

3

SUMMARY OF FISCAL YEAR ACTIVITIES



SHARING KNOWLEDGE

The Bank's store of development knowledge has always been an important element of its assistance to client countries. Knowledge activities range from carrying out country research, to developing analytic and conceptual frameworks for country assistance, to capacity building that enables client countries to build the skills necessary for development.

Research

The *World Development Report 2006: Equity and Development* (to be published in September 2005) examines the relationship between equity and the development process. The report maintains that increasing equality of opportunity and preventing extreme deprivation are tools for increasing prosperity, and that, in the long run, equity and efficiency are complementary. (See www.worldbank.org/wdr2006 and <http://econ.worldbank.org>.)

Economic Growth in the 1990s: Learning from a Decade of Reforms, published during fiscal 2005, is a flagship study on development lessons learned from the 1990s. The study reviews the impact on growth of the main policy and institutional reforms introduced in the 1990s; it presents a broad perspective on the events, country experiences, academic research, and controversies of the decade; and it reflects on how the lessons from the 1990s have altered thinking about economic growth.

Analytic and Advisory Services

The Bank augments its lending activities by creating, sharing, and applying knowledge. Most of its analytic and advisory services consist of economic and sector work and nonlending technical assistance.

The Bank delivered 694 economic and sector work products and 351 technical assistance products in fiscal 2005. Financial and private sector development and public sector governance were the leading themes for both economic and sector work and technical assistance. Analytic activities are being better integrated into overall country assistance programs, with increasing emphasis on country ownership, participatory processes, capacity building, and partnerships.

In fiscal 2005 the Bank hosted its fifth annual Country Analytic Work workshop, attended by 40 representatives from more than 20 development agencies and governments. These workshops aim to avoid duplication of analytic work, reduce transaction costs for clients, and establish common standards for key sector-specific analytic products. More than 30 donor agencies participate in knowledge sharing through the Country Analytic Work Web site, www.countryanalyticwork.net.

The Bank's Quality Assurance Group conducted assessments of the Bank's country analytic and advisory services for 17 countries in fiscal 2005. Two of these were pilot country program assessments that looked at the lending and portfolio performance over the entire Country Assistance Strategy cycle. These assessments provided greater insight into synergies among tasks that could not be captured by task-by-task assessments alone. Building on earlier assessments for nine countries conducted in fiscal 2002 and 2003, this year's assessments focused on new directions such as the Bank's results initiative, programmatic lending, multisector teams, and capacity building. The Bank has conducted 36 assessments of its country analytic and advisory services to date.

Sector Strategies

The Bank produced two important sector strategy papers in fiscal 2005. "Empowering People by Transforming Institutions: Social Development in World Bank Operations" is the Bank's action plan for social development (see chapter 1). "Achieving the MDGs, Broadening Our Perspective, Maximizing Our Effectiveness" suggests how a client country can attain the Education for All goals and the Millennium Development Goals (MDGs) for education, thus strengthening its education sector as the basis for a dynamic knowledge economy. The Bank also produced the first Sector Strategy Implementation Update, an integrated assessment of all Bank sector and thematic strategies.

Capacity Development

The World Bank Institute (WBI) provides client countries with a capacity development program comprising technical assistance, thematic learning programs, cabinet-level

FIGURE 3.1

TOTAL IBRD-IDA LENDING BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION

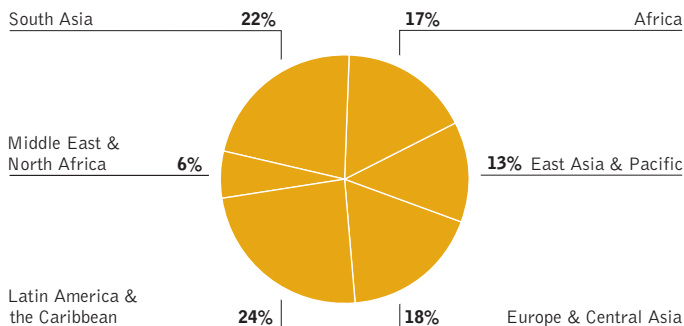


FIGURE 3.2

TOTAL IBRD-IDA LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION

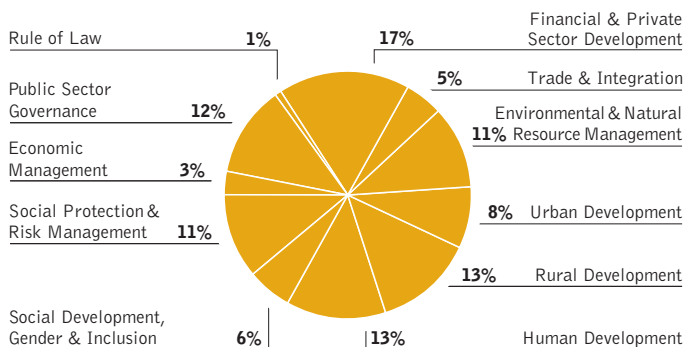
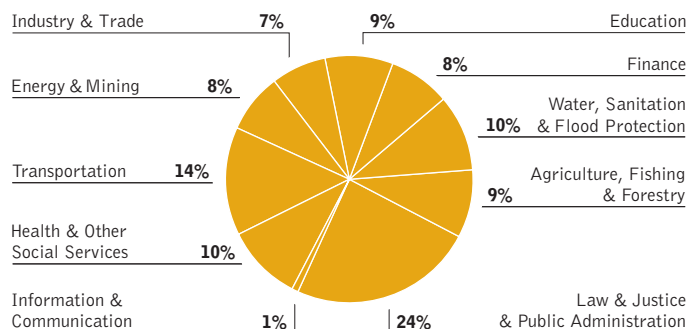


FIGURE 3.3

TOTAL IBRD-IDA LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$22.3 BILLION



retreats, and other leadership development programs. It uses knowledge economy, governance, and other diagnostic tools for assessing critical country capacities in its economic and sector work. Since the Institute's inception in 1955 more than 500,000 people have participated in WBI activities.

