





REDUCING POVERTY AND INEQUALITY

The past year saw both progress and continued challenges in the global fight against poverty and inequality. For the world's poorest countries, advances against poverty are measured by progress in achieving the eight Millennium Development Goals (MDGs), which provide specific objectives against which to measure results in obtaining basic services for citizens, enhancing environmental sustainability, and forming global partnerships for development. The MDGs also measure progress in middle-income countries as governments seek to expand existing but often unequal access to services and employment. For countries of all economic levels, the quality of governance and the investment climate affect citizen well-being.

The Bank works with countries to prioritize their needs, articulate development strategies, and select financial instruments appropriate to fund those needs. Middle-income countries borrow through IBRD. The world's poorest countries receive grants and interest-free, concessional

loans through IDA. To better meet the needs of countries, especially those eligible for both IBRD and IDA client assistance, the Bank is discussing ways to build greater flexibility into its business model. Numerous subregional and continentwide initiatives have been launched in recent years to address development challenges that cross borders. In Africa, for example, many countries face similar problems that are rooted in the region's extreme poverty and its history of weak institutions and poor governance. Other challenges are worldwide in scope: from climate change, to avian flu, to the stability of the international financial system.

It is unlikely that such cross-border challenges will be resolved through individual country efforts alone. Collective action is needed. The Bank works with the international community to confront these global issues by supporting a broad range of initiatives designed to enhance the supply of global and regional public goods, including programs and funds targeted to combating global health threats, supporting the

FISCAL 2006 HIGHLIGHTS

2006 Topical Highlights: Debt relief for the poorest countries (see page 15); targeting development in Africa (see page 16); addressing governance and anticorruption issues globally (see page 13); improving partnerships with the international community (see page 19); quick responses to potential avian flu outbreaks (see page 17); and disaster relief (see page 14).

IBRD Lending: 112 projects totaling \$14.1 billion. Top three sectors: Law and Justice and Public Administration; Transportation; Energy and Mining.

IDA Concessional Lending: 167 projects totaling \$9.5 billion. Top three sectors: Law and Justice and Public Administration; Transportation; Health and Other Social Services.

Nonlending Activities: 307 technical assistance activities; 601 economic and sector work products.

IEG Evaluations of Activities: 16 major evaluations by the Independent Evaluation Group reviewing the Bank's performance on a range of activities including country assistance, debt relief, development effectiveness, middle-income countries, postdisaster assistance, and trade.

Publications: More than 150 publications, including *Global Development Finance 2006*, *Global Monitoring Report 2006*, *World Development Indicators 2006*, and *World Development Report 2006: Equity and Development*. (See www.worldbank.org/publications.)



environmental commons, promoting trade and economic integration, and sharing development knowledge.

Global poverty challenges are strongly linked to economic and social inequality and to disparities in resource allocation. The Bank's *World Development Report 2006: Equity and Development* shows how policies that promote economic growth and human development can interact with policies aimed at increasing equity—including interventions to expand access to health care, education, jobs, land, and markets—to move toward the long-term goal of reducing poverty. Although the Bank has undertaken research on the link between poverty and inequality for several years, the 2006 *World Development Report* underscores its importance for the Bank's agenda.

ADDRESSING EMERGING DEVELOPMENT CHALLENGES

While country-led poverty reduction and national development strategies continued to be important mechanisms for defining country priorities and aid strategies, several additional issues of special note moved to the forefront of the Bank's activities during fiscal 2006. These diverse issues included improving governance and accountability, implementing a new Multilateral Debt Relief Initiative, expanding initiatives undertaken

within the 2005 Africa Action Plan, developing a framework for middle-income countries, supporting agriculture in the poorest countries, cooperating with other international organizations to combat avian flu, searching for new approaches to deal with climate change, and strengthening partnerships to put in place a monitoring plan for the March 2005 Paris Declaration on Aid Effectiveness. The Bank also responded to emergencies, including the October 2005 earthquake in northern Pakistan and the May 2006 earthquake in Indonesia (see box 1.1).

Strengthening Governance and Accountability

Promoting good governance, including fighting corruption and strengthening mutual accountability, is essential to achieving the MDGs. The *Global Monitoring Report 2006* on the MDGs notes that corruption is a symptom of poor governance. The World Bank–International Monetary Fund Development Committee discussed the report and agreed on the need for efforts to improve governance in all countries, to help build effective states with strong national systems, and to collaborate on implementing global initiatives for improving governance, increasing transparency, and building demand for good

THE MILLENNIUM DEVELOPMENT GOALS

1. Eradicate Extreme Poverty and Hunger

Halve the proportion of people in extreme poverty, and the proportion of people who suffer from hunger, by 2015.

2. Achieve Universal Primary Education

Ensure by 2015 that all boys and girls complete a full course of primary schooling.

3. Promote Gender Equality and Empower Women

Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015.

4. Reduce Child Mortality

Reduce by two-thirds the mortality rate among children under age five by 2015.

5. Improve Maternal Health

Reduce by three-quarters the maternal mortality ratio by 2015.

6. Combat HIV/AIDS, Malaria, and Other Diseases

Halt and begin to reverse the spread of HIV/AIDS, the incidence of malaria, and other major diseases by 2015.

7. Ensure Environmental Sustainability

Reverse the loss of environmental resources; by 2015, reduce by half the proportion of people without sustainable access to safe drinking water; and by 2020, improve significantly the lives of at least 100 million slum dwellers.

