Office of the Executive Director
For:

Australia, Cambodia, Kiribati, Korea (Rep. of), Federated States of Micronesia, Marshall Islands (Rep. of), Mongolia, New Zealand, Palau (Rep. of), Papua New Guinea, Samoa, Solomon Islands and Vanuatu

Annual Report
Financial Year 2006-2007

September 2007
## Glossary

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<td>AAA</td>
<td>Analytical and Advisory Activities</td>
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<td>AAP</td>
<td>Africa Action Plan</td>
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<td>ARDE</td>
<td>Annual Report on Development Effectiveness</td>
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<td>Annual Report on Portfolio Performance</td>
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<td>Country Assistance Strategy</td>
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<td>Caribbean Catastrophe Risk Insurance Facility</td>
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<td>Economic Sector Work</td>
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<td>FIAS</td>
<td>Foreign Investment Advisory Services</td>
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<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<td>HNP</td>
<td>Health, Nutrition and Population</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IDA/15</td>
<td>International Development Association/15\textsuperscript{th} Replenishment by IDA Donors</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>International Finance Corporation</td>
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<td>International Monetary Fund</td>
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<td>National Development Strategy (Mongolia)</td>
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<td>Official Development Assistance</td>
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All monies expressed in US$ unless indicated otherwise
FY07 – refers to 1 July 2006-30 June 2007
Constituency Office Strategic Goals

We seek to advance the interests of the members of the constituency by pursuing the following strategic objectives:

• Ensuring that the Bank hears the voice and understands the interests of our constituency in its policy development and operational decisions;

• Advocating policies (including the promotion of economic growth as a key means of reducing poverty) and implementation practices that improve the effectiveness and efficiency of the Bank;

• Encouraging the Bank to engage actively with our constituency members, in particular Cambodia, Mongolia, Papua New Guinea and the Pacific islands;

• Encouraging our constituency members to engage actively with the Bank. To this end, we work to increase the understanding among constituency members of the Bank’s policies and activities;

• Assisting coordination between the development-assistance programs of the Bank and donors (in particular, Australia, Korea and New Zealand) to the developing country members of our constituency; and

• Facilitating contacts between businesses in constituency countries and the Bank, including consultancy and procurement contracts.
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Glossary: Inside Front Cover
EXECUTIVE SUMMARY

FY07 saw the constituency office continue its efforts to improve overall Bank strategy with emphasis on: governance, and performance; the representation of the interests of our members at both the Board level and with Bank staff; and to assist our members in their relations with the Bank.

The Bank Presidency changed on July 1, 2007, with the resignation of Mr. Paul Wolfowitz, and the appointment of Mr. Robert Zoellick. In his first month, the President visited Australia to attend the APEC Ministers’ Meeting, and Cambodia on his first official trip to our region.

We continued our efforts to improve communications with constituency members especially developing country members. Our office visited Kiribati, Samoa and Cambodia in FY07. We have issued Constituency Newsletters summarizing relevant Bank issues for government officials every two months, reported timely on Board matters, and regularly updated our office website to facilitate broader public contact. Further, our office initiated a Constituency Information Note to provide more details on a particular topic of interest to our member countries and to supplement the information provided in our regular Constituency Newsletters.

Our office has continued to raise the profile of our three flagship areas: (a) Bank engagement in fragile states; (b) the importance of the financial sector; and (c) the role of economic growth or the productive sectors in reducing poverty.

FY07 saw the Bank strengthening its operational effectiveness in fragile states. Commitments made include: increased field presence with an additional 30 international staff to be based in fragile states by June 2008; incentives to attract top-performing staff to work in difficult environments; and the streamlining of procedures to enable a more rapid Bank response to crisis and emergency situations. Further efforts are needed in key areas including: greater attention to donor harmonization; more policy relevant analytical work, presented in an accessible and timely manner; and greater attention to the particular challenges of engaging effectively with fragile states. We will continue to press Management on this issue.

We have led Board efforts to reinvigorate the Bank’s approach to the financial sector most prominently through helping to shape a new Financial Sector Strategy. To galvanize Board interest in financial sector development issues, we initiated the establishment of a Board Ad Hoc Committee, chaired by Dr. Choi. The committee played a key role in informing Board deliberations on the new Financial Sector Strategy (FSS), and has attracted interest as a model to address strategic issues. It represents the first time the Board has established a group without Management support. Our office will seek to ensure the directions of the FSS are consistently reflected in the Bank’s Country Assistance Strategies (CASs) and programs and that the FSS receives adequate attention in the preparation of the Bank’s Strategic Framework and the FY09 Budget.

Our office has challenged Management to shape the Bank’s strategy with a view to more actively elicit new sources of growth in the economy, for example, through work in productive areas such as agriculture, irrigation, agricultural marketing or housing. We stressed that this attention to new sources of growth has to be specific to country circumstances, and owned and driven by the authorities themselves. We have participated in Board attempts to rebuild the Bank’s involvement in infrastructure.
**Bank Strategy and Budget Reform**

The Bank is presently operating under a strategic plan dating from 2001 that aims to reduce poverty by concentrating Bank’s work in two ‘pillars’: improving the business climate; and investing in people to empower them. The Board has argued that this strategy is too broad to provide meaningful guidance on priorities, too loosely linked to budget processes, and has been overtaken by large changes in the ‘aid architecture’. Former President Wolfowitz had tasked the chief economist, Francois Bourguignon, to lead a team to revisit and question current Bank strategy. President Zoellick has taken up the issue. The Bourguignon Group is consulting with the Executive Directors (EDs) on early drafts. We believe President Zoellick will seek to initiate some preliminary discussions with Governors on these issues at the 2007 Annual Meetings.

Bank reforms to the overall budget process embarked on in FY05 continue to evolve. For FY08, the Board and Management engaged in a four-stage dialogue about strategy and budget. This process identified the need for a clearer articulation of an overall strategy, as well as stronger links being made to high level strategy and priorities.

Some positive developments have arisen from this process including Management identifying where resources could be reallocated to higher value uses, better alignment of strategy and budgets within units, and better information on baseline resources, as well as highlighting areas where further improvements need to be made. These improvements will require a more explicit consideration of Bank priorities, greater clarity and specificity as to what activities could be undertaken with more or fewer resources. This will also require work on internal reporting arrangements including coding structures, how data is collected and reported, and modifications to instruments, such as strategy and performance contracts to reflect these changes.

**Development Results**

The 2006 Annual Review of Development Effectiveness (ARDE) by the Independent Evaluation Group (IEG) highlighted the findings of recent evaluations around the theme ‘getting results’. The review synthesized lessons that can be used to increase the development effectiveness of the Bank’s assistance and identified three areas where the Bank can strengthen its effectiveness. These are: (i) a stronger focus on the nature of growth to ensure that such growth leads to jobs for the poor and productivity increases in poorer regions and sectors where the poor earn their incomes; (ii) more consistent use of a clearly articulated results chain to help ensure that Bank country assistance programs and individual projects set realistic objectives and give due attention capacity building; and (iii) a more realistic assessment of the political economy of governance-related reforms to better tailor efforts to increase the accountability of public sector institutions to local conditions.

**Bank and IDA Policy Issues**

In March 2007, negotiations commenced for the IDA15 replenishment. The replenishment involves discussions between representatives of the 40 donor countries, 10 borrowing countries representing constituency members, and Bank Management regarding policy parameters and the size of IDA for the period FY09-FY11. The negotiations are expected to conclude in early 2008. Our office has worked with constituency members representing IDA recipients to support the borrower representative from the East Asia and Pacific region in IDA15 negotiations.

Progress has been made since 2002 when the Bank began a program to upgrade its services to middle-income countries. The 2006 Annual Meeting endorsed the Bank’s strategy to strengthen
Bank engagement in middle income countries. The strategy aims to make the Bank more flexible and ready to deliver not only the traditional Bank loan package that integrates loans with analytic and advisory services, but also individual business lines.

IBRD and IDA Finances

In FY07, the Bank extended IBRD and IDA loans, credits, guarantees, and grants totaling $24.7 billion, $1 billion more than the previous year. IBRD commitments were $12.8 billion, down 9 percent from FY06. IDA commitments were $11.9 billion, up 25 percent from FY06 and at the highest level in IDA’s history. Two regions - Africa and South Asia - experienced particularly robust lending levels in FY07. Africa Region commitments were a record $5.8 billion, $1 billion more than in FY06 and nearly 24 percent of total commitments. South Asia Region commitments were nearly 50 percent higher than in FY06. However, there has been a substantial decrease in IBRD lending, in real terms, since peaks in the 1970s and 1980s. Our office keeps watch on the IBRD lending portfolio, as it is key, (along with the returns on equity, which is becoming an increasingly important source of revenue for the Bank), to generate income to support areas such as IDA.

The Board approved the IBRD/IDA administrative budget in June 2007. The FY08 net administrative budget is $2.1483 billion, an increase of 1.4 percent over the FY07 budget. The adjustments continue to be in line with Management’s stated target of achieving zero real growth in Bank expenditure over the next three years. The budget, for the first time, includes resource allocations by areas of Bank focus. Resources to fragile states and infrastructure will increase by the greatest amount in absolute terms, whereas resources allocated to clean energy increased most in relative terms. Africa, a stated priority, and the African work program, will receive the largest increase in regional resources in FY08.

Operational Issues

In FY07, the Bank endorsed the Governance and Anticorruption (GAC) Strategy. The strategy takes into account the EDs’ strong insistence, (including our own), that the strategy must clearly reflect the Bank’s poverty reduction goals, a clear, fair and transparent approach to engaging on GAC issues, the importance of remaining engaged in countries (even when this was difficult) and the importance of monitoring and evaluation. The GAC Strategy was developed on the basis of well-conducted, intensive and extensive consultations. An implementation plan for this was discussed by the Board in July 2007. Our office will closely follow implementation of the GAC Strategy.

The Bank adopted a new Strategy for Health, Nutrition and Population Results in April 2007. It embraces five strategic directions. These are: (i) renewed focus on HNP results; (ii) increased contribution to client-country efforts to strengthen health systems; (iii) ensuring synergy between health system strengthening and priority-disease interventions, particularly in low income countries; (iv) strengthened capacity to advise client countries on an inter sector approach; and (v) increased selectivity, improved strategic engagement, and agreement with global partners on the collaborative division of labor. In FY08, at the request of our ED, IEG will evaluate the Bank’s health nutrition and population assistance since 1997 to fine tune implementation of the new strategy.
In FY07, the Bank saw the 31st country – Afghanistan - reach Heavily Indebted Poor Countries (HIPC) decision point. Of the 41 countries currently covered by the HIPC initiative, 22 have now reached completion point. Three countries - Sao Tome and Principe, Sierra Leone and Malawi - reached completion point in FY07, and were also granted debt relief under the Multilateral Debt Relief Initiative (MDRI). There are 9 decision point countries and a further 10 have reached pre-decision point. In September 2006, the Board extended the deadline for HIPC eligibility, through the so-called sunset clause, to December 31, 2006. Our office has been active in raising the importance of rewarding good performers, including non-HIPC countries. We have stressed our concern that the better-performing countries of the Asia-Pacific region would be disadvantaged if HIPC resource flows, directed mainly to Africa, reduced aid-flows to non-HIPC countries.

The Development Committee and the Bank Board continued discussions on a Bank strategy for ‘clean energy for development’, embracing some mix of:

- access to modern energy as a core part of the Bank Group’s anti-poverty mission;
- adaptation to consequences of climate change (a critical issues for many of the Pacific members in this constituency);
- mitigation of warming through investments by developing countries that might assist the transition to a low-carbon economy.

The Bank has dropped, at least for the moment, calls for new funding for a clean energy financing vehicle and a clean energy support fund, and is mainly focused on growth in use of existing instruments, plus experimentation with new varieties of its current carbon market activities.

A review of the Bank’s loan pricing structure aims to improve the simplicity, transparency and competitiveness of loan pricing, while at the same time maintaining fundamental principles including uniform country pricing. There was wide support by the Board for the need to streamline the Bank’s loan pricing structure. However, divergent views on which option to adopt exist. The Board will decide on the option to adopt in late 2007.

Following frustratingly slow progress over the past year, Bank Management recently outlined plans to consult stakeholders about the possible introduction of country-level pilots on use of country systems. The pilots will involve use of country systems for procurement, financial management and safeguards where standards are judged equivalent to those of the Bank and expected to proceed in January 2008.

In May 2007, Management outlined plans to radically simplify policies and procedures related to investment lending amid growing concerns within the Bank about the long-term decline in lending levels. Management intends to rationalize the multitude of policies, processes and controls that currently govern investment lending to provide clarity for borrowing countries and Bank staff. The policy will adopt a risk-based approach, tailoring procedures to country and sector circumstances. On average, project preparation time and costs are expected to fall

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1 Decision point- Eligible HIPC countries are deemed to have reached decision point when they have successfully completed, and have a three year track record of, a series of predetermined adjustments and reforms.

2 Completion Point- countries reach completion point after establishing a further track record of adjustments and reform, including appropriate social development policies, for 3 years after reaching decision point. This time has been reduced for better performing countries. Once completion point is reached countries receive HIPC Assistance.

3 Existing instruments include, direct lending to provide energy services, and supporting program and policy reform by providing analytical work on access and poverty reduction. The Bank combines financing for energy supply reforms with advice and knowledge transfer and with financial instrument loans, equity investments, and guarantees. The GEF provides grants for developing alternate energy sources.
significantly under the new policy. Staff intends to have the policy ready for Board consideration by June 2008.

The Bank took up the voice issue again, following the 2006 decision of IMF Governors to a two-stage process to relate IMF quotas more closely to members’ relative position in the world economy, and to enhance the participation and voice of low income countries through an at least doubling of the ‘basic votes’. At the Spring Meeting, the Development Committee (DC) discussed the ‘Options Paper on Voice and Representation’. The paper sets out a comprehensive range of options for enhancing the voice of developing and transition countries in the Bank’s decision-making framework. The DC recognized the need for further consultations to reach a political consensus. A further paper will be presented to the DC at the Annual Meetings of October 2007.

In March 2007, the Board approved the revised Africa Action Plan, containing eight flagship areas: strengthening the African private sector; increasing the economic empowerment of women; building skills for competitiveness; raising agricultural productivity; improving access and reliability of clean energy; increasing access to safe water and sanitation; strengthening national health care systems and combating HIV/AIDS and malaria; and three cross-cutting themes - improving governance and effectiveness of the public sector, better management of the environment, and building effective development partnerships. The Plan introduced a new taxonomy for African countries based on their economic performance and capacity, whether they are resource rich, sustained growing, slow-growing or conflict-affected economies.

An external review of the Bank’s research was concluded in September 2006 and found significant weaknesses. Our office largely agrees with the findings of the external review, and is pressing for more Bank Management action. In FY07, there has been only limited streamlining of the family of ‘flagship’ publications, and further reforms are necessary.

International Finance Corporation (IFC)

IFC continued to grow both in terms of commitments and expansion of its business activities in FY07. Total commitments increased to $8.0 billion in FY07 from $6.7 billion in FY06. IFC generated a record profit amounting $2.6 billion compared to $1.5 billion in FY06. Most of the profit was attributable to capital gains from equity sales in FY07 of $1.9 billion compared to $0.9 billion in FY06. IFC’s regular budget increased from $406 million in FY07 to $442 million in FY08 before adjusting for inflation, an increase of 9 percent.

The Independent Evaluation Group (IEG) evaluated IFC’s development results over the last 10 years. The review found that 59 percent of projects (65 percent by volume) evaluated between 1996 and 2006 achieved high development ratings - they were, on balance, delivering sustainable results across financial, economic, environmental, and social performance, as well as contributing to private sector development generally. This review endorsed IFC’s strategic directions. IEG findings also point to the need for more tailored, country-specific strategies, with greater IFC-World Bank collaboration.

Multilateral Investment Guarantees Agency (MIGA)

MIGA has made good progress on portfolio diversification with a strong focus on infrastructure and the financial sector. MIGA activities were heavily concentrated in Africa and Infrastructure. MIGA’s Technical Assistance (TA) activities have been integrated into the Foreign Investment Advisory Services (FIAS). This integration provides a single window for investment climate services throughout the Bank.
In FY07, MIGA’s guarantees portfolio reached $1.6 billion, up from $1.3 billion in FY06 and gross and net portfolio exposure amounted $5.7 billion and $3.5 billion, respectively. During this year, MIGA issued $1.37 billion of new business compared to $1.03 billion in FY06. In FY07 MIGA’s actual administrative expenses were $32.1 million. The Board approved an administrative budget of $36.2 million for FY08, which is a 4.5 percent reduction, when compared to the previous year’s $37.8 million.

