFC-led private-sector platform. Together these initiatives have mobilized $8.3 billion in additional resources from donors to mitigate the crisis impact on developing countries, especially LICs.

28. **World Bank crisis initiatives**. The Vulnerability Financing Facility (VFF) is a dedicated facility to streamline crisis support to the poor and vulnerable. To leverage its resources, the WBG has sought additional grant assistance for LICs and poor and vulnerable groups under the VFF which organizes under one umbrella the Global Food Crisis Response Program and the Rapid Social Response Program. VFF programs address two specific areas of crisis vulnerability: (i) agriculture, the main livelihood of over 75 percent of the world's poor; and (ii) employment, safety nets and protection of basic social services to help the poor and vulnerable cope with crisis.

- **Global Food Crisis Response Program (GFRP):** The GFRP, a $1.2 billion fast track financing facility, was launched in May 2008 to respond to the food crisis. In response to high demand, the Board raised the ceiling to $2 billion in April 2009. Focusing on social protection and priority food policy interventions, the GFRP encompasses the Food Price Crisis Response (FPCR) Trust Fund of $200 million from IBRD surplus, as well as $1.8 billion in IDA/IBRD resources. Total Bank-funded GFRP project commitments currently amount to almost $1.2 billion. As of mid-September, disbursements totaled $795 million for 31 countries. The GFRP is also supported by externally-funded trust funds.
- **Rapid Social Response (RSR):** RSR is designed to help countries build the institutional capacity necessary to address urgent social needs stemming from the crisis by

establishing and scaling up targeted safety net programs, financing immediate interventions to stabilize demand for basic health and education services, and supporting active labor market policies and employment programs. WBG support for safety nets and other social protection programs under IBRD and IDA loans and grants totaled $6.2 billion in FY09.

- **Infrastructure Recovery and Assets Platform (INFRA):** INFRA is a multi-donor platform designed to focus attention and resources of the WBG and its development partners on the critical infrastructure needs during the downturn. IBRD/IDA has committed $17.6 billion for infrastructure, a 48 percent increase over FY08. Of this, $4.6 billion was committed for IDA and, within IDA, $2.7 billion was committed for Africa.

29. **IFC, MIGA and the Private Sector.** IFC provided $14.5 billion in financing for private sector development in FY09, including $4 billion mobilized from other investors through syndications, structured and securitized products and crisis initiatives. As a result of IFC's strategic focus on IDA countries, over half of the projects financed were in IDA-eligible countries in FY09, representing a tripling since FY05. The number of IDA countries covered by IFC investments increased from 29 to 61 over the same period. Sub-Saharan Africa is a particular focus, and IFC increased the number of countries in the region in which it is active with investment and advisory services from 21 in FY02 to 37 in FY09. IFC's volume in the region reached $1.8 billion in 92 projects. IFC's development results also show its increasing reach to those most in need: in 2008, IFC portfolio clients provided 2.1 million jobs, served 5.5 million health patients, helped educate 1.2 million students, reached 200 million water, power and gas customers, and provided 9.8 million MSME loans totaling $100 billion.

30. To support private-sector access to finance for investment and trade, both of which have contracted sharply over the last year, the IFC, working with governments and development partners, has focused its attention on access to finance for small and medium enterprises (SMEs), microfinance, trade finance, bank capitalization, and infrastructure support. IFC is also working on other areas of strategic importance, in particular climate change, the food supply chain, health and education. To ensure speedy implementation of its crisis response, IFC has facilitated regional implementation programs with other IFIs, including the Joint IFI Action Plan for Emerging Europe, the Latin American and Caribbean Multilateral Crisis Initiative, and the Joint Action Plan for Africa. IFC's specific crisis response initiatives, launched over the past year, are expected to provide significant financing over the next three years, especially in LICs, combining IFC funds with contributions mobilized from other sources. They include:

- **Trade:** IFC has expanded its Global Trade Finance Program, tripling the size to $3 billion. In addition, IFC launched the Global Trade Liquidity Program, bringing together governments, development finance institutions and commercial banks to support up to $50 billion in trade in the developing world over the next three years.

- **Infrastructure:** IFC launched the Infrastructure Crisis Facility, which will include debt and equity components providing short-to medium-term financing for infrastructure projects, and will also include Advisory Services for governments.

- **Microfinance:** IFC's Microfinance Enhancement Facility is designed to address the challenges faced by microfinance institutions encountering difficulty in refinancing their debt. It is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries, including 20 of the world's poorest countries.

- **Bank Capitalization:** The IFC Capitalization Fund is designed to support banks considered vital to the financial systems of emerging market countries. $2 billion dollars has already been raised, in addition to IFC's $1 billion, and IFC is exploring developing parallel funds dedicated to investment in banks in Africa and Eastern Europe.
- Several other initiatives are under development, including a Debt and Asset Recovery Program which would mobilize investment into distressed asset pools, and provide advisory services to enhance the efficiency of distressed asset markets.

