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Series/Staff Member: Jeff Shesol

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FolderID:

Folder Title:
IMF [International Monetary Fund] / World Bank 9/29/99 - HIPC [Heavily Indebted Poor Countries Initiative] Poverty & Debt Relief

Stack:	Row:	Section:	Shelf:	Position:
S	91	6	9	1

HIPC FACTS

Uganda:

-- Old HIPC Completion point: April 1998, expected to qualify for enhanced HIPC relief.

-- Health and education expenditures increased 25% from FY 98 to FY 99. Expected to increase by 50% from FY 1998 to FY 2001.

-- Expenditures for rural development increased 40% from FY 98 to FY 99. Expected to increase more than double from FY 1998 to FY 2001.

-- Since FY 1995, primary education enrollment has increased from 56% to 94% (FY99), expected to be 97% in FY 2000.

(new) -- Immunization rates for children are expected to increase from 55% in 1996 to 70% in 1999 and 80% by 2004.

(new) -- Access to clean water is expected to increase from 39% in 1996 to 55% in 1999 and 75% in 2004.

Tanzania:

-- HIPC Decision point expected early 2000.

-- Health and education expenditures are expected to increase more than 50% from FY 1997 to FY 1999.

-- Government is targeting savings from debt relief primarily towards expansion of primary education, preventive health care and rural development.

(new) -- Increase immunization rate of children from 75% in 1998 to 85% in 2000.

Nicaragua:

-- HIPC Decision point expected end 1999.

-- In FY 1999, government began implementing primary health program, is expected to cover 75% of population by 2001, an increase from 15% expected in 1999.

-- Total health and education expenditures will nearly double from 1998 to 2000 and more than double from 1998 to 2001.

(new) -- Expenditures on clean water and sanitation projects is expected to increase by two-thirds from 1998 to 2001.

Bolivia:

-- Old HIPC Completion point: September 1998, expected to qualify for enhanced HIPC relief.

-- Expenditure on rural development are expected to have tripled from 1996 through 2000.

-- Health expenditures are expected to have increased more than 50% from 1996 to 2000.

-- In December 1998, government introduced basic health insurance for the poor, especially women and children, that will cover basic medical services.

(new) -- Primary school enrollment rate 1997: 81%

(new) -- Percent of children vaccinated: 1996: 78%; 2000: 85%

New:

Mozambique:

-- Old HIPC Completion point: June 1999, expected to qualify for enhanced HIPC relief.

-- Primary enrollment rate is expected to increase from 62% in 1996 to 75% in 2001.

-- Vaccination coverage for children is expected to increase from 58% in 1996 to 80% in 2001

-- Number of primary school teachers is increasing at 10% per year.

First Seven to reach decision point under Old HIPC:

-- Countries: Burkina Faso, Bolivia, Cote d'Ivoire, Guyana, Mali, Mozambique, and Uganda

-- Enhanced HIPC will save these first seven over $400 million per year in debt service payments, from average debt service paid 1993-1998.

Average HIPC Social Sector Indicators:

ie average for the countries affected by Initiative.

Life expectancy at birth is 52

% Malnutrition among children is 34%

Mortality rate per 1000 is 148

Maternal mortality ratio is 909 per 100,000

Adult illiteracy rate is 43%

Primary education gross enrollment ratio is 77%

Survival rate to grade 4 is 76%

These figures also available for individual HIPCs.

Total Population of HIPCs.

→ more than 550m.

Enhanced HIPC relief would allow:

Burkina Faso to increase spending on health and education by 28%
Bolivia by 11%
Guyana by 100%
Mozambique by 82%
Uganda by 24%
Cote d'Ivoire to increase education spending by 40%.

This is based on debt service after Naples compared to debt servicc after enhanced HIPC

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Fax

To: Jeff Sherol		From: Steph F	
Fax: 456 2505		Date:	
Phone:		Pages: 5	
Re:		CC:	

~~☐ Urgent~~ ☐ For Review ☐ Please Comment ☐ Please Reply ☐ Please Recycle

•Comments:

As discussed. I'll call you later. SF.

Sender's Fax # (202) 622-0073

THE WHITE HOUSE
WASHINGTON

Gene —
speech shd
be about

HPIC &
Poverty / debt relief

1st 1/4 - victory on
(30%) fin arch

25% - Seattle
keep trd going

Have this be what we send

But what I really want to say...
[HPIC]

Hit this well
Spencer Bachus
Billy Graham

* emotional, leadership

* challenge to IMF/WB
to take ~~pov~~ reduction into
consideration

Richard M. Samans
09/28/99 03:40:04 PM

Record Type: Record

To: Jeffrey A. Shesol/WHO/EOP@EOP
cc:
bcc:
Subject: Re: Speech material

No the smaller number is a reference to the population of the HIPC countries projected to be eligible for the enhanced debt relief program under the Cologne Initiative. Between 33 and 37 of the total 41 HIPC countries are expected to qualify.

As for other country examples like the one we gave you for Mozambique, I'm still trying to get this out of Treasury. We can, however, use the country info on health and education and say that "enhanced HIPC debt relief will help make [these things] possible." You might want to preface these country specific examples with the fact that the Cologne Initiative will save the first seven countries in excess of $400 million per year vs. what they paid from 93 - 98. This in countries where the literacy, disease, mortality, etc. is x.

Hopefully, I'll have more a little later.
Jeffrey A. Shesol

Jeffrey A. Shesol
09/28/99 03:16:13 PM

Record Type: Record

To: Richard M. Samans/OPD/EOP@EOP
cc:
Subject: Re: Speech material

Thanks for the faxed material. Here's a paragraph for which I'm needing more specifics... (As well as an answer to the following question: your fax says the total pop. of HIPCs is more than 550m. Elswhere we say that "more than 430 million people could benefit from this expanded effort." Is that latter number a reference to the number of poor people in HIPCs, as opposed to total pop.?)