In fiscal 2005 nearly 110,000 clients participated in more than 900 WBI activities, many through distance and e-learning. (See box 1.2, "The World in One Room," in chapter 1.) Since 2002 WBI has been transforming itself from a training institute into a more broadly based provider of services, focusing its attention on a group of 36 countries representing all regions. During the year, WBI contributed substantively to 11 Country Assistance Strategies.

WBI's global Knowledge for Development Program works closely with Bank country teams to assess the preparedness of a country or region to compete in the global knowledge economy based on its Knowledge Assessment Methodology diagnostic tool. (See www.worldbank.org/kam.) The program's most recent book, *India and the Knowledge Economy: Leveraging Strengths and Opportunities*, makes specific recommendations for economic and institutional reforms.

A WBI "knowledge hub" in Marseilles, France, serves as the focal point for program development in the Middle East and North Africa. WBI staff are also placed in country offices. In response to demand from the Bank's South Asia region, WBI is creating a regional unit in New Delhi. (See www.worldbank.org/wbi.) WBI's other global program, focused on governance and anticorruption, is described in chapter 1.

WORLD BANK LENDING

The World Bank comprises cooperative institutions that mobilize financing from member shareholder equity by borrowing from international capital markets (for IBRD) and by means of outright contributions from the richer member countries (for IDA). It channels these resources to benefit poor people in borrowing countries. Figures 3.1–3.3 and table 3.1 provide a summary of this year's IBRD-IDA lending.

Country lending reflects the Bank's focus on achieving the MDGs. It is tailored to individual country needs, with lending instruments that are becoming increasingly flexible.

The Country Assistance Strategy (CAS) guides World Bank Group activities within borrowing member countries. Starting from a country's vision of its development goals, the CAS is prepared in consultation with the government, civil society organizations, development partners, and other stakeholders. It assesses the country's development situation and suggests a program of support tailored to meet the country's needs. The objective is to identify areas in which Bank Group

TABLE 3.1

WORLD BANK LENDING BY THEME AND SECTOR | FISCAL 2000–2005
 MILLIONS OF DOLLARS

| THEME | 2000 | 2001 | 2002^a | 2003 | 2004 | 2005 |
|---|-----------------|-----------------|-------------------------|-----------------|-----------------|-----------------|
| Economic Management | 799.6 | 895.3 | 1,408.0 | 777.8 | 428.6 | 594.6 |
| Environmental and Natural Resource Management | 1,829.4 | 1,354.6 | 924.0 | 1,102.6 | 1,304.6 | 2,493.8 |
| Financial and Private Sector Development | 3,368.4 | 3,940.9 | 5,055.4 | 2,882.9 | 4,176.6 | 3,862.0 |
| Human Development | 1,190.3 | 1,134.7 | 1,756.1 | 3,374.0 | 3,079.5 | 2,951.0 |
| Public Sector Governance | 2,142.5 | 2,053.7 | 4,247.2 | 2,464.1 | 3,373.9 | 2,636.4 |
| Rule of Law | 373.6 | 410.0 | 273.2 | 530.9 | 503.4 | 303.8 |
| Rural Development | 1,413.7 | 1,822.3 | 1,600.0 | 1,910.9 | 1,507.8 | 2,802.2 |
| Social Development, Gender, and Inclusion | 800.8 | 1,469.7 | 1,385.7 | 1,003.1 | 1,557.8 | 1,285.8 |
| Social Protection and Risk Management | 1,895.0 | 1,651.0 | 1,086.4 | 2,324.5 | 1,577.0 | 2,437.6 |
| Trade and Integration | 426.4 | 1,059.9 | 300.9 | 566.3 | 1,212.7 | 1,079.9 |
| Urban Development | 1,036.6 | 1,458.6 | 1,482.4 | 1,576.3 | 1,358.1 | 1,860.0 |
| Theme Total | 15,276.2 | 17,250.6 | 19,519.4 | 18,513.2 | 20,079.9 | 22,307.0 |
| SECTOR | | | | | | |
| Agriculture, Fishing, and Forestry | 837.5 | 695.5 | 1,247.9 | 1,213.2 | 1,386.1 | 1,933.6 |
| Education | 728.1 | 1,094.7 | 1,384.6 | 2,348.7 | 1,684.5 | 1,951.1 |
| Energy and Mining | 1,572.4 | 1,530.7 | 1,974.6 | 1,088.4 | 966.5 | 1,822.7 |
| Finance | 1,571.6 | 2,246.3 | 2,710.8 | 1,446.3 | 1,808.9 | 1,675.1 |
| Health and Other Social Services | 1,491.7 | 2,521.2 | 2,366.1 | 3,442.6 | 2,997.1 | 2,216.4 |
| Industry and Trade | 1,036.7 | 718.3 | 1,394.5 | 796.7 | 797.9 | 1,629.4 |
| Information and Communication | 273.8 | 216.9 | 153.2 | 115.3 | 90.9 | 190.9 |
| Law and Justice and Public Administration | 4,534.6 | 3,850.2 | 5,351.2 | 3,956.5 | 4,978.6 | 5,569.3 |
| Transportation | 1,717.2 | 3,105.2 | 2,390.5 | 2,727.3 | 3,777.8 | 3,138.2 |
| Water, Sanitation, and Flood Protection | 1,512.6 | 1,271.7 | 546.0 | 1,378.3 | 1,591.6 | 2,180.2 |
| Sector Total | 15,276.2 | 17,250.6 | 19,519.4 | 18,513.2 | 20,079.9 | 22,307.0 |
| Of which IBRD | 10,918.6 | 10,487.0 | 11,451.8 | 11,230.7 | 11,045.4 | 13,611.0 |
| Of which IDA | 4,357.6 | 6,763.6 | 8,067.6 | 7,282.5 | 9,034.4 | 8,696.1 |