8. Develop a Global Partnership for Development

Develop further an open, rule-based, predictable, nondiscriminatory trading and financial system, and address the special needs of the least developed countries, landlocked countries, and small island states; deal comprehensively with the debt problems of developing countries; develop and implement strategies for decent and productive work for youth; provide access to affordable essential drugs; and make available the benefits of new technologies. [See www.developmentgoals.org and www.un.org/millenniumgoals.]

governance at the country level in ways that strengthen ownership. Building on work over the last decade, the committee called on the Bank to lay out a broad strategy, to be discussed at the September 2006 Annual Meetings, for helping member countries strengthen governance and deepen the fight against corruption. The strategy, which should lead to clear guidelines for operations, calls for the Bank to work closely with the International Monetary Fund (IMF), other multilateral development banks, and member countries to ensure a coherent, fair, and effective approach.

The Bank lent \$4.6 billion for governance and rule of law programs in fiscal 2006. Programs included anticorruption

measures, administrative and civil service reform, decentralization, public financial management, tax policy, procurement, and legal and judicial reform. Support for civil society organizations and media outlets also helped strengthen the Bank's governance agenda. In addition, the Bank's ongoing research into the causes of and remedies for corruption has produced useful diagnostic tools. These tools include a set of worldwide indicators that assess six dimensions of governance in more than 200 countries. Other indicators gauge the effectiveness of government agencies and programs. Together, these indicators can be used to formulate reforms. The Bank also partners with the IMF on the Bank-Fund Financial Sector Assessment Program

BOX 1.1

RECONSTRUCTION

Three devastating natural disasters struck countries bordering the Indian Ocean within a year: the December 2004 tsunami with its epicenter off the Indonesian coast, the October 2005 earthquake in northern Pakistan, and the May 2006 Yogyakarta earthquake in Indonesia. The Bank was closely involved in damage and loss assessments following all three events and has been supporting reconstruction efforts in affected countries.

In Indonesia, the country hardest hit by the tsunami, the Bank is the trustee of the Indonesia Multi-Donor Fund for Aceh and Nias, with grant pledges of \$526 million from 15 donors. The Bank is supervising 6 of the fund's 12 projects, which provide assistance for housing, roads, water supply, health, livelihood support, and capacity building in housing reconstruction as well as coastal management and project implementation. Indonesia also received a \$25 million grant from IBRD's surplus. An additional \$39 million in IDA financing for recovery and peace building in Aceh was also allocated. For South Asian countries affected by the tsunami, the Bank has committed more than \$835 million to reconstruction.

The October 2005 earthquake killed some 73,000 people, primarily in northern Pakistan. Parts of India and Afghanistan

were also affected. Just two weeks after the tragedy, the Bank provided \$470 million to support reconstruction and safeguard ongoing reform and poverty reduction programs. In December, an additional \$400 million was approved. In all, the Bank has pledged \$1 billion for earthquake recovery, mostly in the form of IDA credits. Since 1984, Bank lending for natural disasters has totaled more than \$26 billion. A recent Independent Evaluation Group (IEG) evaluation, *Hazards of Nature, Risks to Development*, points out that these events should be seen as risk factors in development rather than interruptions to it. The evaluation concluded that the Bank needs to factor natural disasters into project and country program design and develop more effective financing mechanisms for emergency assistance.

Besides its work in response to natural disasters, the Bank supported some 35 countries affected by violent conflict. Such support targets the reintegration of ex-combatants into society, reconstruction of infrastructure, rebuilding institutional capacity and governance, and establishing community-driven development. Where regular Bank assistance is not possible, a Post-Conflict Fund provides flexible and innovative grants to countries (13 currently), in addition to regional and global grants. The fund has made 166 grants totaling \$83 million since 1998.

and the Anti-Money-Laundering/Combating the Financing of Terrorism Program, two initiatives that strengthen the integrity of financial systems and fight corruption. The Bank also participates in the Extractive Industries Transparency Initiative, a multi-stakeholder initiative designed to ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction.

Within the institution, the Bank has a global hotline for reporting corruption. Reports are sent to the Bank's Department of Institutional Integrity, which investigates allegations of fraud and corruption in Bank projects, as well as allegations of staff misconduct. The department has handled more than 2,000 cases to date, resulting in the public sanction of more than 330 firms and individuals. When appropriate, the department refers its investigative findings to the prosecutorial authorities of its member countries for further action. In the past year, the department expanded, handling 426 cases. (See www.worldbank.org/corruption and www.worldbank.org/integrity.)

Initiating Multilateral Debt Relief

At their July 2005 summit in Gleneagles, the leaders of the Group of Eight (G-8) nations proposed 100 percent cancellation of debt owed to IDA, the IMF, and the African Development Fund by some of the world's poorest countries, most of them in Africa and Latin America. The new debt relief plan, the Multilateral Debt Relief Initiative (MDRI), was endorsed by the Bank-Fund Development Committee at the September 2005 Annual Meetings. Relief under the plan is provided in support of government efforts to tackle poverty

and is an extension of debt relief available under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (see box 1.2). The MDRI should help eligible countries—those that reach the completion point of the HIPC Initiative—achieve the MDGs.

The provision of IDA grants and debt relief through the MDRI, however, may increase the risk of *free riding*, a term used to refer to situations in which IDA's debt relief or grants could potentially cross-subsidize lenders that offer nonconcessional loans to recipient countries. IDA grants and MDRI debt relief aim to improve prospects for long-term debt sustainability in IDA countries, and such nonconcessional lending could undermine that goal. IDA is therefore preparing an approach to address the free-rider issue that calls for increased creditor cooperation and borrower disincentives.

