Status Report

Highlights of Events & Discussions
in the World Bank Group during Fiscal Year 2005

The World Bank Group
NORDIC-BALTIC OFFICE
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Foreword

In my Status Report last year I highlighted the hopes and expectations for the World Bank during the fiscal year 2005 that has just concluded, and the calendar year we are still in the midst of – often labeled as the "Year of Development". The most noticeable change has been at the helm of the Bank, where James Wolfensohn retired and Paul Wolfowitz took over as President.

Jim Wolfensohn exited the Bank with the same dramatic flair with which he entered when he announced his new job as an international envoy in the Israel-Palestinian negotiations. His departure was marked by a remarkable outpouring of open and deeply personal appreciation by staff toward a leader who managed to put his mark on the Bank in a way that made people proud of working here. The legacy he leaves behind is very much aligned with policies high on the Nordic and Baltic countries' development policy agenda. Indeed, he can be credited with steering the World Bank away from the collision course with civil society that the policies of structural adjustment had brought about in the 1980s and early 1990s. Poverty reduction at the country level via the PRSP process, decentralization, debt relief in the form of the Heavily Indebted Poor Countries Initiative and an increased emphasis on the social aspects of development – ranging from forcefully implemented strategies for social protection, education and health to more subtle but equally important attention to good governance, including the fight against corruption, and guarded promotion of human rights in an institution traditionally dominated by economic analysis and considerations – these are all part of the Wolfensohn decade.

With no less drama, and significant political attention, Paul Wolfowitz entered the scene and took over the presidency on the 1st of June 2005 as the 10th President of the World Bank. His election, with unanimous support from the Board of Directors, was preceded by outreach and extensive dialogue with myself and other Board members, as well as with Governors in all regions. During the course of this dialogue and in the first two months of his tenure President Wolfowitz has signaled respect for the competence and results that this institution stands for, as well as curiosity and open-mindedness when it comes to forming his strategic visions of the Bank's role. Some of the President's already articulated intentions include guiding the G8 debt relief proposal through its many operational and potentially far-reaching implications for the institution, fortifying the focus on Africa, addressing the issue of aid effectiveness and harmonization, and promoting "aid for trade".

From many and diverse corners of the international community there are calls for the World Bank to assume leadership on global development issues. The G8 Summit's request that the Bank lead the way for multilateral debt cancellation for the poorest and most indebted countries of a magnitude not previously seen is but the latest example of the institution being at the forefront of development. Consistently delivering on such high expectations in a changing global environment is a tall, but not impossible, order for the

Bank. It leaves little room for complacency and much space for innovative and maybe even radical ideas about the future of this institution. For example, if the International Development Association (IDA) of the World Bank is ordered by its Governors to forgive 40% of its outstanding debt to the poorest countries, this could mean much needed additional financing for the poorest of its client countries, if the IDA is duly compensated for the foregone reflows. On the other hand, if such additional financing would not be forthcoming, the risk is that the critics of the institution, and indeed of multilateralism and official development assistance as such, would win a great victory in that the IDA would be cut down to half of its current size.

Another important challenge concerns addressing political issues of importance for human development, such as state capture, human rights and political economy analysis in developing countries, while keeping within the Bank's mandate of not interfering in internal political affairs. A third area which I would highlight, is finding the proper balance between appropriate controls over disbursed funds and the need to reinforce a risk-taking attitude among staff which puts the needs and wishes of the borrowing countries at the center. This entails choosing, from case to case, between how much to rely on countries' own systems for environmental, social and fiduciary considerations (while working to strengthen these) or to impose the Bank's own state of the art control systems and standards.

Finally, I am pleased to report that I feel that this office has been in an excellent state during the past year. The office enjoys talented staff from all our member countries, who provide high quality work in a good and cooperative spirit. Not less importantly, we have also enjoyed firm support and political guidance from capitals. This has enabled us to be proactive in promoting Nordic and Baltic policy priorities, and to actively participate in all deliberations at the Board of Directors of the World Bank Family.

Thorsteinn Ingolfsson
Executive Director

Acronyms and Abbreviations

AAP	Africa Action Plan
ADB	Asian Development Bank
CODE	Committee on the Development Effectiveness
CPIA	Country Policy and Institutional Assessment
DC	Development Committee
DSF	Debt Sustainability Framework
ECA	Europe and Central Asia Region
ED	Executive Director
EU	European Union
FAS133	Financial Accounting Standards No.133
FY	Fiscal Year
G8	Group of Eight (US, Japan, Germany, France, the UK, Italy, Canada and Russia)
GDP	Gross Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GPP	Global Programs and Partnerships
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IFF	International Finance Facility
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goals
MDTF	Multi Donor Trust Fund
MENA	Middle Eastern and North Africa
MIGA	Multilateral Investment Guarantee Agency
NBO	Nordic Baltic Office
OETF	Organizational Effectiveness Task Force
PRSP	Poverty Reduction Strategy Paper
SIDEM	Social and Institutional Development and Economic Management Technical Assistance Program
SME	Small and Medium Enterprise
UN	United Nations
WBG	World Bank Group
WDR	World Development Report
WTO	World Trade Organization

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Introduction

Year 2005 has been a particularly busy year for development and for the World Bank Group. Several high level reports have been commissioned on current development challenges providing various recommendations for addressing them. Moreover, the G8 meetings during the summer focused their attention on Africa, debt relief and climate change. In September, the UN will hold the Millennium Summit at the 60th session of the General Assembly discussing security and development issues. And finally on trade front, the WTO ministerial meeting in Hong Kong in December will be critical for making progress in the Doha round of multilateral trade liberalization. Through most of these international events runs a sense of urgency on the need to make substantial and permanent inroads into African poverty. Indeed, this can be considered the major development challenge facing the world today.

For the World Bank, this year has also been one of presidential transition. With the change in leadership, the Bank is at an important crossroads and the future path is likely to be carefully discussed by the shareholders over the next years. This status report will touch upon the main political and operational issues that were discussed in the World Bank Group during fiscal year (FY) 2005[1] and describe the views of the Nordic Baltic constituency on those selected issues.

Development Committee in FY2005

The Development Committee[2] (DC) met twice during the year, first in October 2004 during the Annual meetings and for the second time in April 2005 during the Spring meetings. In recent years, the DC agenda has focused on the follow up to the Monterrey commitments by both developed and developing countries as well as on progress towards the Millennium Development Goals (MDGs). As a concrete accountability instrument for the monitoring of these commitments the Bank, together with the IMF, prepare a Global Monitoring Report which is annually discussed at the DC during the Spring meetings (see box 1 below). The report thus sets the stage for other, more specific discussion items during the meetings, which this fiscal year included discussions on financing the development agenda, elements of growth and infrastructure as well as debt relief and debt sustainability.