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.

a. Due to a recoding of a Lao People's Democratic Republic project there is a discrepancy between these figures and the figures in the 2002 *Annual Report* (table 2.2). This discrepancy of \$2.2 million shows up in the commitment amounts in fiscal 2002 for Social Protection and Risk Management and Rural Development (with the two themes showing \$2.2 million higher and \$2.2 million lower respectively).

support can best assist the country's own efforts to achieve sustainable development and reduce poverty.

During fiscal 2005 the Bank prepared 36 Country Assistance Strategies and CAS Progress Reports, including 22 for IDA-eligible borrowers and blend-eligible borrowers and 14 for IBRD-eligible borrowers. Fourteen of these were prepared jointly with IFC. The Bank also prepared eight Interim Strategy Notes, which are drafted for countries that are not yet ready for a full CAS.

The results-based CAS is now being adopted for all full Country Assistance Strategies. Under this approach, expected links between the Bank's interventions and a country's long-term development goals are presented, in matrix format, and indicators of progress that can be tracked throughout CAS implementation are included. The approach is expected to improve the development effectiveness of the Bank's country strategies. (See www.worldbank.org/cas.)

LOW-INCOME COUNTRIES

The Bank's mission of poverty reduction is vital in low-income countries, where the incidence of poverty is the highest, the institutional constraints are most severe, the investment climate may not be conducive to sustainable growth, and access to resources is most limited. Bank strategy for attacking poverty in low-income countries is based on the Poverty Reduction Strategy Paper (PRSP) approach, introduced at the end of 1999. PRSPs are country-authored, results-oriented, comprehensive road maps based on broad country consultation with internal and external partners and stakeholders. The PRSP identifies a country's macroeconomic, structural, and social policies and serves as the framework for cross-sectoral programs that promote growth and reduce poverty. It acts as the basis for development aid, including IDA credits.

During fiscal 2005 the Bank's Executive Directors considered eight full PRSPs, including one fully revised second PRSP, and two interim PRSPs. Forty-seven countries now have full PRSPs. In addition, 20 countries provided annual progress reports on their poverty reduction strategies. Jointly with the International Monetary Fund, the Bank reviewed the poverty reduction strategy process to consider progress and challenges. The review assessed the experiences of countries, donors, and other stakeholders, including civil society organizations; identified lessons learned from those experiences; and made recommendations for enhancing the process.

PRSP-based IDA assistance to low-income countries includes Poverty Reduction Support Credits, which support country-owned poverty reduction priorities as reflected in government budgets. In fiscal 2005 the Executive Directors of the World Bank approved 17 credits in 17 countries.

The Role of IDA

IDA is the largest source of concessional financial assistance for the world's poorest countries. In fiscal 2005 countries with annual per capita income of up to \$895 were eligible for IDA assistance. IDA also supports some countries, including several small island economies, that are above the income cutoff but lack the creditworthiness needed to borrow from IBRD. The amount of IDA resources countries receive depends on the quality of their policies to promote growth and reduce poverty, which are assessed annually.

IDA recipient countries face complex challenges in meeting the MDGs. Policy priorities include promoting growth and reducing poverty; enhancing public sector governance and transparency; helping countries recover from conflicts, crises, and disasters; developing infrastructure; improving the quality of basic education and poor people's access to it; strengthening the fight against HIV/AIDS and other communicable diseases; and building a healthy investment climate as a prerequisite for private sector investment. (See chapter 1.)

Traditionally, IDA provided assistance in the form of highly concessional credits. Since fiscal 2003 it has expanded the use of grants, which will be used to finance projects in the most debt-vulnerable IDA countries beginning in fiscal 2006. (See IDA at www.worldbank.org.)

IDA Commitments

IDA commitments in fiscal 2005 reached \$8.7 billion for 160 operations, consisting of \$6.7 billion in credits, \$2 billion in grants, and \$0.1 billion in guarantees. This is slightly below last year's record high.

Africa received the largest commitment of IDA resources with \$3.9 billion, constituting 45 percent of total IDA commitments. South Asia and East Asia and Pacific followed with \$2.9 billion and \$1.1 billion, respectively. Fiscal 2005 marked the last year of the IDA13 replenishment, and the limits on IDA13 resources had an impact on Africa figures in particular. Among countries, India, Vietnam, Bangladesh, Pakistan, and Ethiopia represented the largest single recipients.