31. MIGA issued $1.4 billion in guarantees in FY09 and is increasing its support to systemically important financial institutions seeking political risk insurance (PRI) for investments in subsidiaries in emerging markets. In Eastern Europe, MIGA expects to issue additional coverage of $2-3 billion in the context of the IFI Action Plan for Emerging Europe. $1.2 billion in guarantees have been issued in FY09 to subsidiaries of systemically important banks in emerging markets. MIGA has received additional requests for guarantees amounting to more than $2 billion and could issue an additional $0.5-0.6 billion by the end of the year. While the bulk of this support has been for subsidiaries in the ECA region, MIGA is beginning to see demand pick up in other regions as well.

32. **Global Public Goods (GPGs).** The WBG's combination of global reach and country presence allows for constructive engagement and credible advocacy in integrating country and global perspectives on GPGs. The WBG has continued to provide support and leadership on global negotiations related to trade, health, and finance and has played a significant role as part of the international system to bring climate change to the development agenda.

- In **climate change,** activities include solid progress on the Strategic Framework for Development and Climate Change, including stepped-up support for adaptation and lower carbon measures through a mix of instruments; approval of all programs under the Climate Investment Funds, with currently over $6.3 billion in pledges and programming activities-across mitigation and adaptation-in over 20 countries; and the launch of the World Development Report (WDR) 2010 on Climate Change. The first three investment plans endorsed under the Clean Technology Fund leverage other resources by 1 to 10. Four more investments will be considered in late October 2009, and several more are under preparation. Nine countries accepted invitations to participate in the Strategic Climate Fund's Pilot Program for Climate Resilience and country-level work has started. The Forest Carbon Partnership Facility to build capacity and pilot payment systems for reduced deforestation and forest degradation (REDD) was extended to include 37 REDD countries. Product innovations such as second issue of Green Bonds in April 2009, following the first issue in November 2008 raised additional funding for projects with climate and environmental benefits, including both lower carbon options and climate resilient/adaptation measures.
- In **health**, the Bank will continue to work closely with governments and partners to strengthen financial and delivery systems to achieve the health-related MDGs. In recognition of the urgent need to improve coordination of development assistance in health, the International Health Partnership (IHP+) was launched in September 2007 and seeks to strengthen national health systems and to achieve better health results by mobilizing donor countries and other development partners around a single country-led national health strategy. The Bank, with WHO, coordinates the work of the partnership and co-chairs the follow-up High Level Taskforce on Innovative International Financing for Health Systems, launched in September 2008, with the objective to identify and

promote innovative financing mechanisms to bridge the financing gaps to attain the health-related MDGs. In response to the High Level Taskforce's call to the GAVI Alliance, the Global Fund, World Bank, and others to establish a joint funding platform for Health Systems Strengthening (HSS), the Bank is working with these agencies and the WHO on options for joint programming. Additionally, the Bank is currently implementing a new "Health Systems for the Health MDGs program" to fund and implement coherent country-led health sector programs. Through this work, the Bank is increasing technical assistance in collaboration with partners to better support national strategies, improving its ability to rapidly assist and advise operations on the ground. This is a key change in the Bank's way of doing business, as the Bank will provide additional support for analytical and policy work, and implementation to client countries and bilateral and multilateral partners, even when IDA may not be lending for health in a given country.

- In **trade:** The financial crisis triggered a sharp decline in global trade flows, constrained the availability of trade finance that supports trade transactions, and led some countries to pursue trade remedies, import restrictions and other trade-distorting policy instruments. The World Bank has been monitoring the adoption of trade restrictions, assessing on the availability of trade finance, and providing timely information and analysis to developing countries seeking trade policy advice. To contribute to the increase in transparency on trade measures adopted or initiated in the midst of the crisis, the World Bank, in cooperation with private and public sector partners, has provided two databases that monitor trade measures: the Global Trade Alert (launched in June 2009) and the Global Antidumping Database. These efforts have complemented the WTO quarterly monitoring of trade policy measures. To address widespread concerns about trade finance shortages, the World Bank has been working closely with the WTO, the IMF, the Bankers Association for Finance and Trade (BAFT), and the Berne Union to monitor the impact of the crisis on trade finance. In addition, the World Bank conducted a firm and bank survey to evaluate trade finance conditions in 14 developing countries in the midst of the crisis, and provided global analysis on trade finance constraints and the role of export credit agencies in times of crisis. To increase the level of financial assistance to developing countries during the crisis, the WBG has continued to support trade-related lending and increased its aid-for-trade commitments and activities. In addition, responding to G20 commitments to increase liquidity for trade finance, the WBG stepped up its assistance through IFC's Global Trade Finance Program (GTFP) and the establishment of the Global Trade Liquidity Program (GTLP) in April 2009. The WBG launched a US$40 million Trade Facilitation Facility (TFF) to support developing country priorities to improve trade facilitation systems, including infrastructure, institutions, services, procedures and regulatory systems, to reduce transaction costs and increase transportation efficiency.