[1] Fiscal year 2005 covers the World Bank's financial year from July 2004 to June 2005.
[2] Development Committee is a 24 member ministerial body providing political guidance for the World Bank and the IMF on development issues (see also annex 1).

Box 1. Global Monitoring Report 2005
The second annual Global Monitoring Report set the context for discussion at the Development Committee meeting in April 2005. The report, entitled *"Millennium Development Goals: From Consensus to Momentum",* had a special focus on accelerating progress towards the MDGs in Sub-Saharan Africa. The report outlines a five-point agenda of key actions by all countries on how to achieve the MDGs, based on the Monterrey Consensus which outlines responsibilities for both developed and developing countries. The five point agenda includes efforts to:

1. Anchor Actions to Achieve the MDGs in Country-led Development Strategies
2. Improve the Environment for Stronger, Private Sector-led Economic Growth
3. Scale up Human Development Services
4. Dismantle Barriers to Trade
5. Substantially Increase the Level and Effectiveness of Aid

The Nordic Baltic Constituency has been a strong supporter of this flagship report that outlines several necessary overarching strategic actions to be taken – messages that have also been at the core of the World Bank input to the UN process leading up to the Millennium follow-up summit in New York in September this year.

Financing the Development Agenda

The discussion on how to finance the development strategies in developing countries has been one of the most heated topics over the last year, discussed at both DC meetings during the year. The Nordic and Baltic Countries have continued to stress the need to increase aid, through bilateral and multilateral channels, as the most preferred external (official) financing instrument. The increase in private workers' remittances to the developing world is also a subject of an ongoing discussion. Furthermore, the scale of funds donated in response to the Asian Tsunami of December 2004 has highlighted the role of private contributions (see box 6 later).

The following two options for raising additional financing have attracted the most interest among policy makers: i) innovative financing mechanisms and ii) further debt relief for highly indebted and poor countries (see the section on debt below). The UK proposal for an International Finance Facility (IFF) has been launched in the form of an ambitious pilot aimed at raising up to US$4 billion for immunization efforts to help achieve the child mortality MDG. The global taxation initiative, backed by France, Brazil, Germany, Chile and Spain, is being studied and discussed further, with the possibility that a pilot project levying solidarity fees on airplane tickets will be implemented, albeit on a smaller scale and on a voluntary basis. The IFF and global taxation ideas were the center pieces of discussions at the last two Development Committees and will also remain on the agenda in the upcoming meeting in September.

In tandem with the discussion on the need to increase financing for development, it has also been widely recognized that the effectiveness of aid has to improve and be monitored in a better way. The milestone this year was the Paris Declaration on Harmonization and Aid Effectiveness, which calls for aggressive targets on parts of the aid effectiveness agenda, such as better aligning assistance around country owned strategies and country systems. The World Bank has been an important advocate and facilitator in this process as one of the major development partners in most aid-receiving countries. Also, as all the actors are warming up to the idea of financing of recurrent costs (i.e. budget support) there is a sharpened focus in both Bretton Woods institutions[3] on issues such as countries' capacity to absorb more aid, public financial management and public sector governance in recipient countries, as a way to increase the effectiveness of aid[4].

Elements of Growth Agenda and Infrastructure Development

At the backstage of the political discussions on the MDGs, poverty reduction strategies and innovative financing mechanisms, the need for accelerating economic growth has regained attention as the prime source of financing for development. The argument goes that by focusing on delivering projects in social sectors such as health and education with a long term payoff, the development community as a whole, including the World Bank, has neglected what is a priority in all developing countries in order to reduce poverty – to get high and sustainable economic growth. Some of the topics that have received attention include i.a. growth inducing fiscal policies, real sector dynamics and the role of the public sector in fostering it, and equity aspects of growth (see box 4 on WDR 2006). There has also been a call for better "growth diagnostics", where one does not try and fix everything in a country, but rather try to find the binding constraint to growth, which most likely includes moving in the direction of more political economy analysis. As regards the political blessing from the Development Committee and actual implementation, the infrastructure agenda has been at the forefront of discussions. An Infrastructure Action Plan was endorsed by the DC in 2003 and is currently being implemented and monitored. The Nordic and Baltic countries have clearly welcomed the renewed attention on growth and infrastructure in order to effectively reduce poverty, especially in countries where access to private financing is still limited. At the same time, our constituency has continued to advocate for an appropriate balance at an individual country level between investing in infrastructure, social sectors and in institutions that are all critical in achieving sustainable growth in the longer term.

Debt and Debt Sustainability

At the DC meeting in October 2004 the Governors were also provided with a status report on the implementation of the Heavily Indebted Poor Countries (HIPC) debt relief initiative as well as on the recent work conducted on the new operational framework for longer term debt sustainability in low income countries. The objective of the HIPC initiative is to provide debt relief for 38 low income countries that had accumulated unsustainable debt levels in the past. By the time of writing, 18 countries have reached the "completion point" under the initiative and received irrevocable debt stock reduction by about 67 % in net present value terms. This has created significant savings on debt service obligations, thus freeing up fiscal space for spending i.a. on health and education.

[3] The Bretton Woods Institutions are the World Bank Group and the International Monetary Fund.
[4] In fact, it is expected that public sector governance will be analyzed more thoroughly in the next Global Monitoring Report.

The operational framework for debt sustainability on the other hand provides forward looking guidance for lending and borrowing decisions in order to avoid build up of similar debt problems in the future. The framework is still being developed with the so called first pillar being implemented under the IDA-14 framework (see more details below). Obviously, the recent G8 proposal for 100 % multilateral debt cancellation for HIPCs has significant implications to the HIPC initiative as well as potentially to IDA's financial integrity and the operational framework for debt sustainability. These implications are some of the main discussion items in the coming Annual Meetings of the Bank and the Fund in September.

Enhancing Voice and Participation

Enhancing the voice and participation of developing and transition countries in global economic decision making has also been on the DC agenda since the Monterrey conference on Financing for Development in 2002. In the World Bank, progress has been achieved on several capacity building initiatives, namely by increasing the number of advisors at the African Executive Directors' (ED) offices, by establishing an analytical trust fund[5] to provide these offices with independent technical and research support and by launching the Voice secondment program with the first 18 participants arriving at the Bank in the spring of 2005. In the context of our constituency, it can be noted that Latvia has sent an application to the next selection round in autumn this year. Progress on the institutional and structural issues that relate i.a. to the voting structure and Board representation has been more modest so far as the required broad political consensus on which options to take forward has not yet been reached. The Voice "fatigue" and slow progress in this matter may also be said to mirror the UN reform process. The attempts by i.a. the Nordic and Baltic countries to give greater voice e.g. to the African countries have also been hampered by the unwillingness by other developing countries and constituencies who favor promoting increased influence for themselves. This could include involving the usual procedures in the IMF and the World Bank to measure each country's relative international economic weight.