In fiscal 2005 about 21 percent of total IDA financing was provided in the form of grants to the following clients and projects: debt-vulnerable poorest countries, \$897 million; postconflict countries, \$463 million; poorest countries, \$316 million; HIV/AIDS projects, \$133 million; and natural disaster reconstruction projects, \$49 million.

Public administration, including law and justice, was the leading sector receiving IDA support, with \$2.2 billion, or 26 percent of the total. Significant support was also provided to the health and social services and transportation sectors, representing \$1.3 billion and \$1.1 billion, respectively.

The two most prominent themes were human development and rural development, accounting for 19 and 17 percent of IDA commitments, respectively. Major attention was also paid to financial and private sector development (16 percent), public sector governance (16 percent), and social protection and risk management (8 percent). Figures 3.4, 3.5, and 3.6 show IDA commitments by region, theme, and sector.

IDA Resources

IDA is financed by its own resources and by donor governments. Every three years donor governments and representatives of borrower countries meet to discuss IDA's policies and priorities and to agree on the amount of new resources required to fund IDA's lending program. Historically, the major industrial nations have been the largest contributors to IDA. Donor nations also include developing countries and transition economies—some of them current IBRD borrowers and former IDA borrowers.

Negotiations for the 14th Replenishment of IDA (IDA14) concluded in February 2005. The IDA14 agreement, which governs the use of IDA resources for fiscal years 2006-8, provides 24.2 billion in special drawing rights (SDRs) (about \$35.3 billion). This amount includes SDR14.1 billion (about \$20.7 billion) in new donor contributions; SDR8.7 billion (about \$12.7 billion) in internal resources, including repayments of principal from past credits and investment income; and SDR1.1 billion (about \$1.5 billion) in IBRD net income transfers, subject to approval by IDA's Board of Governors. Donor countries made firm financial commitments to the replenishment, but some are still exploring the possibility of increasing pledges to reach the 30 percent target increase in commitment authority supported by IDA donors. (See figure 3.7 for the sources of IDA funding, and figure 3.8 for IDA's impact on social sector efforts.)

Low-Income Countries under Stress

Effective engagement with low-income countries under stress (LICUS) is essential for long-term development and global security. Work continued this year on increasing the effectiveness of aid, with the Bank providing close oversight of progress in the 25 most fragile states. Heightened operational readiness and close partnerships with other donors allowed fast and flexible support in postconflict countries such as Haiti, Liberia, and Sudan. To improve links between security and development, the Bank and the United Nations Development Group developed the Transitional Results Matrix, a planning tool that helps countries prioritize and enhance the coherence of international support across political, security, economic, development, and humanitarian arenas.

FIGURE 3.4

TOTAL IDA COMMITMENTS BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

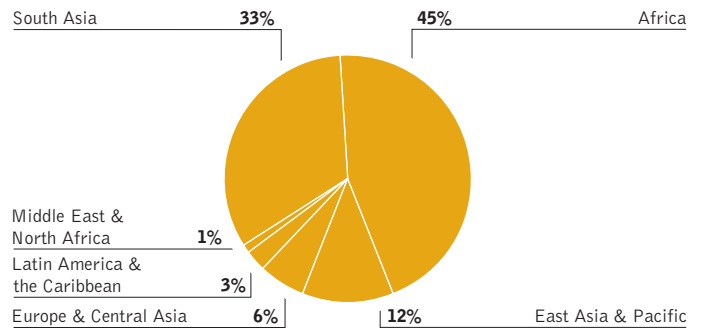


FIGURE 3.5

TOTAL IDA COMMITMENTS BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

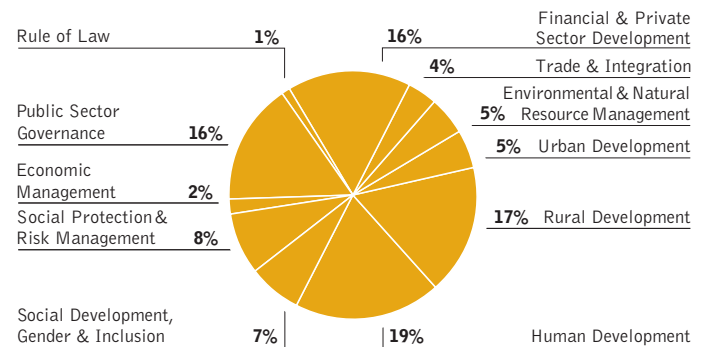


FIGURE 3.6

TOTAL IDA COMMITMENTS BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$8.7 BILLION