Total debt relief under the MDRI is estimated at about \$50 billion, including \$37 billion from IDA alone, which is equivalent to more than a quarter of IDA's total resources. Debt relief will be provided up front and irrevocably once a HIPC country becomes MDRI-eligible. In addition to their regular financial support to IDA, donor countries have made commitments to preserve IDA's long-term financial capacity and replace the forgone credit reflows of IDA over the 40-year repayment period of the cancelled credits. The Board of Executive Directors of IDA approved the MDRI on March 28, 2006; IDA's Board of Governors adopted the MDRI on April 21, 2006. IDA began implementing the MDRI at the start of fiscal 2007. (More information about the MDRI, including a list of eligible countries, is available at www.worldbank.org/debt.)

BOX 1.2

EVALUATION: HEAVILY INDEBTED POOR COUNTRIES UPDATE

The Independent Evaluation Group's fiscal 2006 report, *Debt Relief for the Poorest: An Evaluation of the HIPC Initiative*, analyzes the Bank's efforts to address debt sustainability. The review found that the enhanced HIPC Initiative cut debt ratios in half for 18 countries, but the ratios once again exceeded HIPC thresholds in 8 of these countries. Debt reduction alone

has been insufficient for debt sustainability. Improvements in export diversification, fiscal management, the terms of new financing, and public debt management are also needed. Debt relief is expected to help countries achieve the MDGs by freeing up resources that can be invested in economic growth and human development. (See www.worldbank.org/hipc.)



Implementing the Africa Action Plan

The Africa Action Plan underscores the importance of ensuring that any growth agenda benefit poor and marginalized people. The plan contains 25 initiatives focused on building capable governance structures; strengthening drivers of growth, including investments in the private sector, infrastructure, and human development; and increasing the impact of partnerships among governments, donor countries, and development agencies. The plan makes specific commitments to investments in people and infrastructure and to working more effectively with other donors that provide this support.

To spur investment in infrastructure, the Africa Catalytic Growth Fund was launched in March 2006. The fund has the potential to leverage up to \$1 billion annually for projects undertaken under the aegis of the Infrastructure Consortium for Africa, launched in 2005 by the African Development Bank, the African Union, the Economic Community of West African States, the New Partnership for Africa's Development, the European Commission, the G-8, and the World Bank.

Investments in human development are also under way. The Democratic Republic of Congo, Eritrea, Niger, and Zambia became the first countries to benefit from the Bank's expanded Malaria Booster Program and scaled-up HIV/AIDS lending. For education, the Africa Action Plan commits to increased support for free primary education in 15 countries. Results have begun to emerge. In Ethiopia, for example, the enrollment rate has jumped to 65 percent; this increase is attributed to growth in entrants to the first grade.

Honoring a promise to create regional centers of excellence and provide investments to achieve the gender equality MDG (see page 24), the Bank facilitated a job creation and sector diversification project in Ghana. Nigeria received assistance in its efforts to improve governance and repatriate monies looted from the country's treasury. Kenya was assisted in

its work to increase transparency in national budgeting and procurement, and Sierra Leone began, with the Bank's help, to improve inclusiveness, transparency, and accountability in local government systems. To boost export-led growth, the Bank financed the construction of border crossing points between countries of the East African Community, and between those countries and Rwanda; the Bank also supported cross-national rail concessions in Kenya and Uganda for a project leveraging private investment. Regional power sector projects suffered setbacks, however, with delays in launching electricity modernization programs in the Democratic Republic of Congo and Rwanda. The number of good African performers as measured by the Bank's Country Policy and Institutional Assessment rose from 6 to 20 countries in 2006. (See www.worldbank.org/afr.)

Financing Middle-Income Country Strategies

Hundreds of millions of the world's poor, defined as those who live on less than \$2 a day, live not in the world's poorest countries but in middle-income countries. These countries are eligible to borrow from IBRD, although the so-called "blend" countries are also eligible for IDA concessional lending. All have large unfinished social agendas, which include meeting and surpassing the MDGs.

Middle-income countries also play an increasingly important role in the provision of global public goods, such as clean energy, trade integration, environmental protection, international financial stability, and fighting the spread of communicable diseases. But most face constraints in mobilizing the funds needed to invest in infrastructure, health, education, and the reform of policies and institutions essential to improving the domestic investment climate. Not all middle-income countries are able to borrow on foreign markets or access risk management instruments, and where these sources of financing are available, the maturities are often short and interest rates high.



In response to the needs of this diverse group of countries, the Bank provides a flexible program of banking, finance, and knowledge services. The Bank recognizes that working collaboratively with other multilateral development banks and bilateral donors can expand the scale of involvement at the country level and maximize development impact. As a result, the multilateral development banks are preparing a joint policy paper on blending in middle-income countries. [See www.worldbank.org/middleincome.]

Supporting Agriculture

Agriculture remains the engine of growth in most of the world's low-income countries. For that reason, agriculture has become a vital part of the Bank's work in Africa and elsewhere, as reflected in Bank lending of some \$1.8 billion in fiscal 2006 and the selection of agriculture as the focus of the upcoming 2008 *World Development Report*. The Bank's current emphasis in this sector is on improving the rural investment climate in order to increase and diversify the production of high-value commodities that enhance farmers' income and build market-driven agricultural innovation systems.