33. **Knowledge and learning.** The WBG remains a premier source of development knowledge in a wide range of areas. Through capacity building, policy advice, and technical assistance, the WBG has scaled up the dissemination of its development knowledge to assist developing countries assess the social and structural sources of vulnerability, address underlying policy and institutional weaknesses, as well as respond to and manage the consequences of the crisis. In this context, the Bank has a proven track record of assisting developing countries to design and scale up sustainable safety nets. Diagnostic work, guidance notes, and toolkits are also underway in areas such as macroeconomic vulnerability, fiscal and debt sustainability

and management strategies, safety nets and policy options for dealing with the poverty and distributional impacts of the crisis, microfinance and housing finance, and the impact of financial crisis on infrastructure and PPI/PPP projects.

34. **Gender Action Plan.** Since its launch in late FY07, the WBG's Gender Action Plan– Gender Equality as Smart Economics–has mobilized significant resources from the Bank and donors. In August 2009, pledges reached $60 million for the four-year plan. 202 initiatives that seek to increase women's access to land, agriculture, labor and finance markets, and to infrastructure services through Bank lending and non-lending operations, have been supported in 73 countries. Progress on the Bank President's six gender-related commitments are on track, including $48 million in new IFC credit lines for women entrepreneurs through five commercial banks in 12 countries, a Private Sector Leaders Forum launched at the World Economic Forum, and the Adolescent Girls' Initiative. In Liberia, where project design is in its final stages, a kickoff workshop for training providers was held in July 2009, with up to 3000 young Liberian women over the project's three-year cycle are scheduled to start training in January 2010. Similar projects are being designed in Afghanistan, Nepal, Rwanda and Sudan.

V. World Bank Group Governance and Key Partnerships

35. **Voice and Participation of Developing and Transition Countries.** A year ago, the Committee brought to closure the first phase of the reforms to enhance the voice and participation of developing and transition countries (DTCs) in the World Bank Group, including an additional Board seat for Sub-Saharan Africa and an increase in DTC voting power to 44.1%. Well over 100 of the Bank's 186 members have accepted the necessary amendments of the Bank's Articles of Agreement in a process that could conclude this year. At its last meeting, the Committee asked for the acceleration of the second phase of reforms, with a view to reaching agreement by Spring 2010. That acceleration is on track, focused on six questions: (1) IBRD shareholding realignment (implementing "moving over time towards equitable voting power between developed and developing countries"); (2) criteria for IBRD share allocation; (3) mechanism for IBRD share realignment; (4) IFC Voice Reform (realignment of voting shares); (5) IDA Voice Reform (realignment of voting shares); and (6) implications of other major governance reform issues. A report, Update and Proposals for Discussion, has been presented to the Committee for its October 2009 meeting.

36. **Other Governance Reforms.** Work on internal governance improvements by Board and Management is ongoing. In October 2008, the World Bank Group's President launched an independent High-Level Commission on Modernization of the WBG Governance chaired by former Mexican President Ernesto Zedillo, which is expected to complete its work in October 2009.

37. **Volcker Report.** Management has now implemented all of the recommendations of the Volcker Report: The Independent Advisory Board (IAB) has met three times, including making a field visit to Kenya to understand better Bank operations. The IAB has provided advice on the INT strategy, on how best to improve and measure the performance of INT, the importance of its preventive services, and on the future direction of Detailed Implementation Reviews (DIRs). In December 2009, the IAB will present its first annual report to the President. Finally, Management has completed the transfer of staff misconduct cases not

involving allegations of significant fraud or corruption from the Integrity Vice Presidency (INT) to the Office of Ethics and Business Conduct.

38. **Coordination with other development partners is essential to leverage scarce resources and capacity.** As with the food crisis, the WBG will continue to work closely with other multilateral organizations to ensure that countries receive the support needed, ensuring full coordination of our responses. The WBG's crisis response is being coordinated with various regional initiatives (such as the African Union's recently adopted Social Policy Framework), and the UN (for instance on food), as well as with the other MDBs. The current economic and financial environment has underscored the need for the WBG and the IMF to work closely together, drawing on one another's institutional mandates and comparative advantage in areas of mutual interest, as underlined at the recent G20 Summit. The Joint Management Action Plan (JMAP) on Bank-Fund collaboration-launched 2 years ago–continues to provide a framework for deepening collaboration in a complex and interconnected environment. A comprehensive assessment of JMAP implementation will be prepared for the Boards of both institutions by the end of the year. Similarly, close cooperation with the OECD and WTO is key in the current economic juncture.