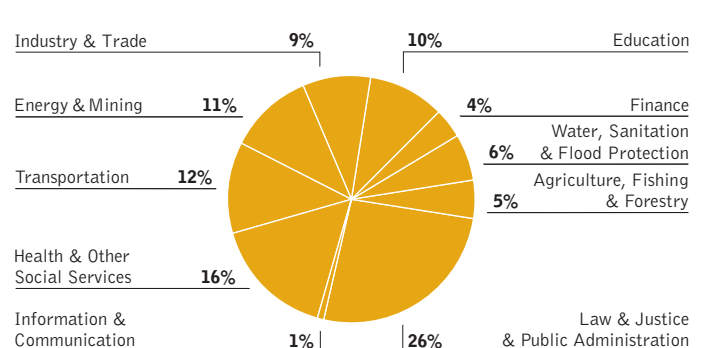
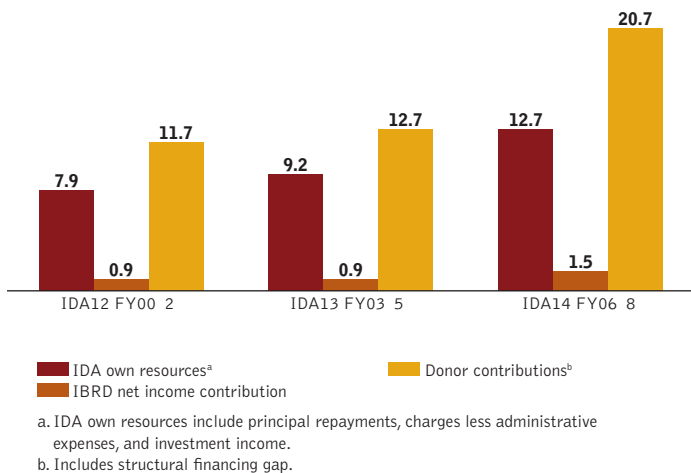


FIGURE 3.7

SOURCES OF IDA FUNDING | BILLIONS OF DOLLARS



Bank research demonstrated the high costs fragile states impose on their neighbors and the inequity of aid allocations between “aid darlings” and “aid orphans.” This led to an agreement for the Development Assistance Committee of the Organisation for Economic Co-operation and Development to develop a watching brief system for these countries. The Bank also cosponsored a senior-level forum, “Development Effectiveness in Fragile States,” which helped develop common principles for good international engagement in these countries.

The Bank implemented several institutional reforms to improve its response in LICUS. The Country Policy and Institutional Assessment rating system was amended to recognize performance improvements at the bottom of the spectrum. Aggregate budgets for analytic work were maintained, and the LICUS Trust Fund committed \$20 million to support reengagement in the most fragile countries in nonaccrual with the Bank. (See www.worldbank.org/licus.)

Debt Relief and Debt Sustainability

The Bank continued to provide debt relief to the world’s poorest and most heavily indebted countries in fiscal 2005. It also worked to improve debt sustainability in an effort to help these countries meet the MDGs.

Under the Heavily Indebted Poor Countries (HIPC) Initiative (www.worldbank.org/debt), 27 countries are now receiving debt relief that is expected to total more than \$54 billion over time. Eighteen countries have reached the “completion point,” where debt relief becomes irrevocable. In fiscal 2005 the boards of the Bank and the International Monetary Fund voted to extend the HIPC Initiative through December 31, 2006. Unlike previous extensions, this one applies only to countries that satisfied HIPC income and indebtedness criteria as of the end of 2004.

The debt relief program has significantly reduced debt stock in HIPCs (see figure 3.9) and has allowed poverty-reducing spending in those countries to rise (figure 3.10).

Together with the International Monetary Fund, the Bank has developed a framework for assessing debt sustainability in low-income countries that will guide lending decisions in a way that balances a country’s need for funds with its ability to service debt, and in a manner tailored to the country’s circumstances. The framework reflects feedback from extensive consultations with government officials, multilateral and bilateral donors, academics, and civil society organizations.

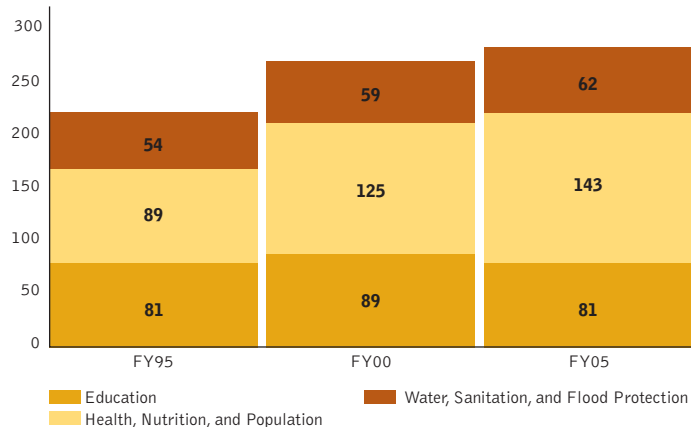
MIDDLE-INCOME COUNTRIES

Middle-income countries continue to face substantial development challenges: achieving sustained growth that provides

FIGURE 3.8

IDA’S STEPPED-UP EFFORTS IN THE SOCIAL SECTORS

285 PROJECTS ONGOING (COMPARED WITH 225 A DECADE AGO)



Note: Number of projects under implementation includes projects in both IDA-only and blend countries. IDA commitment value of ongoing social sector projects: 1995, \$12.2 billion; 2000, \$14.2 billion; 2005, \$15.0 billion.

productive employment; reducing poverty and inequality; reducing volatility, particularly in their access to private financial markets; and strengthening the institutional and governance structures that underpin viable market-based economies. The Bank is uniquely placed to help these countries craft institutional reforms, attract infrastructure investment across the public-private spectrum, improve social service delivery, and cope with volatility.