Agriculture is linked to integrated natural resource management such as protecting watersheds, sustaining increased investment in irrigation and drainage, supporting effective forest law enforcement and sound governance, and promoting efforts to enhance the resilience of farms, forests, and fisheries to climate change. PROFISH, a new multidonor initiative, will address the threat of collapsing fish stocks. Meanwhile, the global threat of zoonoses (diseases that can be transmitted from animals to humans), such as "mad cow" disease and avian flu, has brought the issue of livestock management and animal health back to the top of the development agenda. [See www.worldbank.org/essd.]

Containing Avian Flu

By the end of fiscal 2006, 55 countries had reported outbreaks of the H5N1 strain of the highly pathogenic avian influenza in wild birds and domestic poultry, causing the death of more than 200 million birds and severe damage to rural livelihoods, especially in the poorest regions of developing countries. The World Health Organization has voiced concerns that the H5N1 virus could mutate into a form that could eventually cause a

human flu pandemic. That, in turn, could disrupt the global economy by generating losses on the order of \$1.25 trillion in a severe scenario, cause substantial loss of life, and increase poverty in developing countries. To minimize this possibility and to protect rural livelihoods from animal disease, response to potential outbreaks must be coordinated at national, regional, and international levels. Doing so requires substantial financial resources. The Bank is working closely with international technical agencies, multilateral agencies (notably, the Office of the United Nations Senior Influenza Coordinator), donors, and client countries to coordinate activities.

In November 2005, the Bank, the Food and Agriculture Organization, the World Health Organization, and the World Organization for Animal Health cosponsored a global influenza meeting in Geneva to explore possible coordination mechanisms. In January 2006, the Bank, the European Commission, and the Chinese government cosponsored an avian flu pledging conference in Beijing. Pledges amounted to almost \$1.9 billion within a flexible financial framework, which ensures that donors can use instruments convenient to them to contribute to a well-defined, integrated, country-owned plan. By the time of the first stocktaking of international action in Vienna, Austria, in June 2006, more than \$1.1 billion had been committed to finance specific programs launched by countries and international and regional organizations. The Bank has pledged up to \$500 million of IBRD and IDA financing under its Global Program for Avian Influenza, and by the end of June 2006, it had approved \$147.4 million to eleven countries to prevent or respond to outbreaks of avian flu and prepare for a possible human flu pandemic. The international community's instruments to address avian flu also include a newly established \$75 million multidonor Avian and Human Influenza Facility, for which the Bank is the trustee. [See www.worldbank.org/avianflu.]

Responding to Climate Change

The global community faces a major challenge in securing affordable and cost-effective energy supplies to underpin economic growth and poverty reduction while preserving the environment. The recent Bank report, *Clean Energy and Development: Toward an Investment Framework*, addressed developing-country energy needs and access to energy

services, controlling greenhouse gas emissions, and helping developing countries adapt to climate risks. The report concluded that an extensive array of technologies exists to provide the required energy services, but policy reform in the energy sector is urgently needed to stimulate the roughly \$300 billion a year of investment required.



Expansion of energy services is essential for poverty reduction and economic development, but any expansion must minimize the greenhouse gas emissions that contribute to climate change. Mitigating these emissions will cost additional tens of billions of dollars annually. These funds could be provided through innovative financial instruments that the Bank is currently assessing in cooperation with partners and the private sector.

Although all countries are vulnerable to climate change, the recent report emphasizes that the poorest countries and their poorest citizens are among the most vulnerable; however, these countries should not be expected to bear the additional costs of transitioning to a low-carbon economy. Adapting to climate variability and change is a priority for developing countries and will require the transfer of existing technologies, the development of new ones, and the revision of existing planning standards and systems. (See www.worldbank.org/climatechange.)

Working with Subnational Governments

The World Bank Group recognizes the importance of decentralization efforts among client governments and the growing need of subnational governments (regional, state, provincial, municipal, and local jurisdictions and their entities) to implement their own development plans. To meet this need, the Bank Group is increasingly providing direct technical assistance and IFC financial support to subnational governments without sovereign guarantees.

Building on the experience of the IFC's Municipal Fund, the Bank and IFC are developing a joint program that will mainstream subnational development activities in the Bank Group. Once initiated, the Subnational Development Program will manage and coordinate technical assistance and lending to subsovereign governments and draw on Bank and IFC resources to increase investment and institution building. The aim of the program is to help countries create financially viable and fiscally responsible subnational entities. Among other activities, the program will facilitate development of local credit markets and will mobilize local private financing. Most new projects to be financed through the program are expected to be in the infrastructure sector.

Pursuing Greater Aid Effectiveness

The March 2005 Paris Declaration recognized that aid volumes and aid effectiveness must be raised to achieve the MDGs and support country efforts to strengthen governance and improve development performance. The declaration set a clear agenda for the harmonization and alignment of donor assistance and for managing for results that is being implemented in 5 countries (Ghana, Mozambique, Tanzania, Uganda, and Vietnam). Good progress is being made in 10 additional countries, and elements of the agenda are being implemented, though less systematically, in 40 more.

During fiscal 2006, the Bank participated in international efforts to establish a plan for monitoring implementation of the Paris Declaration's 56 detailed commitments. An effort to establish a baseline for the agreed-on indicators was launched in May 2006, the first-ever opportunity for a simultaneous study and coordination of aid in a large number of countries. Impediments to broader progress remain, however, even in countries where governments and donors are working on the agenda. These impediments include inadequate data, inappropriate staff incentives (in donor agencies and governments), institutional rigidities, poor communication, and insufficient institutional leadership in some donor agencies. (See www.aidharmonization.org.)