**Constituency Country Development**

**Australia:** In October 2006, Australia held its annual consultations with the Bank. The consultations provided an opportunity to take the temperature across the breadth of the extensive relationship between Australia and the Bank. Following the annual consultations, Australia has continued to strengthen its partnership with the Bank at both the sector and country level, consistent with commitments in the April 2006 Australian White Paper on Aid. Most prominently, Australia anticipates contributing up to $A100 million over four years for an infrastructure initiative with the Bank to support a range of infrastructure programs and projects in South Asia, East Asia and the Pacific, as well as selected global programs including the Global Partnership for Output-Based Aid and the Public-Private Infrastructure Advisory Facility. In March 2007, the Australian government announced the $A200 million Global Initiative on Forests and Climate to help developing countries avoid deforestation by establishing credible estimates of national forest carbon stocks, identifying sources of forest emissions; and financing incentive-based pilots for conserving forests and investing in sustainable forest management. In May 2007, Australia also announced a contribution of $A5 million over three years to the World Bank’s Global Facility for Disaster Reduction and Recovery to support mainstreaming of disaster risk reduction into development plans in countries highly vulnerable to disasters, with a particular focus on countries in the Asia-Pacific region.

**Cambodia:** Achieving the priorities laid out in the Government’s new five-year National Strategic Development Plan (2006-2010) is critical to Cambodia’s success in its fight against poverty. This was the key focus of the Cambodia Development Cooperation (CDC Forum), held in Phnom Penh June 19-20, 2007. The office was represented by Iulai Lavea, Advisor.

The 2007 Bank Report, ‘Cambodia Sharing Growth: Equity and Development in Cambodia’ found that.. ‘Cambodia has achieved high rates of economic growth and significant poverty reduction over the last one-and-a-half decades. The benefits of growth, however, have been spread unevenly, resulting in a rise of consumption inequality’.

Currently, there are 12 ongoing development projects funded by the Bank in Cambodia. These projects aim to bolster the country’s education system; set up a system of national parks; help curb the spread of preventable diseases; boost the productivity of small farmers; and provide a variety of other benefits.

**Korea:** This year the Korean government actively expanded its Official Development Assistance (ODA). It plans to increase its ODA from 0.06 percent of GNI to 0.1 percent of GNI by 2009. In particular, it plans to boost its ODA to Africa, expanding aid in the development of human resources, information technology, and health services.

The Korean government has established a $20 million trust fund in the ADB to support the development of information and communication technology in the developing countries of Asia. It
is in the process of establishing two trust funds of $15 million each for the Bank and a $2 million trust fund for the IFC to support development activities in EAP and the development of information technology. Korea plans to launch the trust funds no later than October, 2007.

In order to ensure effective and substantial aid to developing countries, Korea’s Ministry of Finance and Economy has implemented comprehensive consultations for economic development, which aim to transfer Korea’s development experiences to developing countries. The Korean Government sponsored a World Bank Institute (WBI) seminar on Community Driven Development (CDD) in order to share the Korean CDD Saemaul movement, an experience which significantly contributed to the development of rural areas and the modernization of Korea.

**Mongolia:** The Government of Mongolia (GOM) and external partners held two technical meetings in FY07. The biannual technical meeting, jointly organized by the GOM and the Bank, has become a regular platform to discuss Mongolia’s development priorities and intensify cooperation between the GOM and its external partners in supporting those priorities. At the last meeting, the GOM presented a draft National Development Strategy (NDS). The NDS is the first comprehensive development policy that attempts to layout longer-term goals while recognizing that government is often taken up with urgent issues in the transition period.

The Bank has started the preparation of the new CAS for Mongolia. Consultations are ongoing. Staff plan to submit the CAS to the Board in mid-December 2007.

The Bank, one of the major partners in the energy sector, has been actively involved in sector restructuring and improving its performance. The Board approved $7.0 million through an IDA Grant and the Global Environment Facility (GEF) Trust Fund to finance the Renewable Energy for Rural Electricity Access Project (REAP). The Board also approved an IDA loan of $33 million to support the Sustainable Livelihood Project II, aimed to enhance livelihood security and sustainability by scaling up institutional mechanisms that reduce the vulnerability of communities throughout Mongolia.

Mongolia attended the IDA15 meeting held in Mozambique in June 2007 and will represent the East Asia Pacific borrowing countries at the IDA15 replenishment negotiations.

**New Zealand:** New Zealand’s engagement with the Bank over the past year has focused on IDA.

The Bank’s work on fragile states is of particular interest in the context of New Zealand’s own focus on fostering development in the especially vulnerable Pacific region. In this regard, New Zealand has welcomed the Bank’s emphasis on applying its experience in analytical and advisory services to the region. This was exemplified by the report on migration and remittances in the Pacific ‘At Home and Away: Expanding Job Opportunities for Pacific Islanders through Labour Mobility’. In parallel with this, New Zealand developed its new Recognised Seasonal Employer (RSE) Scheme, which facilitates the temporary entry of overseas workers from the Pacific region. New Zealand acknowledges the Bank’s follow-up support in assisting Pacific developing member countries to take full opportunity of this new Scheme.

New Zealand is encouraging other Bank work in the Pacific region through financially supporting the Cost of Doing Business Survey and the Pacific Facility Three, which enables the Bank to extend technical assistance to Pacific Island countries independent of lending operations. New Zealand also welcomes the prospect of deeper and sustained Bank bilateral engagement in the Pacific through greater dispersion of its staff from regional to country offices, starting with
the Solomon Islands. This provides the opportunity to deepen cooperation between New Zealand and the Bank over a wider range of activities.

At the country level, the Bank and NZAID continue to work closely together. In Timor Leste, NZAID is funding an advisor position, while in Tonga a joint education project is underway. Further opportunities for collaboration are being pursued, including potential sector-wide approaches (SWAs) in Samoa’s health sector and in the Solomon Island’s education sector. Recent analytical work by the Bank in Vanuatu and the Solomon Islands points to the potential for deepening collaboration in these countries.

**Pacific Island Member Countries:** The Bank’s strategy on engagement in fragile states has opened up opportunities to re-focus attention towards the Pacific Island states. As a result, Bank presence in the Pacific will be increased with the establishment of a Country Office in the Solomon Islands in addition to the Sydney and PNG offices, recruitment of a new country-based economist in PNG and IFC investment officer dedicated to promoting private sector initiatives in the Pacific.

The Pacific Islands have continued to benefit from the analytical and advisory activities (AAA) and dialogue on issues of common concern in the Pacific. In 2006, the Bank launched a study - ‘Economic Growth and Integration of Small States into the World Economy’ - to analyze the economic growth of small states in Africa, the Caribbean and the Pacific. The Bank has done several case studies that report institutional and regulatory solutions some small states have developed to allow integration into the world economy.

In June 2007, the Board approved $9.5 million provided by the Global Environment Facility (GEF) to fund renewable energy electricity supplies for rural communities in Papua New Guinea, the Solomon Islands, Vanuatu, Fiji and the Republic of the Marshall Islands. The project assists rural people to access low cost, long-term finance to obtain electricity.

In FY07 three Pacific countries were visited - Dr. Joong-Kyung Choi, Executive Director (Vanuatu), Ms. Joanna Gordon, Senior Advisor (Kiribati) and Mr. Seilava Ros, Advisor (Samoa).

**Papua New Guinea:** The Bank's engagement with Papua New Guinea (PNG) aims to help the country realize its growth and poverty reduction potential through better governance, sound economic management, and sustainable natural resource exploitation, while ensuring that the spread of HIV/AIDS is contained.

At the strategic level, there has been significant delay in the preparation of the new CAS. Dialogue is ongoing between the Bank and the authorities and preparations are now at an advanced stage. As a result of two retreats, the revised draft is ready for the new government to consider with the plan for it to be submitted to the Board in late November of 2007.

On April 26, 2007, an additional credit of $37 million was approved to finance the ongoing maintenance of highways and national roads in PNG. The credit supplements the Bank’s ongoing $40 million Road Maintenance and Rehabilitation Project (RMRP) Loan, for technical assistance, maintenance and rehabilitation of key national and provincial roads and bridges in six provinces.

PNG expects to benefit from the Regional Sustainable Energy Financing Project intended to provide rural people access to low cost, long-term finance to obtain electricity. The ongoing
Teachers’ Solar Lighting Project, which has already demonstrated remarkable success, will benefit under this new initiative.

IFC continues to provide advisory services for the development of the business environment and the PNG Microfinance Project. In March 2007, IFC, through the Private Enterprise Partnership-Pacific (PEP-Pacific), sponsored an innovative training program for women to learn how locally made chicken feed can benefit from the seafood business. IFC is in the final stage in the development of a Trade Finance Facility for the Bank of the South Pacific.
CONSTITUENCY OFFICE

CONSTITUENCY OFFICE DEVELOPMENTS

FY07 saw the constituency office continue its efforts to improve overall Bank strategy with emphasis on governance, and performance; the representation of the interests of our members at both the Board level and with Bank staff; and to assist our members in their relations with the Bank.

We have liaised closely with Bank Management and staff to improve their focus on the Pacific region. A meeting of all the Pacific Island Governors with then Bank President, Mr. Wolfowitz, a first, was held during the 2006 Bank/Fund Annual Meetings.

We continued our efforts to improve communications with our members, especially the developing country members. We have issued Constituency Newsletters summarizing relevant Bank issues for government officials every two months, reported timely on Board matters and regularly updated our office website (http://www.worldbank.org/eds09) to facilitate broader public contact. Further, the office initiated a Constituency Information Note (CIN) for all our members. To date two notes have been issued, the first, on the CGIAR and the second, on IFC’s renewed interest in the East Asia and Pacific Region. The CIN provides detailed information on topics of particular interest to our members to supplement information provided in our regular Constituency Newsletters. We are encouraged by the initial positive feedback received and we will continue to welcome feedback on all communications. We have maintained an active program of visits to constituency countries (see Annex 3).

Our office participated in the selection of the East Asia and Pacific Region’s Borrower Representative from our IDA countries for the IDA15 replenishment negotiations. We provided the Borrower Representative (from Mongolia) with a briefing prior to the IDA replenishment meeting held in Maputo, Mozambique in June 2007.

On August 1, 2007, the office welcomed Dr. Jim Hagan from Australia as the new Executive Director. We said our farewells to Terry O’Brien, Alternate Executive Director, and Joanna Gordon, Senior Advisor. Dr. Joong-Kyung Choi remains to serve as the Alternate Executive Director. Matthew Dalzell from New Zealand will take up the Senior Advisor position on September 4.

We continue to support the pilot Voice Secondment Program for developing country officials. We informed our members about developments in this program and solicited candidates from them for FY07 and FY08. Three applicants from Kiribati, Micronesia and Vanuatu were initially selected in the third cohort of the program but only the applicant from Kiribati, Timi Kaiekieki, was able to participate as one of the 25 secondees, and successfully completed the program in July 2007.
BANK POLICY ISSUES

BANK GROUP STRATEGY AND LEADERSHIP

Review of Bank Strategy

The Bank is presently operating under a strategic plan dating from 2001 that aims to reduce poverty by concentrating the Bank’s work in two ‘pillars’: improving the business climate; and investing in people to empower them. The Board has argued that this strategy is too broad to provide meaningful guidance on priority, too loosely linked to budget processes, and has been overtaken by large changes in the ‘aid architecture’, including the large increase in the number of donors, the decline of the relative importance of IDA, the improved market access to capital for many developing countries, the rise of philanthropy, and of single-purpose ‘vertical funds’ (e.g., devoted to combating specific diseases).

Former President Wolfowitz had tasked the chief economist, Francois Bourguignon, to lead a team to revisit and question current Bank strategy. President Zoellick has taken up the issue. The Bourguignon Group is consulting with the Executive Directors (EDs) on early drafts of its work. We believe President Zoellick will seek to initiate some preliminary discussions with Governors on the issues at the 2007 Annual Meetings. The Bourguignon Group’s paper is likely to be a framework for thinking about the Bank’s strategy, rather than the strategy itself, but President Zoellick will want to advance the modernization of the Bank’s strategy during FY08.

Medium Term Strategy and Finance FY08-FY10

The Bank’s strategy, first adopted in FY02, continued to have effect in FY07, although it will be significantly affected by the four-stage process of engagement between the Board and Management that was adopted to start in FY08. The Medium Term Strategy and Financing paper (MTSF) highlighted the Bank’s priorities as:

- Sub-Saharan Africa;
- Middle income countries;
- Fragile and conflict affected states;
- Infrastructure and clean energy;
- Agriculture, rural development and natural resource Management;
- Education
- Health
- Finance and private sector development
- Gender; and
- Governance and anticorruption.

These priority areas will be underpinned by a continued focus on results. The Bank has a two-pronged approach: making linkages between outputs and outcomes through strategy and performance contracts that guide Vice Presidency Units; and by increasing resources to direct client services at the regional level and especially in Africa.
As reported in FY06, our office has worked to raise the profile of two areas that we consider to be important priorities for the Bank: - Bank engagement on fragile states (many fragile states exist outside Africa); and the importance of country level work in financial sector, including addressing issues such as debt management capability. These issues are both now reflected as priorities in the MTSF.

In the course of the development and discussion of the MTSF, EDs sought a review of the strategy going forward, which would lead to more effective prioritization and resource allocation. This work is being led by the Bank’s chief economist (see above).

We continued to promote the view that the key implementation issues associated with the MTSF are:

- excessive and unsustainable rising costs, that are ultimately paid for by the Bank’s clients;
- a continued need to progress the development of indicators of Bank performance and feedback mechanisms to decision-making. During the FY08 budget and strategy development process, some of the concerns we had regarding the effectiveness of links between strategy and outputs were realized. Management is to work on strengthening the link between budget and strategy and we hope to see some improvements coming through in next year’s process; and
- a generally improving articulation of the trade-offs (including the areas where there will be either a gradual or specific exit). This became an important item during this year’s budget and strategy discussions. Again, it is an area that Management will be expected to show improvements.

**Budget Process Reforms**

In FY05, the Board and Management embarked on reforms to the overall budget process, seeking a shift to a multi-year budget view with increased flexibility and accountability. This continues to be an evolving process. For FY08, the Board and Management engaged in a four stage dialogue about strategy and budget. This process identified the need for a clearer strategy articulation (discussed above), as well as stronger links being made to high level strategy and priorities.

The positive developments that arose from this process include, Management identifying where resources could be reallocated to higher value uses, better alignment of strategy and budgets within units, and better information on baseline resources as well as highlighting areas where further improvements needed to be made. These improvements will require more explicit consideration of Bank priorities, greater clarity and specificity as to what activities could be undertaken with more or fewer resources. This requires work on internal reporting arrangements, including coding structures, how data is collected and reported, and modifications to instruments, such as strategy and performance contracts. Work continues, and needs to continue, on a sharper focus on results and reporting of these.
New Bank Group President

The President, Mr. Paul Wolfowitz resigned on May 17, 2007 with effect on June 30, 2007. The Australian Treasurer, Hon. Peter Costello, a member of the ‘troika’ of past, present and incoming chairs of the G-20 Grouping (which includes Korea and Australia from this constituency), issued a press statement drawing attention to the G-20 position that the heads of the international financial institutions, including the World Bank, should be appointed using an open, transparent selection process with candidates not restricted by nationality.¹

Mr Robert Zoellick was nominated by the US administration and was the only nomination received for the Presidency. The Board unanimously selected him as the eleventh President of the World Bank Group on June 25, 2007, with effect from July 1, 2007 for a five-year term.

Prior to joining the Bank, Mr. Zoellick served as Vice Chairman, International of the Goldman Sachs Group, and Managing Director and Chairman of Goldman Sachs' Board of International Advisors from 2006-07. In 2005-06, he served as the Deputy Secretary of the U.S. State Department. From 2001 to January 2005, he served in the U.S. cabinet as the 13th U.S. Trade Representative.

POLICY ISSUES OF SPECIAL INTEREST TO OUR CONSTITUENCY

Fragile States – Strengthening the World Bank’s Response

Over the past year we have continued our leadership role of advocating for greater attention to the critical development challenges of fragile states. Partly in response to our consistent calls at the Board over a number of years, FY07 saw important commitments by Bank Management to strengthen operational effectiveness in fragile states. These commitments, approved by the Board in February 2007, include:

- increased field presence, with an additional 30 international staff to be based in fragile states by June 2008;
- incentives to attract top-performing staff to work in difficult environments;
- creation of a “callable surge capacity” in the sectors on a demand basis to provide the right specialized skills at the right time;
- dedicated institutional support to enable cross-country sharing of lessons, help to quickly resolve country-level problems and facilitate external partnerships; and
- streamlining of procedures to enable a more rapid Bank response to crisis and emergency situations.