To support the development efforts of middle-income countries, the Bank began implementing an action plan in fiscal 2005 designed to strengthen the ability of its staff to respond to these countries' borrowing needs. Initiatives include piloting the use of countries' own environmental and social safeguards and fiduciary systems, where applicable; streamlining policy conditionality; and making greater use of the flexibility of Country Assistance Strategies to customize support to country circumstances, respond quickly to emerging opportunities, and realign investment lending instruments and disbursement mechanisms with the evolving needs of clients. The plan leverages Bank resources and skills to provide timely, relevant, and high-quality knowledge services that draw on Bank Group synergies and partnerships with bilateral and multilateral agencies.

The Role of IBRD

IBRD is a AAA-rated financial institution—with some unusual characteristics. Its shareholders are sovereign governments, each of which has a voice in setting its policies and many of which are eligible to borrow from it. IBRD's main goal is to reduce poverty by promoting sustainable economic development in middle-income and creditworthy low-income borrowing countries. It provides financing (loans, guarantees, and related risk management tools) and expertise in development-related technical disciplines.

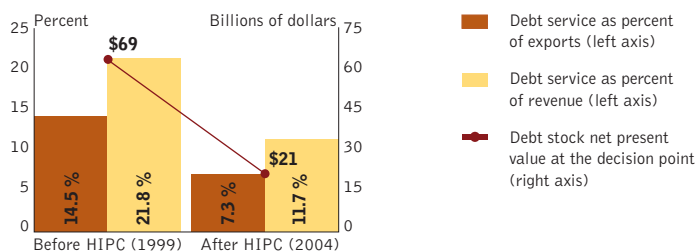
It helps clients gain access to capital and financial risk management tools in larger volumes, on better terms, at longer maturities, and in a more sustainable manner than they could receive from other sources. Unlike commercial banks, IBRD is driven by development impact rather than profit maximization.

Eligibility to Borrow from IBRD

In fiscal 2005 countries with a per capita income of less than \$5,295 that were not IDA-only borrowers were eligible to borrow from IBRD. Countries with higher per capita incomes were able to borrow from IBRD under special circumstances or as part of a graduation strategy. The amount IBRD is willing to lend eligible countries depends on their creditworthiness; some countries with poor creditworthiness may not have

FIGURE 3.9

HEAVILY INDEBTED POOR COUNTRIES DEBT RELIEF REDUCED DEBT STOCK AND IMPROVING DEBT SERVICE RATIOS

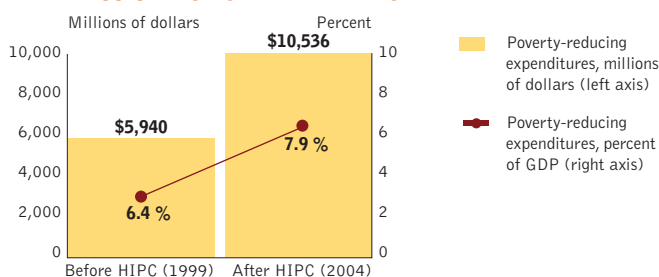


Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2005.

Source: World Bank. September 2004. *Heavily Indebted Poor Countries (HIPC) Initiative—Status of Implementation*. Washington, DC: World Bank. April 2005. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update*. Washington, DC.

FIGURE 3.10

TRENDS IN POVERTY-REDUCING EXPENDITURES BEFORE AND AFTER ASSISTANCE UNDER THE HIPC INITIATIVE

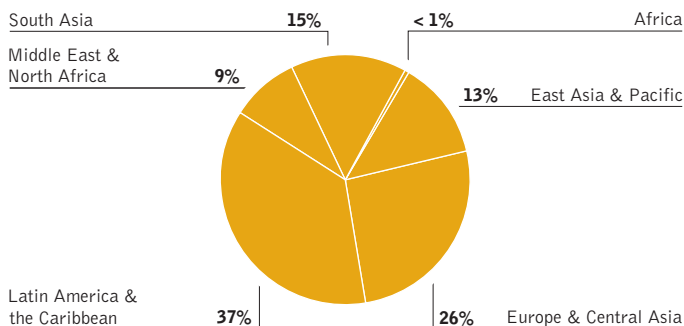


Note: Weighted averages for the 27 countries that had reached the decision point as of end-April 2005.

Source: World Bank. April 2005. *Heavily Indebted Poor Countries (HIPC) Initiative—Statistical Update*. Washington, DC.

FIGURE 3.11

TOTAL IBRD LENDING BY REGION | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



access to IBRD resources. Some countries that are eligible for IDA lending as a result of their low per capita incomes are also able to borrow from IBRD. IBRD loans outstanding to any individual borrowing country may not exceed \$13.5 billion.

IBRD Lending

At \$13.6 billion for 118 operations, new loans, guarantees, and guarantee facilities by IBRD in fiscal 2005 exceeded the previous year's level by over \$2 billion. This represents the highest volume of IBRD lending in the past six fiscal years. The share of development policy-based lending was slightly lower than in fiscal 2004.