****

More than 430 million people could benefit from this expanded effort. For the typical eligible country, it would cut the share of government revenue devoted to debt service by as much as half. In Mozambique, for example, this could free up about $30 million in public resources each year. That's no small sum -- the savings equal more than half the health budget

THE WHITE HOUSE

Office of the Press Secretary
(Cologne, Germany)

For Immediate Release June 18, 1999

FACT SHEET

The Cologne Debt Initiative

The G-7 leaders have endorsed a new Initiative to enable Heavily Indebted Poor Countries (HIPCs) to receive deeper, broader and faster debt relief in return for firm commitments to channel the benefits into improving the lives of all their people. The HIPC Initiative was created in 1996 to provide deeper multilateral debt reduction for poor countries with unsustainable debt burdens.

New focus on poverty: The Cologne Initiative calls on the International Financial Institutions to develop a new framework for linking debt relief with poverty reduction that centers around better targeting of budgetary resources for priority social expenditures, for health, child survival, AIDS prevention, education, greater transparency in government budgeting, and much wider consultation with civil society in the development and implementation of economic programs.

Substantially deeper relief: Together with earlier debt relief commitments, the Cologne Initiative provides for reduction of up to 70 percent of the total debts for these countries, (reducing the stock) from about $127 billion today to as low as $37 billion with the cancellation of official development assistance (ODA) debt by G-7 and other bilateral creditors. In today's dollars (net present value -- NPV terms), this would more than triple the amount of relief to be provided from $13 billion under the current HIPC framework to as much as $50 billion. This would be accomplished by reducing the HIPC program target ratios for the NPV of outstanding debt to 150 percent of exports, and 250 percent of government revenues, with fiscal thresholds of 30 percent exports to GDP and 15 percent revenues to GDP, and by providing full cancellation of ODA debts.

Faster relief: Relief will be available significantly faster than under the current framework by providing early cash flow relief ("Interim Relief") and allowing earlier stock reduction.

<u>Broader participation</u>: The number of countries expected to qualify for HIPC relief would rise from 26 to 33, meaning that more than 430 million people could ultimately be affected.

<u>Releasing resources for priority needs</u>: For the average HIPC country, the share of scarce government revenue devoted to debt service could fall by 10 percentage points to a ratio for debt service to revenues of well below 20 percent and close to 10 percent in some cases. This is equivalent to a reduction in actual payments of about 25 percent. Mozambique's debt will be reduced by some $3.5 billion ($1.7 billion in NPV terms), for example, which could cut in half the share of government revenues allocated to external debt service from over 30 percent to about 15 percent in 1999 and free about $30 million in budgetary resources each year. These savings are equivalent to over half the health budget in 1999 in a country where children are 3 times more likely to die before the age of five than they are to go to secondary school.

In proposing this Initiative on March 16, President Clinton stated that "Our goal is to ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its people's basic human needs and spurring growth. We should provide extraordinary relief for countries making extraordinary efforts to build working economies." On June 16, the President pledged "to work to find the resources so we can do our part and contribute our share toward an expanded trust fund for debt relief."

THE WHITE HOUSE

Office of the Press Secretary

(Cologne, Germany)

For Immediate Release June 18, 1999

STATEMENT BY THE PRESIDENT

The G-7 agreement we reached today is an historic step to help the world's poorest nations achieve sustained growth and independence while targeting new resources for poverty reduction, education and combatting AIDS. It represents a sound, humane effort to promote widely shared prosperity in the new milennium.

30-30-30

International Debt Relief – Press Guidance

It has been reported in the Post and elsewhere that, as part of the IMF/World Bank Annual Meeting here in Washington, donor countries have come forward with sufficient funding commitments to the Cologne Debt Initiative to make it operational.

<u>Talking Points</u>

President Clinton played a leading role in the design of the Cologne Debt Initiative, having proposed an early version of it at a Summit with African leaders in March 1999 in Washington.

Last week, the President proposed an amendment to his FY 2000 budget seeking a total of $970 million over the next four years in funding for debt reduction for heavily indebted poor countries. $370 million of this amount would be available in FY 2000 if approved by Congress.

We are pleased that other countries have also pledged financial commitments to the Cologne Debt Initiative in sufficient amounts to make the program operational soon.

<u>Background</u>

- The President is transmitting to Congress a budget amendment for a total of $850 million to support the ambitious program of debt reduction for the world's most Heavily Indebted Poorest Countries (HIPCs) agreed to at the Cologne Summit. The amendment increases the Administration request for debt reduction for FY 2000 by $250 million (for a total of $370 million) and requests advanced appropriations of $200 million in each of Fiscal Years 2001, 2002 and 2003.

- The requested funds will finance the U.S. bilateral portion of this expanded HIPC debt reduction program, and will provide up to $650 million for contributions to the multilateral HIPC Trust Fund to help the International Financial Institutions (IFIs) provide significantly expanded levels of debt reduction, provided that other countries make comparable efforts. This total U.S. contribution of nearly a billion dollars will help to mobilize as much as $90 billion in overall debt reduction.

- The Cologne Debt Reduction Initiative is designed to ensure that debt relief directly supports policies aimed at alleviating the crushing poverty that affects these countries and that the savings are earmarked for critical social sector spending. The Initiative includes a number of new elements:

    - <u>New Focus on Poverty</u> - the Initiative will develop a new framework for linking debt relief with poverty reduction and target budgetary resources in beneficiary countries for health, child survival, AIDS prevention, education and other critical social programs.

- Substantially Deeper Relief - the Initiative expands previous debt reduction programs to include deeper reduction of eligible bilateral debt, cancellation of Official Development Assistance debt by bilateral creditors, and expanded reduction by the IFIs.
- Faster Relief - Relief will be significantly faster than under the current debt reduction framework by providing early cash-flow relief and earlier debt stock reductions to countries that meet the economic and social criteria designed by the IFIs and agreed to by the creditor and beneficiary nations.
- Broader Participation - The number of countries expected to qualify for HIPC relief would rise from 26 to 33, meaning that more than 430 million people could ultimately benefit from the Initiative.