Strategy and Operational Performance

World Bank[6] Strategy and Performance

The World Bank's strategy in the broadest terms, based on the two pillars of investing in and empowering people and promoting a favorable investment climate for private sector led economic growth, remains valid. The challenge for the institution is related to the implementation of this strategy, given the differences in client country circumstances and the strong demand for the Bank's support, especially in the poorest countries. Although it is still hard to say if the presidential succession will bring about any major changes in the Bank's strategy, it is already quite clear that the conclusions of the high-level UN

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[5] The analytical trust fund is supported by a group of donors, a couple of which are from the Nordic Baltic Constituency.
[6] World Bank here refers to IBRD and IDA.

meetings taking place this year, as well as the G8 initiatives, will have an important impact also on the Bank's work.

In addition to country level programs, which remain the core of the Bank's business, the Bank is also involved in many Global Programs and Partnerships (GPP). In June 2005, the Board discussed a new framework for the Bank's involvement in these programs. Priority areas for Bank involvement include i.a. control of communicable diseases such as HIV/AIDS and malaria, preservation of global environmental commons and production of development knowledge. While strongly supporting the continued Bank involvement in global programs, our constituency has among others called for increased attention on improving oversight and selectivity of global programs and on integrating these global public goods with the World Bank's country driven business model.

The Bank's budget reform process that was started about a year ago has made good progress and resulted in a more flexible and results oriented budget framework for fiscal year 2006. When approving the net administrative budget of US$1.54 billion for the Bank, the Board essentially authorized management to operate within a +/-2% band around the baseline budget. The main objective of these changes is to make management more accountable for results, measured by a set of Key Performance Indicators, instead of just paying attention to a single rigid budget number. The second part of the reform is to move towards a rolling budgeting framework that essentially would take the focus away from year-end figures and facilitate a strategic quarterly discussion on the outlook for the next four and twelve quarters at any given time. NBO, represented at the Board's Budget Committee, has been actively involved in negotiations with management about the design of the new budgeting framework and we are satisfied with the progress made thus far.

IDA-14 Replenishment

In February 2005, donor countries reached an agreement on a substantial replenishment of funds to the International Development Association (IDA) that provides assistance to the world's 81 poorest countries. A central policy issue for the round was the new Debt Sustainability Framework (DSF) that will form the analytical basis for grant and credit allocations by IDA. According to this framework, IDA countries will be divided into three groupings based on their debt distress situation whereby: i) countries with low risk of debt distress will get 100% credits; ii) countries with medium risk will get 50/50 ratio between credits and grants; and iii) countries with high risk of debt distress will get 100% grants. It was also agreed that management will report back to the donors by the end of 2006 mid term review on the potential for introducing some type of shocks facility into IDA, taking into account the role of other institutions in this area. Total resources for IDA for the next three years amount to about US$34 billion, representing an increase of approximately 25% over the previous replenishment in US dollar terms. This represents the highest increase in donor contributions in 25 years. Our constituency's total contribution was notable with some Nordic countries increasing their contribution significantly. In fact, Sweden with its 4.1% share of total donor contributions became the sixth largest donor for IDA[7].

IFC Strategy and Performance

The IFC's Strategic Directions was discussed by the Board on April 26. The overall strategy remains broadly valid also for the IFC, with its focus on frontier markets, SME development, supporting the development of local financial markets and differentiating through sustainability competences. An area that has been gaining a higher profile is IFC's role in sub-sovereign lending. The Corporation has made good progress with a few pilot projects and now the shareholders and management face the question of how exactly to position the sub-sovereign lending activities within the Bank Group. Something that the NBO has also been strongly supporting and that is now clearly taking place is the IFC's strengthened focus on Sub-Saharan Africa. The envisaged Performance Based Grant Initiative that would provide support to private sector investments in the most difficult environments is expected to help these efforts further.

The Board has also supported a "quantum leap" in the Corporation's investment levels over the next three years (aiming at a level of US$6-7 billion by FY08, a 35% increase), something which would also require an increase in the IFC's budget in the range of 6-7% per annum in real terms. Given that the financial performance of the IFC has been excellent for a number of years and there seems to be a strong demand in the market for its services, the Board has been willing to increase the profile of the IFC further and provide the financing for growth in its activities. The quality of the Corporation's portfolio (currently at about US$12.5 billion) improved in fiscal year 2005 and IFC achieved a record annual profit for the third year in succession (US$2,015 million).

Box 2. Doing Business Report – Creating Jobs

The Doing Business Report is a joint Bank/IFC analytic report that provides for a comparison of the regulatory burden that companies face in 145 countries. For an initiative that was originally planned only as a three-year pilot project, the success of the Doing Business Report has been quite notable. It has by its third year already become the most quoted annual publication of the World Bank Group. The appeal of the Doing Business Initiative is its straightforward approach to measuring the time and cost of completing administrative processes that an entrepreneur has to go through in different countries and it also provides a unique perspective for a World Bank publication in the sense that it employs the same criteria for evaluating the business environment in both developing and industrialized countries. The 2004 version of the Doing Business Report provided an evaluation of investment climate in 145 countries based on seven quantitative indicators ranging from the cost and time of starting a business to the ease of enforcing contracts. The coverage of the report will be further broadened this year both in terms of indicators as well as countries looked at, and a special focus will be on the relationship between job creation and the business climate. Referring to the performance of the Nordic-Baltic countries, one can be pleased to see that members of our constituency are well represented both among the top economies in terms of ease of doing business, as well as top reformers over the past years.

[7] After US, UK, Japan, Germany and France.

MIGA Strategy and Performance

FY05 was also an important year for MIGA. Under new management, the agency underwent a substantive transition – a new business model was put in place at the beginning of the year, which prioritizes MIGA's developmental role and consists of three principal elements: i) proactive marketing and complementary products, ii) a comprehensive risk management framework, and iii) stepped-up collaboration with the World Bank Group. As part of the shift to a new business focus, MIGA was also realigned to have a simpler and flatter organizational structure, aimed at creating a more flexible and responsive organization.

This year MIGA also conducted a detailed review of its past five years' activities. The Review showed the need to grow and diversify its portfolio while enhancing MIGA's developmental role and focus on areas where MIGA has a unique comparative advantage. Concurrent with the review, MIGA has presented a new forward-looking strategy for FY05-08 which builds on the following priorities: investment in infrastructure development; investment into frontier markets; investment in conflict-afflicted environments; and investment among developing countries (South-South investments).

Having observed that MIGA's income had been on a downward trend and administrative expenses on an upward trend over the past five years, Management put much effort into reversing the situation. FY05 business results are stronger than might have been expected, despite the fact that the new management team at the start of the year deselected a significant volume of contracts in the pipeline that did not meet the requirements of the new business model. In FY05, the Agency issued 62 guarantees, totaling US$1.2 billion for 33 new projects. In terms of regional exposure, Europe and Central Asia accounted for the largest share for the third consecutive year. This was largely driven by the investment activity of Austrian banks in the region, particularly in the Balkans. In addition, more than a third of the guarantees were issued for projects in frontier, IDA-eligible countries. Financial sector projects grew from 35% to 42% of the portfolio – again reflecting the steady flow of business from Austrian banks into Europe.

Improving Institutional Effectiveness and Transparency

Organizational Effectiveness Task Force

In light of the rapidly changing global environment, the Organizational Effectiveness Task Force (OETF) was established in April 2004 to look into ways to improve the Bank's performance. The objective of the Task Force is to make the Bank more effective and competitive and reduce bureaucratic burdens on staff. The Task Force was charged with examining three key areas: i) strengthening client service delivery; ii) improving the effectiveness of networks and central operational units in supporting client service teams; and iii) clarifying next steps on decentralization, and aligning skills with operational priorities.

During the Strategic Forum in December 2004 management endorsed the recommendations by the OETF for strengthening the Bank's delivery on client services and its work on global issues; simplifying planning and budgeting processes; and improving Human Resources management policies and practices. More fundamental issues, such as the option to consolidate the Networks and further decentralize sector staff to bring them closer to client governments, including the option of three regional hubs, were not considered ready for implementation during the presidential transition period and are expected to be further discussed at a later stage.

Modernization and Simplification Agenda

As indicated in the last Annual Report, during FY04 the Board approved changes to the operational policies for policy based lending which in many ways formalizes a new approach, different from the structural adjustment loans of the 1980s and early 1990s, in that it emphasizes responsiveness to client priorities and the fact that there are no "blueprint" solutions for achieving growth and poverty reduction. While that initiative dealt with budget support or policy based lending, this year the Board spent considerable time modernizing the policies that set the framework for investment lending, or project loans. Also, the results of a review of World Bank conditionality in policy based lending will be discussed by Governors at the DC meeting in September (see box 3 below).

Box 3. Conditionality Review

As an important follow-up to last year's reforms of the Bank's policy based lending instruments, the Development Committee asked management to perform a review of the conditionality attached to these loans. The Development Committee, in conjunction with this year's annual meeting, will be provided with the final paper of the review summarizing past experiences and outlining some principles for how the World Bank would approach this important (and contractual) part of the relationship with its borrowing governments. During the year the Nordic Baltic Constituency produced a position paper on this topic which emphasizes the following principles:

- Strengthened ownership of development policies;
- The need to tailor conditionality to borrowing country circumstances;
- Increase focus on outcomes;
- Reduce the burden of conditionality through improved coordination and harmonization;
- Transparency for accountability, greater predictability of resource flows and adequate response to inadequate performance.

The position paper has been widely welcomed in the Bank and it is expected that the final recommendations of the Bank's own work will be aligned with our constituency's approach. The review is not expected to result in any further changes in the operational policies, but rather to serve as guidance for Bank staff, articulated in a series of "good practice notes".

The process of updating the investment lending policies has been referred to as a modernization and simplification agenda. It is partly a response to increased demand from the middle income countries for the World Bank to remain a competitive financing partner in their countries. Several reports have highlighted the plausible connection between the existing policies, which were seen as outdated and excessively cumbersome, and the decreasing trend in investment loans to IBRD countries since the late 1990s[8]. As part of the reforms, internal processes and documentation surrounding investment lending have been simplified. Another driving force behind potentially far-reaching changes in policy has been the increased focus on strengthening aid effectiveness by harmonizing and aligning donor support around the recipient countries' own policies and systems. Currently, projects where the World Bank will be using borrowing countries' own rules and systems for social and environmental considerations in public projects is being piloted in a few borrowing countries where these systems and rules are well-developed. A similar pilot project for procurement and fiduciary systems is being considered. The philosophy behind this is that instead of having donors impose a multitude of different systems on the country, the Bank and other donors should align around, and provide support for further capacity strengthening of, the country's own system, where appropriate, while still maintaining the World Bank standards i.a. on fiduciary, social and environmental safeguards.

Disclosure Policies

The past year saw several improvements in the Bank's internal policies related to disclosure and transparency. In September 2004, the Board approved full disclosure of the results of future rounds of the Bank's annual assessment of IDA-eligible countries' policies and institutions, although a formal system to deal with valid disagreements between country authorities and Bank staff over specific ratings is still to be put in place. Furthermore, in March 2005, the Board approved several ground-breaking changes to the Bank's general disclosure policy thereby concluding, at least for now, a long-standing and highly divisive item on the Board agenda. The new policy prescribes disclosure of all of the Bank's new country assistance strategies, Board minutes, and on a two-year pilot basis, certain operational policy reviews simultaneously with their initial distribution to the Board, i.e. before they have been considered by the Board.

Even though the revised policy does not go as far as the Nordic-Baltic constituency may have preferred, it is certainly a step in the right direction of increased disclosure and transparency of Bank-produced information and documents. It may be looked upon as the best achievable compromise at the present time, given stout opposition from certain other shareholders who are concerned that, among other issues, excessive sharing of internal information may harm the Bank's working relationship with client governments, and indirectly influence the Board's internal deliberative processes.

The IFC has also undertaken a review of both the Corporation's disclosure and safeguards policies with the aim of implementing changes from 2006. A number of consultations have been held with various stakeholders in order to address all possible gaps in the new policy drafts, application of which could possibly have a strong impact on the way that the IFC conducts its business. Just as the safeguard policies' update, also

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[8] In fact, we have already seen some reversal of this trend during this fiscal year. To what extent that is due to the ongoing reforms is not yet clear though.

the review of the IFC's disclosure polices aims at clarifying the roles of the IFC and its clients and should help reduce the risk and improve the development impact of the IFC's investments through consultation and dialogue.

Sectoral and Thematic Issues

Social Development

Promoting social development is an integral element of the World Bank's efforts in support of its second strategic pillar: empowerment of poor people to take advantage of the opportunities for improved living standards brought about by development and economic growth. Organizationally, the Bank's social development anchor covers the "soft" aspects of development, i.e., the complicated – and, locally, often quite controversial – institutional and socio-political issues that are so vital for creating local ownership and lasting results.

Following several committee level discussions, in February 2005 the Board finally endorsed a new business model for deepening the integration of social development in World Bank operations, based on the paper entitled "Empowering People by Transforming Institutions". The crux of the new approach, strongly supported by the Nordic-Baltic constituency, is systematic ex-ante mainstreaming of broad social development issues – like participation, cohesion and accountability – at the country level, rather than at the individual project level. As the new approach is gradually rolled out to the Bank's client countries, it is expected to improve development effectiveness and significantly reduce project costs. Although technically not a strategy, the paper's implementation will be monitored in the yearly Sector Strategy Implementation Update.

Box 4. WDR 2006 – Equity and Development

The 2006 World Development Report examined equity aspects in the development process. The report defines equity through the following two principles: i) equality of opportunities and ii) avoidance of extreme deprivation of outcomes. However, as it may be difficult to draw clear distinctions between the two, policies that aim to level the playing field in opportunities may also require changes in distribution in a number of outcome dimensions of equity. The report drew on regional studies but also on case studies on the economic history of countries i.a. in our constituency by academics from the Nordic countries. Main messages from the report include:

- In the long run equity and efficiency are complements;
- Institutions play a crucial role in either perpetuating existing inequalities or alternatively promoting equitable development.

Both of these messages, which are further reinforced by our own experiences within the Nordic Baltic constituency, were strongly supported by our chair. Going forward, the Bank intends to develop better diagnostic tools to analyze and monitor trends in equity as well as incorporate political economy considerations into the Bank's country analysis and dialogue on a more systematic basis than before.

FY05 also saw several Bank units involved in research and analytical work on human rights issues and how they link with the Bank's current policies and activities as well as with its mandate. For example, one interesting exercise is the mapping of specific Bank operations against the rights and principles of major international human rights legal instruments. Another important focus area is achieving a better understanding of whether and how human rights considerations may be incorporated into the Bank's regular dialogue with borrowing countries' authorities in a mutually beneficial and acceptable fashion, for instance, as part of the annual assessment of client countries' policies and institutions. In many cases such studies are financed by Nordic trust fund contributions (see also box 4 on the WDR 2006).

Further progress on the human rights agenda, in line with Nordic and Baltic priorities, will require the Bank's management and shareholders to carefully consider fundamental questions regarding the role and mandate of the institution. It is an area that deserves continued full attention from our constituency.

Renewable Energy

As part of the response to the Extractive Industries Review of 2004, the Bank committed itself to more strongly promoting renewable energy and energy efficiency as a means to combat climate change. Specific commitments also included increasing lending for renewable energy and energy efficiency projects by 20% annually for the next five years. In FY05 the total IBRD and IDA lending for renewable energy projects was US$205 million that compares to US$187 million in FY04 and US$53 million in FY03. Since 1990, the World Bank Group often with the Global Environment Facility (GEF) leverage has been the largest lender for energy efficiency and renewable energy projects in the developing nations, investing more than US$6 billion in Bank-managed resources and mobilizing more than US$10 billion from other public and private sources. Since the setting up of the Prototype Carbon Fund in 2000 the carbon finance business of the World Bank Group has also grown strongly.

The cooperation between the Bank and the Nordic-Baltic constituency on renewable energy matters was further enhanced by a joint seminar held in Copenhagen in April 2005, devoted to the topic of "Renewable Energy and Development". In addition to discussing policy issues in the energy sector, it was decided that coordination between the constituency countries on renewable energy related matters should be further strengthened.

Regional perspectives

Sub-Saharan Africa

Achieving sustainable development and poverty reduction in Sub-Saharan Africa, where more than 300 million Africans live on less than US$1 a day, remains the major development challenge for the global community. Sub-Saharan Africa increasingly emerges as a diverse region where several countries are making significant progress, some stall and others lag seriously behind. For instance, according to the World Bank, 15 countries in the region saw their GDP grow consistently at a rate of over five percent p.a. since the mid-1990s. Also in terms of political leadership, many African countries are showing unprecedented commitment to take ownership of their own development, and involve parliaments, civil society and private enterprises more actively in the process. Thus, with the expectation that the countries experiencing growth and prosperity will be able to help along their less successful neighbors, there are grounds for optimism as regards large parts of the African continent.

The World Bank is the largest provider of development assistance to Africa with disbursements of over US$3.5 billion in FY05. The operational focus of the Bank's interventions is squarely on the individual country and its specific opportunities for and obstacles to growth and poverty reduction, yet enhanced regional integration, private sector development, trade, capacity building, and aid effectiveness and harmonization constitute common cross-cutting strategic priorities for the whole region.

In light of Africa's prominent feature on the international agenda in 2005 (see the introduction), the World Bank has set afloat several innovative initiatives regarding the region in the past year. These include the new Africa Action Plan, detailing how the Bank intends to contribute to speeding-up MDG progress in Africa (see box 5 below). Moreover, an internal task force was charged with updating the Bank's business model as it affects capacity development[9] in African countries. The task force recommends that capacity development should be at the core of all development strategies (rather than a collateral objective as has mostly been the approach in the past), but based on different paths and sequencing in different countries, depending on the existing capacity, political and administrative leadership and extent of societal engagement in decision-making.

Box 5. Africa Action Plan

Upon request from the Board – and in particular the African, British and Nordic-Baltic chairs – the Bank decided in April 2005 to prepare an Africa Action Plan as one of its specific inputs to the process surrounding the UN Summit in September. The objective of the Plan, to be discussed by Governors at the Bank's Annual Meeting this September, is to outline how the Bank, in partnership with others, will work to enable every African country to reach as many MDGs as possible by 2015. It builds on the Bank's existing strategy for shared growth in Africa, and suggests that to improve development outcomes, the Bank and its development partners should keep the country at the center, support "star performers" in the region, take greater risks on LICUS/fragile states, and build a stronger regional focus.

One interesting conclusion of the AAP is that the present level of international development assistance only allows for a few African countries to achieve a few of the MDGs. Thus, the AAP can also be seen as an advocacy document from the Bank, detailing how donors should provide more and better development financing if the MDGs are to be generally attained in Sub-Saharan Africa.

[9] Where "capacity" is understood broadly as the ability of the state to undertake rulemaking, strategic prioritization processes, and public resource management as well as the capacity of the citizens/social actors to hold the government accountable for effective execution of these functions

Middle East and North Africa

The Middle East and North Africa (MENA) is an economically diverse region that includes both the oil-rich economies in the Gulf and countries that are resource-scarce in relation to population, such as Egypt, Morocco, and Yemen. The region's economic fortunes over much of the past quarter century have been heavily influenced by two factors – the price of oil and the legacy of economic policies and structures that had emphasized a leading role for the state. Because of the diverse nature of the region, the World Bank country programs in MENA differ considerably in their focus. Although the Bank is using a very broad menu of lending and knowledge services, there are a number of cross-cutting challenges for client countries in the region – governance, private sector development, education and gender. Given the rapidly growing and urbanizing population, helping to create new employment opportunities is at the core of the Bank's assistance in all countries.

Lending levels for the MENA region have been growing from half a billion in FY01 to almost US$1.7 billion in FY05. That has to a large extent been achieved by a renewed focus on infrastructure lending which accounts for 2/3 of the FY05 portfolio. The Bank is still having problems with the disbursement and portfolio quality, indicators for which in MENA are below the Bank average, reflecting the risky operating environment in many countries in the region and weak capacity in some client countries.