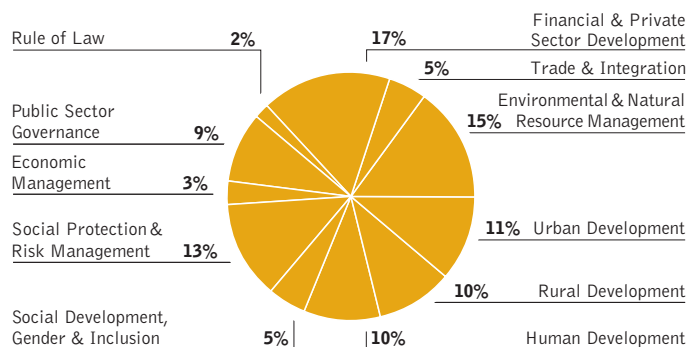
Latin America and the Caribbean received the highest level of IBRD loans and guarantees, with \$4.9 billion or 36 percent of total IBRD commitments, followed by Europe and Central Asia with \$3.6 billion and South Asia with \$2.1 billion. Lending was slightly less concentrated than it was in fiscal 2004. Whereas five countries received roughly 57 percent of total lending in fiscal 2004, five countries—Brazil, China, Colombia, India, and Turkey—received a combined commitment volume equaling 53 percent of total IBRD lending in fiscal 2005.

Among sectors, public administration, including law and justice, received the highest volume of IBRD lending (\$3.4 billion), followed by transportation (\$2.1 billion), and water, sanitation, and flood protection (\$1.6 billion).

The thematic composition of lending in fiscal 2005 was led by financial and private sector development, followed by environmental and natural resource management and social protection and risk management. Figures 3.11, 3.12, and 3.13 show IBRD lending by region, theme, and sector. Development policy-based lending commitments are shown on the accompanying CD-ROM.

FIGURE 3.12

TOTAL IBRD LENDING BY THEME | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



IBRD Resources

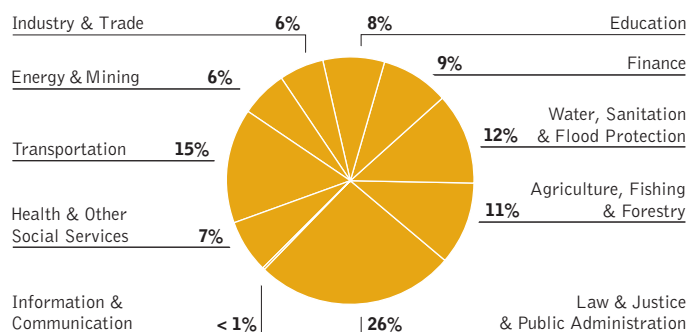
IBRD obtains most of its funds by selling bonds in international capital markets. In fiscal 2005 it raised \$13 billion at medium- to long-term maturities, roughly the same as in fiscal 2004. Debt securities, with a wide range of maturities and structures, were issued in 13 currencies.

IBRD is able to borrow high volumes for long maturities on very favorable terms. IBRD's financial strength is based on its prudent financial policies and practices. These help IBRD maintain its high credit rating.

As a cooperative institution, IBRD seeks not to maximize profit but to earn enough income to ensure its financial strength and sustain its development activities. IBRD's net income, excluding net unrealized gains (losses) on nontrad-

FIGURE 3.13

TOTAL IBRD LENDING BY SECTOR | FISCAL 2005
SHARE OF TOTAL LENDING OF \$13.6 BILLION



ing (borrowings related) derivative instruments, as required by Financial Accounting Standard 133 and International Accounting Standard 39, was \$1,320 million in fiscal 2005. IBRD retained \$589.5 million in its general reserve and \$68 million in its pension reserve, added \$52.5 million to the surplus account, and transferred \$400 million to IDA and \$210 million to the HIPC Trust Fund. (See Financial Statements on the accompanying CD-ROM.)

IBRD maintained adequate liquidity in fiscal 2005 to ensure its ability to meet its obligations. As of June 30, 2005, it held about \$26.4 billion in liquid assets.

As of June 30, 2005, IBRD's outstanding borrowings from capital markets were about \$91.5 billion (net of swaps) (see figure 3.14). Total disbursed and outstanding loans were \$104.4 billion. Borrowings exceeded equity by a factor of about three.

Consistent with IBRD's development mandate, the principal risk it takes is the country credit risk inherent in its portfolio of loans and guarantees. Risks related to interest and exchange rates are minimized. One summary measure of the Bank's risk profile is the ratio of balance sheet equity to outstanding net loans, which is closely managed in line with the Bank's financial and risk outlook. This stood at 31.4 percent as of June 30, 2005 (see figure 3.15).

PARTNERSHIPS

Globalization has brought about dramatic changes that require collective action by public, private, and civil society stakeholders. The Bank works with partners to manage global, regional, and country programs where partners share knowledge and play a joint role in funding, governance, or management. These programs have become an important line of business for the Bank. During fiscal 2005 the Bank worked in consultation with key partners to develop a strategic framework that will improve the Bank's selectivity and guide its support to high-priority programs with potential for strong development impact. (See "Evaluating the Bank's Work" in chapter 1.)

Trust Funds

World Bank-administered trust funds foster partnerships by mobilizing and directing concessional resources to support poverty reduction across a wide range of sectors and regions, supporting clients in achieving development results at the global, regional, and country levels. Much of the recent growth in these funds reflects the international community's desire for the Bank to help manage broad global initiatives through multilateral partnerships, such as the Global Fund to Combat AIDS, Tuberculosis and Malaria; the Global Environment

FIGURE 3.14

IBRD'S BORROWINGS AND INVESTMENTS | AS OF JUNE 30, 2005
BILLIONS OF DOLLARS

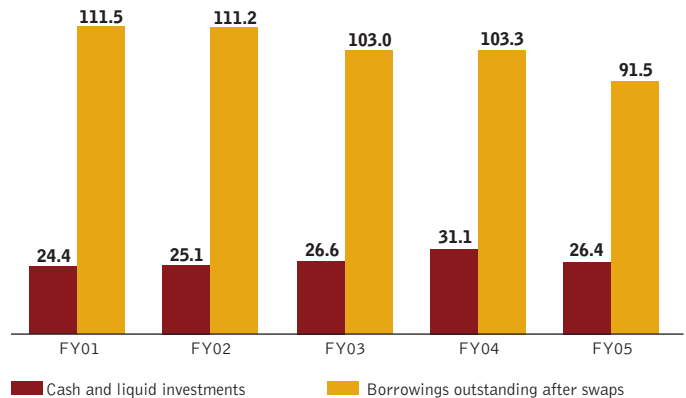
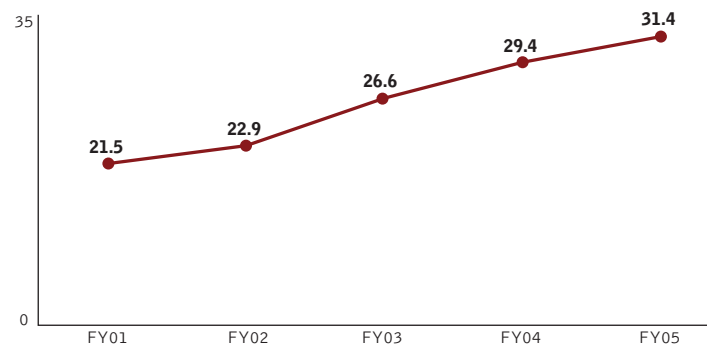


FIGURE 3.15

EQUITY-TO-LOANS RATIO | AS OF JUNE 30, 2005
PERCENT



Facility; and the HIPC Initiative. Trust funds also support the World Bank Group's own development operations and work programs. Many of these activities are described in the World Bank's *Trust Funds Annual Report*. (See site index at www.worldbank.org.)

Contributions, Funds Held in Trust, and Disbursements

Contributions from donors in fiscal 2005 totaled \$4.8 billion, a decrease of 2 percent from fiscal 2004. Funds held in trust rose to \$9.3 billion, an 8 percent increase. The top 10 donors accounted for 78 percent of all contributions (see table 3.2). Disbursements during fiscal 2005 totaled \$4.2 billion, an increase of 29 percent over fiscal 2004.

New Trust Fund Programs

In response to emerging development challenges, the donor community agreed to establish several new major trust fund programs during fiscal 2005.

Indonesia—Multidonor Trust Fund for Aceh and North Sumatra

The trust fund will support the rehabilitation and reconstruction of this area in the wake of the earthquake and tsunami that struck in December 2004. Eight donors, including the Bank, have indicated their intention to contribute a total of \$444 million.

Sudan—Postconflict Multidonor Trust Funds Funds were pledged toward Sudan's identified reconstruction and development needs through the creation of two multidonor trust funds—one for the north and one for the south of the country. A total of \$508 million was pledged for the 2005–7 period.

Vietnam—Poverty Reduction Support Credit Program

Combined funding by five donors for \$169 million cofinances an IDA grant of \$100 million to provide a series of annual Poverty Reduction Support Credits from fiscal 2004 to 2006. These credits are aligned with Vietnam's reform agenda and are aimed at transition to a market economy, social policies, and programs that are equitable and inclusive, and at the adoption of modern public administration and governance systems.

Newly Established Carbon Finance Arrangements Three new major carbon finance arrangements were established this year. The Danish Carbon Fund, with contributions totaling \$40 million, and the Spanish Carbon Fund, with contributions of \$213 million, are designed to stimulate capital flows for sustainable development through the purchase of eligible

TABLE 3.2

TOP TEN TRUST FUND DONORS

MILLIONS OF DOLLARS

| | FY04 | FY05 |
|----------------------------|--------------|--------------|
| United Kingdom | 585 | 552 |
| World Bank Group | 466 | 462 |
| Netherlands | 400 | 411 |
| European Community | 880 | 408 |
| Japan | 508 | 405 |
| France | 136 | 373 |
| United States | 594 | 358 |
| Canada | 198 | 321 |
| Germany | 226 | 251 |
| Italy | 187 | 211 |
| Other donors | 724 | 1,059 |
| Total contributions | 4,904 | 4,811 |

Note: Donor ranking shown above is based on fiscal 2005 contributions.

carbon emission reductions under the Kyoto Protocol. The Carbon Finance Assistance Trust Fund was set up as an \$11 million multidonor facility supporting technical assistance in recipient countries.

Cofinancing

Cofinancing is any arrangement under which funds from the Bank are associated with funds provided by sources from outside the recipient country for a specific lending project or program. Typical cofinanciers include official bilateral and multilateral agencies, and foundations, which provide mostly concessional funding to recipient countries. In fiscal 2005, 123 Bank projects leveraged \$9.3 billion in cofinancing. Major cofinanciers were the Inter-American Development Bank (\$2.2 billion) and the United Kingdom's Department for International Development (\$0.6 billion). Regions with the highest cofinancing were Latin America and the Caribbean (\$3.3 billion), Africa (\$1.7 billion), and South Asia (\$1.7 billion).