TWO PILLARS OF THE BANK'S ANTIPOVERTY STRATEGY

Improving the investment climate and empowering people are the two pillars of the Bank's long-term antipoverty strategy. The pillars intertwine, with progress in human development providing the capacity to sustain improvements in the investment climate, support economic growth, and address economic and social inequality.

Pillar 1: Improving the Investment Climate

The Bank fosters economic growth through advocacy for more equitable trade, support for policy reform, and project-specific investments in trade, private sector initiatives, infrastructure, the financial sector, and extractive industries, often in partnership with other Bank Group institutions.

Promoting Openness to Trade The Bank continued to advocate for an ambitious outcome to the World Trade

Organization Doha Development Agenda negotiations, emphasizing substantive agricultural reform, participation by all countries, and increased aid for trade. On agriculture, Bank research underlined the critical importance of access to developed-country markets for farm products. In cooperation





with the IMF and other partners, the Bank designed proposals for increasing aid for trade, including the enhancement of the Integrated Framework for Trade-Related Technical Assistance for least developed countries. Trade-related lending has almost tripled over the past three years, rising to 6 percent of its overall portfolio.

Integrating trade into national growth strategies remains at the core of the Bank's work. In addition, the Bank conducted trade analyses and provided support to more than 35 countries on issues ranging from standards harmonization to customs reform. The Bank continues to support its clients engaged in negotiating regional trade agreements. It has also provided analyses and technical assistance on free trade

agreements sponsored by the United States and the European Union, particularly in Africa and Central America. (See box 1.3 and www.worldbank.org/trade.)

Assessing the Business Environment The third annual report of the Doing Business Project, *Doing Business in 2006: Creating Jobs*, provides quantitative indicators of business constraints in 155 countries. This year's report added three new indicators: on the taxes that businesses pay in each country, on dealing with business licenses, and on countries' procedural requirements for importing and exporting. It also presented an aggregated global ranking for the first time. The Bank's enterprise surveys, another source of data on the business climate in developing countries, now cover 51,000 firms in 76 countries. These data fed into 23 investment climate assessments and activities delivered to the client in fiscal 2006. To help client countries strengthen their corporate governance framework, the Bank completed 7 country corporate governance assessments in fiscal 2006, bringing the total to 55 of both new assessments and updates on previous ones. In addition, the Bank launched three pilot assessments of the governance of state-owned enterprises. The analyses in these assessments are useful in guiding government reforms and have supported Bank projects in more than 30 countries. Commitments for new projects with private sector development as a major theme amounted to more than \$6.1 billion in fiscal 2006.

Going beyond the assessment phase, the Bank Group also helps reform-minded governments improve their investment

BOX 1.3 EVALUATION: WORLD BANK SUPPORT FOR TRADE

The Independent Evaluation Group's report, *Assessing World Bank Support for Trade, 1987–2004*, analyzes the Bank's contribution to freer trade in poor countries and makes concrete recommendations on ways to boost trade opportunities to reduce poverty. Between 1987 and 2004, 8.1 percent of total Bank commitments (\$38 billion) went to 117 countries to help them better integrate into the global economy. The re-

port found the Bank was effective in helping developing countries liberalize trade regimes, but trade initiatives were less successful in generating a dynamic and sustained export growth path. The report also spotlighted the high quality of the Bank's research on trade issues and the institution's role in advocating for a more equitable global trading system. (See www.worldbank.org/ieg/trade.)

climate through the Foreign Investment Advisory Service, a joint operation with IFC. In fiscal 2006, the advisory service completed 82 projects in 43 developing countries, with 52 percent of advisory projects in high-risk or low-income countries. Many of the projects built on the analyses undertaken by the Doing Business Project and the enterprise surveys. (See www.doingbusiness.org and www.enterprisesurveys.org.)

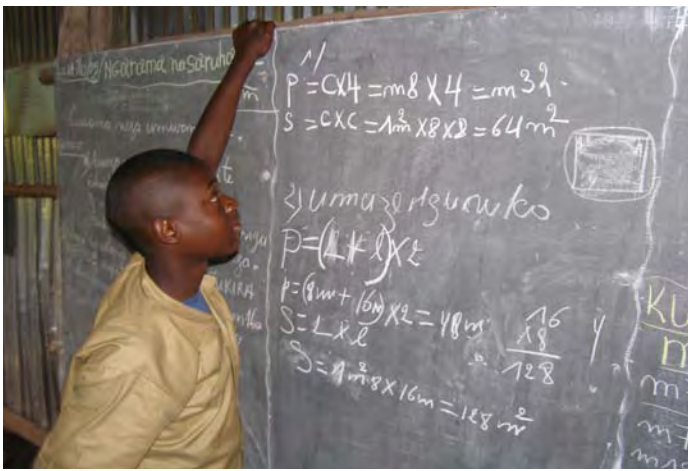
Increasing Support for Infrastructure In fiscal 2006 there were 125 new projects approved with an infrastructure component; these totaled more than \$8 billion. This increase of approximately 10 percent over the previous fiscal year is in line with the Bank's Infrastructure Action Plan, developed in 2003 to respond more robustly to client requests involving both infrastructure investment needs and broader development objectives as outlined in the MDGs. Most of the commitments were in the transportation sector (40 percent) and the energy and mining sector (38 percent), followed by the water, sanitation, and flood protection sector (21 percent). Project quality has remained consistently high since the plan's inception, and the proportion of projects at risk continues to be lower than the Bank average.