- On March 16, the President stated that "Our goal is to ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its people's basic human needs and spurring growth. We should provide extraordinary relief for countries making extraordinary efforts to build working economies." The budget amendment transmitted today will fund our share towards this important multilateral effort.

Qs and As

Q. Will Congress approve the requested funding? The Foreign Operations Appopriations conference drastically slashed the President's original budget request for debt relief.

> A. We have taken the first step in requesting the additional funds, which the Congress has not yet had an opportunity to consider. There is substantial bipartisan interest in removing the unsustainable debt burden that contributing to the worst forms of poverty in Africa and elsewhere. Congressman Leach and Baccus of the House Banking Committee have joined Congressman LaFalce, Waters, Frank and others in advocating legislation for this purpose. We are hopeful that we can move forward on bipartisan basis to address this moral imperative, as we are being urged to do by so many members of our religious community, including the Pope.

Q. Is the plan to sell part of the IMF's gold reserves to fund the Cologne/HIPC initiative dead in light of gold producers and certain Members of Congress?

> A. We have developed an alternative proposal on gold sales that will not involve outright sales of gold in the market and therefore will not adversely affect the interest of gold producers who are concerned about a further fall in the price of gold. Accordingly, we do not expect this issue to pose a problem any longer in Congress.

Q. A number of NGOs are critical that the Cologne debt initiative does not go far enough. The Pope and others in the Jubilee 2000 coalition are calling for total forgiveness. Why has the President not agreed to this?

A. We believe the Cologne Debt Initiative represents very substantial debt reduction that will make a major difference in the fight against poverty. Indeed, a major element of the plan entails total forgiveness --- total forgiveness of bilateral concessional debt, which represents a large share of the debt overhang for many poor countries.

Together with earlier debt relief commitments, the Cologne Initiative provides for reduction of up to 70 percent of the total debts for these countries, reducing the stock of debt from about $127 billion today to as low as $37 billion with the cancellation of official development assistance (ODA) debt by G-7 and other bilateral creditors. In today's dollars (net present value – NPV terms), this would more than triple the amount of relief to be provided from $13 billion under the current HIPC framework to as much as $50 billion.

For the average HIPC country, the share of scarce government revenue devoted to debt service could fall by 10 percentage points to a ratio for debt service to revenues of well below 20 percent and close to 10 percent in some cases. This is equivalent to a reduction in actual payments of about 25 percent. Mozambique's debt will be reduced by some $3.5 billion ($1.7 billion in NPV terms), for example, which could cut in half the share of government revenues allocated to external debt service from over 30 percent to about 15 percent in 1999 and free about $30 million in budgetary resources each year. These savings are equivalent to over half the health budget in 1999 in a country where children are 3 times more likely to die before the age of five than they are to go to secondary school.

September 27, 1999

MEMORANDUM TO THE PRESIDENT

FROM: GENE SPERLING

REF: **International Debt Relief Talking Points for Meeting with Religious Leaders**

---

also mention — IMF/WB efforts; Wolfensohn

Talking Points

I am pleased to report that we're making progress on a matter of great urgency: debt relief for the world's poorest and most heavily indebted countries.

moral imperative

I have made this issue a personal priority and urged our economic and foreign policy teams this spring to make as much progress with our G-7 partners as we could.

When we met with African leaders in March of this year at the State Department, I told them then that no country committed to reform should be prevented by an unsustainable debt burden from meeting the basic human needs of their people.

This is a moral imperative. It is also good Economics.

Debt drains precious resources

The debt overhang in poorest countries is aggravating the worst forms of poverty by draining resources available for better schooling, health care, and shelter. At the same time, this human deprivation is creating an enormous drag on economic growth by denying people of the opportunity to fulfill their potential.

Cologne – big step

I believe the debt relief program we achieved at our Summit in Cologne is a big step in the right direction: faster, deeper, broader debt reduction for countries that implement reforms designed to help themselves.

Here's why...

For the typical eligible country, it will cut the share of scarce government revenue devoted to debt service by as much as half, down to 10 percent in some cases.

And other examples?

- In Mozambique, for example, this could free up about $30 million in budgetary resources each year. These savings are equivalent to over half the health budget in 1999 in a country where children are 3 times more likely to die before the age of five than they are to go to secondary school.

What I'm doing

To make this happen, we in the United States need to provide our fair share of financing. Last week, I took the first step by amending my budget request to Congress. I requested a total of $970 million over four years for this purpose.

- We have an uphill battle to convince Congress to appropriate this money. But I believe we can do it, because this is an issue with a special moral dimension that I hope will appeal to liberal and conservative Members of Congress from both parties.

What others are doing

I am encouraged by the financial commitments made by some of the other donor countries this past week. America needs to do its part, and I am hopeful we will when Congress considers this issue later this year.

Background

- Last week, the President transmitted to Congress a budget amendment for a total of $850 million to support the ambitious program of debt reduction for the world's most Heavily Indebted Poorest Countries (HIPCs) agreed to at the Cologne Summit. The amendment increases the Administration request for debt reduction for FY 2000 by $250 million (for a total of $370 million) and requests advanced appropriations of $200 million in each of Fiscal Years 2001, 2002 and 2003.

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- The Cologne Debt Reduction Initiative is designed to ensure that debt relief directly supports policies aimed at alleviating the crushing poverty that affects these countries and that the savings are earmarked for critical social sector spending. The Initiative includes a number of new elements:

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- Faster Relief - Relief will be significantly faster than under the current debt reduction framework by providing early cash-flow relief and earlier debt stock reductions to countries that meet the economic and social criteria designed by the IFIs and agreed to by the creditor and beneficiary nations.
- Broader Participation - The number of countries expected to qualify for HIPC relief would rise from 26 to 33, meaning that more than 430 million people could ultimately benefit from the Initiative, mainly in Sub-Saharan Africa but also in Latin America.

Qs and As

Q. Will Congress approve the requested funding? The Foreign Operations Appropriations conference drastically slashed the President's original budget request for debt relief from $120 million to $33 million.