These measures will have a significant positive impact on countries in our constituency, including the establishment of a Bank office in the Solomon Islands and the recruitment of a new country-based economist in PNG.

Despite this pleasing progress, further efforts are needed in key areas including:

- greater attention to donor harmonization, since limited government capacity in fragile and low income states should not be drained by donor proliferation and fragmentation;
- more policy relevant analytical work presented in an accessible and timely manner; and
- greater attention to the particular challenges of engaging effectively with fragile states in the “gradually improving” and “deteriorating” categories (post-conflict countries tend to receive most Bank attention within the fragile states group).

We will continue to take a leadership role in pursuing these issues at the Board.

In December 2006, the Board approved a $30 million transfer from IBRD net income to replenish the Fragile States Trust Fund (formally known as the LICUS Trust Fund). The Fragile States Trust Fund facilitates Bank engagement in fragile states through sponsoring non-lending activities that cannot be funded through normal IDA allocations. While all fragile states can theoretically access the Trust Fund, the focus is on countries in arrears to the Bank. At the December Board meeting we expressed our strong support for the Trust Fund. We stressed, however, the need for the Bank to find a larger and more sustainable funding source, given transfers from net income are limited and potentially volatile.
Financial Sector Strategy

Our office has led Board efforts to reinvigorate the Bank’s approach to the financial sector, most prominently through helping to shape the new Financial Sector Strategy. Our concerns regarding the Bank’s approach to the financial sector have centered on:

• the dramatic decline in Bank technical staff devoted to financial sector issues;
• the decline in Bank lending and non-lending activities in the financial sector;
• a lack of incentives for country-based staff to focus on long-term issues such as financial sector development; and
• a ceding of ground by the Bank to both, the IFC and the IMF, on financial sector issues.

To galvanize Board interest in financial sector development issues, we initiated the establishment of a Board Ad Hoc Committee, chaired by Dr. Choi. The committee played a key role in informing Board deliberations on the new Financial Sector Strategy, particularly through facilitating engagement between Management and the Board. The committee significantly influenced the final version of the Financial Sector Strategy, which was approved by the Board in April 2007.

This committee approach has attracted interest as a model to address strategic issues, given it represents the first time the Board has established a group without Management support. The Committee on Governance and Executive Directors’ Administrative Matters (COGAM) is using this model as a benchmark in addressing internal governance reforms.

Going forward, we will seek to ensure that the directions of the Financial Sector Strategy are reflected in the Bank’s CASs and programs. A progress report promised by mid-2008 will provide an important opportunity to test the strategy’s impact on Bank operations. We will also seek to ensure that the financial sector receives adequate attention in the preparation of the Bank’s Strategic Framework and the FY09 Budget.

Sources of Growth

Influenced partly by the Millennium Development Goals (MDGs), the Bank was too strongly focused on the social sectors in the late 1990s and early 2000s. While improving the business climate is one the Bank’s strategy pillars, the Bank has focused mostly on improvements in macroeconomic and regulatory conditions ‘permissive’ to growth. At the same time, its lending in infrastructure has fallen, its financial sector work is weak, and its CASs do not pay much attention to what sources of growth are likely to emerge to drive poverty reduction.

Our office has participated in Board attempts to rebuild the Bank’s involvement in infrastructure. Without proposing to ‘pick winners’ in particular sectors or industries, we have challenged Management to shape the Bank’s strategy with a view to more actively eliciting new sources of growth in the economy, for example, through work in productive areas such as agriculture, irrigation, agricultural marketing or housing. Moreover, we have stressed that this attention to new sources of growth has to be specific to country circumstances, and owned and driven by the authorities themselves.
IFC’s strategic priorities, set in 2004, continue to have effect in FY07. These priorities are:

- Strengthening engagement in frontier countries;
- Building long-term partnerships with emerging players in developing countries;
- Differentiating through sustainability competencies;
- Addressing constraints to private-sector growth in infrastructure, health and education; and
- Developing local financial markets through institution building and innovative financial products.

As reported in FY06, IFC instituted the following corporate goals:

- Greater development impact, in particular through greater focus in Sub-Saharan Africa, MENA, and other frontier markets, as well as strengthened measurement of development impact and better alignment and management of IFC’s advisory services;
- Better World Bank Group cooperation;
- Improved client satisfaction;
- Leadership in standard-setting and thought leadership;
- Maintain sound finances;
- Good, diverse and motivated staff; and
- Ensure effective implementation of IFC’s decentralization initiative.

IFC has introduced new approaches to deliver its agenda, strategic priorities and corporate goals.

- A systemic approach – starting with upstream advisory work on the business enabling environment and/or privatization, building on efforts of the Bank and the government. This, in turn, encourages downstream private sector investments in which IFC participates directly and/or by bringing clients from more advanced countries (developing and developed) to stimulate growth of the sector.
- IFC intends to forge strong partnerships with many financial and development institutions (national and regional) and other IFIs in many of IFC’s investment and advisory projects, as well as working with donors and philanthropic organizations;
- IFC would like to reach the underserved - such as provision services to the poor (e.g. infrastructure, access to basic services). IFC’s proposed expansion of its business line to more risky areas for these underserved segments – local currency financing, more investment in infrastructure and SMEs in frontier market using retained net income,- are under consideration by the Board.
- IFC has tried to be a more client-oriented organization deploying more staff with key skills to the field. By 2010, IFC aims to process most of its investments in the field and to give decision-making authority to managers enabling processing to happen in the most effective way, including introduction of appropriate risk management practices.
Governance and Anticorruption Strategy

On March 20, 2007, the Board unanimously endorsed the Bank’s Governance and Anticorruption (GAC) Strategy. The strategy, developed over the past year, takes into account, at the ED’s strong insistence including our own, that the strategy clearly reflect the Bank’s poverty reduction goal, a clear, fair and transparent approach to engaging on GAC issues, the importance of remaining engaged in countries, even where this was difficult, and the importance of monitoring and evaluation. The latter part of the process of developing the strategy involved an intensive and extensive consultation phase that was well conducted and added to the quality of the GAC.

The strategy is now in the process of implementation. A plan for this was discussed in July 2007. It is noticeable that governance and anticorruption measures are now featuring regularly in country level strategy documents. It is too soon to assess how well the strategy is being implemented and its overall effect. Our office will closely monitor results.

Heavily-Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) Initiatives

In FY07, the Bank saw the 31st country – Afghanistan - reach HIPC Decision Point. Of the 41 countries currently covered by the HIPC initiative, 22 have now reached completion point. Three countries - Sao Tome and Principe, Sierra Leone and Malawi - reached completion point in FY07 and are being granted debt relief under the MDRI. There are 9 decision point countries and a further 10 have reached pre-decision point.

The MDRI came into effect on July 1, 2006, and approximately $37 billion in debt relief will be provided over a 40-year period. This is in addition to the relief provided under the Enhanced HIPC Initiative (of about $17 billion).

The MDRI raised the prospect of ‘free-riding’ concerns. Policies were agreed in FY06 to try and mitigate problems associated with free-riding. Key to these policies is the debt sustainability framework (DSF). The Bank is strongly encouraging other multilateral development institutions to adopt or observe the DSF, as well as using whatever opportunities are present for other bilateral (and commercial) donors to do so as well. From our perspective, this issue places more emphasis on the need to ensure there is sufficient in-country strategic debt management capability (i.e. rather than debt management operational capability) to enable countries to consider actions that result in sustainable debt levels. We have raised this point in relation to CASs and country policy statements for HIPC countries, and whenever the issue of the design of completion point triggers is brought to the Board for consideration.

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2 Decision point- Eligible HIPC countries are deemed to have reached decision point when they have successfully completed, and have a three year track record of, a series of predetermined adjustments and reforms.

3 Completion Point- countries reach completion point after establishing a further track record of adjustments and reform, including appropriate social development policies, for 3 years after reaching decision point. This time has been reduced for better well-performing countries. Once completion point is reached countries receive HIPC Assistance.

4 Free Rider/riding” is a situation in which non-concessional lenders indirectly obtain financial gain from debt forgiveness through HIPC, MDRI, or IDA’s debt forgiveness, grants and concessional financing activities without paying for it. Thus creditors, rather than the recipient country are the major benefits of the debt relief, and the development effectiveness of the debt forgiveness for the recipient country is reduced.
In September 2006, the Board considered the question of additional countries becoming eligible for HIPC debt relief. The deadline for HIPC eligibility had been extended, through the so-called ‘sunset clause’, to December 31, 2006. In their September 2006 discussion, EDs supported the option of letting the sunset clause take effect on December 31, 2006 and all those countries assessed as having met the income and indebtedness criteria, based on end-2004 data, being grandfathered into the initiative.

In addition to continuing to raise the importance of debt management capability in HIPC and post-HIPC countries, the office has also been active in raising the importance of rewarding good performers, whether they are HIPC or non-HIPC countries. We continue to be concerned that the better-performing countries of the Asia-Pacific region would be disadvantaged if HIPC resource flows, (directed mainly to Africa), reduced aid-flows to non-HIPC countries.
OPERATIONAL AND STRATEGY ISSUES

Bank-Fund Cooperation – the Malan Report

Pedro Malan presented the Report of the External Review Committee on Bank-Fund Collaboration in February 2007, recommending an enhanced ‘culture of collaboration’ between the two institutions to improve the effectiveness of their work, rather than an attempt to modernize a ‘concordat’ specifying their specific roles. Australia’s Mike Callaghan was a member of the Malan committee.

There was a brief initial discussion of the proposals of the report with Governors at the April 2007 Spring Meetings of the Fund and Bank. Management and staff have participated in follow up work to deepen collaborative processes, including joint meetings held in July 2007. We expect the issue will return to discussion with Governors at the Annual Meetings this year.

World Bank Health, Nutrition and Population (HNP) Strategy

The Bank’s revised HNP strategy responds to the dramatic transformations in global development assistance for the health sector, which includes a significant rise in financing, particularly from bilateral donors, and change in the expectations among client countries regarding the role of the Bank. The strategic objectives of the Bank's revised strategy are to: (i) improve the level and distribution of key health, nutrition, and population outcomes, outputs, and system performance at country and global levels; (ii) prevent poverty due to illness; (iii) improve financial sustainability in the HNP sector and its contribution to sound macroeconomic and fiscal policy, and to country competitiveness; and (iv) improve governance, accountability, and transparency in the health sector.

The Bank Strategy for HNP was discussed and adopted by the Board on April 24, 2007. The strategy sets five strategic directions. These include: (i) renewed focus on results; (ii) increased contribution to client-country efforts to strengthen health systems; (iii) ensuring synergy between health system strengthening and priority-disease interventions, particularly in LICs; (iv) strengthened capacity to advise client countries on an inter-sector approach; and (v) increased selectivity, improved strategic engagement, and agreement with global partners on collaborative division of labor. An action plan to implement the new strategy was also adopted.

The Board emphasized the need for the Bank to coordinate closely with other donors and to clearly define the Bank’s value-added within the increasingly complex global aid architecture in the health sector. Dr. Choi stressed the need to conduct a full review of the implementation of the 1997 strategy to incorporate lessons learned, particularly regarding the reasons why the Bank veered away from areas of comparative advantage through programs such as Roll Back Malaria. During FY08 IEG will evaluate Bank’s Health, Nutrition and Population assistance since 1997 to fine tune the implementation of the revised strategy.
Use of Country Systems in Bank-Supported Operations

We have been part of a large majority of Board members urging acceleration of the Bank’s efforts to increase the use of country systems. We believe increasing use of country systems is central to improving development effectiveness through transferring knowledge, improving ownership, reducing transaction costs, mainstreaming best practice and helping to build government capacity.

Following frustratingly slow progress over the past year, Bank Management recently outlined plans to consult stakeholders about the possible introduction of country-level pilots. The pilots will involve use of country systems for procurement, financial management and safeguards where standards are judged equivalent to those of the Bank.

An extensive consultation process with stakeholders is underway and Management will seek Board approval to proceed with the pilots in January 2008. Management has reassured us that the proposed country-level pilots will not result in neglect of the use of country systems in fragile states. We have successfully resisted a proposal by Bank Management to establish a donor trust fund to help fund the pilots on the basis that use of country systems represents core business and should be funded from within the Bank budget.

Review of the Bank’s Loan Pricing Structure

The Bank’s loan pricing structure has been varied over the years partly as a result of the Bank’s dual nature of both a market-based financial credit cooperative, as well as a development agency, and also in response to the changing financial market conditions. As a consequence, the current pricing structure involves a complex combination of loan charges, fees, and loan charge waivers which make it difficult for borrowers to readily assess the true all-in-cost of borrowing from the Bank vis-à-vis other financial institutions.

A review was carried out to improve the simplicity, transparency and competitiveness of loan pricing while, at the same time, maintaining the fundamental principles of the Bank’s pricing policies, including importantly uniform country pricing. The Review was discussed at an informal session of the Board and there was wide support for the need to streamline the loan pricing structure. There were, however, divergent views on which option to adopt. One group, largely representing the donor countries, was concerned for the Bank’s financial viability and therefore favored a revenue neutral option. Others, largely MICs and developing countries, expressed support for a reduction in the average all-in-cost of Bank lending. The EDs will decide on a preferred option at a formal session of the Board in the time leading up to the 2007 Annual Meetings.

Lending Simplifications

In May 2007, Bank staff outlined plans to radically simplify policies and procedures related to investment lending. The simplification initiative comes amid growing concerns within the Bank about the long-term decline in overall lending levels. Feedback from client countries suggests that the substantial non-financial costs of doing business with the Bank represent a major liability
in an increasingly competitive market for development funds. The slow processing time from concept to Board approval (which averages 16.6 months) is a particular concern.

Bank Management proposes to rationalize the multitude of policies, processes and controls that currently govern investment lending to provide clarity for borrowing countries and Bank staff. The current focus on project preparation feeds into an "approval culture" of staff and an insufficient focus on results, so the new system will place greater emphasis on project supervision and implementation. The policy will adopt a risk-based approach, tailoring procedures to country and sector circumstances. On average, project preparation times and costs are expected to fall significantly under the new policy. Staff intends to have the policy ready for Board consideration by June 2008.

The policy will build on a series of reforms the Bank has incrementally introduced over the past 2-3 years, all designed to promote more timely assistance. These initiatives include:

- Additional Financing for well-performing projects approved after June 1, 2005, processed quickly without reference to most of the standard policies and procedures that apply to new investment loans;
- Streamlining procedures for Simple and Repeater Projects, defined as projects not classified as risky under the Bank’s safeguard policies and projects that build on a successful Bank lending operation; and
- A new framework for rapid response to crises and emergencies providing accelerated and streamlined procedures for processing emergency operations to enable a more flexible, speedy and effective response by the Bank to emergency situations.

Arrears Clearance

The Bank has been considering a systematic way of dealing with problematic arrears clearance cases, prompted initially by the situation faced in Liberia. Liberia, prior to going into arrears, was borrowing from the Bank. Since that point some 20 years ago, it has slipped into IDA status. Now Liberia is seeking to re-engage with the Bank. However, its small population size and relative level of poverty does not enable its arrears to be cleared by means of an IDA credit to reimburse a third party who initially clears the arrears (the solution broadly supported for Liberia). On the basis of pari passu, this solution will be activated when other multilateral creditors have a mechanism in place to address related clearance issues.

In terms of future cases, a proposal for providing exceptional grants for arrears clearance has been discussed with both the Board and the IDA Deputies. The proposed approach would cover currently eligible HIPCs, including those grandfathered under the sunset clause. There is still some work to be completed before the systematic approach will be ready for approval by the Board. This includes work on areas such as how donors will contribute to the facility, whether the exceptional clearance granted can be tied more closely to HIPC-like requirements for performance, ensuring equitable treatment, and how pari passu treatment with other creditors will be managed.
Voice

The issues of improving developing countries’ ‘voice’ and representation in the governance of the World Bank Group were discussed extensively in the Bank and raised at the DC meetings during 2003 and 2004, resulting in some process improvements to raise the influence of developing countries (e.g., more resources in Board representation, and secondments to assist capitals to use the Bank’s resources better). But there was an impasse in ‘structural’ improvements that might have increased the capital shares or votes of fast growing countries, or poorer developing countries.

The Bank has taken up the issue again, following the 2006 agreement of the IMF Governors to a two-stage process to relate IMF quotas more closely to members’ relative position in the world economy, and to enhance the participation and voice of low income countries through an at least doubling of the ‘basic votes’. Though there is no obligatory link between IMF quotas and the Bank’s capital shares, Bank shares have been heavily influenced by the Fund’s quotas, and it would be difficult to rationalize a situation in which the Bank remained with its current arrangements while the IMF increased the shares of middle income countries (i.e., Bank borrowers) and at least doubled basic votes. This return to the voice issue in the wake of the IMF’s Stage I quota reforms and work on Stage II, suggests some movement towards building a possible consensus, but with a wide divergence of initial negotiating positions. The Spring DC meeting discussed the ‘Options Paper on Voice and Representation’, which sets out a comprehensive range of options for enhancing the voice of developing and transition countries in the Bank’s decision-making framework. The DC recognized the need for further consultations to reach a political consensus.

Clean Energy

There have been continuing discussions both at the DC meetings and at the Bank Board in FY07, of a Bank strategy for ‘clean energy for development’, embracing some mix of:

- access to modern energy as a core part of the Bank Group’s anti-poverty mission;
- adaptation to consequences of climate change - a critical issue for many of the Pacific members in this constituency; and
- mitigation of warming through investments by developing countries that might assist the transition to a low-carbon economy.

The Bank has dropped, at least for the moment, calls for new funding for a clean energy financing vehicle and a clean energy support fund, and is mainly focused on growth in the use of existing instruments\(^5\), plus experimentation with new varieties of its current carbon market activities.

Related to transition to a low carbon economy, Management has proposed to rejuvenate the

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\(^5\) Existing instruments include, direct lending to provide energy services, and supporting program and policy reform by providing analytical work on access and poverty reduction. The Bank combines financing for energy supply reforms with advice and knowledge transfer and with financial instrument loans, equity investments, and guarantees. The GEF provides grants for developing alternate energy sources.
Bank’s forestry work under a new Global Forest Alliance (GFA) drawing in new donor resources and experimenting with carbon trading for ‘avoided deforestation’. There is strong constituency interest in experimentation with carbon trading for avoided deforestation in developing countries. This could be a valuable option in countries such as PNG and the Solomon Islands, and Australia is prepared to commit $A200 million overall, including $A10 million so far in partnership with the Bank.

While the issues was subject only to a progress report to the April 2007 meeting of the DC, it seems likely to be given substantive treatment at the Annual Meetings this year.

**Africa Action Plan**

In March 2007, the Africa Action Plan (AAP) was reviewed and a revised plan came to the Board for approval. The AAP is the mechanism by which the World Bank Group’s (WBG) actions are coherently drawn together. This is not an easy task, given the diversity of conditions across the Africa region. The original AAP was not sufficiently focused to enable any results to be attributed to Bank actions in Africa.

The revised AAP is an improvement on the earlier plan. It contains eight flagship areas: strengthening the African private sector; increasing the economic empowerment of women; building skills for competitiveness; raising agricultural productivity; improving access and reliability of clean energy; increasing access to safe water and sanitation, and strengthening national health case systems and combating HIV/AIDS and malaria; with three cross-cutting themes - improving governance and effectiveness of the public sector, better management of the environment, and building effective development partnerships. This still makes for a highly complex plan.

The revised plan also introduced a new taxonomy for African countries based on their prevailing economic experience. The AAP looks at countries based on their economic performance and capacity, and whether they are resource rich, sustained growing, slow growing or conflict affected economies. This classification is to assist with planning and has no formal status (i.e. it does not affect things like IDA’s performance based allocations or alter eligibility for other initiatives).

While we would have liked to have seen an even crisper prioritization and approach, we have supported the revised plan and look forward to reporting on its implementation.

**Bank Research Review**

The chief economist, Francois Bourguignon, commendably initiated in 2005 the third external review of Bank research (and the first since 1983). Headed by Professor Angus Deaton, the review drew on the expertise of many leading academic researchers. Its findings, issued in September 2006, noted that:

- while some of the Bank’s research was path breaking (such as the Doing Business database), too much of it was neither academically distinguished nor policy relevant;
• the Bank sometimes sought to prove policy relevance of research by rushing prematurely to place undue weight on limited findings;
• there may have grown to be too many ‘flagship publications’ repeating previous analysis with limited new insights, and serving mainly internal bureaucratic and budget justification purposes, rather than client needs;
• some research teams had been too long focused on a limited field, and had grown excessively inward-looking and self-referencing; and
• while the Bank does not spend much on research, research is done expensively ‘in house’, with little ‘contracting out’ to developing country researchers.

A second, more limited external review has also indicated significant weaknesses in the operations of the Development Data Group which produces vital global statistics on poverty and development issues, and has a role in statistical capacity building in member countries.

Our office largely agrees with the criticisms by the external reviews, and is pressing for more Bank Management action to respond to diagnosed weaknesses. In FY07, there has been only limited streamlining of the family of ‘flagship’ publications, and further reforms are necessary.
DEVELOPMENT RESULTS

Annual Review of Portfolio Performance

The Annual Report on Portfolio Performance (ARPP), prepared by the Bank’s Quality Assurance Group (QAG), is designed to give Management current information about broad trends in the Bank’s lending and AAA. The 2006 ARPP centered on two key recommendations:

1. The need for greater realism in project reporting. The ARPP proposed changes to reporting requirements to address the growing disparity between how Bank staff assess the success of the projects they manage and actual success as measured by subsequent IEG evaluation.

2. Improved Management oversight of the Bank’s AAA work.

While the Board supported both these recommendations, they asked that future editions of the ARPP adopt a more analytical approach, tracking the impact of ARPP recommendations on Bank policy and operations over time. Directors also requested greater inclusion of client government perspectives on the Bank’s performance. The QAG reacted positively to both suggestions and pledged to revamp the 2007 ARPP accordingly.

2006 Annual Review of Development Effectiveness

The Annual Review of Development Effectiveness (ARDE) is the flagship publication of the Independent Evaluation Group (IEG). The 2006 ARDE highlighted the findings of recent IEG evaluations around the theme of ‘getting results’. The ARDE synthesized lessons that can be used to increase the development effectiveness of Bank assistance and identified three areas where the Bank can strengthen its effectiveness:

- A stronger focus on the nature of growth to ensure that such growth leads to jobs for the poor and productivity increases in poorer regions and sectors where the poor earn their incomes;
- More consistent use of a clearly articulated results chain to help ensure that Bank country assistance programs and individual projects set realistic objectives and give due attention is given to capacity building; and
- More realistic assessment of the political economy of governance-related reforms to better tailor efforts to increase the accountability of public sector institutions to local conditions.
IBRD/IDA FINANCES

IDA15 Negotiations

In March 2007 negotiations commenced for the IDA15 replenishment. The replenishment involves discussions between representatives of 40 donor countries, 10 borrowing countries’ representatives and Bank Management regarding the size and policy parameters of IDA for the period FY09-FY11.

Mr Khulerbaatar Chimed, State Secretary for the Ministry of Finance in Mongolia, has agreed to be the borrower representative from the East Asia and Pacific region for the duration of the IDA15 negotiations.

Three special themes have been agreed for the replenishment:
- the role of IDA in the global aid architecture;
- the effectiveness of IDA's assistance at the country level; and
- IDA's role in fragile states.

The replenishment negotiations are expected to conclude in early 2008.

Trends in IBRD/IDA Lending

In FY07, the Bank extended IBRD/IDA loans, credits, guarantees, and grants totaling $24.7 billion, up more than $1 billion from the previous year. IBRD commitments were $12.8 billion, down 9 percent from FY06. IDA commitments were $11.9 billion, up 25 percent from FY06 and at the highest level in IDA’s history.

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<td></td>
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<tr>
<td>IBRD</td>
<td>113</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>IDA</td>
<td>173</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>Commitments ($ billions)</td>
<td>23.6</td>
<td>24.7</td>
<td>+4 %</td>
</tr>
<tr>
<td>IBRD</td>
<td>14.1</td>
<td>12.8</td>
<td>-9 %</td>
</tr>
<tr>
<td>IDA</td>
<td>9.5</td>
<td>11.9</td>
<td>+25 %</td>
</tr>
<tr>
<td>Investment</td>
<td>16.3 (69%)</td>
<td>18.4 (75%)</td>
<td></td>
</tr>
<tr>
<td>Development policy</td>
<td>7.3 (31%)</td>
<td>6.3 (25%)</td>
<td></td>
</tr>
</tbody>
</table>

Note: Lending includes loans, credits, guarantees, and grants.

Two regions - Africa and South Asia experienced particularly robust lending levels in FY07. Africa Region commitments were a record $5.8 billion, $1 billion more than in FY06 and nearly 24 percent of total commitments. South Asia Region commitments were nearly 50 percent higher than in FY06.
Consistent with the pattern of the last few years, the top 10 borrowers represented over 50 percent of FY07 loan commitments. India was the largest borrower, accounting for $3.75 billion (15 percent) of total lending. African Regional programs were the 10th-largest borrower at $0.7 billion (about 3 percent) of total commitments.

<table>
<thead>
<tr>
<th>Borrower</th>
<th>$ millions</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>3,751</td>
<td>15.2</td>
</tr>
<tr>
<td>Argentina</td>
<td>1,749</td>
<td>7.1</td>
</tr>
<tr>
<td>China</td>
<td>1,641</td>
<td>6.6</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,159</td>
<td>4.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>1,158</td>
<td>4.7</td>
</tr>
<tr>
<td>Colombia</td>
<td>1,102</td>
<td>4.5</td>
</tr>
<tr>
<td>Pakistan</td>
<td>985</td>
<td>4.0</td>
</tr>
<tr>
<td>Nigeria</td>
<td>750</td>
<td>3.0</td>
</tr>
<tr>
<td>Vietnam</td>
<td>712</td>
<td>2.9</td>
</tr>
<tr>
<td>Africa Regional projects</td>
<td>707</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13,714</strong></td>
<td><strong>55.5</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of loans</th>
<th>Commitments ($ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFR</td>
<td>78</td>
<td>4.8</td>
</tr>
<tr>
<td>EAP</td>
<td>36</td>
<td>3.4</td>
</tr>
<tr>
<td>ECA</td>
<td>63</td>
<td>4.0</td>
</tr>
<tr>
<td>LCR</td>
<td>64</td>
<td>5.9</td>
</tr>
<tr>
<td>MNA</td>
<td>16</td>
<td>1.7</td>
</tr>
<tr>
<td>SAR</td>
<td>29</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>286</strong></td>
<td><strong>23.6</strong></td>
</tr>
</tbody>
</table>

In addition to lending activities, a number of analytical and advisory products have been delivered. This included 500 ESW products, 38 CAS and CPS documents, including 10 CAS Progress Reports and 12 Interim Strategy Notes.

The table below shows long-term trends in Bank (IBRD and IDA) lending. There appears to be an overall upward trend in lending.
Looking at the trends in IBRD/IDA lending in real terms, the picture is not as comforting as it might appear. There has been a substantial decrease in IBRD lending, in real terms, since peaks in the 1970s and 1980s. The IBRD lending portfolio is an area we keep watch on as it is key, (along with the returns on equity, which is becoming an increasingly important source of revenue for the Bank), to generating income to support areas such as IDA.

FY08 Administrative Budget

In June 2007, the Board approved the IBRD/IDA FY08 administrative budget. The administrative budget of $2.1483 billion is an increase of 1.4 percent over the FY07 budget. The
adjustments continue to be in line with Management’s stated target of achieving zero real growth in Bank expenditure over the next three years. 6

Total administrative expenses for FY08, including the cost of the Board, Corporate Secretariat (SEC), the Independent Evaluation Group (IEG), the Staff Retirement Plan (SRP) contributions, and the Development Grant Facility (DGF), are expected to be $2.907 billion - also a 1.4 percent increase over the FY07 budget. (FY07 administrative expenses are expected to turn out slightly less than the $2.119 billion estimated).

The administrative budget includes an overall price adjustment of 2.9 percent. This price factor includes the weighted average of the adjustment for Washington-based salaries and salary-related benefit costs, and for other costs. This is based on a structural adjustment to staff salaries of 3.5 percent and a price factor for other costs estimated at 2.2 percent, which is in line with the growth in the Washington area CPI for FY07. As with FY07, the salary cost adjustment does not include an automatic adjustment for changes in grade mix or increases in staff numbers.

This budget, for the first time, includes resource allocations by areas of Bank focus. Resources to fragile states and infrastructure will increase by the greatest amount in absolute terms, whereas resources allocated to clean energy increase most in relative terms. Africa is a stated priority and the Africa work program will receive the largest increase in resources to regions in FY08.

**Net Income Results**

In FY07 operating income decreased to $1.66 billion from $1.74 billion in FY06. This was driven by decreases in the release of provision for losses on loans and guarantees, and an increase in loan interest income, net of funding costs. It should be noted that:

- income from loan interest increased by $269 million, due to higher returns on the equity funded component of loans resulting from the rise in market rates;
- net loss was $140 million in FY07. This is a decrease from the FY06 net loss of $2,389 million as a result of applying accounting rule FAS 133 as amended; and
- the Board of Governors approved transfers were $957 million in FY07.

**Capital Adequacy and Net Income Allocation**

This year has seen a separation in the timing of assessing the credit risk and loan loss provision results for FY07 and assessment of the FY08-FY10 outlook that then feeds into the discussion of net income. Similarly, the Bank’s capital adequacy becomes apparent at the time allocations from net income are made. The net income discussions are expected to be held in September 2007.

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6 The zero-real growth target is to be achieved within a framework that will allow Management a two percent “flexibility band” around the budget target. This is intended to be a tool to manage timing mismatches between the implementation of new initiatives and offsetting savings, while achieving zero real growth over time.
INTERNATIONAL FINANCE CORPORATION (IFC)

Operational Results

IFC has grown in terms of both commitments and expansion of its business activities. Total commitment volume reached $8.0 billion in FY07 from $6.7 billion (FY06), $5.4 billion (FY05) and $4.8 billion (FY04). This has resulted from both outstanding financial performance by the IFC and very favorable market conditions such as strong growth in developing countries.

IFC’s FY07 profit was a record high amounting $2.6 billion compared to $1.5 billion in FY06 and continues recent strong trends. Most can be attributed to capital gains from equity sales in FY07 of $1.9 billion, as compared to $928 million in FY06. Reserves against loan losses amounted to $832 million or 6.4 percent of the outstanding loan portfolio at the end of June FY07, down from $898 million at the end of June FY06 or 8.3 percent of the then-outstanding portfolio. It is expected that IFC’s strong financial performance will continue through FY08-FY10.

IEG’s evaluation of IFC’s development results for the last 10 years confirms IFC’s strong performance. Based on more than 600 IFC supported investment projects evaluated between 1996 and 2006, IEG found that, on average, 59 percent yielded high development outcomes, with an improvement in this rate to 66 percent in 2006. The main findings indicate effective pursuance of IFC’s goals - promoting sustainable private sector investment in developing countries while maintaining its own profitability, good performance by IFC in strategic priorities of investing in infrastructure and financial markets, as well as working in low-income and/or high-risk countries. IEG findings point to the need for more tailored, country-specific strategies with greater IFC-World Bank collaboration. IFC must also do more to address areas where it has not placed much emphasis in the past, such as sustainable rural development, with a focus on agribusiness, rural microfinance, and the environment.

FY08 Administrative Budget

IFC’s administrative budget, as approved by the Board, shows an increase from $406 million in FY07 to $442 million in FY08 before adjusting for inflation, an increase of 9 percent. The total budget, including the administrative budget, depreciation and contribution to retirement plan, will increase from $533 million to $584 million. Most of this increase will be used for:

- IFC’s five strategic priorities;
- decentralization efforts; and
- implementation of client friendly approaches to meet demand for its services: strengthening risk management, expanding legal department and new communication strategy.
MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

Operational Results

In FY07 MIGA’s guarantees portfolio reached $1.6 billion, up from $1.3 billion in FY06. Gross and net portfolio exposure amounted $5.7 billion and $3.5 billion respectively. During this year, MIGA issued $1.37 billion of new business, compared to $1.03 billion in FY06.

MIGA has made good progress on portfolio diversification:
- Sector level: infrastructure- 40 percent, finance - 29 percent, mining - 14 percent and tourism and services - 7 percent; and
- Regional level: ECA - 35 percent, LAC - 29 percent, Africa - 16 percent, Asia - 14 percent, and MENA - 6 percent.

MIGA guaranteed 26 new projects, of which 13, totaling $567.6 million or 50 percent, were in IDA-eligible countries and 10 totaling $365.7 million or 38 percent, were in Sub-Saharan Africa. MIGA has concentrated its activities on infrastructure in Africa, which creates large development effects in terms of job creation and enhancement of economic efficiency. MIGA has guaranteed $487 million for telecommunications projects, which have widespread economic impact and issued $328.1 million for other projects, including transportation, power and sanitation.

Even though 40 contracts were cancelled, approximately 78 percent of cancellations were due to the client’s self-insuring or underlying assets no longer being at risk, compared to 80 percent in FY06. Thus, most cancellations took place because the investments were successful. MIGA did not pay any claims in 2007, but is seeking to resolve four pending claims regarding issues of expropriations. Three of these claims were filed during 2007.

FY08 Business Plan and Administrative Budget

Since 2005, MIGA has focused on investment in four priority areas: infrastructure development; frontier markets; conflict-afflicted environments; and investments between developing countries (south-south investments). In FY08, MIGA will maintain this emphasis for priority areas and will underscore the guarantee business in under-served IDA countries and infrastructure projects, maintaining a diverse portfolio. It is expected that MIGA’s guarantee portfolio will reach $1.6 - 1.7 billion, similar to FY07. In addition, in order to adapt to its changing business environment, MIGA will develop a new strategy for FY09-11, which will be presented to the Board for consideration in the second half of FY08.

In FY07 while MIGA’s approved budget was $37.8 million, its actual expenses were $32.1 million. The Board approved an administrative budget of $36.2 million for FY08, which is a 4.5 percent reduction, compared to the FY07 budget.
Integration of MIGA’s TA activities into FIAS

In 1988 MIGA launched its own technical advisory activities to improve investment conditions in member countries and took on a partnership in Foreign Investment Advisory Services (FIAS) established in 1985. Due to increasing budget burdens MIGA withdrew from the FIAS in 1994, to implement TA independently. MIGA’s TA budget has been stable at $5.0 million since FY04, while the FIAS budget has increased from $.8.7 million in FY04 to $15 million in FY07. Seventy percent of the FIAS budget and 25 percent of MIGA’s TA budget is provided by donors.

In FY07 the Board approved a joint proposal by IFC and MIGA to integrate MIGA’s TA activities into FIAS for synergies and efficiencies of integration. This integration will create a single window for investment climate services throughout the Bank, which will: strengthen the quality of the TA and facilitate a single conversation with donors; strengthen MIGA’s TA activities by utilizing FIAS’s diverse TA experiences and expertise; and reduce administrative costs. However, there will not be an immediate reduction in overall staffing levels following the integration.
CONSTITUENCY COUNTRY DEVELOPMENTS

Australia

In August 2007, President Zoellick visited Australia to participate in the APEC Finance Ministers Meeting. While in Australia, the President held bilateral discussions with Treasurer Costello and senior government officials, including Treasury Secretary, Ken Henry, and AusAID Director General, Bruce Davis.

In October 2006 Australia held its annual consultations with the Bank. Bruce Davis led the Australian delegation while the Bank delegation was headed by the new Vice President for East Asia and Pacific, Jim Adams. The consultations provide an opportunity to take the temperature across the breadth of the extensive relationship between Australia and the Bank. Agreement was reached on mechanisms for quickly resolving operational-level problems as they arise.

Following the annual consultations, Australia has continued to strengthen its partnership with the Bank at both the sector and country level, consistent with commitments in the April 2006 Australian White Paper on Aid. Most prominently, Australia anticipates contributing up to $A100 million over four years for an infrastructure initiative with the Bank. The initiative will support a range of infrastructure programs and projects in South Asia, East Asia and the Pacific. Selected global programs will also be supported including the Global Partnership for Output Based Aid and the Public-Private Infrastructure Advisory Facility. In March, the Australian government announced the $A200 million Global Initiative on Forests and Climate. Of this, $10 million ($A11.7 million) has been committed to support the Bank's Forest Carbon Partnership Facility. The contribution will help developing countries avoid deforestation by establishing credible estimates of national forest carbon stocks, identifying sources of forest emissions, and financing incentive-based pilots for conserving forests and investing in sustainable forest management.

In May 2007, Australia announced a contribution of $A5 million over three years to the Bank's Global Facility for Disaster Reduction and Recovery. The contribution will support mainstreaming of disaster risk reduction into development plans in countries highly vulnerable to disasters, with a particular focus on countries in the Asia-Pacific region.

The Australian aid budget is projected to grow significantly in 2007-08, with ODA managed by AusAID increasing 21.7 percent in real terms. The 2007-08 Australian aid budget of $A3.16 billion is on track to meet the Government's goal of $A4 billion annually by 2010, subject to strengthened governance and reduced corruption in partner countries. In 2006-07 Australia contributed $93.6 million to IDA, $14.5 million to HIPC and $136.2 million to MDRI.

Cambodia

Since 1992 the Bank has provided Cambodia with technical expertise and more than $659.2 million in loans and grants and approximately $99.7 million in trust funds to support efforts to reduce poverty and promote economic growth. Currently 12 Bank-funded development projects...
are underway in Cambodia. These programs aim to bolster the country’s education system; set up a system of national parks; help curb the spread of preventable diseases; boost the productivity of small farmers; and provide a variety of other benefits.

The Cambodia Development Cooperation (CDC) Forum, previously known as Consultative Group Meeting, was held in Phnom Penh June 19-20, 2007. This meeting followed on the heels of the launch of the Bank’s Cambodia Equity Report 2007 – Sharing Growth. The report found that ‘though Cambodia has achieved high rates of economic growth and significant poverty reduction over the last one-and-a-half decades, however, the benefits of growth have been spread unevenly, resulting in a rise in consumption inequality’.

Achieving the priorities laid out in the Royal Government of Cambodia’s (RGC) new five-year National Strategic Development Plan 2006-2010 (NSDP) is critical to Cambodia’s success in the fight against poverty and this was the key focus of the CDC Forum. During the Forum, the RGC presented a detailed Annual Progress Report on the NSDP’s implementation. Partners applauded the RGC for continued high economic growth, marked progress in most social indicators, and noteworthy public financial management reform. The Forum also concluded that two-thirds of the agreed joint monitoring indicators had been either fully or partially met.

Progress covered a significant number of the reform areas: the Agriculture and Water Resource Strategy has been completed, the linkage between the budget cycle and the NSDP strengthened with strategic budget preparation process that focuses on annual budget allocations in light of the NSDP’s priorities, and the Technical Working Groups of the RGC and Development Partners have played an important role coordinating across agencies and civil society organizations. In sum, the Bank and other development partners were encouraged by the generally good progress made in the first year of NSDP. To help meet the financing needs, partners committed $689 million of assistance over the next year.

With regard to addressing problems in the Bank’s existing portfolio, the RGC and the Bank have reached agreement on the repayment of funds related to misprocurement in the projects investigated last year. Moreover, the RGC has decided to take a number of measures to reduce fiduciary risk in the future, including the implementation of good governance action plans across the entire portfolio, and the use of an independent procurement agent to reduce the likelihood of misprocurement in the future. INT has also agreed to provide capacity building support to enhance the government’s own internal capacity to carry out investigations.

President Robert Zoellick visited Cambodia August 4-5, 2007, as part of his official trip to the East Asia and the Pacific region. At the invitation of the Cambodian authorities, Dr. Choi the Alternate Executive Director accompanied the President on his visit. This visit was a unique opportunity for the President to witness Cambodia’s remarkable achievements following a long period of conflict. Cambodia is a well-managed, post-conflict country, and it is believed that the partnership between the Bank and Cambodia will become more meaningful, and an intellectual asset to both sides which can be disseminated to other post-conflict countries.
Korea

This year the Korean government actively expanded its Official Development Assistance (ODA) by recognizing that Korea should contribute its share to development and poverty reduction as a donor. The Korean government plans to increase its ODA from 0.06 percent of GNI to 0.1 percent of GNI by 2009. In particular, it plans to boost its ODA to Africa, expanding aid in the development of human resources, information technology, and health services.

For effective and substantial aid for developing countries, the Ministry of Finance and Economy (MOFE) has implemented comprehensive consultations which aim to transfer Korea’s own development experiences to developing countries. MOFE launched this project jointly with the Korea Development Institute (KDI), Korea’s top think-tank and research institute with experience, background and human resources. There was heavy demand for consultations from countries such as Vietnam and Uzbekistan where the first phase of consultations were successfully completed.

In order to enhance its partnership with the MDBs the Korean Government has:
- established a trust fund amounting $20 million in the ADB to support the development of information and communication technology in the developing countries of Asia thereby decreasing the gaps among nations;
- launched a consulting group with participants from MOFE, Korea EXIM Bank and AFDB in December, 2006. (This group drew up its first action plan to execute the agenda of the Korea Africa Economic Cooperation group (KAFAEC) set up in 2006).
- worked on the establishment of two trust funds of $15 million each for the Bank, one to support development activities in EAP and the other for information technology development. A $2 million trust fund for the IFC will be used to provide technical assistance as needed. Korea plans to launch the trust funds by October, 2007; and
- sponsored (with the KDI and supported by our office), a World Bank Institute seminar on Community Driven Development (CDD) in order to share the Korean CDD - Saemaul movement- which has significantly contributed to the development of Korea’s rural areas and inter-alia the modernization of Korea.

Mongolia

The Government of Mongolia (GOM) and external partners held two technical meetings in FY07. The biannual technical meeting, jointly organized by the GOM and the Bank, has become a regular platform to discuss Mongolia’s development priorities and intensify cooperation between the GOM and its external partners in supporting those priorities.

The Prime Minister Hon. M. Enkhbold, IFC’s Vice President for Financial and Private Sector Development and IFC’s chief economist, Michael Klein, and Bank staff led the last meeting. At this meeting, the draft National Development Strategy (NDS) was presented. The NDS is the first comprehensive policy of Mongolia’s development that attempts to layout longer-term goals while recognizing that the Government is often taken up with urgent current issues. Prime Minister M. Enkhbold stressed the need for a strategy that will enhance the motivation and action of Mongolians to develop their country. He emphasized that the “National Development
Strategy is the mission statement and the aspiration of the concept “We Mongolians will develop Mongolia ourselves”. The meeting facilitated working group sessions to review progress made in key sectors including energy, transport and road, private sector development, agriculture and environment.

The Bank has started the preparation of the next CAS for Mongolia. Consultations are ongoing. Staff plans to submit the CAS to the Board in mid-December 2007.

The Bank, one of the major partners in the energy sector, has been actively involved in sector restructuring and improving its performance. The Board approved a $7.0 million grant from IDA and the GEF to finance the Renewable Energy for Rural Electricity Access Project (REAP). The project aims to increase access to electricity and improve its reliability and affordability among the herder population and people not connected to the grid in sub-provincial centers. It will also help secure access to electricity for rural public and private institutions such as schools, health centers, communication centers, and business entities.

The Board also approved an IDA loan of $33 million to support the Sustainable Livelihood Project II (SLP II) on June 19, 2007. This is the second phase of a three-phase Adaptable Program Loan supporting the country’s Sustainable Livelihoods Program. The project aims to enhance livelihood security and sustainability by scaling up institutional mechanisms that reduce the vulnerability of communities throughout Mongolia. SLP II will scale up the effective mechanisms and processes, piloted under the first phase, in local communities and governments. A wide range of environmentally sustainable, socially inclusive and economically viable project activities will help preserve the ecological conditions and improve the rural people’s livelihood in a sustainable manner.

Mongolia was chosen to represent the East Asia and Pacific borrowing countries during the IDA15 replenishment negotiations. Mr Khurelbaatar Chimed, State Secretary for the Ministry of Finance in Mongolia, attended the first session held in Mozambique in June 2007.

**New Zealand**

New Zealand’s engagement with the Bank over the past year has focused on IDA, with the mid-term review of IDA14 being followed by the commencement of replenishment negotiations for IDA15. In respect of IDA15 New Zealand is keen to see agreement on better defining IDA’s role in the international aid architecture, including implementation of the Paris Declaration, and ways to improve the effectiveness of IDA’s work in, and support for, fragile states. Indeed, the Bank’s work on fragile states is of particular interest in the context of New Zealand’s own focus on fostering development in the especially vulnerable Pacific region.

In this regard, New Zealand has welcomed the Bank’s emphasis on applying its experience in analytical and advisory services to the region. This was exemplified by the report on migration and remittances in the Pacific ‘At Home and Away: Expanding Job Opportunities for Pacific Islanders through Labor Mobility’. In parallel with this, New Zealand developed its new ‘Recognised Seasonal Employer (RSE) Scheme’, which facilitates the temporary entry of overseas workers from the Pacific region. New Zealand acknowledges the Bank’s follow-up
support in assisting Pacific developing member countries take full opportunity of this new Scheme.

Following this year’s Pacific Islands Forum Economic Ministers meeting, New Zealand, the Bank and other partners are considering ways of strengthening the coordination of economic assistance in the Pacific region, including through a jointly staffed IFI economic advisory facility.

New Zealand is encouraging other Bank work in the Pacific region through financially supporting the Cost of Doing Business Survey and the Pacific Facility Three, which enables the Bank to extend technical assistance to Pacific Island countries independent of lending operations. New Zealand also welcomes the prospect of deeper and sustained Bank bilateral engagement in the Pacific through greater dispersion of its staff from regional to country offices, starting with the Solomon Islands. This provides the opportunity to deepen cooperation between New Zealand and the Bank over a wider range of activities.

At the country level the Bank and NZAID continue to work closely together. In Timor Leste NZAID is funding a Bank advisor position, while in Tonga a joint education project is underway. Further opportunities for collaboration are also being pursued, including potential sector-wide approaches (SWAps) in Samoa’s health sector and in the Solomon Island’s education sector. Recent analytical work by the Bank in Vanuatu and the Solomon Islands point to the potential for deepening collaboration in these countries.

Finally, New Zealand remains concerned that the Bank’s Board of Directors are not working as effectively, nor as strategically, as they could. We welcome early signals from President Zoellick that he wishes to address this. Following a period of instability for the Bank New Zealand looks forward to working with the new President to address key issues such as this.

**Pacific Island Member Countries**

The Bank’s strategy on engagement in fragile states has opened up opportunities to re-focus attention towards the Pacific Island states. The strategy centers on three broad pillars - increased field presence, developing a callable surge capacity, and improving institutional backup. As a result, Bank presence in the Pacific will be increased with the establishment of a country officer position in the Solomon Islands, in addition to the Sydney and PNG offices. As well, in July 2007, IFC appointed an investment officer dedicated to promoting private sector initiatives in the Pacific.

The Pacific Island states have benefited from AAA and dialogue on issues of common concern in the Pacific. The migration study ‘At Home and Away’ has been published, and in 2006, the Economic Policy and Debt Department of the World Bank launched the study, *Economic Growth and Integration of Small States into the World Economy*, which consists of an analysis of economic growth of small states in Africa, the Caribbean and the Pacific, and several case studies which report on institutional and regulatory solutions some small states have developed to integrate into the world economy. The case studies deal with two issues that are important for many small states – how to reduce the costs and increase the effectiveness of public goods and
services; and how to improve, and reduce the costs of, connectivity with the rest of the world. Deregulation of telecommunications in Samoa was one of the case studies used.

The Bank supported Caribbean Catastrophic Risk Insurance Facility (CCRIF) could provide valuable lessons if a similar scheme were to be considered for the Pacific region. The CCRIF is designed to provide countries with the opportunity to access catastrophe insurance at the lowest possible cost through pooling individual country-specific risks into a single and better diversified portfolio. Our office has raised, at the Board level, the need for the Bank to consider the applicability of the CCRIF in the Pacific.

Adaptation to climate change, which is critical for many of the small Pacific islands in our constituency, will be addressed under the Clean Energy Strategy. Our office has repeatedly emphasized the importance of this issue to the Pacific during Board discussions on the clean energy framework.

In June 2007, the Board approved a $9.5 million grant provided by the GEF to fund renewable energy sources for rural communities in Papua New Guinea, the Solomon Islands, Vanuatu, the Republic of the Marshall Islands and Fiji. The project provides rural people access to low cost, long-term finance to obtain electricity. The project will draw on the Pacific Islands’ renewable energy endowments, particularly Solar Photo Voltaic (PV), Pico-Hydro and bio-fuels (coconut oil).

At the 2006 Small States Forum, the Government of Malta tabled a proposal for the establishment of a Small States Network for Economic Development. The Network aims to put in place a mechanism to effectively share and disseminate knowledge and expertise dealing with small states. The Bank is working closely with the Government of Malta and the review committee to finalize the Network Statutes that will give effect to the operationalization of the network. It is intended that the network will be operational before the 2007 Small States Forum.

Under the Pacific Regional Engagement Framework FY06-09, a series of country-specific and regional lending will continue to be considered in the form of analytical and advisory work, collaboration with donors and financial support in the form of loans and grants.

In FY07 three Pacific countries were visited - Dr. Joong-Kyung Choi, Executive Director (Vanuatu), Ms. Joanna Gordon, Senior Advisor (Kiribati), and Mr. Seilava Ros Advisor (Samoa).

**Papua New Guinea (PNG)**

The long-term objective of the Bank's engagement with PNG is to develop a constructive partnership with the Government and other development stakeholders in civil society. It aims to help the country realize its growth and poverty reduction potential through better governance, sound economic management, and sustainable natural resource exploitation, while ensuring that the spread of HIV/AIDS is contained.
At the strategic level, there has been significant delay in the preparation of the new CAS. The CAS is an important document as it defines the scope and content of Bank support for PNG. Dialogue is ongoing and preparations are now at an advanced stage. As a result of two retreats, the revised draft is ready for the new government to consider with the plan for it to be submitted to the Board in late November 2007.

On April 26, 2007 an additional credit of $37 million was approved to finance ongoing maintenance of highways and national roads in PNG. This credit supplements the Bank’s ongoing $40 million Road Maintenance and Rehabilitation Project (RMRP) Loan, for technical assistance, maintenance and rehabilitation of key national and provincial roads and bridges in six provinces. This credit will ensure continued maintenance activities, thereby preventing deterioration of the national and provincial road networks.

PNG is expected to benefit from the Regional Sustainable Energy Financing Project approved in June 2007. The project is intended to benefit rural people by providing access to low cost, long term finance to purchase electricity. The ongoing Teachers’ Solar Lighting Project, which has already demonstrated remarkable success, will benefit under this new initiative. Initially set up to provide financing for 2,500 teachers to purchase solar home lighting kits, there are now more than 9,000 teachers on the waiting list and the cost of purchasing the Solar PV kit has been cut in half from 4,200 kina ($1,235) to 2,100 kina ($618).

In March 2007, IFC, through the Private Enterprise Partnership-Pacific (PEP-Pacific), sponsored an innovative training program for women to learn how to make chicken feed that benefits the seafood business. Working with fish waste from seafood processing and copra waste from coconut oil production, the women used a hands-on approach to learn how to produce pellet chicken feed. They researched nutritionally balanced recipes and produced feed that included cassava, banana, and copra and the seafood waste. The product was then tested at a local chicken farm, producing encouraging results.

IFC continues to provide advisory services for the development of the business environment and the PNG Microfinance project. IFC is in the final stages of developing a Trade Finance Facility for Bank South Pacific through which training to develop trade finance knowledge will be provided.
ANNEX 1 CONSTITUENCY OFFICE

2006-2007 CONSTITUENCY OFFICE STAFF

EXECUTIVE DIRECTOR

Dr. Joong-Kyung Choi Korea August 1, 2005 – July 31, 2007
Dr. Jim Hagan Australia Elected: August 1, 2007

ALTERNATE EXECUTIVE DIRECTOR

Mr. Terry O’Brien Australia July 23, 2003 – August 10, 2007
Dr. Joong-Kyung Choi Korea Appointed: August 1, 2007

SENIOR ADVISORS

Mr. Kyu-Yun Choi Korea Sept. 15, 2004 – Sept. 29, 2006
Ms. Damba Baasankhuu Mongolia Appointed: March 1, 2006
Mr. Matthew Dalzell New Zealand Appointed: September 4, 2007

ADVISORS

Mr. Rhinehart Silas Palau Nov. 29, 2004 - December 15, 2006
Mr. Chris Tinning Australia Appointed: September 12, 2005
Mr. Jae Hwan Kim Korea Appointed: August 21, 2006
Mr. Seilava Ros Cambodia Appointed: November 27, 2006
Mr. Iulai Lavea Samoa Appointed: December 8, 2006

OFFICE SUPPORT STAFF

Mrs. Yolanda Cunnane Senior Executive Assistant
Mrs. Hille Blackshaw Program Assistant
Mrs. Elena Chanhu Program Assistant
CONSTITUENCY OFFICE TRAVEL: JULY 1, 2006 – JULY 31, 2007

1. **Joong-Kyung Choi, Executive Director**
   - Feb. 24 - March 7, 2007: Sydney, Canberra, Australia, Seoul, Korea CWA
   - June 14-24, 2007: Seoul, Korea, CWA

2. **Terry O’Brien, Alternate Executive Director**
   - Nov. 9-20, 2006: Canberra,(CWA), Melbourne (G-20), Australia
   - March 30-April 4, 2007: Paris, France, DC Deputies Meeting and CWA
   - May 26-31, 2007: Seoul, Korea, CWA

3. **Joanna Gordon, Senior Advisor**
   - Nov 14 -26, 2006: Wellington, NZ, CWA (with ED)
   - March 3 -7, 2007: Paris, France, IDA15 Meeting
   - May 3-12, 2007: Tarawa, Kiribati, CWA
   - June 25-July 3, 2007: Maputo, Mozambique, IDA15 Negotiations

4. **Damba Baasankhuu, Senior Advisor**
   - April 17-29, 2007: Ulaanbaatar, Mongolia, CWA

5. **Jae Hwan Kim, Advisor**
   - May 21-31, 2007: Seoul, Korea, CWA, (with AED)

6. **Iulai Lavea, Advisor**
   - June 15 – 24, 2007: Phnom Penh, Cambodia, Development Forum

7. **Seilava Ros, Advisor**
   - June 5 – 13, 2007: Apia, Samoa, CWA

8. **Chris Tinning, Advisor**
   - March 3-7, 2007: Paris, France, IDA15 Meeting
   - June 25-July 3, 2007: Maputo, Mozambique, IDA15 Negotiations
ANNEX 2 CONSTITUENCY STATEMENTS

STATEMENT BY HON. OKYU KWON, DEPUTY PRIME MINISTER AND MINISTER OF FINANCE AND ECONOMY, REPUBLIC OF KOREA
Development Committee Meeting, Singapore, September 14, 2006

We thank the Singaporean authorities for hosting the 2006 annual meetings of the IMF and the World Bank.

Developing Country Growth Continues Robustly

Developing countries’ GDP growth continued remarkably strongly since we last met, despite headwinds from the maturing of the global business cycle and from commodity price increases that have disadvantaged some developing countries, but greatly advantaged others.

Picking up the stragglers

Even as forecast GDP growth to 2008 slows slightly, developing countries are expected to continue to grow at about twice the rate of high-income countries. Even excluding China and India, forecast growth rates in other developing countries are still almost twice as high as in developed countries. Aid increases and debt forgiveness are contributing to this growth, particularly in Sub-Saharan Africa. But some historically slow-growing, low-income countries such as those of the Pacific are not matching the best of the developing world’s growth performances.

We consider improving aid effectiveness to be a key challenge for the international community as aid flows are scaled up. In this regard, implementing the Paris Declaration principles should be of primary concern, as donor and recipient signatories strive to reach the targets outlined by 2010.

We support the World Bank and IMF’s ongoing efforts to increase the impact of aid and debt relief flows. As performance-based aid allocations favor developing countries with stronger institutions and policies, it is a growing challenge for donors (including the World Bank) to find more effective ways of engaging those countries left behind. The World Bank has been at the forefront of international analytical and policy work on the best means of promoting development in these slow growing and often fragile states. But greater attention is needed to applying this analytical and policy work to the Bank’s operations, particularly through overhauling staff incentives to encourage the best staff to work in fragile states.

World Bank Group performance

We appreciate steady progress in some areas of modernization and reform in the Bank Group over the last year.

- The Group’s budget processes, and their relation to medium-term strategies, are generally strengthening.
- The IBRD’s investment lending continues its recent growth with no deterioration in development quality, reflecting the Bank’s return to its important role in infrastructure financing.
- IDA disbursements have grown to deploy donors’ large funding increases in the IDA14 replenishment.
- IFC’s profitability continues at very strong levels, with continuing good development impact, and net income from both IBRD and IFC has contributed to IDA funding. We consider IFC’s current phase of strong growth warrants caution to ensure it maintains its strategic focus on development impact in frontier economies around the world, not only in Africa. IFC should maintain its unique focus on, and comparative advantage in, stimulating private sector development, and avoid being drawn into grants and transfers to other non-core IFC objectives.
Avoiding a ‘lend and forgive’ cycle
The Multilateral Debt Relief Initiative has already delivered almost $30 billion in forgiveness of IMF, African Development Bank and World Bank credits to post-completion point Heavily Indebted Poor Countries (HIPCs), lowering their debt stocks by about 90% and providing the resources to strengthen progress against poverty. Ultimate total costs of this initiative have risen to an estimated $63 billion. IDA donors in our country grouping have contributed their share of these costs.

We urge the Bank and the IMF to be proactive in dealing with debt management and sustainability issues.

We are concerned that a significant proportion of post-completion point HIPCs are already showing worrisomely high levels of indebtedness again. The Bank and Fund should devote much more attention to these danger signals; both concessional and non-concessional lending should be considered in addressing debt sustainability, in order to avoid a ‘lend and forgive’ cycle. At present, no one part of the World Bank Group has responsibility for ensuring that debt management capacity in borrowing countries is being built to manage future debt more wisely.

Strengthening Bank Group work in Governance and Anticorruption

We support the Bank Group’s outline of how it intends to engage more proactively to reduce corruption in the misuse of Bank Group funds, and to help development partners strengthen governance and thereby help reduce corruption more broadly. For the Bank, these are not ends in themselves: they are a means to the Bank’s core objective of accelerating poverty reduction through improving aid effectiveness.

• Our constituency’s bilateral donors are committed to these objectives in their own aid programs, and are committed to sharing experience with the Bank Group in this difficult area, that requires transparent processes and accountability for decisions.

• Our constituency’s developing member countries are committed to making progress in their own institutions and policies. They seek the Bank’s constructive assistance to help local ‘checks and balances’ institutions develop and, in the event of instances of corruption, to help in marshalling evidence and facilitating prosecutions. We urge improved Bank processes in identifying problems in ways which advance reforms, rather than swamping fragile local institutions.

One benefit of dialogue with the Bank’s shareholders in the development of the Bank’s governance and anticorruption policies, is the strong message from all that the Bank Group must stay constructively engaged in all developing countries, even those where weak governance and/or high corruption may make lending and traditional forms of aid less effective and sometimes inappropriate. As President Wolfowitz noted at the 2006 Spring meeting of the Development Committee, interruption of Bank engagement can only be a stop-gap response while better forms of assistance are devised. The Bank must remain present ‘on the ground’ and explore ways to make progress against poverty through identifying ways to deliver resources that reduce poverty and build local administrative and accountability mechanisms, while avoiding fiduciary problems in weak governance environments. It must identify those aspects of government that are performing most strongly, and deliver timely, useful analytical and advisory work that can help build consensus for reforms. We welcome the draft policy’s reaffirmation of the Bank principles of non-engagement in the political affairs of its member states.

Long before this exercise in developing the Bank’s own governance an anticorruption policies, we have pointed to the need for better Bank performance in engaging in fragile states, which by definition are weak governance environments that have limited capacities to manage traditional forms of aid. We urge
the application of these new governance and anticorruption policies to be conceived in a resourcing framework that improves the Bank’s engagement in fragile states.

We endorse the use of country assistance or partnership strategies to identify transparently alternative engagement options in the event of different country developments in governance and corruption. While we hope for the development over time of better objective indicators of governance and corruption trends, we believe judgments will always be required, and welcome the explicit role envisaged under the new policy for Bank Board approval of any change in mode or volumes of aid in country engagement.

It is a desirable aspect of the new policies that the Bank’s Department of Institutional Integrity will play a more proactive role. Transparent Bank governance of the Department and close partnership between the Department and the country authorities are desirable to maintain confidence in the Department’s operations, which are often necessarily based on confidential information. Moreover, management needs to ensure that actions derived from the Department’s findings are embedded in a sensible Bank strategy at the country level to advance the cause of reform, not a scattergun approach which overwhelms the limited corrective capacities of fragile national prosecutorial and judicial institutions.

Strengthening Engagement with IBRD Partner Countries

Our constituency includes both lower-middle-income and upper-middle-income IBRD-eligible countries, and IBRD/IDA blend counties. They are often small countries, in which the Bank’s high ‘flagfall costs’ make for particular challenges to effective Bank engagement. Moreover, all our members have an interest in how the IBRD’s business model evolves, as IBRD performance affects cost recovery from, and income transfers to IDA borrowers, and the Bank Group’s overall development effectiveness.

We welcome the Bank’s consideration of challenges confronting its traditional business model from the greater access of creditworthy middle income countries to private capital markets, the recent and prospective ‘graduations’ from IBRD ranks of important borrowers, and the greater diversity of demands for the Bank’s policy, financial and knowledge services. IBRD reforms could also increase synergies with the services to the private sector of the International Finance Corporation and the Multilateral Investment Guarantee Agency.

While the paper for the Development Committee is very broad-brush and in some ways unsatisfying in its lack of time-bound commitments to prompt, specific actions, we think it proposes some sensible principles that we heartily endorse. Key among them in our view are:

• the move to price IBRD lending more transparently;
• greater use of country systems, without compromising prudential or other standards;
• the imperative of reducing the non-financial costs of doing business with the Bank;
• a cautious and demand-driven approach to sub-national lending;
• the great need to focus and better link the Bank’s research work to operational knowledge and lending services;
• the proposal to better focus, unbundle and separately price operational knowledge services for those countries that seek only those services;
• the better prioritization of work on global public goods (where in our view the Bank needs to become much more selective, as further discussed below in the field of energy); and
• the effort to seek more synergies with the IFC and MIGA.

We attach special importance to urgent action to better focus Bank research and expert services, which presently account for 60% of the Bank’s $2 billion per annum administrative budget. Research needs to be linked better with timely, practical knowledge services that help countries with ‘how to reform’, not
high-level generalities about ‘what to reform’. Analytical and advisory work needs to be relevant and flexible, particularly in low-income countries that face capacity constraints.

Many of the objectives listed above have been long-identified by shareholders, and the paper itself adds little to their implementation. The task now is to move promptly to specify time-bound implementation in a management action plan and report progress to the Board in the remainder of this calendar year. We need to see substantial progress on all these fronts by the 2007 Annual Meetings.

We believe acting on the foregoing principles will set in train evolutions within the Bank Group whose full implications cannot at present be precisely foreseen. The IBRD exists to put itself out of a job, and transparent pricing and unbundling of lending and better-focused services, together with the quality of those services, will strongly influence the future demand for the IBRD’s product lines.

**An Investment Framework for Clean Energy and Development**

The progress report to this meeting considerably develops the ideas last presented to the Spring Development Committee meeting. We urge the Bank Group to proceed speedily to implement the ideas for Pillar 1 (to advance access to modern energy) and Pillar 3 (to facilitate adaptation to global warming).

Both these roles are core to the Bank’s business, and areas of its comparative advantage.

- We welcome the paper’s acknowledgement that improved energy access depends critically on energy sector policy reform to allow private investment to take up economic opportunities. In stressing the imperative for energy access, the Bank should drive home that reasonable growth prospects for the poor cannot rest on apparently easy but illusory options using small scale renewables, but without the capacity to meet the very large energy requirements for development.

- Adaptation to warming is of particular concern to the small Pacific states of this constituency, and an exploratory Global Environment Facility program underway in Kiribati since May 2003 is now advancing into the investment phase.

We share the Bank’s conclusion that these two core missions can be met through use of the Bank’s existing financing mechanisms, including the existing Global Environment Facility, which has potential for further development as needed.

**Transition to a lower carbon economy**

Pillar 2 of the paper deals with mitigation of global warming through transition to a low-carbon economy.

Mitigation challenges have to be solved cooperatively in a development-friendly manner, and with respect for countries’ individual circumstances and priorities.

The Bank examination of its possible role in these issues, called for at the Gleneagles G8 meeting, had yielded useful insights. We conclude that mitigation has to move beyond existing cap-and-trade approaches under the Kyoto Protocol, which do not engage large current emitters and large fast-growing developing economies that are contributing most of the growth in emissions. The UN Framework Convention on Climate Change (UNFCCC) should be the forum for devising the regulatory foundation for future global approaches. It can draw on insights from the regional carbon markets now in existence, the market experiments to improve carbon market efficiency in price discovery (such as those of the Brazilian Mercantile and Futures Exchange), and initiatives such as the Asia-Pacific Partnership for Clean Development and Climate (whose members account for around 50% of the world's greenhouse gas emissions, energy consumption, GDP and population).
Carbon market development is not the Bank’s comparative advantage
We consider work done to date on possible new World Bank financing options such as the Clean Energy Financing Vehicle (CEFV) and the Clean Energy Support Fund (CESF) has revealed sufficient problems to suggest that these particular ideas should not be progressed further.

- The Bank has no comparative advantage in this area, relative to the UNFCCC and to private sector and regional carbon market experiments.
- There would be large but unquantifiable financial risks to the Bank from buying carbon credits without a global framework that would underpin the value over time of such credits; the $10 billion-plus shareholders’ contribution that is envisaged could be quickly dissipated if carbon permits did not trade in future at the values the Bank anticipates.
- The Bank’s ideas would seem to be poor value to developing countries, which would do better to sell carbon credits direct, rather than repaying soft World Bank loans and using the Bank as a middleman in carbon trading.
- A significant role for the Bank as a carbon purchaser and trader would create conflicts of interests with the Bank’s core strategic development policy advice and lending roles.

So we urge the Bank to halt work on CEFV and CESF in the light of the issues revealed by work to date, and focus on its comparative advantage and core responsibilities in improving access to clean energy (which can include carbon mitigation aspects) and in assisting adaptation.

Education Fast Track Initiative

From our constituency, several countries are interested in joining the Education for All Fast Track Initiative (FTI), and our donor economies are also leading contributors to educational funding in the Pacific. We welcome the evidence that the Initiative has improved developing country ownership and donor coordination around effective education programs. We regard the evidence of increased primary education access as less convincing of progress, as there are signs of very poor educational quality, and the objective should be improving educational outcomes, not improving enrollments as an end in themselves. Moreover the FTI participants are not, as a group, showing any clear improvement in the sustainability of education access improvements from domestic revenues. We urge donors and developing countries to work to improve the FTI so that it focuses less on educational inputs, and more on sustainable educational outcomes. In the experience of constituency members, this will clearly include improving the quality of key inputs such as teacher training, curricula, school materials and educational facilities. These members also note the flow-through impact of improved primary school completion ratios on the demand for secondary schooling.

Doha Development Agenda and Aid for Trade

We deplore the suspension of negotiations in the Doha Development Round. Freer trade in goods and services is particularly important for developing countries. They need to import and export more freely to generate income growth, to service responsible foreign borrowings, and to help turn the financial flows from increased aid volumes and the forgiveness of excessive debts under the Multilateral Debt Relief Initiative into real resources. The upsurge in inflationary pressures in sub-Saharan Africa identified in the Bank’s economic outlook is a warning sign of the issues involved here. The negotiations need to be restarted as soon as possible, and without backsliding in the liberalization offers made so far.

In the meantime, countries can make unilateral protection reductions, which have historically accounted for most trade liberalization, and which most benefit the liberalizing countries themselves. High-quality, comprehensive, WTO-consistent regional or bilateral trade agreements can also help the path to more efficient international specialization.
We appreciate the steady growth in, and better organization of, aid for trade. While not a substitute for trade liberalization, it is a valuable complement to it in strengthening the capacities of developing countries to take advantage of trade opportunities. Regional aid for trade has a role to play in facilitating cooperation in regional trade infrastructure, both ‘hard’ infrastructure such as transport investments and coordination and ‘soft’ infrastructure such as common customs systems. Nor are these issues only for Africa: the Pacific and the Mekong offer opportunities for Bank initiatives.

While collective action and coordination problems can complicate regional cooperation, we believe these challenges should be met by improving the regional facilities in IDA, and lowering the costs of doing business with the Bank, such that preparation costs for grants or credits to neighboring countries can be lowered.

**Voice and representation**

These meetings mark an important stage in improving the representation and voice of developing countries, particularly the most underrepresented, fast-growing countries. We look forward to the process for quota reform reported at these meetings of the IMFC being completed as scheduled, and the corresponding issues in World Bank governance and participation also being addressed.
STATEMENT BY MR. SUNG JIN KIM, DEPUTY MINISTER, FOR INTERNATIONAL AFFAIRS, MINISTRY OF FINANCE AND ECONOMY, REP. OF KOREA
Development Committee Meeting, April 14, 2007

Introduction

It is heartening that in 2006, GDP growth further accelerated to about 6% in both low income countries and middle income countries, far outstripping the growth of just under 3% in high income countries. Per capita incomes in the developing world grew strongly and the incidence of poverty continued to fall. Even the absolute numbers in poverty are now falling, notwithstanding population growth. Sub-Saharan Africa’s growth is also strong, and its acceleration started with domestic policy reforms before the recent surge in commodity prices, which has certainly also assisted growth in commodity exporting countries.

The acceleration in economic growth in most developing countries has been led by extraordinary growth in trade. Sub-Saharan African exports grew at 30% in 2006, and developing countries’ exports by 22%. Industrialized countries exports grew by 12%, still well above the global 1995-2004 average of 8%.

The implications are clear. Beating poverty will be greatly assisted if we can continue robust economic growth, assisted by further trade liberalization. Both rich and poor have an enormous stake in a successful completion of the Doha round.

Constituency developments

The tragic loss of life in the Solomon Islands in this month’s tsunami is a powerful reminder that the poor, particularly in fragile states, remain especially vulnerable to natural disasters. We appreciate the Bank’s offers to contribute to the overall reconstruction effort. The costs of disasters are compounded by poor infrastructure and limitations to government responses imposed by delicate fiscal positions. Potentially, there could be great benefits, throughout the Pacific, Indian Ocean and the Atlantic, of a broader version of the World Bank’s recently initiated catastrophe risk insurance in the Caribbean. Such innovative insurance, together with better disaster planning, can greatly help governments’ timely response to catastrophe. We look forward to reviewing the impact of this scheme in the Caribbean and the soundness of its underlying financial structure as a step towards it possible wider application.

The Bank is now well advanced in consultations with the Mongolian and Papua New Guinean authorities towards the preparations of Country Assistance Strategies, and we urge steady progress towards these desirable frameworks for the Bank’s contribution to the Governments’ priorities in development.

As the Global Monitoring Report 2007 notes, Cambodia has made notable progress against HIV/AIDS, TB incidence and in preventing Malaria. Well-designed and randomized evaluation of improvements in health service delivery show how countries can deliver on the quality objectives that underlie the MDGs, not just the form of the quantitative goals. Cambodia’s macroeconomic stability and adherence to core labor standards have helped its important garment sector withstand the rigors of transition to a ‘post quota’ world and the intensification of Chinese export competition with the latter’s entry to World Trade Organization membership.

‘Quality’ of MDG progress

There can be no doubt that inadequate data and insufficient attention to the quality of outcomes can compromise progress towards the MDGs. For example, rapid increases of enrollments in primary
education have occurred in parallel with weak or deteriorating quality of education outcomes. But better data and quality standards are not objectives in themselves, but means to the national ends of improving delivery performance, and thereby improving citizens’ welfare. Better data and quality standards are most important when they are deployed as national tools of monitoring and accountability between governments and their citizens. We would therefore urge that the Bank’s further work on improving data and introducing quality measurements be founded in nationally-owned, affordable processes rather than additional globally-mandated standards that may be inappropriate to local conditions and insufficiently ‘owned’ by the authorities that have to make them work.

Fragile states

Fragile states demand greater attention from the international community generally and the World Bank in particular. Fragile states comprise one-fifth of the population of low-income countries and an estimated one-third of the extremely poor. The Global Monitoring Report 2007 powerfully illustrates the extent to which fragile states lag in progress towards the MDGs. The export performance of the 35 fragile states identified in the Global Monitoring Report 2007 has remained very weak, and their economic growth rates continue to languish below rates of population growth. 80% of the states classified as ‘fragile’ in 1980 remain in that category today, locked in extreme poverty by a combination of weak institutions, poor policies, corruption, and often, conflict or post-conflict failures of the rule of law. Increasingly, our focus must turn to how to help them better; they are now the most significant group of countries most likely to fail to achieve all the MDGs.

The World Bank, working with others such as the OECD, has developed a sound policy platform for fragile states and is gradually reflecting the policy framework in some operations. But progress has been too slow and too inconsistent - the Bank must now rapidly accelerate its efforts, in partnership with the UN system and other donors.

Fragile states have a limited capacity to absorb additional donor financing and we are not calling for a marked increase in Bank lending. We do, however, call for a marked increase in effective engagement. This constituency, and the East Asia and Pacific region, contains more fragile states than any others outside Sub-Saharan Africa. We have first-hand experience of the vital need for a strong ‘on-the-ground’ presence given the fundamental importance of building functioning and effective political and bureaucratic institutions. The traditional “mission model” of the Bank simply will not work. The Independent Evaluation Group has found that achieving development impact in fragile states requires higher levels of country knowledge, which can only be achieved with a sustained in-country presence.

The Bank must also improve the relevance of its analytic work and be more proactive in promoting the Principles of the Paris Declaration. Fragile states can not afford to expend limited capacity struggling with convoluted Bank reports and incoherent donor approaches.

We welcome the commitments in the recent report ‘Strengthening the World Bank’s rapid response and long-term engagement in fragile states’, particularly the pledge to increase staff presence in those states by 30 over the next year, within its ‘zero real growth’ budget constraint. We call for management to focus on ensuring implementation of the full range of recommendations in the report. But the report’s recommendations must be seen as just the start of improved engagement. Further action is needed, particularly in enhancing staff presence in fragile states across all regions, including in Sub-Saharan Africa, the Caribbean, Central Asia and the Pacific. The number of Bank staff based in fragile states will remain very low relative to other Bank clients with much higher domestic capacities, even after the additional 30 staff are mobilized.

Senior Bank management has an obligation to ensure a clear and consistent message is sent to staff that fragile states are a priority, including through allocating adequate resources in forthcoming Bank Group
budgets. We believe that Bank management should propose options for how to systematically measure results and success in fragile states, taking into account both the poor applicability of the generic results framework and the desire to minimize the reporting burden on fragile states themselves. Governors should have a dedicated opportunity to discuss this, perhaps at the 2008 Spring Meetings.

Gender

We welcome the focus on gender at the Development Committee. MDG3 on gender is all too often neglected by both governments and donors. The Global Monitoring Report 2007 presents a strong case for why progress towards gender equality is so critical for sustained development. Improving gender equality speeds poverty reduction and growth through the effects on child and family welfare and through women’s greater labor force participation, productivity, and earnings.

Despite the Bank’s improved analysis and its rhetoric on the importance of gender, we question whether this is having sufficient impact on Bank operations. The Gender Action Plan launched last year was a very modest plan and has suffered from a lack of profile. The Global Monitoring Report 2007’s section on promoting gender equality through the work of the international financial institutions themselves is particularly weak. As a matter of priority, World Bank management should detail how the gender action plan will be effectively implemented over the coming year, ensuring that it dovetails with international agreements and initiatives in this area. The Bank must be accountable for moving beyond “abstract mainstreaming” of gender equality issues. Gender equality mainstreaming must be embedded more effectively in programs; the focus on gender equality outcomes must strengthened in program and project implementation; and monitoring efforts for both existing and new indicators must be improved.

Official Development Assistance trends and the aid ‘architecture’

Donors are only willing to write off excessive debt overhangs once, and it is of course natural that the valuable contribution of Multilateral Debt Relief Initiative and recent round of bilateral debt forgiveness to the surge of aid in 2005 and 2006 will soon pass from measured aid volumes. But why has the determination of many donors to double aid over a relatively short period not increased other (i.e. non-debt-relief) forms of ODA in 2006? The numbers suggest it is a contraction in other forms of ODA to Sub-Saharan Africa that has limited global ODA growth. One prominent problem is that 19 of the world’s 35 fragile states are in Africa, and their weak institutions, policies and governance limit their ability to quickly absorb intended strong growth in aid. In these instances considerable assistance is nonetheless provided by the international community in the form of addressing immediate humanitarian and security needs.

The context for international development has changed dramatically over the past decade. Non-aid flows, particularly through private investment, remittances and philanthropic foundations, have increasingly been recognized as being important. The proliferation of aid channels through the vertical funds, private foundations, and more recently emerging donors have provided welcome additional resources, but increased the challenge of coordination. Technological changes have also empowered individual philanthropy, such as through direct sponsorship of families and provision of funds to microfinance institutions for on-lending to specific small businesses and entrepreneurs. Through all these changes, the Bank’s share of global development expenditure has declined dramatically. The Bank should take stock of its role in the international development community to ensure it is positioned for maximum development impact, and propose its path forward in a clear statement of its strategy and envisioned role.

We believe a focus on issues of clear comparative advantage for the Bank is essential. We see key areas of comparative advantage for the Bank as: key growth-related sectors including infrastructure, the productive sectors (such as agriculture and forestry); and the financial sector; strengthening governance,
health and education systems; a narrow set of global public good issues including energy and climate change; analytical work at a country, regional and global level on development challenges; and promotion of the Paris Declaration principles to help improve the development effectiveness of all donors. Aid fragmentation is only a feature of the multiplicity of public and private donor agencies, however. The Bank must also urgently review and rationalize its own fragmentation, transaction cost, coordination lapses and waste across affiliates of the Bank Group, trust funds, and special purpose vehicles.

A lack of focus will not only waste Bank resources in areas where others have greater expertise; it will leave the Bank with insufficient resources relative to total flows to have a significant impact in any area. The need for focus is particularly important in consideration of the Bank’s involvement in global public goods. Where other agencies have a clear mandate, the Bank should be willing to ‘play second fiddle’ or exit altogether.

The GMR poses challenging questions in identifying that no country has a fully-funded medium-term expenditure framework to meet the MDGs. When considering this area of aid architecture, we must also recall our mutual commitments under the Monterrey Consensus. We should not focus on one particular means of assistance, such as IDA grants, in mobilizing the financing for development which will assist countries to reach their MDGs. Instead a range of tools and instruments is required including aid for trade, debt relief, FDI, remittances, as well as domestic savings and tax mobilization. A comprehensive approach is required to mobilize domestic and external finance, spend efficiently and effectively, and report results to taxpayers and stakeholders.

**Africa Action Plan**

We welcome the revisions to the Plan that improve its focus on results, and on 8 key ‘flagship’ areas of work.

The Africa Action Plan is a plan for all Africa, so it is important that the Plan encourages Bank engagement not only with good performers, but also in situations where relationships may be difficult and performance falls short of what may have been hoped for.

In particular, we welcome the Plan’s approach to strengthening governance and institutional capacity to help address the large regional shortfalls in the gender, maternal and child health and mortality Millennium Development Goals. We also stress the importance of the Bank taking actions, through the Plan, that support longer-term issues of sustainable development. We welcome the Plan’s sharper focus on the productive sectors of the African economies, such as in raising agricultural productivity, and expanding and upgrading road networks and transit corridors. We also consider the existence of a well functioning financial sector as fundamental to the sustainable development of the private sector as well as mobilizing domestic resources and would have wanted more of these important issues to be reflected in the Plan.

We appreciate that the revised Plan is moving in the right direction, although we would encourage even greater focus in the Plan. As the Plan continues to be implemented, we look forward to reports and actions that clearly demonstrate of the Plan’s additional contribution to accelerating development in Africa. Demonstration of results requires the Plan to include measures that are both achievable and attributable to the Plan’s implementation.

**Poverty reduction, energy use, forestry and climate change**

Present poverty levels carry with them enormous disease and mortality burdens, here and now, and with certainty. Each year, preventable or curable diseases kill some 10 million children; about 2 million people
die of tuberculosis; about 2 million die from respiratory consequences of reliance on biomass fuels; 1 million die from malaria, and 0.5 million women die in childbirth.\(^7\)

The economic growth that will finance the health and education systems to reduce these deaths rests heavily on increasing access to modern energy. As developing countries increase their energy consumption, their share of global greenhouse gas emissions will rise from 30% today to over 50% by 2020. No national, regional or international, approach to global greenhouse gas emissions can succeed without including the developing economies.

Almost 20 per cent of global greenhouse gas emissions come from clearing the world's forests - second only to emissions from burning fossil fuels to produce electricity, and more than all of the world's emissions from transport. Deforestation arises disproportionately in developing countries, and from fragile states with currently poor growth prospects, weak governance and limited capacity to control illegal deforestation. Fragile states have only about 8% of forests, but give rise to almost 30% of deforestation.

If the world could halve the rate of global deforestation, we could reduce greenhouse gas emissions by three billion tonnes a year - about ten times the emissions reductions that will be achieved during the first commitment period of the Kyoto Protocol. Effective, mutually beneficial ways to avoid such deforestation must be developed as a matter of urgency, balancing the pressing environmental imperatives with growth and development objectives. We call on the Bank to play its part, with its partners, in building an effective forestry strategy that rewards avoided deforestation in developing countries.

**Governance structures and leadership of the Bretton Woods Institutions**

The effectiveness and legitimacy of the IMF and World Bank must be enhanced through comprehensive governance reform and strategic policy review.

We are strongly committed to the successful completion of a comprehensive set of IMF reforms under the second stage of the process announced at the Singapore meetings last year, and delivered within the timeframes agreed by IMF Governors. We agree that it is sensible, as proposed in the background paper to this meeting, for the World Bank Group to continue considering its own reforms, with a first phase of measures to help build momentum, and a second phase that would address more challenging structural options for which it may be possible to build consensus. In this context we would urge that all parties explore a consensus that realistically reflects the changing world around us. There should be further development of the issues at Management and Executive Board level before a package is brought forward for consideration by Governors.

We agree that second phase options should be developed in parallel to those at the Fund and take account of the consensus already taking shape there. The Bank has some catching up to do, including in setting a framework for consideration of capital share options. The aim should be to secure simultaneous governmental/parliamentary approvals for necessary amendments of the Bank’s and Fund’s articles, although not at the cost of timeliness or a good outcome.

We believe that the selection of senior management of the IMF and World Bank should be based on merit and ensure broad representation of all member countries. Our Chair will continue to push for rapid movement towards merit-based selection of the IMF Managing Director and the World Bank President.

\(^7\) Not all these numbers can be summed – eg some of the estimated total deaths from malaria are also counted in the 10 million childhood deaths.
Finally, we welcome the report of the External Review Committee on World Bank-IMF collaboration. We look forward to concrete proposals from President Wolfowitz and Managing Director de Rato to promote improvements in the ‘culture of collaboration’ between the two institutions.
## ANNEX 3  CONSTITUENCY PROJECTS

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<tr>
<td>05/11/07</td>
<td>$17.5m</td>
<td>IFC</td>
<td><strong>Investment in Cambodia Airport II</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The investment includes an A loan of $7.5m and a standby loan for $10m. The aim of the project is to raise the operating efficiency and service levels at Siem Reap-Angkor International Airport (SRAIA) Sihanoukville (SIA), thereby eliminating infrastructure bottlenecks to the development of tourism at Sihanoukville and Siem Reap. The total cost of the project is expected to be $40.0m and will include a new runway at SIA, increased terminal capacity at SRAIA, to reflect higher than expected growth.</td>
</tr>
<tr>
<td>06/05/07</td>
<td>$18.5m</td>
<td>IDA</td>
<td><strong>Greater Mekong Sub-Region Power Trade (Cambodia) Project</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The project will enhance power trade within the Greater Mekong Sub-region with a view to bringing affordable grid-based electricity to selected provinces in Cambodia through the import of power from Lao PDR and Vietnam. The grant will finance:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) construction of 115 kV transmission system from the Vietnam border to Kampong Cham and from the Laos border to Stung Treng which will replace the current diesel-based expensive generation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) consulting services for project design and management;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>c) institutional strengthening of Cambodia’s national power utility Electrique du Cambogne.</td>
</tr>
<tr>
<td>07/17/07</td>
<td>$5.0m</td>
<td>IDA</td>
<td><strong>Poverty Reduction and Growth Operation</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The grant has three objectives:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) Support a program of ‘second generation’ growth and poverty reduction based on an improving investment climate, higher agricultural activity, and more effective public service delivery. This will be achieved by diversifying exports, guaranteeing land tenure, and increasing access to land for the rural poor, and making the budget a creditable management tool while reducing fiduciary risk to public funds;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) To provide support for the reform agenda by focusing policy dialogue on results and undergirding momentum when political opportunity exists; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) Harmonize and align development partner policy positions and financial support through the Cambodia Development Cooperation Forum.</td>
</tr>
<tr>
<td>07/27/07</td>
<td>$36.25m</td>
<td>IDA</td>
<td><strong>Additional Financing Grant for the Rural Investment and Local Governance Project</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The grant will allow the expansion of the project from 15 provinces to 23 provinces and provide continuing finance for an additional three years to the intergovernmental fiscal transfer, the Commune/Sangkat Fund, and facilitate an accelerated increase in the amount of the overall intergovernmental fiscal transfer and the related commune allocations. In addition, the financing will provide assistance in developing the forward-looking national program for decentralization and deconcentration, and thereby provide a strong foundation to coordinate future donor support.</td>
</tr>
<tr>
<td>Date</td>
<td>$ Million</td>
<td>From</td>
<td>Project Description</td>
</tr>
<tr>
<td>------------</td>
<td>-------------</td>
<td>------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>MARSHALL ISLANDS, PAPUA NEW GUINEA, SOLOMON ISLANDS &amp; VANUATU (&amp; Fiji - non constituency)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>06/12/07</td>
<td>$9.48m Grant</td>
<td>GEF</td>
<td><strong>Sustainable Energy Financing Project</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The project will support increased access to electricity from renewable resources and provide access to electricity for rural households, micro and small enterprises in the above countries. It will also support efforts to utilize energy more efficiently. The Bank will directly implement the project in Fiji, PNG and Solomon Islands, while the activities in the Marshall Islands and Vanuatu will be implemented by the IFC following the Corporation’s procedures.</td>
</tr>
<tr>
<td><strong>MONGOLIA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>04/27/07</td>
<td>$5.0m</td>
<td>IFC</td>
<td><strong>Investment in Xac Bank</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The objectives of this investment are to help meet the growing demands for greater lending capacity in microfinance and small and medium enterprises and to play a continuing development role in Mongolia’s financial market through institutional capacity building.</td>
</tr>
<tr>
<td>06/20/07</td>
<td>$33.0m Grant &amp; CR $16.5m each</td>
<td>IDA</td>
<td><strong>Second Sustainable Livelihood Project -Adaptable Program Lending (APL)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>This project, the second of a three-phase APL, include a wide range of activities that will enhance livelihood security and sustainability by scaling-up institutional mechanisms to reduce the vulnerability of rural communities throughout Mongolia. The activities are categorized into four components:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) Pastoral Risk Management – to scale up and replicate effective strategies to prepare for and respond to pastoral risk;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) Community Initiatives –to establish, on a nationwide basis, effective, transparent and socially inclusive mechanisms that empower communities to identify and implement small public facility improvements;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>c) Microfinance Development – deepen and widen access to sustainable financial services to rural citizens; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>d) Capacity Building and Project Management – to ensure quality implementation and management of all activities listed above and to ensure compliance with all Bank policies and procedures</td>
</tr>
<tr>
<td><strong>PAPUA NEW GUINEA</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>04/26/07</td>
<td>$37.31m</td>
<td>IDA</td>
<td><strong>Additional Financing Credit for the Road Maintenance and Rehabilitation Project (RMRP)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The additional financing credit will finance:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) about two-and-a-half years’ interim financing to help prevent deterioration of the road network in six provinces;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) rehabilitation of two sections of road which were dropped from the ongoing project due to cost increases and PNG Kina revaluation;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>c) Scaling-up of key components of the ongoing RMRP to include additional bridge and rehabilitation works in the original six provinces, as well similar works in two additional provinces.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The additional financing credit will give the GoPNG time to finalize and implement, with assistance from donors and lenders, its own national roads and maintenance program</td>
</tr>
<tr>
<td>Date</td>
<td>$ Million</td>
<td>From</td>
<td>Project Description</td>
</tr>
<tr>
<td>-----------</td>
<td>-------------</td>
<td>-------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>12/19/06</td>
<td>$10.4m</td>
<td>IFC</td>
<td><strong>Investment in Telecom Samoa Cellular Limited (TSCL)</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The $10.4m senior loan will be used to help Digicel Samoa to acquire an existing</td>
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<td></td>
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<td></td>
<td>Time Division Multiple Access (TDMA) mobile telephone operator and the overlay and</td>
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<td></td>
<td></td>
<td></td>
<td>expansion of the existing TSCL network with a nationwide GSM mobile telephone network.</td>
</tr>
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<td></td>
<td>The results of investment and changes will lead to expanded access and coverage;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>will spur competition; and increase employment in the telecom sector. In addition to</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>improving the overall reliability of telecommunications, Digicel plans to expand its</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>services directed to the business segment, thereby enhancing the efficiency and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>competitiveness of these companies.</td>
</tr>
<tr>
<td>06/19/07</td>
<td>$ 8.27m</td>
<td>IDA</td>
<td><strong>Second Infrastructure Asset Management Project</strong></td>
</tr>
<tr>
<td></td>
<td>(equal CR &amp; Grant of $2.712m)</td>
<td></td>
<td>The monies provided will support:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>a) gap financing for a number of activities planned under the ongoing project which</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>were rescheduled due to higher than originally estimated cost; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>b) implementation of identified new complementary works along with goods and services</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>aimed at establishing, monitoring and enforceable sustainable operation and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>maintenance practices for the country’s transport and coastal infrastructure assets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>These include enforcement of Environmental Impact Assessments (EIA) regulations;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>public dissemination and training of all villagers in Upolu and Savaii on Tsunami</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>awareness; establishing vertical controls for a Geodetic survey carried out under</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>the project; reviewing the national natural hazards early warning system; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>assessing the national earthquake risk.</td>
</tr>
</tbody>
</table>

**IDA14 AND GRANTS**

Beginning with IDA14, we have seen an increase in the number and amount of grants made available to constituency members. In FY07 our constituency members received a total of $78.96m in grants as follows:

- Cambodia: $59.75m
- Mongolia: $16.5m
- Samoa: $2.712m

In addition, a grant from the Global Environmental Facility (GEF) of $9.48m was approved for a regional Sustainable Energy Financing Project to be disbursed to the Rep. of the Marshall Islands, Papua New Guinea, Solomon Islands, Vanuatu and Fiji on a first-come-first-served basis.
## WORLD BANK GROUP FINANCED PROJECTS TO JUNE 30, 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>GRAND TOTALS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of Loans</td>
<td>Total $ M</td>
<td>No of Loans</td>
<td>Total $ M</td>
<td>No of Loans</td>
<td>Total $ M</td>
</tr>
<tr>
<td>IDA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cambodia</td>
<td>4</td>
<td>65.75</td>
<td>2</td>
<td>18</td>
<td>6</td>
<td>83.75</td>
</tr>
<tr>
<td>Kiribati</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marshall Is.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micronesia FS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>1</td>
<td>18.00</td>
<td>2</td>
<td>18.3</td>
<td>1</td>
<td>16.5</td>
</tr>
<tr>
<td>Palau</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PNG</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Samoa</td>
<td>1</td>
<td>2.08</td>
<td>1</td>
<td>2.71</td>
<td>2</td>
<td>4.79</td>
</tr>
<tr>
<td>Solomon Is.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vanuatu</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4</td>
<td>65.75</td>
<td>2</td>
<td>20.08</td>
<td>4</td>
<td>36.30</td>
</tr>
</tbody>
</table>

### IFC

|      |                |           |                |           |                |           |                |           |                |           |
| Cambodia | 2 | 16.00 | 1 | 6.008 | 1 | 17.5 | 4 | 39.50 |
| Kiribati |                |           |                |           |                |           |                |           |                |           |
| Marshall Is. |                |           |                |           |                |           |                |           |                |           |
| Micronesia FS |                |           |                |           |                |           |                |           |                |           |
| Mongolia | 2 | 8.00 | 1 | 5.00 | 3 | 13.00 |
| Palau |                |           |                |           |                |           |                |           |                |           |
| PNG | 1 | 3.20 | 1 | 3.20 |
| Samoa | 1 | 10.4 | 1 | 10.4 |
| Solomon Is. |                |           |                |           |                |           |                |           |                |           |
| Vanuatu |                |           |                |           |                |           |                |           |                |           |
| **Total** | 4 | 24.00 | 2 | 9.20 | 3 | 32.90 | 9 | 66.1 |

Grand Total: IDA Credits and IFC Loans = $207.4 million. All figures rounded.

---

8 Credit line of $6.0m
## ANNEX 4: CONSTITUENCY MEMBERSHIP

### VOTING POWER - Percentage of Total and Number of Votes as of June 30, 2007

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>IBRD</th>
<th>IDA</th>
<th>IFC</th>
<th>MIGA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>#</td>
<td>%</td>
<td>#</td>
</tr>
<tr>
<td>Australia</td>
<td>1.53</td>
<td>24,714</td>
<td>1.27</td>
<td>211,357</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.03</td>
<td>464</td>
<td>0.14</td>
<td>22,642</td>
</tr>
<tr>
<td>Kiribati</td>
<td>0.04</td>
<td>715</td>
<td>0.07</td>
<td>11,777</td>
</tr>
<tr>
<td>Korea Rep. Of</td>
<td>0.99</td>
<td>16,067</td>
<td>0.64</td>
<td>107,096</td>
</tr>
<tr>
<td>FS Micronesia</td>
<td>0.05</td>
<td>729</td>
<td>0.11</td>
<td>18,424</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>0.04</td>
<td>719</td>
<td>0.03</td>
<td>4,902</td>
</tr>
<tr>
<td>Mongolia</td>
<td>0.04</td>
<td>716</td>
<td>0.15</td>
<td>24,389</td>
</tr>
<tr>
<td>New Zealand</td>
<td>0.46</td>
<td>7486</td>
<td>0.31</td>
<td>51,753</td>
</tr>
<tr>
<td>Palau</td>
<td>0.02</td>
<td>266</td>
<td>0.02</td>
<td>3,804</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>0.10</td>
<td>1,544</td>
<td>0.27</td>
<td>45,445</td>
</tr>
<tr>
<td>Samoa</td>
<td>0.05</td>
<td>781</td>
<td>0.13</td>
<td>21,741</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>0.05</td>
<td>763</td>
<td>0.00</td>
<td>518</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>0.05</td>
<td>836</td>
<td>0.08</td>
<td>13,821</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3.45</td>
<td>55,800</td>
<td>3.22</td>
<td>537,669</td>
</tr>
</tbody>
</table>

### MEMBERSHIP

<table>
<thead>
<tr>
<th>MEMBER</th>
<th>IMF</th>
<th>IBRD</th>
<th>IDA</th>
<th>IFC</th>
<th>MIGA</th>
<th>ICSID</th>
<th>G-77*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Cambodia</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Kiribati</td>
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<td>X</td>
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<td></td>
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<tr>
<td>Korea</td>
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<td>X</td>
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<td>X</td>
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<tr>
<td>Micronesia FS</td>
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<tr>
<td>New Zealand</td>
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<td></td>
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<tr>
<td>Palau</td>
<td>X</td>
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<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Papua New Guinea</td>
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<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Samoa</td>
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<tr>
<td>Vanuatu</td>
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<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

**TOTAL** 13 13 13 13 10 8 9

*Membership has risen to 132 countries but G77 title is retained for its historic significance. Australia and Korea are members of the G20 formed in 1999.*
During this period the Bank’s Group Board of Governors voted on the following resolutions:

**IBRD Governors’ Resolutions**

<table>
<thead>
<tr>
<th>#</th>
<th>Resolution Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>575</td>
<td>Direct Remuneration of Executive Directors and their Alternate</td>
<td>August 2, 2006</td>
</tr>
<tr>
<td>576</td>
<td>2006 Regular Election of Executive Directors</td>
<td>August 21, 2006</td>
</tr>
<tr>
<td>577</td>
<td>2009 Annual Meetings of the Boards of Governors of the WBG and the IMF</td>
<td>August 21, 2006</td>
</tr>
<tr>
<td>578</td>
<td>Financial Statements, Accountant’s Report and Administrative Budget</td>
<td>September 20, 2006</td>
</tr>
<tr>
<td>579</td>
<td>Allocation of Net Income</td>
<td>September 20, 2006</td>
</tr>
<tr>
<td>580</td>
<td>Transfer from IBRD Surplus to Fund Trust Fund for Lebanon</td>
<td>September 20, 2006</td>
</tr>
<tr>
<td>581</td>
<td>Resolution of Appreciation</td>
<td>September 20, 2006</td>
</tr>
<tr>
<td>582</td>
<td>Membership of the Republic of Montenegro</td>
<td>December 29, 2006</td>
</tr>
<tr>
<td>583</td>
<td>Transfer from Surplus to Replenish Low Income Countries Under Stress Implementation Trust Fund</td>
<td>January 10, 2007</td>
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<td>584</td>
<td>Transfer from Surplus to Replenish the Trust Fund for Gaza &amp; West Bank</td>
<td>January 31, 2007</td>
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<td>585</td>
<td>Transfer from Surplus to Fund the Caribbean Catastrophic Risk Insurance Facility Trust Fund</td>
<td>April 23, 2007</td>
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**IDA Governors’ Resolutions**

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<td>212</td>
<td>Financial Statements, Accountants’ Report and Administrative Budget</td>
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<td>213</td>
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<td>Financial Statements, Accountants' Report, Administrative Budget and Designations of Retained Earnings</td>
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<td>245</td>
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**MIGA Governors’ Resolutions**

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<td>75</td>
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<td>76</td>
<td>Financial Statements and Accountants' Report, Resolution of Appreciation</td>
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<td>Resolution of Appreciation</td>
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<td>78</td>
<td>Membership of the Republic of Montenegro</td>
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</table>
* Reports operationally to DGO (Independent Evaluation) and administratively to EVP (MIGA).