In addition, the Bank delivered 139 analytic and advisory products related to infrastructure, one of which was a major study of lessons learned, *Infrastructure at the Crossroads: Lessons from 20 Years of World Bank Experience*. At the G-8's Gleneagles Summit, the Bank was asked to assume global leadership in two infrastructure-related areas: ensuring successful coordination of the sizable increase in aid provided in support of the infrastructure agenda in Africa; and creating a new framework for mobilizing investment in clean energy and development. (See "Responding to Climate Change" on page 17, www.worldbank.org/infrastructure, and www.worldbank.org/energy.)

Increasing Access to Financial Services Sound and inclusive financial systems are essential to reaching the MDGs. Improving access to financial services such as savings, credit, insurance, and remittances is vital to enabling the poor to take advantage of economic opportunities and guard against uncertainty. The Bank, working closely with the Consultative

Group to Assist the Poor, delivered international training on balancing the Anti-Money-Laundering/Combating the Financing of Terrorism regulation with the need to provide access to finance, especially for the poor. The Bank led an international effort to establish indicators quantifying access to financial services. In partnership with clients and other





A former child soldier solves a math problem in Rwanda in class at an ex-combatant orientation center. Funded by the World Bank and 11 donors, the Multi-Country Demobilization and Reintegration Program supports Rwanda's national demobilization and reintegration program and works in six other countries in the Great Lakes region.



development institutions, the Bank is seeking more systematic ways to incorporate indicators of access to financial services into processes for setting development priorities. In addition, it has studied the effects of financial access on the attainment of the MDGs. Finally, the Bank has intensified its efforts to develop risk management products aimed at softening the impact on the poor of natural disasters, commodity price fluctuations, and other shocks. (See www.worldbank.org/finance.)

Facilitating Remittances for Migrants With 200 million migrants worldwide and remittance flows to developing countries reaching \$167 billion in 2005—more than double the volume of official aid flows—international migration has become vital to development. Remittances are typically distributed more widely in the receiving economy than other financial inflows such as bank loans or foreign direct investment; thus, they, too, contribute directly to reducing inequality. Evidence also shows that remittances reduce poverty in those households where they account for a significant proportion of income. Thus, immediate gains can result from policy adjustments, as well as promotion of market competition among service providers, aimed at reducing the cost of transmitting remittances. The Bank is working to improve systems for international remittance flows and access to finance. The *General Principles for International Remittance Services* was published with the Bank for International Settlements to help develop secure and efficient remittance payment systems. (See www.bis.org/press/p060313.htm.)

Pillar 2: Empowering Poor People

Investing in people to empower them to lead productive lives, make sound decisions about their future, and preserve the environment forms the second pillar of the Bank's antipoverty strategy. Investments in human development improve quality of life and foster participation in economic activities that advance a country's development, increase access to services, and reduce inequality.

The Bank continues to monitor progress using the measures established in the MDGs, the global effort aimed at improving lives in developing countries by 2015. The Bank plays a central role in this effort, in partnership with governments,

United Nations agencies, and other international financial institutions. The third *Global Monitoring Report on the MDGs, Strengthening Mutual Accountability: Aid, Trade, and Governance*, a joint Bank-Fund publication, identifies measures to make aid work more effectively and ensure that donors, international financial institutions, and developing-country governments deliver on commitments. The report also examines the central role of governance in development effectiveness and proposes a framework for monitoring key elements of national governance systems.

Increasing Educational Opportunities Poor children with the same educational opportunities as economically advantaged children have a better chance, as adults, in competing for employment. Today, more than 100 million children of primary school age are not enrolled in school. To help achieve universal primary education by 2015, the Bank has increased its support for the Education for All Initiative. This enhanced support came primarily through the Education for All Fast-Track Initiative (FTI), a global partnership between donor and developing countries that made great strides in the past year thanks to new financial and technical aid from donors. The FTI has increased domestic and external financing for education in developing countries and has made that aid more effective. It also has led to a more productive policy dialogue, expanded flexible aid for primary education, and increased donor commitment to cost-effective standards for school construction. All low-income countries committed to achieving universal primary education are eligible for FTI funds. Currently, 20 countries are Fast-Track partners. An IEG report, *From School Access to Learning Outcomes*, calls attention to the striking progress in school enrollments in the past 15 years, as well as to the crucial need to give the same emphasis to learning outcomes as is given to greater access.

In fiscal 2006, country-level donor partners endorsed the education strategies of seven countries, signifying that they were ready to sustain significant increases in external financing. Disbursements under the FTI Catalytic Fund, created for countries with limited donor presence and support, totaled \$60.2 million. The first round of disbursements under the Education Program Development Fund, the new fund for capacity development in education, was completed in fiscal

2006. Disbursements amounted to 45 percent of total commitments of \$4.9 million. Twenty-eight country programs received technical and financial support from the fund. Overall, the Bank also lent \$2 billion for education, higher than the total for fiscal 2005. Support for education components in projects in other sectors stood at \$533 million. (See www.worldbank.org/education.)

Fighting Communicable Diseases Countries cannot aspire to greater equality while their poorest people suffer disproportionately from ill health and communicable diseases. The development community has acknowledged the importance of improving health; three of the eight MDGs target reductions in ill health as a measure of development progress.