A. We have taken the first step in requesting the additional funds, which the Congress has not yet had an opportunity to consider. There is substantial bipartisan interest in removing the unsustainable debt burden that contributing to the worst forms of poverty in Africa and elsewhere. Congressmen Leach and Bachus of the House Banking Committee have joined Congressman LaFalce, Waters, Frank and others in advocating legislation for this purpose. We are hopeful that we can move forward on bipartisan basis to address this moral imperative, as we are being urged to do by so many members of our religious community, including the Pope.

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

FAX TRANSMITTAL

TO: LAEL BRAINARD, NEC [456-2878]

FROM: STEPHANIE FLANDERS, TREASURY

DATE: 25 Sept '99

COMMENTS: Further to yesterday's meeting, I am enclosing background (Treasury Paper) on public goods proposal and annotated speeches etc by

NUMBER OF PAGES INCLUDING COVER:

IF QUESTIONS, CALL: 202/622-1100

the Secretary this week that have 'big picture' + 'architecture' progress, priorities, and HIPC. (By Monday) on language to come on Trust Fund + latest HIPC after G7 meeting. Thanks — Stephanie.

Options for Financing Vaccines for Developing Countries

Issue: There is substantial underfunding to develop vaccines to prevent infectious diseases more prevalent in Africa. Pharmaceutical companies do not believe that a sufficient market exists to justify a major investment. Separately, even existing, low-priced vaccines are not being used effectively by many African countries.

I. Background:

A. The Problem: The scourge of infectious diseases is an enormous social and economic burden for poor countries: In 1998, WHO estimates HIV/AIDS claimed 2.3 million people, malaria 1.1 million, TB 1.5 million, and preventable childhood diseases 1.6 million. The region most affected is Sub-Saharan Africa, where AIDS is the leading cause of death. Malaria is the number two cause of disease burden in Africa, as measured by DALYs (Disability-adjusted Life Years), a broader measure. Although TB is ranked the 11th cause of death in Africa, many AIDS deaths are linked to the incidence of TB.

There is no cure for AIDS, and new strains of malaria and TB are resistant to drugs. The development a vaccine for AIDS is considered to be at least ten years away, as is one for malaria. Given the huge and rising human costs, one can make a plausible case that there is serious under investment by both public and private sector institutions in vaccine development. At the same time, there are huge uncertainties about kinds of vaccines that might reasonably be developed, and very little reliable analysis of prospective costs and efficacy.

In addition, LDCs are not taking advantage of existing vaccines developed over the last 20 years. There is a strong view within the public health community that the current weakness of healthcare delivery systems in Africa is perhaps the most serious obstacle to effective prevention and treatment services for infectious diseases.

The U.S. National Institutes of Health (NIH) currently spends roughly $1.8 billion each year on AIDS research. Of this, roughly $200 million is spent on vaccine development, accounting for some two-thirds of all global funds spent on AIDS vaccines, according to the World Bank. U.S. spending on malaria vaccines is quite low -- $3 million in FY 98.

Funding estimates for a global approach to vaccines vary substantially, but all are both high and imprecise. Sachs' vaccine purchase proposal calls for a total of $1-4 billion outlay by the U.S. over 20 years or less ($50 million to $200 million a year) for malaria vaccines for 25 million children annually in Africa alone. This program compares to overall U.S. AID funding for Sub-Saharan Africa in FY 98 of $726 million, and overall malaria program funding of $32 million (U.S. AID FY 98). Total NIH funding for TB research, including a more effective vaccine, was $66.1 million in FY 98.

Given the high cost of tackling this problem, a unilateral U.S. initiative would not appear credible without the commitment of additional significant funding.

B. Existing Initiatives/Proposals: There are many initiatives already underway, or soon to be announced, to address the developing countries' vaccine needs:

World Bank President Wolfensohn wrote the G-8 leaders prior to the Cologne Summit urging them to: (1) reinforce the political commitment to preventing AIDS, (2) find low-cost, effective therapies that are within the reach of developing countries and strengthen health systems to deal with the increased demand for AIDS-related healthcare, and (3) find new approaches and instruments to finance international public goods, like an AIDS vaccine. He urged the international community to spur the development of an AIDS vaccine, perhaps linked to other global health challenges, such as the need for new therapies and a vaccine for malaria.

The World Bank has two proposals to address the public goods problem: (1) the creation of a global trust fund to finance purchases of vaccines for needy countries, and (2) a contingent lending arrangement, in which would donors promise to give money if needy countries promised to buy a vaccine if and when a useful one appears.

The World Bank is providing modest support for a variety of global public goods through its Development Grants Facility (DGF) and is exploring whether and how it might work with other donors to find priority global and regional initiatives. During the coming year, Bank Management will be undertaking: (1) a review of issues related to the Bank's conception of a global framework for public goods. The basic premise of the review is that effective collaboration among donors, recipients, civil society, and the private sector on global public goods holds considerable promise to enhance development impact; and (2) seek external funds for its DGF programs. The Bank will also seek to maintain or increase grant funding from its own resources, within a budget-constrained environment.

The G-8 communique calls for a combined strategy of prevention, vaccine development and appropriate therapy to combat AIDS, and calls on "co-sponsors and other partners to cooperate in the formulation of clear roles, strategies and initiatives at both global and regional level." The G-8 also pledged to support the WHO and its initiatives "Role Back Malaria" and "Stop TB". ***The Cologne debt initiative*** calls for freed-up resources to be invested in health, including AIDS prevention.

Jeffrey Sachs proposes the creation of a Millennium Vaccine Fund, under which developed countries would make a firm pledge to purchase an effective vaccine for malaria, AIDS or TB, if such a vaccine is developed. They would agree to purchase enough to vaccinate 25 million newborn African children each year, at a certain minimum price, provided the vaccine could meet certain requirements, e.g. efficacy, and might stipulate that payment would be higher for vaccines above those standards. Developing countries might also be asked to pledge, depending on their income. However, no funds need be spent until the vaccines are developed. He asserts that the cost would be only a few hundred million dollars per year. (His earlier proposal put the cost at $2.5-10 billion in present value terms, with the U.S. paying 40 percent or $1-4 billion.) Sachs also makes a number of controversial proposals, urging that international patent protection be reconsidered before pharmaceutical companies gain patent rights on basic genetic information, that poor tropical countries call for outright compensation from the U.S. and other industrial nations for climatic damages, and that funds for global public goods be raised by a global tax on carbon-emitting fossil fuels.

A new ***Global Alliance for Vaccines and Immunization (GAVI)*** is expected to be launched in October, largely by foundations which work on childhood vaccinations. The objective is to reduce vaccine-preventable disease by making vaccines of public importance available to all, and accelerating the development and introduction of new ones. The Alliance will include international organizations (World Bank, UNICEF, WHO), NGOs, foundations (including Gates), representatives from industry, and developed and developing country representatives. Three task forces are to be established on advocacy, global financing, and country-level coordination.

The International AIDS Vaccine Initiative (IAVI) makes equity investments in drug companies that agree to provide vaccines or poor countries at just above manufacturing cost.

The Medicines for Malaria Venture (MMV) is a joint venture, nonprofit, virtual drug company, which combines public and private sector research through funding collaborative research and development.

Related U.S. initiatives: Vice President Gore announced in July a new $100 million U.S. initiative to combat HIV/AIDS in Africa. Half will go to prevention and "stigma reduction" strategies, while the other half will go towards community-based care for patients and children orphaned by AIDS. As a follow-up, the First Lady will hold a meeting on September 7, with cabinet officers (including Secretary Summers), CEOs, foundation heads and others (including World Bank President Wolfensohn and U.S. ED Piercy). Subsequently, the Vice President may jointly host with South African President Mbecki a meeting of African leaders to discuss AIDS in Africa. In October, Secretary Daley will hold a conference with business leaders.

Congresswoman Pelosi has put forward a bill called the "Lifesaving Vaccine Technology Act" that proposes tax credits (costing $25 million annually) for research and development towards vaccines for malaria, tuberculosis, and AIDS. It allows tiered pricing, with poor countries paying less than richer countries -- a concept opposed by pharmaceutical companies.

The GAO is going to release a draft report on the "Barriers to Vaccination of Children in Developing Countries," which will explore the constraints in health delivery of known vaccines for childhood diseases that have been available for the last twenty years. This will be followed by a meeting of international and bilateral organizations in October, and a conference on the Hill in November 1999. Improving health delivery systems in poorer countries to effectively provide these vaccines to children, as well as include existing vaccines of somewhat higher cost, such as that for hepatitis B, may be a cost-effective goal in the short and medium term.

HIPC Initiative: Currently, the Supplemental Debt legislation allows for use of freed up debt service on the part of the poor HIPC countries for use in health programs, including AIDS. This should help in strengthening weak health delivery systems, and allow for cost-effective preventive measures, which stress the use of condoms and clean needles to prevent AIDS, as well as other cost-effective means to address malaria and TB, and overcome the barriers to proper targeting and delivery of known immunizations. Such existing preventive measures need to be undertaken now, through greater government involvement in LDCs.

Reformed ESAF: As part of the work on an enhanced HIPC initiative, Treasury has put forward a number of proposals intended to strengthen the IMF's (and World Bank's) support for poverty reduction, in part via a reformed version of the IMF's Enhanced Structural Adjustment Facility (ESAF). This would involve, for example, steps to ensure that budget expenditures in critical poverty-related areas, including public health/vaccine programs, are at least maintained (perhaps even strengthened) when a country is in the midst of fiscal adjustment under an IMF arrangement. Another suggestion put forward is to channel not only resources freed up by debt relief (as discussed above) into existing health programs or special human development funds, but also other bilateral and multilateral support, including some portion of ESAF assistance.

Gates Foundation: Bill Gates is pledging around $6 billion to support a fund for the development of AIDS, malaria, and improved TB vaccines.

II. Possible options: Given the range of efforts underway three basic principles might guide decision making about a possible U.S. initiative: the need for additional funding from international financial institutions, a corporate/public partnership, and information sharing.

A. Consultative Group for Vaccine Research (CGVR): This option would be modeled on the existing Consultative Group on International Agricultural Research (CGIAR), which is an informal association of over 50 public and private sector (foundations) members from developed and developing countries whose purpose is to consolidate and spread the benefits of international agricultural research to the developing world. Four international organizations (World Bank, FAO, UNDP and UNEP) are cosponsors and funding is provided by international organizations, private foundations and bilateral agencies.

Considerations:

- ☐ Would essentially be a public sector funded operation to provide direct grant funding for vaccine research. As with CGIAR, donors would decide on an agreed agenda for research emphasis. Resulting patents could be licensed with companies that are willing to produce at cost plus a modest margin, with licensing proceeds plowed back into new research.

- ☐ Funds would need to be provided up front, as opposed to the Sachs proposal where funds are only provided once the vaccine has been developed. However, the total cost might be less than the Sachs proposal since pooled research might come to a discovery sooner. This would presumably result in a similarly low-priced drug if it is licensed freely. However, if the vaccine is discovered by a private sector entity, there would be no such cost containment agreement; hence, there could still be market failure in developing countries, where the cost would be prohibitively high.

- ☐ There would be a central role for the World Bank and presumably UNDP and WHO.

- ☐ To the extent that the World Bank contributes grant resources, this would cut into IDA financing or other uses of net income. Similarly, the U.S. contribution may need to come out of the 150 account, which is already under enormous pressure. However, we could maintain that our sizable NIH program should count as our contribution provided it is focused on the agreed agenda, and urge that other industrial countries to match our NIH budgets for AIDS, malaria and TB.

- Even though a CGVR could conceivably produce a low-cost vaccine, this does not ensure that it will be used. Developing country efforts to improve health delivery systems are essential. Otherwise the investment is wasted. This effort could be facilitated by the AIDS component of the Cologne debt initiative.

B. Public/Private Sector Consortium (GAVI-type initiative): This option would broaden participation to include pharmaceutical and other companies, and broaden the scope of allowable contributions (e.g., money, in-kind contributions, dissemination of research, agreeing to free licensing of patents, pledging of tax incentives or patent incentives). Essentially, governments, international organizations, foundations, NGOs and others would pool resources to provide a steady stream of incentives for special purpose pharmaceutical subsidiaries to devote research funds to this effort in exchange for an agreement to license research findings to all participants at cost plus a modest margin.

Considerations:

- Roping in pharmaceutical companies would add to R&D pool, potentially accelerating development of the vaccines, and might lower the cost to bilateral donors. In addition, if companies pledged to license freely any discoveries, this would lessen the risk in option A that a company outside the arrangement would discover the vaccine first.

- Given the important role pharmaceutical companies must play, this option would seek to include governments with large pharmaceutical interests (largely OECD and perhaps selected developing countries, such as Brazil and South Africa). There would not be a central a role for the World Bank, although it could be a source of partial finance. Given the large number of players, governance of the consortium would be complicated.

- Again, the costs would be up front. Foundations, international organizations and bilateral donors could provide the seed money for equity stakes in the form of grants. This might be augmented by stream of income generated by the interest rate spread that the World Bank could earn by investing the proceeds of long-term borrowing (at AAA rates) in OECD government securities that yield a significantly higher rate.

- Government contributions might take the form of committing to share NIH-type research, allowing tax credits for "orphan drugs" (that might be broadened to include vaccines for disease is that only affect developing nations), lengthening the period of patent protection for the vaccine, or direct grants.

- Upon completion of promising research, the IFC could provide finance for special purpose pharmaceutical companies to develop and test vaccines for market in exchange for agreeing to sell product at a reasonable price. IFC investment would be recouped by loan repayments and/or equity income.

- Developing countries could be allowed to join the consortium or benefit from the vaccines provided they meet certain conditions relating to effectiveness of primary health care services and preventive measures to avoid infectious diseases in the first place.

- Potential land mines: IPR policy, antitrust, tax policy.

C. Variant of Sachs' Vaccine Purchase Fund: The Sachs proposal presents a number of legal and budgetary hurdles for some countries, especially the United States, that would be difficult to overcome. For pharmaceutical companies to view the purchase fund as sufficiently certain, governments may need to appropriate funds now for use 10 years down the road, thereby foregoing other uses of scarce appropriations now. One way around this might be for IDA/ADF/AfDF governors to pledge formally that once these vaccines are discovered, 10 percent of all soft loan funds will be converted into grants for the purchase of vaccines. If we assume that the soft loan windows lend approximately $9 billion annually and are 80 percent grant, this might yield approximately $800 million per year, which should be ample for providing an incentive to pharmaceutical companies. Obviously, if the Gates Foundation commitment of $6 billion towards a vaccine purchase fund is realized and is untied, then this option raises no issues of concern.

<u>Considerations</u>:

- This is essentially a public sector solution since the funds come from donor countries, although the fund could operate on a matching basis, e.g., $1 from the fund for every $1 from foundations, pharmaceuticals and recipient countries.

- Not all countries with AIDS/malaria/TB are eligible for soft loans. (Russia, Brazil, China come to mind.)

- This approach may be criticized as taking funds away from the poorest.

D. Nonprofit Corporation for Vaccines: In this initiative, major industrial country governments would create a nonprofit corporation aimed at creating, developing and selling new vaccines for developing countries diseases where there is market failure. Initial capital might be provided by donor governments and MDBs, and the company would be allowed to borrow in its own name. Pharmaceutical companies would be allowed to purchase preferred stock in exchange for licensing agreements. Preferred stock would allow a seat on the board of the company. The company would use its funds to take equity stakes in promising companies throughout the R&D, testing and production cycle for vaccines where there is a market. It might also form special purpose companies similar to the pioneering Energy Service Companies (ESCOs) to enter into contracts with developing country health care systems in which the health SCOs identify ways to make savings in health care expenses through investments. In exchange for providing the capital, the ESCOs receive a portion of the savings, which could help fund vaccine work.

Considerations:

- Governance would be largely dominated by OECD government and pharmaceutical companies.
- Would need to tightly define "market failure" in order to prevent GSE from distorting pharmaceutical markets.
- IPR and antitrust issues would need to be resolved.

OASIA/IDB: 8/30/99

Draft language on HIPC: Halperin (APEC)

And we are seeking to shrink the debt burden on the poorest countries -- by up to 70 percent -- and channeling the benefits into reducing poverty, improving health care and education, making government decisions more open and more inclusive. We must help these countries emerge from crushing debt and get on the path of growth.

New Penn Station Gets Push With $160 Million in U.S. Loans

By THOMAS J. LUECK

Providing a large piece of financial support for a new Pennsylvania Station, Federal officials are to announce today that the project has been selected to receive $160 million in loans through a new Congressional program for transportation improvements.

The loans, to be announced at the World Trade Center by senior officials of the Federal Department of Transportation, could provide a critical step forward for the project, which would convert the James A. Farley Building, the Beaux-Arts main post office on Eighth Avenue, into the new station.

The project has been widely endorsed by preservationists and city officials as a means of reclaiming some of the grandeur of the old Pennsylvania Station, which was demolished 36 years ago.

Advocates say it would also give the city a more attractive and advanced terminal for Amtrak train service.

While the financial assistance through the Congressional program, authorized under the Transportation Infrastructure Finance and Innovation Act of 1997, would provide only part of the estimated $750 million cost of the project, state and Federal officials said the loans would provide a needed financial and political lift for the plan.

President Clinton, in a statement prepared for today's presentation ceremony, described the Congressional act that provided for the loans as "a catalyst for creating jobs and continuing our nation's economic growth." The President visited the Farley Building in May to announce his support for the rail terminal project.

Besides senior representatives of the Transportation Department, officials expected to attend today's announcement include Senator Daniel Patrick Moynihan, who has been the project's most outspoken advocate for years, and Senator Bob Graham of Florida, who was a co-sponsor of the transportation finance act.

Charles A. Gargano, the senior economic adviser to Gov. George E. Pataki and the chairman of Pennsylvania Station Redevelopment Corporation, said in an interview that the Federal loans would "fill a huge gap" in paying for the project.

A piece of financing to turn a post office into a rail concourse.

The Federal financing, to be extended at interest rates below those normally paid to banks or holders of municipal bonds, includes a $140 million loan and a $20 million line of credit.

Mr. Gargano, whose redevelopment corporation was formed to oversee the project in 1996 with commitments of $75 million from the state and $25 million from the city, said the Federal loan package would make it easier to raise more money through the sale of municipal bonds.

Even though all the necessary financing is not in place, Mr. Gargano said the renovation of the Farley Building would begin next year and be completed in 2003.

Under the plan, the United States Postal Service has agreed to vacate about one-third of its space in the 1.4 million-square-foot building, which was designed as a sister to Pennsylvania Station and opened in 1913. The original Pennsylvania Station, directly across Eighth Avenue on the site of what is now Madison Square Garden, was completed in 1911 and demolished in 1963, provoking such impassioned protest that it remains a rallying point for preservationists.

President Clinton's visit to the Farley Building corresponded with the release of architectural drawings by the firm Skidmore, Owings & Merrill, of a plan to renovate the interior of the building as a railroad terminal concourse enclosed in steel and glass, with access to Amtrak platforms along tracks that already run beneath the building.

The final price for the project remains to be determined. Mr. Gargano and other officials acknowledged in recent months that the budget was being inflated by a construction boom in New York City, which has pushed up the cost of labor and materials. With many of the bills for architectural designs and other preliminary work already paid, Mr. Gargano said in May that the remaining budget was $484 million, but he revised that figure on Friday to $550 million.

Proponents of the project are seeking other contributions, including a $60 million Federal grant that President Clinton has said he would ask Congress to authorize before the end of the year.

In announcing the project's financing under the 1997 act, Federal officials said they would also use today's ceremony in Manhattan to designate four other transportation projects across the nation that are to receive loans.

Those projects are a nine-mile toll road to be built between San Diego and the Mexican border, which is to receive $127 million in loans; road improvements and a "people mover" system at Miami International Airport, which is to receive $436 million in loans; a rapid transit system under construction in San Juan, P.R., which is to receive $300 million in loans, and the Metrorail system in Washington, which is to receive a $600 million loan guarantee for improvements.

World Bank Chief to Be Renominated

By The New York Times

WASHINGTON, Sept. 26 — President Clinton has decided to renominate James D. Wolfensohn as president of the World Bank, Administration officials said today — a political victory for the former investment banker who openly split with the Administration over its early handling of the Asian financial crisis.

Treasury Secretary Lawrence H. Summers informed finance ministers of the other major industrial nations of the decision on Saturday, telling them that "Jim Wolfensohn has done an extraoridinary job of bringing energy and passion to the bank's crucial development mission." Mr. Wolfensohn is in the midst of restructuring the bank, whose mission is to combat poverty around the world.

In late 1997 and early 1998, Mr. Wolfensohn openly accused both the Treasury and the World Bank's sister institution, the International Monetary Fund, of devising national bailouts in Asia that paid too little attention to hardships that would result for the poorest residents of Indonesia, Thailand, South Korea and other nations.

The rescue packages, he contended, were too skewed toward aiding banks and international lenders. But in recent months he has smoothed over relations with the Administration, and officials say there was no real debate about his reappointment, which is likely to be announced formally on Tuesday.

Today, speaking at the annual meetings of the World Bank and the I.M.F., Mr. Wolfenson said that while Asia is recovering, "the economic situation is especially difficult in Latin America," and that "we will still be going backward rather than forward in the fight to reduce global poverty."

The New York Times
MONDAY, SEPTEMBER 27, 1999

Chechens Flee Russian Bombs By Thousands

A1

By MICHAEL R. GORDON

MOSCOW, Sept. 26 — Fleeing days of intensive air bombardment in Russia's war against Islamic militants, thousands of desperate refugees, their possessions piled atop cars and trucks, clogged the roads out of the breakaway republic of Chechnya today.

More than 100,000 Chechens, and perhaps several times that, have crossed the border into the neighboring Russian republic of Ingushetia in the last few days, officials said. The Ingush authorities appealed to Moscow for emergency assistance, including food and tents, and closed the border today.

"We are on the brink of a humanitarian disaster," said Akhmed Malsagov, the acting Prime Minister of Ingushetia.

The situation remained chaotic. The line of cars and pedestrians trying to make their way into the North Caucasus republic along one major highway stretched for almost 10 miles. Those stranded on the Chechen side of the border had set up tents and were gathering firewood.

The refugee crisis is the latest indication of the rising toll of Russia's war against the Islamic militants who have used Chechnya as a staging ground in their fight for an independent homeland in the region.

Today, Russia's Defense Minister, Marshal Igor Sergeyev, suggested that the fighting might increase and hinted that the Russian military might even thrust ground troops into Chechnya to go after rebel sanctuaries.

"There are several variants for a land operation, which will be carried out, depending on the developing situation," Marshal Sergeyev said. "The main aim of all the plans is to destroy the bandits and to create a sufficiently broad zone of safety around Chechnya."

The talk of a ground attack — even a somewhat limited raid across the border against rebel bases — risks shattering the political consensus in Moscow, which is wary of repeating the disastrous 1994-96 intervention it carried out to try to prevent Chechnya from breaking away.

Today, former Prime Minister Yevgeny M. Primakov, the favorite in the political maneuvering to succeed President Boris N. Yeltsin, voiced his opposition to a major ground attack, warning that it "may grow into a war."

Vladimir V. Putin, the current Prime Minister, sought last week to alleviate the public's anxiety that the nation may be drawn into a replay of the Chechen war, a conflict that killed tens of thousands and resulted in a humiliating defeat for the Russian military.

"We are planning no large-scale military operation in Chechnya," Mr. Putin said on Thursday.

A full-scale invasion of Chechnya still seems unlikely, if only for the reason that it appears to be beyond the ability of the deteriorating Russian military. Even Mr. Putin, however, was careful not to exclude a commando raid, and the remarks by the Defense Minister suggest that the armed forces are agitating for a freer hand.

The fighting in the North Caucasus began in August, when several thousand Islamic fighters crossed into Dagestan and proclaimed their intention to establish an Islamic state. They were led by Shamil Basayev, a Chechen warlord, and Khattab, a Chechen militant born in the Middle East.

Neither is under the control of Aslan Maskhadov, the embattled Chechen President, who has been relegated to a virtual bystander in the fighting.

After weeks of fighting in Dagestan and a series of terrorist bombings that Moscow charges is the work of the militants, the Russian military persuaded the Kremlin to take the fight deep into Chechnya.

On Thursday, Russia conducted its first air strike against the Chechen capital of Grozny since the end of the Chechen war in 1996, destroying Chechnya's lone operational aircraft and igniting an oil refinery.

The Russian Air Force has been pounding oil refineries, telephone installations, a television station and other industrial targets — many near civilian areas — ever since.

The Russian Air Force Chief of Staff, Gen. Anatoly Kornukov, has said the air strikes could go on for a month.

Likening the Russian strategy to the prolonged NATO bombardment of Yugoslavia, General Kornukov has said the Air Force is using SU-25 attack aircraft and SU-24 bombers with precision weapons.

The intensity of the Russian bombardment, and the likelihood that it is not being carried out with anything like the accuracy the Russian Air Force has advertised, however, have raised the specter of heavy civilian casualities.

Chechens living in Moscow said their relatives in Grozny had phoned them with reports of heavy bombing in civilian neighborhoods. Some areas, which had escaped destruction during the Chechen war, have now found themselves in the cross hairs.

Bread has become scarce because there is no gas or electricty for bakeries, according to reports from the region.

The threat of kidnapping has deterred most of the foreign media from venturing to the republic, as it has many international relief agencies as well. This has deprived Chechnya of much of the vivid, on-the-scene war reporting that turned the tide of world opinion — and eventually the American Government — against the Russian military intervention there.

The Clinton Administration has urged Moscow to show restraint and open a dialogue with Chechen leaders. And the Maskhadov government has said it would welcome talks. But the Kremlin does not appear to be in the mood to negotiate.

Many Chechens actually oppose Mr. Basayev, the Chechen warlord, and the extreme form of Islam he champions. And one risk of the bombing is that it may turn more Chechens against Moscow.

As reports of Marshal Sergeyev's comments spread, some Russian military officials sought to ease concerns that the fighting would spin out of control, resulting in a large number of Russian casualties.

The Kremlin's decision to move thousands of troops near the Chechen border has previously been explained as an effort to seal the border and create a barrier to incursion. And some officers said it still might not go beyond that.

"I don't want to discuss specific timing," Yuri Baluyevsky, the Deputy Chief of Staff of the Russian military, said in a television interview tonight. "It's possible that they might not go in at all. Everything will depend on how the situation develops."

The New York Times
MONDAY, SEPTEMBER 27, 1999

Ecuador to Default on Debt Backed by U.S.

QUITO, Ecuador, Sept. 26 (AP) — Ecuador will default on payment of millions of dollars of debt backed by the United States, President Jamil Mahuad announced tonight.

Last month Ecuador chose to delay a $98 million interest payment on its Brady bond debt for 30 days. It had until Tuesday to make the payment or become the first country ever to default on a Brady bond debt.

Brady bonds, named after former United States Treasury Secretary Nicholas Brady, were created to resolve the Latin American debt crisis of the 1980's. They are partly backed by Treasury securities.

In a televised address, Mr. Mahuad said his country would only pay interest on the bonds that are not guaranteed by the United States Treasury. He said Ecuador would pay "a little less than half" of the $98 million interest payment.

International lenders and creditors have been fixated on Ecuador's economy. Although the country does not rank among the region's largest economies, some fear a default on the once-sacrosanct Brady bonds could spark a tumble in emerging bond markets.

Ecuador had been working on proposals to restructure its entire Brady bond debt of $6 billion, and was preparing to present strategies for foreign debt restructuring this week during the annual International Monetary Fund meeting in Washington.

In another economic development, Colombia announced that its peso would be allowed to float freely against the dollar, Reuters reported.

The move, another blow to an economy already reeling, came at the end of a week in which the bank sold more than $400 million in precious foreign reserves in a vain bid to defend the embattled peso from speculative attack.

Russia Hotly Protests Audits Demanded by I.M.F. for Loans

By DAVID E. SANGER

WASHINGTON, Sept. 26 — Only hours after hearing Treasury Secretary Lawrence H. Summers describe the new conditions Russia must meet to receive continued international aid, the head of the country's central bank said his country was "being treated like whipping boys" by Washington and suggested that he would resist intensive audits of Russia's books.

The comments by Viktor Gerashchenko, a wily veteran of Russia's shifting political scene who also ran the Soviet Union's central bank, marked the first time that Russia has openly and harshly criticized the extensive new auditing demanded by Washington before lending new money to Moscow through the International Monetary Fund.

But American officials said Mr. Gerashchenko's outburst — in which he suggested that the new restrictions on lending to Russia were chiefly a product of Washington politics — was in sharp contrast to his behavior during the meeting with Mr. Summers. Several suggested that he may have been playing to a domestic audience in Russia, where the accusations of money laundering and the demands for new audits have smacked of more American interference in the running of Russia's chaotic economy.

His criticism of the United States also runs counter to the message that Russia's Foreign Minister, Igor S. Ivanov, has been delivering here. Mr. Ivanov was asked by Russia's President, Boris N. Yeltsin, to reassure American officials, news media and other groups that Moscow is strongly interested in cracking down on corruption and welcomes international scrutiny.

"It's fair to say," a senior Administration official said, "that they don't have their talking points in full agreement."

In contrast to Mr. Ivanov's promises of cooperation, Mr. