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

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April 10, 2000

NOTE FROM THE PRESIDENT OF THE WORLD BANK

Attached for the information of the Members of the Development Committee is a Note from the President of the World Bank, James D. Wolfensohn, for the Committee's April 17, 2000 meeting.

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President’s Note to the Development Committee

This will be the first meeting of the Development Committee at which I will not be accompanied by Michel Camdessus. Let me take this opportunity to express my admiration for all that Michel achieved over his years of leadership at the IMF in promoting financial stability, in handling financial crises - and above all my gratitude to him for leading the IMF to become such an effective partner with the Bank in the fight against poverty. I am looking forward to the opportunity to work in the same close collaboration with Horst Koehler as our two institutions pursue our complementary and shared objectives in the years ahead.

The past year has brought strong signs of recovery from the financial crisis that swept the globe in 1997 and 1998. It has also brought a stronger and more focused commitment to poverty reduction in the world. These are both encouraging signs. And in the Bank, since the Development Committee met last September, we have continued to improve our understanding of development and to use this understanding in implementing our core mission of reducing poverty.

A number of key elements -- economic growth and stability, a thriving private sector, investment in people and physical assets, a sustainable environment, and sound and fair institutions and policies – are necessary to promote prosperity, reduce poverty and improve human freedom. We have also learned from our recent “voices of the poor” study that the experience and determinants of poverty are multi-dimensional. A better quality of life for the poor calls for not only higher incomes; it also requires individual security and empowerment; improved and more equitable opportunities for education and jobs; better health and nutrition; a cleaner and more sustainable natural environment; a well-functioning judicial and legal system; greater civil and political liberties and freedom; and a richer cultural life.

This is a broad agenda both for developing countries and the international community. The key to giving it focus is the approach that underlies the comprehensive development framework (CDF) – which encompasses these lessons and brings the agenda together at the country level, helping each country identify its priorities. The Bank Group has given special attention to helping partner governments enhance growth and improve the well-being of the poor through support for a well functioning and supervised financial system, good and clean governance (fighting corruption), an effective legal and justice system, social safety nets and social programs, education and knowledge institutions, health and population policies, infrastructure, and creating a sustainable environment. Private-sector led growth is a key driver of poverty reduction. As a public institution we can help client countries build a solid social and structural foundation, creating a policy environment that will attract private sector investment and allow governments to borrow on a sustainable basis on appropriate terms from private markets.

This is an enormous task requiring close partnership with other key actors to divide our labor, avoid duplication, and exercise selectivity to work in our areas of comparative advantage. But while international development institutions can play an important role, it is countries themselves that must shape their own destinies. Development priorities must be identified at the country level, and will differ from country to country. The CDF approach places countries at the center of the development process, with the Bank and other partners assisting with financial resources, knowledge and information.

This note reports on progress over the past six months in several, although of course not all, key areas of our work. It also reports on our progress in reorganizing ourselves to reflect the changing nature of our work and the challenge to become more efficient, flexible and fully committed to excellence.

1. Poverty Reduction and Debt Relief

The Poverty Challenge

Our departure point is the plight of the poor around the world. While some progress has been made in reducing poverty, especially in East Asia, this has been slow and uneven. (The attached graphs and tables indicate the size and scope of the poverty problem.) While progress has been made on many fronts, it remains too slow to achieve the targets set by the International Development Goals for 2015.

The poverty focus and selectivity of Country Assistance Strategies (CAS) have been strengthened, as has the quality of poverty analysis, and poverty reduction outcomes are the measure of progress instead of amounts lent. Debt relief and poverty reduction have been linked more closely through the joint Bank-Fund led effort to work closely with the poorest countries in the development of their own poverty reduction strategies set out in Poverty Reduction Strategy Papers (PRSP). The Fund focuses on helping countries develop sound macroeconomic policies and the Bank focuses on social and structural policies and programs.

The CDF/PRSP approach represents the center of our strategy at the country level. We are also working at the global level to remove constraints that countries cannot deal with alone — supporting the provision of global public goods like health and agricultural research and helping to form a global architecture which prevents crises and mitigates their impact. And we are working at the local level to help our members institute community-based development programs to empower the poor as agents of change.

Several specific items on the agenda for this meeting of the Development Committee -- trade, development and poverty reduction; HIV/AIDS; and the development challenges of small states – have a direct link to poverty reduction. Experience has shown that economic growth is a necessary, although not sufficient, condition for reducing poverty and trade expansion is key to accelerated growth. Empirical research has established that more open economies tend to grow faster than closed ones. But the data also indicate that many of the poorest countries have been losing ground in global markets, reducing their ability to participate in the growth-inducing benefits of trade. We need a broader set of actions to ensure a more open trading system that will benefit all countries. I look forward to a productive discussion of these issues at our meetings.

Similarly, attacking the HIV/AIDS epidemic is a critical aspect of our poverty reduction strategy. Not just a health issue, HIV/AIDS poses an unprecedented threat to development. Combating the HIV/AIDS problem requires a stronger and multifaceted approach of advocacy, incentives, disincentives, funding, and policy support. I hope that we will be able to agree on clear steps forward in intensifying action against this devastating epidemic.

Small states have a number of characteristics and vulnerabilities that present them with special challenges over and above the normal challenges of development. The report of the joint Commonwealth Secretariat/World Bank Task Force on Small States is on the Committee's agenda. In producing the report, the joint task force worked in close partnership with many other international organizations and donors, and with representatives of small states themselves. The task force has set out an agenda for future analysis and action – by the international community as well as by small states themselves. In the Bank we are fully committed to working together with small states and other partners to help implement this agenda over the years ahead.

Debt Relief

Like other low-income countries, heavily indebted poor countries have limited ability to mobilize private flows and thus are highly dependent upon official flows. But given their unsustainable debt burden, they cannot escape a vicious cycle of poverty without comprehensive debt relief.

At its last meeting, the Development Committee endorsed a significant enhancement of the HIPC Initiative. Debt sustainability thresholds were lowered and strong operational links were established with the introduction of country-owned poverty reduction strategies.

Good progress has been made in implementing the enhanced framework -- both for the "retroactive" cases where countries had already received relief under the original HIPC scheme, and in bringing new countries onboard. Five countries -- Bolivia, Mauritania, Mozambique, Tanzania and Uganda have thus far reached their decision point under this new framework, bringing committed debt service relief under the Initiative to close to $15 billion. This week, we expect Uganda to become the first country to also reach its completion point under the enhanced framework. The debt relief package for Senegal is scheduled for Board consideration shortly, and preliminary documents for Honduras and Guinea have been presented to the Bank and Fund Boards. If all goes well, the five remaining retroactive countries -- Benin, Burkina Faso, Cote d'Ivoire, Guyana and Mali – could reach their decisions points later this year. Work has also intensified with regard to new country cases and by mid-year two new countries could reach their decision points and five additional countries could have their preliminary HIPC documents reviewed by the Boards.

Meanwhile, coordination between multilateral institutions involved in the initiative has been strengthened, and the mobilization of donor contributions towards financing the enhanced initiative has also yielded positive results. A majority of the governing bodies of the multilateral development banks involved in the HIPC Initiative have now confirmed their participation and several other institutions are considering how they might participate.

As highlighted in the Development Committee's September communiqué, successful implementation of the enhanced HIPC framework will depend on the availability of adequate financing to meet multilateral institutions' debt relief costs. Since the Annual Meetings we have continued our discussions with donors to secure pledges and mobilize additional contributions. However, even if all current pledges materialize as envisaged, the enhanced HIPC framework remains significantly under-funded and substantial additional financing is needed from the bilateral donors, to reinforce the strong financing effort which multilateral development banks need to make from their own resources.

2. Institutional and Policy Development

Strengthening the International Financial Architecture

Reducing the likelihood and impact of financial crises is also critical to successful economic development and poverty reduction. Actions needed at the national level to reduce vulnerability to crises are also needed to promote successful development. Creating sound financial and institutional structures involves putting in place the whole range of underpinnings of a market economy, including good monetary, fiscal and exchange rate policies—but going far beyond these to include all the institutional, structural and social components needed to make a market economy work.

A background note, *International Financial Architecture: An Update on the World Bank Group's Role* has been circulated to the Development Committee. Since September, the Bank has made important headway in three important collaborative initiatives with the IMF: the joint Financial Sector Assessment Program (FSAP), the Reports on the Observance of Standards and Codes (ROSC), and work on debt management. The joint FSAP is designed to help countries detect financial system weaknesses, and to develop appropriate responses, as well as to identify key priorities for financial sector development and improve the design and delivery of external support for capacity building. The pilot program is now well advanced, and on the basis of the initial experience, the Bank and the Fund are proposing to step up the number of assessments from twelve this year to 24 in the coming year.

The Bank has also accepted the Fund's invitation to take a shared ownership approach by preparing ROSC modules in areas where the Bank has a comparative advantage, such as corporate governance, accounting and insolvency regimes. Assessments of the extent to which standards are observed help identify weaknesses that may contribute to economic and financial vulnerability, help countries determine reform and development priorities, and help the Bank identify priorities for assistance. The Bank and Fund are also collaborating on a series of papers on external debt management that will provide the basis to put forward a set of core principles on sovereign debt management for consideration by the two Boards this summer. On social protection and social safety nets, the Bank is following up in several ways the Development Committee's request that we continue to accumulate and disseminate knowledge of good practices on how to mitigate the social effects of crises.

Good Governance and Anti-Corruption

Good governance is essential for growth and poverty reduction. Public sector reform helps to create an enabling environment for private sector investment – both domestic and foreign. Recent empirical research has demonstrated that corruption in public bureaucracies has a strong negative effect on investment and that institutional quality is a strong predictor of growth. In addition, political stability has an important positive influence on the success of Bank-supported projects.

The Bank's activities in governance and anticorruption have grown substantially in recent years, spurred both by the emergence in 1997 of anti-corruption as a major theme of our activities and by the increasing evidence that poor governance impedes development and lessens the positive impact of aid. We are about to publish a report on *Helping Countries Combat Corruption: Progress at the World Bank Since 1997*. Our strategy involves four main directions for the future: (1) to broaden our approach, emphasizing local empowerment, transparency, competition in public service delivery (where feasible) and government reform; (2) higher quality and more participatory analytical work (including public expenditure reviews, institutional and governance reviews, and anticorruption and governance surveys of households, firms, and policy makers); (3) a longer term approach to our lending to allow time and space for institutional reform; and (4) strengthening our in-house skills and our partnerships. We continue to forge collaborative arrangements with the IMF, UNDP, other MDBs, bilateral donors, and NGOs.

Legal and Judicial Reform

The rule of law is essential for effective governance, a vibrant economy and lasting poverty reduction. Recent research has shown that rule of law in the economic domain is crucial for investment and production and a strong predictor of growth. Over the past several months, governments, the Bank, international partners and civil society have been working together to understand the issues facing law and justice systems and to design strategies for addressing any shortcomings, consistent with a country's needs and aspirations. The Bank is also designing tool kits for comprehensive legal and judicial assessments as part of poverty reduction strategies.

In addition, free-standing legal and judicial reform projects are being prepared and implemented in all six regions of the Bank, covering such issues as strengthening governments' law-drafting capacities, improving legal information databases, modernizing court administration and procedures, training of judges, prosecutors and private practitioners and facilitating access of the poor to the judicial system. Furthermore, legal and judicial reform components are increasingly introduced in a wide range of projects - from structural adjustment operations to public sector management and social sector projects. A comprehensive Law and Justice Strategy is being prepared, with partnerships being forged with other practitioners from both developing and developed countries.

Community Driven Development

Local organizations and institutions are a powerful force in improving the incomes and well-being of the poor. Increasingly the Bank is supporting Community Driven Development (CDD), helping governments to scale these local level projects up to the sub-national level. CDD gives community organizations authority and control over decisions and resources, including direct responsibility to manage internal and external resources, and to make allocation decisions. Community-based approaches have the potential to make allocation of resources more responsive to the needs of the poor, to lead to more sustainable outcomes, and to increase the power of poor communities to negotiate with government, the private sector and civil society.

Commodity Price Risk Management

Producers throughout the developing world are severely affected by the adverse effects of commodity price fluctuation. Work is proceeding to develop prototypes and test proposals made by the *International Task Force* (*ITF) on Commodity Risk Management in Developing Countries* -- an effort to devise ways to help small farmers and producers in developing countries manage the risks associated with fluctuations in commodity prices on international markets. The results of these tests will guide the next steps in this area.

3. Global Public Goods, Knowledge, Technology, and Education

Global Public Goods

As the globe becomes increasingly interconnected, the world confronts a broad class of problems that cross borders and defy solution by individual governments and markets. The solution to many environmental and other problems require concerted global cooperation. The Bank and other development institutions can make a strong contribution by helping to galvanize international efforts and promoting investment in global public goods.

A very good example is the Consultative Group on International Agricultural Research (CGIAR), which the Bank has supported from its inception in 1972. Other ongoing programs include, *inter alia*, the Global Environment Facility (GEF), the fight against HIV/AIDS, the Roll Back Malaria Program, the River Blindness Program in West Africa, the Global Water Partnership, and the Mekong River Commission. A new initiative that the Bank is strongly supporting is the Global Alliance for Vaccines and Immunizations (GAVI) -- a network of governments, foundations, international organizations, bilateral aid agencies and others working together to help create a market for new treatments and vaccines in the many developing countries most affected by major diseases.

In addition, collective efforts to promote global environmental security are critical – of which the Global Environmental Facility (GEF) is a prime example. Recently, the Bank, in collaboration with a number of interested governments and private entities, established the Prototype Carbon Fund (PCF) as an experiment in creating a market in emissions reductions. The PCF will invest in cleaner technologies aimed at reducing greenhouse gas emissions. Developing countries and transition economies should benefit both by acquiring these technologies and by profiting from trade in greenhouse gas emissions reductions. Industrialized country investors will gain by paying a lower price for emissions reductions than would otherwise be available to them.

Knowledge, Technology and Information

Knowledge and information are public goods critical to the expansion of any economy, especially those of poorer countries where information and knowledge gaps are so large. The Bank, along with other international institutions with global reach, has a large and important role to play in the creation and global dissemination of knowledge and information.

Significant progress has been made within the development community to harness knowledge, share information effectively, and use Internet technology to advance sustainable development. Still, much more remains to be accomplished. The Bank is establishing a knowledge management system built around core networks and thematic groups in which we collect, synthesize, and disseminate knowledge to our clients and other partners. We are also helping governments prepare for the knowledge-based economy through training, networking, and policy and strategic advice. Knowledge transfer and technical assistance are two key aspects of our development work. To complement and enhance the efforts already under way, the Bank is working together with a growing number of strategic partners in the international donor community, civil society, private enterprise, and governments. One initiative whose feasibility is currently being explored is the Global Development Gateway, an Internet partnership site with the primary goal of providing a high quality, easy-to-use starting point for users to share and locate the best and most current knowledge and data on development. The Gateway would serve not only as a network of information, but also as a community builder that encourages communication and dialogue among all parties.

Over the past several months, in parallel to knowledge and information-sharing efforts, the Bank, in conjunction with donors, has been focusing on the issues of connectivity and decreasing the “digital divide”. Improving access to the Internet is critical to ensuring participation in the global economy. The number of Internet accounts around the world is expected to multiply threefold in the next five years, reaching roughly 300 million. Access to the explosion of the Internet, however, has often bypassed the poorest; roughly ninety percent of Internet host computers reside in high-income countries, with only sixteen percent of the world's population. Unless a proactive policy to foster network development in emerging economies is adopted, the risks of a growing "digital divide" will increase.

To close this gap, investments in connectivity are fundamental. These will be most effective in countries that adopt a pro-competitive regulatory environment and promote digital literacy. The Bank will continue to support investments in connectivity via grants (through our infoDev program), loans, and investments, complementing the content-oriented efforts which would be developed in the context of the Global Development Gateway.

Education

Education is probably one of the most important determinants of productivity, growth and poverty reduction. At the Bank, our long-term goal in education is to ensure everyone completes a basic education of adequate quality, acquires foundation skills – literacy, numeracy, reasoning and social skills such as teamwork -- and has further opportunities to learn advanced skills throughout life, in a range of post-basic education settings. Education is a critical element of the CDF and of poverty reduction strategies. In our policy dialogue with countries and through financial support for reforms, we will continue to emphasize the need to give budgetary priority to education, in particular basic education and education for girls. In the context of the 1990 Education for All initiative launched in Jomtien, Thailand, the Bank has met its commitment to double education lending with a special focus on basic education and education for girls. We will now work with our partners to help ensure that no country with a credible plan to achieve education for all targets is held back through lack of resources. We look forward to participating in the upcoming dialogue on these issues in Dakar later this month.

4. Response to Post-Conflict Situations and Natural Disasters

Poverty and conflict form a vicious cycle. Along with many others in the international development community, the Bank has helped manage transitions in post-conflict countries and regions such as Bosnia-Herzegovina, Kosovo, East Timor, Rwanda, and Sierra Leone. In the latter part of 1999, the Bank coordinated an international joint assessment mission to East Timor and co-chaired, with the United Nations, a donor coordination meeting to agree on the country’s comprehensive financing needs and to mobilize necessary external funding. During the latter half of 1999, two donor conferences for Kosovo were organized and co-chaired by the European Commission and the Bank to exchange views on the economic policy and institutional agenda, to discuss humanitarian and reconstruction needs and programs, and to generate donor resources.

Under the Brookings initiative for bridging the emergency/development gap, the Bank, UNHCR and UNDP undertook a joint mission to Sierra Leone, Liberia and Guinea in February 2000 to strengthen operational partnerships between security efforts, humanitarian assistance, reconstruction and development aid. During the latter part of 1999, the Bank Board had an opportunity to discuss a regional view of "The Impact of Conflict in Africa" as well as to consider transitional support strategies for the Central African Republic, Sierra Leone, and Burundi -- similar strategies are under preparation for other countries.

In addition to conflict, natural disasters exacerbate poverty by wiping out the few resources that poor people have and by destroying investments in infrastructure and services that serve the poor. Measures taken to reduce the impact of natural disasters provide an effective vehicle to make substantial advances in the fight against poverty. Current operations are assisting our clients to recover from emergencies such as Hurricane Mitch in Central America, the floods in Bangladesh, Venezuela, and Mozambique and the earthquakes in Turkey. In addition, in February 2000 our Disaster Management Facility convened a coalition of governments, international organizations and other partners into the ProVention Consortium which is working proactively to improve disaster preparedness and responsiveness in developing countries.

5. Supporting Private Sector Development

We continue to enhance our emphasis on private sector activity and investment, the main drivers of growth, job creation, and poverty reduction. This includes Bank support for the maintenance of sound policy and institutional frameworks to ensure the proper enabling environment, complemented by IFC/MIGA support for private sector transactions that would not take place without Bank Group involvement. We no longer support public investments in areas where private sector investments are becoming more commonplace. We continue to focus on catalyzing additional private investment in areas where it is only tentatively emerging. Our advisory services are focused on corporate governance, privatization, and private provision of infrastructure, and we have intensified our work in Small and Medium Sized Enterprise (SME) development. MIGA's role is particularly important because of its ability to complement the activities of other institutions, both public and private, in encouraging foreign direct investment to a wider range of developing countries. We have continued our efforts through the IFC to support, rather than supplant, private sector finance.

International Finance Corporation (IFC)

IFC continues to implement the strategy, first articulated in 1998 during the *IFC: Beyond 2000* process, that seeks to increase the Corporation's developmental effectiveness in frontier economies and sectors through direct investment and advisory activities, along with a continued strengthening of its financial markets work. As part of the Bank Group's ongoing efforts to respond effectively to the development challenges facing member countries (including increased financial market volatility), IFC is seeking to scale up its development impact through greater selectivity, enhanced partnership, and a stronger catalytic role.

Greater selectivity – at the sector, country and project levels - will allow the Corporation to allocate its limited capital, budget and human resources to those activities where it can have the highest developmental impact. IFC proposes to focus its efforts on financial markets and infrastructure (traditional areas of strength), to increase its support for small and medium enterprises (SMEs) and to build expertise and contribution in the relatively new areas of social services (health, education) and information technology.

Partnerships, both within the Bank Group and with institutions and stakeholders (other IFIs, private sector, NGOs) will be key to leveraging IFC's impact. In terms of its catalytic role, IFC's B Loan program will continue to develop as a core part of its direct mobilization efforts, along with other innovative instruments to more effectively mobilize external capital. IFC's catalytic role will also be strengthened through a strategic focus on advisory activities designed expressly to enhance the enabling environment and increase private investment flows in a wide range of sectors and situations where IFC's direct investment may no longer be needed.

Multilateral Investment Agency (MIGA)

The first year of the subscription period for MIGA's General Capital Increase ends in early April. As of April 7, however, only nineteen countries had subscribed all or a portion of their subscription, despite the recommendation of the Council of Governors for members to subscribe fifty percent during the first year. The recommendation to make two equal subscription payments during the first two years was based on the amount of additional capital required by MIGA to deliver its guarantee program to its developing member countries as planned. The new capital is crucial to MIGA's ability to promote private investment flows into, and among, developing countries. MIGA's contribution to development has been considerable during its relatively short time in operation, and this trend should be maintained in the future for the benefit of our member countries. An increase in subscriptions is urgently required, if MIGA is to maintain and build upon its contribution to development.

6. Operational Efficiency and Internal Organization

Internal Renewal

We have made much progress in the past three years in transforming the Bank. The principles and programs under the Strategic Compact have helped us to become more effective by making us more results-oriented, more decentralized and closer to the client, more accessible and open to partnerships, with stronger and more relevant skills, and with products of higher quality. These investments have paid off. We will be undertaking a comprehensive evaluation of the Compact later this year, but many of the benefits are clearly visible. Almost half of our Country Directors work in country offices, overseeing about three-fourths of our portfolio. A knowledge management system built around our five core networks and over one hundred thematic groups has been established; a comprehensive administrative, financial and operations reporting system replacing over 60 separate systems has been put in place; and a comprehensive reform of our human resource policies has been completed.

The Bank's range of products and organizational structure have been strengthened. Several new products have been introduced – such as adaptable program loans/credits, learning and innovation loans/credits, special structural adjustment loans, and policy-based guarantees -- to enable country teams to respond more quickly and appropriately to changing client needs. More flexible financial products have been launched, including fixed and variable rate LIBOR-based loans and free-standing hedging products. Several initiatives are under way to improve the Bank's diagnostic work and we have strengthened our human resources. We have implemented and are currently taking steps to strengthen a matrix structure to ensure clear country focus and accountabilities and the ability to support our clients with world-class knowledge and best practice.

All of this has been done within the Strategic Compact budgetary envelope, with the net administrative budget declining this year and again next year. We are doing all we can to increase efficiency and to cut back on lower priority activities, but the continuing decline in the administrative budget will nevertheless require us to drop high impact activities in areas where investments are needed to maintain our capacity to deliver in the future.

Development Effectiveness: Operational Quality and Quantity

Operational quality and impact continue to improve, despite the growing complexity of the development agenda. In line with the performance turnaround launched in FY96, the Bank experienced significant and broad-based improvements in portfolio quality during FY99. Projects at risk declined to 19 percent (FY99) of the portfolio as compared to 33 percent in FY96, while quality at entry rose to 89 percent (CY99) from 67 percent in FY96. The Bank's independent Operations Evaluations Department estimates that 81 percent of all Bank lending and 93 percent of all adjustment lending in FY98-99, had satisfactory or better outcomes, up from 77 and 80 percent, respectively, as recently as FY94-97. However, the full impact of the Bank's renewal program on project outcomes and sustainability will only show up several years from now, reflecting the fact that average project life is 5 to 8 years. But even then, perfect scores would be unlikely and even undesirable: given the inherent riskiness of the development business, they could indicate we were avoiding the key challenges in our operations.

Reflecting the much more favorable external developments associated with the global financial recovery, which have had a pronounced effect on IBRD borrowers, the FY00 lending outturn will be much below the level forecast at the start of the year. Country-specific factors -- such as political transitions, conflicts or sanctions, and weak country policy and institutional performance especially in some IDA borrowers -- have also played a role. But measuring and interpreting what the Bank is delivering is not straightforward, and has become less so with the ongoing shift to the "New Bank" -- a shift that was overshadowed in FY98-99 by the spike in crisis-related lending. Large adjustment operations aside, average project size has been declining, in line with the Bank's increased social-sector and poverty-reduction focus and the shift to adaptable program lending. In contrast to earlier eras, greater attention is being paid to operational quality, the policy dialogue, and results on the ground, than to lending volumes *per se*.

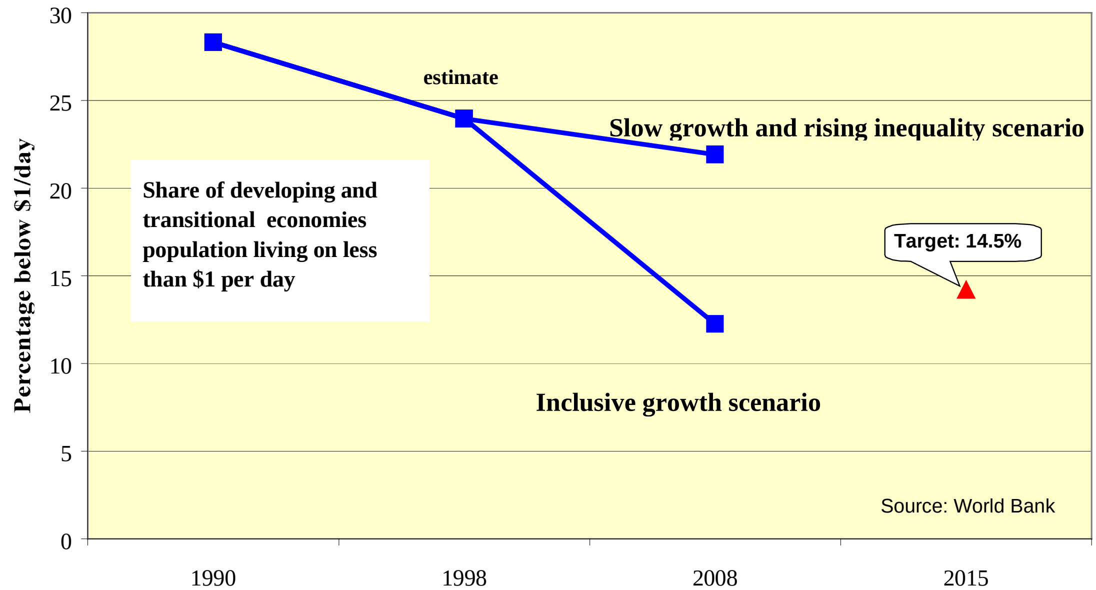
IBRD Financial Capacity

The Development Committee reviewed a summary report on IBRD's financial capacity last fall and agreed that the Bank remains financially sound. Ministers also recognized that the relative inflexibility of the structure may place limits on the Bank's ability to respond to potential future demands – including the need to address poverty in some of the Bank's largest borrowers. We are keeping a close watch on the state of our finances and we are looking at every option to stretch our resources in a prudent manner. Although our finances remain steady, we may at some point find our ability to meet the needs of borrowers is limited, and we will then need to consider augmenting our capital.

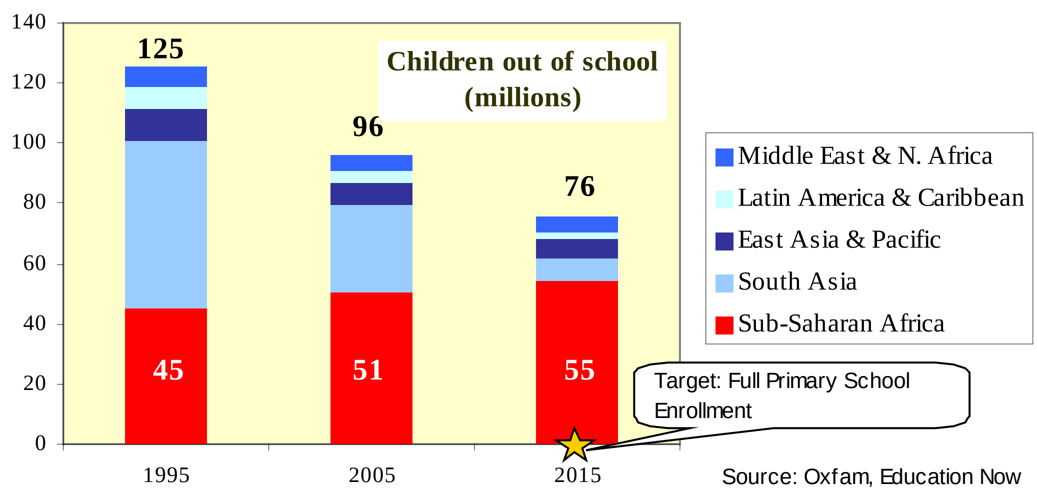
7. Moving Forward

There is a huge challenge if we are going to meet the development objectives that we have set for ourselves. Current progress remains too slow to achieve the International Development Goals set for 2015. We have been making progress in some areas, but there is still a large unfinished agenda. This will take continued collaboration among institutions, donors, and developing countries. I believe that working together we can harness our respective strengths to meet the challenges that lie ahead.

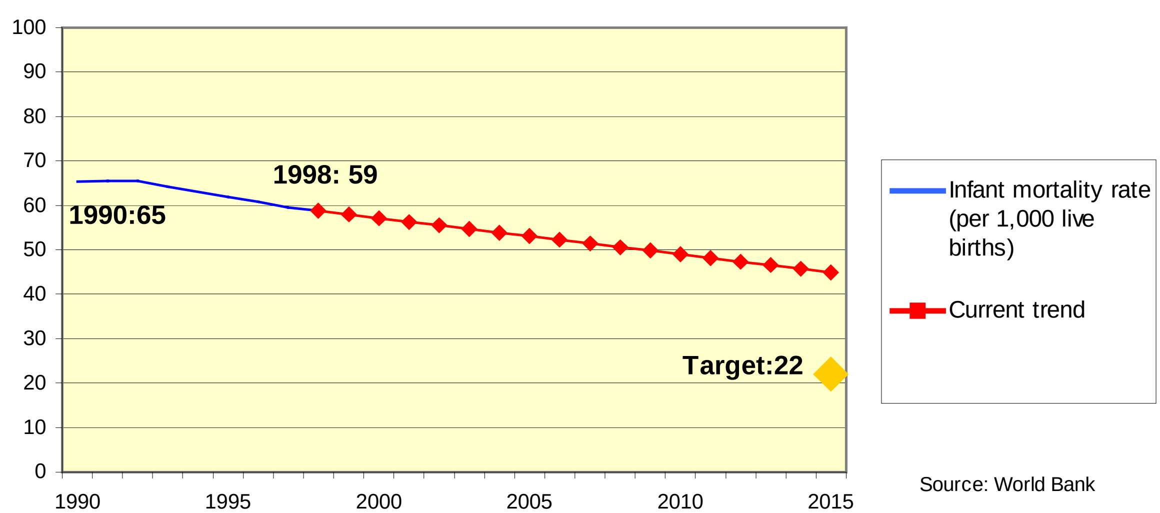
In a scenario of slow growth and rising inequality, the world is not on track to achieve the 2015 income poverty target



On current trends neither the primary education target...



...nor the infant mortality target are going to be achieved



Number of people living on less than $1 per day and headcount index in developing and transitional economies, under scenarios of slow growth and rising inequality (Scenario A) and inclusive growth (Scenario B), 1998 and 2008

Region	*Number of people living below $1 per day*			*Headcount index (percent)*		
	1998 (est.)	*2008 Scenario A*	*2008 Scenario B*	*1998 (est.)*	*2008 Scenario A*	*2008 Scenario B*
East Asia and the Pacific	278.3	182.8	72.1	15.3	9.2	3.6
(excluding China)	65.1	58.3	18.2	11.3	9.2	2.9
Eastern Europe and Central Asia	24.0	45.7	7.4	5.1	9.6	1.6
Latin America and the Caribbean	78.2	130.8	74.7	15.6	22.9	13.1
Middle East and North Africa	5.5	11.4	4.7	1.9	3.3	1.4
South Asia	522.0	465.0	205.9	40.0	31.0	13.7
Sub-Saharan Africa	290.9	406.2	329.8	46.3	51.5	41.8
Total	1,198.9	1,241.8	694.7	24.0	21.9	12.3
(excluding China)	985.7	1,117.3	640.8	26.2	25.9	14.9

Source: World Bank, Global Economic Prospects 2000

Number of people living on less than $2 per day and headcount index in developing and transitional economies, under scenarios of slow growth and rising inequality (Scenario A) and inclusive growth (Scenario B), 1998 and 2008

Region	*Number of people living below $2 per day*			*Headcount index (percent)*		
	1998 (est.)	*2008 Scenario A*	*2008 Scenario B*	*1998 (est.)*	*2008 Scenario A*	*2008 Scenario B*
East Asia and the Pacific	892.2	632.0	482.7	49.1	31.8	24.3
(excluding China)	260.1	218.3	169.8	45.0	34.5	26.8
Eastern Europe and Central Asia	92.9	100.8	46.3	19.9	21.2	9.7
Latin America and the Caribbean	182.9	227.3	183.9	36.4	39.8	32.2
Middle East and North Africa	62.4	74.7	47.8	21.9	21.7	13.9
South Asia	1,095.9	1,083.0	945.4	84.0	72.2	63.0
Sub-Saharan Africa	474.8	604.2	568.0	75.6	76.6	72.0
Total	2,801.0	2,721.9	2,274.1	56.0	48.0	40.1
(excluding China)	2,168.9	2,308.2	1,961.2	57.6	53.5	45.5

Source: World Bank, Global Economic Prospects 2000

Notes: Scenario A—*slow growth and rising inequality*—entails little progress in reducing the total number of poor, in keeping with the experience of the last decade, and Scenario B—*inclusive growth*—tries to capture what is achievable if the right combination of policies and interventions leads to sustained growth without increases in inequality.