HIV/AIDS. New infections and AIDS-related deaths continued to rise in 2006. The new Global HIV/AIDS Program of Action reflects the Bank's commitment to providing funding for sustained support of effective national and regional programs, focusing on strategic planning, strengthening country monitoring and evaluation systems and evidence-informed responses, and accelerating implementation. The Bank's knowledge agenda for HIV/AIDS includes impact evaluation and analytic work to better understand the epidemic's diversity and improve program effectiveness (see box 1.4).

Malaria. The Bank intensified its support for malaria control through the new Global Strategy and Malaria Booster Program, begun in fiscal 2005, which has been well re-



ceived by client countries and partner agencies. This program combines an emphasis on monitoring results and outcomes with flexibility in approaches and lending instruments. The program is under way in Africa, where it began with a three-year "intensive phase" that set a financing target of \$500 million from IDA by the end of fiscal 2008. Since the launch of the booster program, the Bank has approved malaria control projects and related components in Benin for \$31 million, Burkina Faso for \$12 million, the Democratic Republic of Congo for \$30 million, Eritrea for \$2 million, Ethiopia for \$20 million, Niger for \$10 million, and Zambia for \$20 million, and a subregional project in

BOX 1.4 EVALUATION OF HIV/AIDS ASSISTANCE

An IEG evaluation of the Bank's HIV/AIDS assistance, *Committing to Results: Improving the Effectiveness of HIV/AIDS Assistance*, was released this year. The study reviewed the Bank's commitment of \$2.5 billion for HIV/AIDS activities through mid-2004. IEG found that this assistance spurred countries to take action and made their efforts more cost-effective, created institutions to fight the epidemic, and enlisted civil society organiza-

tions in responding to the challenges of HIV/AIDS. The study also found, however, that the highest-risk behavior was not always addressed, and the efficacy of some initiatives remains unstudied. IEG recommended that the Bank increase the effectiveness of national AIDS programs by anticipating political obstacles, being more strategic, strengthening institutions, and acting on local evidence.



the Senegal River Basin (Guinea, Mali, Mauritania, and Senegal) for \$42 million—totaling \$167 million in fiscal 2006. Projects in at least seven other countries are under preparation, and the Bank is on track to commit \$427.5 million of its \$500 million target. Also, in collaboration with partner agencies, the Bank continues to explore options to improve access to a new generation of antimalaria drugs.

Tuberculosis. The Bank participated in the preparation of a new Global Plan to Stop Tuberculosis, launched at the 2006 World Economic Forum in Davos, Switzerland. Cumulative Bank commitments total approximately \$600 million and cover more than 30 countries. In addition to this direct support, the Bank is engaged in cross-cutting work on service delivery to improve tuberculosis control. And because tuberculosis often afflicts patients whose immune systems have been compromised by AIDS, several Multi-Country AIDS Program operations (such as those in Eritrea, Kenya, and Uganda) now include an antituberculosis component.

Improving Maternal and Child Health The fourth and fifth MDGs address reductions in child and maternal mortality. In fiscal 2006, Bank commitments for child and reproductive and maternal health increased to \$301.3 million, with disbursements of \$259.8 million. Results of global efforts are beginning to show. A recent report prepared in connection with IDA's 14th replenishment of funds showed that the proportion of births attended by skilled health personnel increased from 40 percent during 1997–99 to 44 percent in 2002. Mortality among children under five fell from 125 per 1,000 live births to 120 during the same period. As an example, an IEG evaluation of interventions in Bangladesh to improve maternal and child health and nutrition showed reduced death rates for children under five and a two-thirds decrease in maternal mortality. The gains were attributed to an increase in government service delivery supported by a Bank-led donor consortium. Resources were also used to expand family planning services and increase childhood immunization rates from less than 2 percent to nearly 75 percent. (See www.worldbank.org/hnp.)

Achieving Gender Equality Through innovative research on the effects of gender-based barriers to development, the Bank is building a knowledge base that can help countries address gender inequality in economic empowerment. During the past year, the Bank organized a series of workshops on gender and economics for development practitioners. The workshops were designed to strengthen developing countries' capacity to analyze and address the constraints imposed on economic growth by gender inequality. The Bank also hosted a high-level consultation called *Promoting the Gender Equality Millennium Development Goal: The Implementation Challenge*, which set a new agenda for promoting gender equality. From that meeting, a new action plan emerged that was formulated to help accelerate progress toward this goal. Financial support from the governments of the Netherlands, Norway, and Sweden continues to encourage innovation in the mainstreaming of gender issues in the Bank's work. Bank-funded projects increasingly incorporate gender analysis in their design, particularly in the areas of health, education, and social protection. (See www.worldbank.org/gender.)

Improving Equity through Social Protection The Bank's approach to social protection is guided by the social risk management framework through which it supports the unemployed, develops equitable labor market practices, works to eliminate child labor, helps create viable old-age income security for poor people, and provides social safety nets for vulnerable groups. During the past year, the Bank focused on including equitable job creation in the poverty reduction and growth agenda. It also implemented a promising labor market research strategy that emerged from a Bank-wide stock-taking process. Two publications on pension systems and reforms were also released: *Old Age Income Support for the 21st Century: An International Perspective on Pension Systems and Reform*; and *Pension Reform: Issues and Prospects for Non-Financial Defined Contribution (NDC) Schemes*. (See www.worldbank.org/sp.)