South Asia

South Asia is a region which has achieved much progress, but where challenges remain enormous. Although the region has experienced rapid GDP growth averaging 5.5% a year over the past 15-20 years, income poverty and human deprivation remain deep, particularly for disadvantaged populations and children. The South Asia region also seems to still be the least integrated region in the world. In addition, South Asia has the world's largest population affected by conflict – around 71 million people in Afghanistan, Nepal, and Sri-Lanka. The region has also been devastated by natural disasters: floods in Bangladesh and tsunami in Sri-Lanka, Maldives and India (see box 6 below).

Therefore, the Bank strategy introduced last year to scale-up lending for growth and poverty reduction remains valid. The two pillars of the strategy are faster growth and human development with cross-cutting themes such as equity and inclusion, public accountability, HIV/AIDS, and regional integration. According to World Bank estimates, the region needs to grow at about 8% p.a. to significantly reduce poverty. Therefore, the WBG is scaling up lending for infrastructure, growth-enhancing policies and human development as well as scaling up knowledge assistance. Cross cutting themes include equity and inclusion, public accountability, HIV/AIDS and regional integration. In addition, the WBG is engaged in several operations to improve the investment climate in the region. For instance, IFC has been steadily increasing its investments in the region since 2000 and MIGA's gross exposure in South Asia accounts for approximately 4% of its guarantee portfolio.

Box 6. The World Bank's Response to the Tsunami Disaster
The Bank was active right from the start of the world's worst natural disaster in close collaboration with the affected governments, bilateral donors, the UN and other international organizations and private groups. Immediately following the disaster, the World Bank committed US$250 million as initial emergency aid for reconstruction of power, water, roads, and communications and later submitted a number of emergency grants for Board approval. The Board of Governors further approved the transfer of US$27.5 million from IBRD surplus to the Trust Funds for Indonesia and India. In Indonesia, the Bank was asked by the Government to coordinate immediate recovery efforts and to work jointly with UN and ADB on the needs assessment. The Bank also established a Multi Donor Trust Fund (MDTF) for Aceh and North Sumatra to support Indonesia's tsunami recovery program. In Sri Lanka, local conflicts were posing considerable difficulties in channeling the financing to conflict areas. The Indian government did not ask for outside support during the immediate relief and recovery phase, but the Bank's on-going projects in housing reconstruction and restoration of livelihoods are now helping Tsunami victims. The Maldives appeared to be the economically worst affected country in the region. There, the Bank has financed one-time cash grants from the government to the affected families to cover the immediate expenses for food and household items. Since the financial contributions and pledges were unprecedented, a major challenge has been the coordination of donors and contributors from the private sector. Consultation and inclusion have been guiding principles of the Bank's approach to reconstruction.

East Asia and the Pacific

In East Asia, the Bank's strategy remains focused on the same elements as in the past, namely, supporting broad-based economic growth, promoting trade and integration within the region and with the global economy, social stability, achieving the MDGs and enhancing the environment for governance at all levels. Although the East Asia and Pacific region is experiencing an impressive growth with China's "gravitational pull" and with enhanced trade and integration, many challenges still remain i.a. related to governance and corruption problems as well as with limited progress in MDG-related areas, especially in health and access to clean water and sanitation.

With the aim to have more focused and sustained engagement in the Pacific member countries, the Bank prepared a regional strategy for the Pacific islands. The proposed strategy explicitly focuses on creating an environment conducive to generating sustainable economic growth with employment creation. Specific emphasis is given to strengthening government capabilities in service delivery and improving the incentives for private sector led growth and employment. Since a regional engagement framework will help to have a clear and balanced approach for involvement in small and dispersed islands, the country level interventions will be customized to meet different needs in the islands and will be determined after consultations with the respective governments and involved donors. Although the Bank is a modest contributor in the Pacific islands among the big bilateral donors (such as the US, Japan, Australia, New Zealand and the EU), the Bank's analytical and advisory work is still regarded as extremely useful and important. Moreover, the Bank will host this year's Small States Forum in September in Washington DC in conjunction of the Annual meetings.

Box 7. Hydropower Project Nam Theun 2 in Lao PDR
In March 2005, the Board approved a controversial US$1.5 billion hydropower project in Lao PDR, which has been under consideration for more than a decade. The project could be seen as a test case for the Bank's return to funding of large-scale infrastructure projects and also as an opportunity to develop a best practice case. It is one of the "high reward/high risk" projects, where benefits for Laos will occur only if project revenues are well spent, targeted to priority programs and environmental and social impacts of the project are managed properly. The Nam Theun 2 project gives impetus to economic and social reforms plus revenues and is seen as a significant driver for development in Lao PDR. Although the Bank's contribution is quite small, due diligence on this project has been exceptionally high. Continued Bank involvement gives some confidence that safeguards will be met and that the broader development impact will be enhanced.

Europe and Central Asia

It could be argued that the Bank strategy in the Europe and Central Asia (ECA) region is still more oriented towards economic growth than poverty reduction. This is primarily due to the fragile political balances in the region and high diversity of country profiles, ranging from IDA only to EU member countries. As a consequence, the Bank receives a wide range of specific requests for assistance from the countries in the region. The demand for Bank lending has recently decreased in the region while the demand for the Bank's knowledge products has simultaneously increased. This has raised some concerns about the right balance between lending and non-lending activities. One example is Russia, where the disparity between levels of development in different regions is considerable and demand for Bank services is highly volatile. The main emphasis was on lending to regional level, focusing co-funded technical assistance activities on creating regional fiscal programs with a very small lending part. Another example is Kazakhstan and a new type of Country Partnership Strategy where emphasis is placed on co-financed analytical activities. Some concerns have also been raised about "forgotten" Central Asian states (except Kazakhstan), some of which after 15 years of transition are still struggling to establish the basic systems needed for normal functioning of their states.

In December 2004, the Board discussed in an informal meeting the partnership between the World Bank and the new EU member states (referred to as "EU 8 strategy"). In line with this strategy, in January 2005, the Board approved a "Social and Institutional Development and Economic Management Technical Assistance Program" (SIDEM) amounting to a US$100 million facility that is available to new EU members. Up to now, only the Slovak Republic has borrowed US$5 million for Human Capital Technical Assistance Project from this Facility. As of July 1, 2005 Lithuania and Estonia are considered to have crossed the level of GNI per capita of US$5,685, which in the World Bank means that formal discussion on graduation from IBRD borrowing eligibility can commence.

Latin America and the Caribbean

The Latin American and Caribbean (LAC) region includes middle income countries such as Chile and Mexico, on the verge of graduating from IBRD, and poor, fragile states such as Bolivia and Haiti. LAC countries face persistent poverty challenges with the share of the population living on less than US$2 a day remaining roughly the same as in the late 1980s. The region has suffered from low and volatile growth and entrenched, high inequality with average measures of household income inequality among the highest in the world for most countries.

The World Bank strategy for the LAC region focuses on these two challenges in supporting infrastructure, education, health, investment climate reforms and public sector reforms, tailored to country circumstances. IBRD has allocated approximately 40% of its new lending (US$5 billion) to LAC over the last year, while IFC has done slightly less at around 30% or (US$1.2 billion). Due to the limited IDA-funding available until IDA-14 came into effect, there has been a slight backlog of loans to the IDA countries in the region, many of which have seen new Country Assistance Strategies over the 3rd and 4th quarter this fiscal year partly because of regime change in several countries over the last year.

Financial Overview

Volume of business

IBRD's FY05 commitments totaled US$13.6 billion, reflecting a 23% increase from the FY04 level of US$11 billion. It is the highest IBRD lending over the past six years. The rate of prepayments has slowed down from US$4.6 billion in FY04 to US$2.7 billion in FY05. Pool loan prepayments were US$1.9 billion, compared with US$2.7 billion in FY04, which is attributable to the fact that borrowers with the greatest ability to prepay have already prepaid substantial portions of their pool loans and also that the gap between pool rates and the US dollar market rates has declined.

IDA's commitments declined by 4% in FY05 to US$8.7 billion due to the limited size of the IDA-13 envelope. IFC's signed commitments during FY05 constituted US$5.4 million as compared with US$4.8 in FY04. MIGA's volume of new guarantee business in FY05 amounted to US$1.2 billion, which is almost the same as last year.

Table 1: Volume of loan and credit commitments of the World Bank Group, FY00-FY05

	FY00 ($ bn)	**FY01** ($ bn)	**FY02** ($ bn)	**FY03** ($ bn)	**FY04** ($ bn)	**FY05** ($ bn)
IBRD	10.9	10.5	11.5	11.2	11.0	13.6
IDA	4.4	6.8	8.1	7.3	9.0	8.7
IFC	2.8	2.7	3.1	3.9	4.8	5.4
MIGA*	1.9	2.2	1.4	1.4	1.1	1.2

*Guarantees issued.

Table 2: Regional breakdown of IBRD/IDA lending for FY04-FY05

Region	Lending Volume			
	FY04		**FY05**	
	$ billion	Share (%)	$ billion	Share (%)
Africa	4.1	20.4	3.9	17.4
East Asia and Pacific	2.6	12.9	2.9	13.0
Europe and Central Asia	3.6	17.9	4.1	18.3
Latin America and the Caribbean	5.3	26.4	5.2	23.2
Middle East and North Africa	1.1	5.5	1.3	5.8
South Asia	3.4	16.9	5.0	22.3
Total IBRD+IDA	**20.1**	**100**	**22.4**	**100**

Financial Statements

In FY05, operating income of IBRD was US$1.3 billion, US$0.4 billion lower than in FY04, as a consequence of several factors: decrease in income from loans, increase in borrowing expenses and lower release of the loan loss provisions. After the application of FAS133 (Financial Accounting Standards No.133[10]), the downward shift in interest rates at the medium to long end in FY05 resulted in a US$2.5 billion positive adjustment, which has resulted in a net reported income of US$3.8 billion (see Annex 2 for more on IBRD's financial data).

IDA incurred an operating loss of US$986 million for FY05, compared with a loss of US$1.7 billion in FY04. This increase in income was partially due to an increase in investment income. The increase of US$957 million in investment income was a consequence of mark-to-market gains associated with the decrease in long-term interest rates during FY05.

Allocation of Net Income and Waivers to Loan Charges

Taking into consideration the financial position and outlook of the institution, the Board approved the following allocations from the IBRD's FY05 Net Income:

- US$589.5 million to reserves
- US$52.5 million to surplus

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

- US$400 million to IDA
- US$210 million to the HIPC Trust Fund
- the amounts earmarked in the surplus account for future IDA/HIPC transfers were reduced from US$500 million to US$400 million.

Commitment charge waivers of 50 basis points will be maintained for all payment periods commencing in FY06 on an unconditional basis, and interest charge waivers of 25 basis points and 5 basis points will be maintained on new loans and old loans, respectively, to eligible borrowers for payment periods commencing in FY06. Perhaps most importantly, the Board also decided to further cut in half the front-end fee charged to 25 basis points in order to improve the pricing competitiveness of IBRD compared to other multilateral development banks.

Financial Capacity

The financial capacity of the Bank, as measured by the Equity-to-Loans ratio (E/L) and capital adequacy, improved in FY05. Equity-to-Loans ratio went up to 31.4% compared with 29.4% in FY04 and the average of about 24.3% over the last five years. The ratio is projected to rise to 33.1% in FY07. Beyond FY07, the IBRD's E/L is projected to slowly fall back to about 28.3% by FY15 reflecting the combined effects of projected annual additions to reserves taking into account assumptions on transfers, and projected loan growth under the base case.

A key analytical tool used to assess IBRD's capital adequacy is the income-based stress test. It helps to evaluate the adequacy of financial capacity by determining whether projected net income could absorb probable risks while retaining an adequate earnings base for supporting future loan growth and being able to respond in a crisis affecting the Bank's members. For FY05, the maximum post-shock loan growth that IBRD could support, consistent with maintaining its E/L ratio above the desired minimum level over a ten-year horizon is 9.9%. This compares to 8.7% at end-FY04. To maintain the E/L ratio at its post-shock level of 28.3%, the loan portfolio could grow at a maximum rate of 2.8% post-shock.

Reflecting the improvements in the Bank's portfolio, the size of the credit shock that the Bank could face at the 95% confidence level measured as a share of accrual loans outstanding has decreased from 17% at end-FY04 to 16.3%. In terms of loan loss provisioning, because of the improved credit quality, total provisioning requirements for the IBRD portfolio declined from US$3.5 billion at end-FY04 to US$3 billion at end-FY05.

In light of IBRD's increased bearing capacity and improved portfolio quality in recent years, Management proposed and the Board approved a US$1.0 billion increase of the present US$13.5 billion Single Borrower Limit.

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

The World Bank was established in 1944 to help rebuild Europe after the Second World War. Today, the Bank's mission has shifted to help reduce poverty in developing world. The Bank is one of the UN specialized agencies, with its 184 member countries as its shareholders. Along with the rest of the development community, the World Bank focuses its efforts on reaching the Millennium Development Goals (MDGs) by 2015[11].

The World Bank Group consists of five separate organizations. The IBRD and the IDA provide low-interest loans, interest-free credit, and grants to developing country governments. The IFC promotes private sector investment by investing in equity and providing loans to companies in developing countries. The MIGA provides guarantees against political risk to investors in and lenders to developing countries. And the ICSID settles investment disputes between foreign investors and their host countries.[12]

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

Executive Director	Thorsteinn Ingolfsson (Iceland)
Alternate Executive Director	Svein Aass (Norway)
Senior Advisor	Pauli Kariniemi (Finland)
Senior Advisor (from August, 2005)	Madis Muller (Estonia)
Advisor (from August, 2005)	Jurgita Kazlauskaite (Lithuania)
Advisor	Pernille Falck (Denmark)
Advisor	Gints Freimanis (Latvia)
Advisor	Erik Eldhagen (Sweden)
Executive Assistant	Gun-Maj Ramberg
Program Assistant	Colleen Martin

During the year the Nordic Baltic chair became a member in two permanent Board committees, the Committee on the Governance and Administrative Matters (COGAM) and the Budget Committee (BC), which called for added focus to these issues at the Board. Moreover, Svein Aass became a member of the Committee on the Development Effectiveness (CODE) Subcommittee.

[11] For more information on the MDGs see http://ddp-ext.worldbank.org/ext/MDG/home.do

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

ANNEX 2 – Selected financial data of IBRD

Fiscal years 2001-2005, in millions US$

	2005	2004	2003	2002	2001
Lending					
Commitments	13,611	11,045	11,231	11,452	10,487
Gross Disbursements	9,722	10,109	11,921	11,256	11,784
Net Disbursements	(5,131)	(8,408)	(7,996)	(812)	2,091

Reported Basis	2005	2004	2003	2002	2001
Loan Income	4,155	4,403	5,742	6,861	8,143
Provision for Losses on Loans and Guarantees decrease (increase)	502	665	1,300	15	(676)
Investment Income	628	304	418	738	1,540
Borrowing Expenses	(3,037)	(2,789)	(3,594)	(4,907)	(7,152)
Net Non-interest Expense	(928)	(887)	(845)	(783)	(711)
Operating Income	1,320	1,696	3,021	1,924	1,144
Effects of applying FAS133	2,511	(4,100)	2,323	854	345
Net Income (Loss)	3,831	(2,404)	5,344	2,778	1,489
Net return (%) on Average Earnings Assets	0.96	1.18	2.06	1.29	0.78
after the effects of FAS133	2.79	(1.67)	3.64	1.87	0.87
Gross return (%) on:					
Average Earning Assets	3.48	3.26	4.19	5.11	6.61
Average Outstanding Loans	3.83	3.83	4.73	5.57	6.67
Average Cash and Investments	2.17	1.04	1.64	2.87	6.28
Cost (%) of Average Borrowings (including swaps)	3.06	2.61	3.23	4.23	6.18
after the effects of FAS133	0.54	6.56	1.18	3.53	6.12
Interest Coverage (%)	1.43	1.61	1.84	1.39	1.16
after the effects of FAS133	8.23	0.65	2.49	1.57	1.18
Return on Equity (%)	3.90	5.21	10.32	7.09	4.33
after the effects of FAS133	11.13	(7.00)	16.18	9.75	4.63
Equity to Loans Ratio (%)[13]	31.45	29.35	26.59	22.90	21.51
Total Assets	222,008	228,910	230,062	227,454	222,748
Due from Banks-Unrestricted	505	1,138	1,259	415	50
Loans Outstanding	104,401	109,610	116,240	121,589	118,866
Accumulated Provision for Loan Losses	(3,009)	(3,505)	(4,045)	(5,053)	(4,074)
Borrowings Outstanding	101,297	108,066	108,554	110,263	106,757
Total Equity	38,588	35,463	37,918	32,313	29,570

Current Value Basis	2005	2004	2003	2002	2001
Net Income	1,044	1,129	3,436	2,853	1,460
of which current value adjustment	(273)	(513)	394	881	367

[13] Before the effects of FAS133

Net return (%) on Average Earnings Assets	0.74	0.76	2.25	1.86	0.89
Return on Equity (%)	3.04	3.36	11.16	10.07	4.98
Equity-to-Loans Ratio (%)	30.83	29.07	26.36	23.10	21.43
Cash and Liquid Investments	26,395	31,126	26,620	25,056	24,407
Loans Outstanding	107,549	112,608	122,593	126,454	123,062
Borrowings Outstanding	105,691	109,675	116,695	114,502	110,290
Total Equity	36,943	36,421	35,675	32,466	29,744

ANNEX 3 – Selected financial data of IFC

Fiscal years 2001-2005, in millions US$	As of and for the fiscal years ended June 30				
	2005	2004	2003	2002	2001
Net Income highlights:					
Interest income	1,193	796	795	1,040	1,505
Charges on borrowings	-309	-141	-226	-438	-961
Net gains and losses from trading activities	-175	-104	157	31	87
Income from equity investments	1,365	584	195	428	222
Of which:					
Capital gains on equity sales	723	382	52	288	91
Dividends and profit participations	258	207	147	141	131
Other	384	-5	-4	-1	-
Release of (provision for) losses	261	177	-98	-657	-402
Net noninterest expense	-344	-330	-295	-243	-210
Operating income	1,991	982	528	161	241
Expenditures for technical assistance and advisory services	-38				
Net gains (losses) on financial instruments	62	11	-41	54	11
Effect of accounting change	-	-	-	-	93
Net income	2,015	993	487	215	345
Balance sheet highlights (1)					
Total assets	39,560	32,361	31,543	27,739	26,170
Liquid assets, net of associated derivatives	13,325	13,055	12,952	14,532	13,258
Loans and equity investments	11,489	10,279	9,377	7,963	8,696
Borrowings withdrawn and outstanding	15,359	16,254	17,315	16,581	15,457
Total capital	9,798	7,782	6,789	6,304	6,095
Key financial ratios (2)					
Return on average assets	5.40%	3.10%	1.80%	0.60%	0.60%
Return on average net worth	22.40%	13.70%	8.20%	2.70%	4.10%
Cash and liquid investments as % of next three years' estimated net cash requirements	143%	116%	107%	109%	101%
Debt to equity ratio	1.8:1	2.3:1	2.6:1	2.8:1	2.6:1
Cash flows from loans and equity investment activities					
Loan disbursements	-2,868	-2,684	-2,646	-1,250	-1,200
Equity disbursements	-588	-468	-313	-285	-335
Loan repayments	2,283	1,935	1,402	1,350	1,209
Equity redemptions	29	4	5	23	8
Sales of loans and equity investments	1,338	975	271	638	257

1. In respect to loans, borrowings, and derivative assets, the balance sheet and related disclosures as of June 30, 2004, June 30, 2003, June 30, 2002 and June 30, 2001, are not comparable with the balance sheet and related disclosures as of June 30, 2000, due to the effects of implementing SFAS No. 133.
2. Key financial indicators are generally calculated excluding the effects of SFAS No. 133.