Encouraging Social Development The Bank's social development strategy highlights inclusion, cohesion, and accountability. To improve governance and service provision and support reforms linking local governments to communities,



the Bank provided approximately \$2 billion in community-driven development funds. The Bank also enhanced social accountability methodologies used by Bank staff to help countries expand citizen responsibility in holding public officials accountable. Equitable project outcomes have also improved since expanded poverty and social impact analyses were integrated into the early stages of Bank operations. (See box 1.5 and www.worldbank.org/socialdevelopment.)

Increasing the Participation of Civil Society Civil society organizations play an important role in giving voice to the disenfranchised, promoting transparency and good governance, and providing community services. Bank staff members at all levels continue to engage in substantive dialogue with civil society organizations on issues such as debt, trade, and extractive industries, especially during the Bank-Fund Annual and Spring Meetings. Staff members also reach out to civil society through meetings in-country, at headquarters, and through video conferences.

The Bank undertook country-based research on social accountability, participatory budgeting, and community empowerment, and encouraged civil society participation in Bank operations. Civil society organizations were consulted on nearly all of the 31 country assistance strategies approved by the Bank in fiscal 2006, and they were consulted during the preparation of 72 percent of new loans approved. The Bank encouraged borrowing governments to engage civil society in the formulation of

poverty reduction strategies in 19 countries and promoted funding of civil society development efforts through a variety of mechanisms, including the community-driven development portfolio. Significant Bank-civil society collaboration occurred on Asian tsunami reconstruction efforts, particularly in Indonesia, where more than half of the foreign assistance spent on relief during the first year was channeled through civil society organizations. (See www.worldbank.org/civilsociety.)

Supporting Environmental Sustainability The Bank strives to help developing countries meet the cross-cutting goal of ensuring environmental sustainability by integrating environmental concerns into all development-related work. Through the implementation of its environment strategy, which addresses the links between environment, poverty, and economic growth, with a particular emphasis on the health, livelihoods, and vulnerability of poor people, the Bank is cooperating with partner countries to systematically evaluate their environmental priorities, the environmental implications of key policies, and their capacity to address development priorities and related environmental concerns. At the same time, evidence points increasingly to the country, regional, and global implications of environmental management—be it in the form of climate change, health effects, or natural hazards—which demand more attention from the Bank. The Bank has developed a set of measurements to assess changes in natural wealth taking place in developing countries as a way to track

BOX 1.5

2006 GLOBAL DEVELOPMENT MARKETPLACE

Africa and the private sector featured prominently among the 118 finalists from 55 countries at the Global Development Marketplace, held in Washington, DC, in May. In addition, finalists from Bhutan, The Gambia, Lesotho, Turkmenistan, and Vanuatu competed for the first time, promoting their ideas on clean water, sanitation, and energy for the poor in developing countries. The competition awarded a total of \$5 million to 30 winners. Each winner received a grant of up to \$200,000 after convincing a jury of World Bank and

outside experts that their projects offered innovative ideas with a high potential for development impact. The Bill & Melinda Gates Foundation, the Global Environment Facility, the Google Foundation, the International Finance Corporation, and the World Bank funded this year's awards. In addition to the global event, nine country-level Development Marketplaces covering 13 countries were held in 2006. These programs focused on local development themes. (See www.developmentmarketplace.org.)



progress in achieving the MDG of environmental sustainability. (See www.worldbank.org/environment.)

Strengthening Results Management

The *Global Monitoring Report 2006* finds progress in shifting the emphasis of international financial institutions and country programs toward results management; that is, managing for outcomes rather than managing for inputs. This shift toward results requires a long-term vision, additional resources, and support for capacity strengthening in partner countries. To facilitate this shift, the Bank is implementing changes in its key instruments and procedures. For example, the Bank has mainstreamed the use of a results-based country assistance strategy to ensure that country programs are

aligned with country development plans, and it has modified its guidance on the appraisal process to include a sharper focus on results management at the country-level.

In addition, the Bank has initiated the Development Impact Evaluation (DIME) Initiative to coordinate impact evaluations for projects and programs supported by Bank lending. To date, the Bank's Independent Evaluation Group has played a leading role in evaluating impact institutionwide and for specific country programs and projects. The DIME Initiative proposes to take such evaluations a step further to guide the Bank in its shift to results management. Currently, two dozen rigorous evaluations on education projects, conditional cash transfer programs, and slum-upgrading initiatives are under way through DIME.

QUALITY ASSURANCE GROUP FINDINGS

In the 2005 review of the Bank's active lending portfolio, the Quality Assurance Group found that more than 80 percent of projects completed during fiscal 2005 will achieve their development objectives. Ten years earlier, a similar review found the Bank's work unsatisfactory in one out of four cases. In fiscal 2005, that figure fell to one in ten. Quality, however, is rated as only moderately satisfactory in a quarter of projects. To expand the Bank's portfolio without sacrificing gains already made, the Quality Assurance Group recommends that staff members

- ensure that project designs match realities on the ground, especially in fragile states;

- be vigilant about identifying problems and addressing them as they arise; and
- disseminate the results of World Bank analytic and advisory activities to maximize the impact of this work.

With respect to nonlending services, the review also showed improvement in analytic and advisory activity linkages, particularly in the context of poverty reduction strategy papers and country frameworks. Also, assessments of individual economic and sector work tasks and technical assistance activities have shown progress on a broad front; however, assessments of overall country analytic and advisory activities have shown room for improvement.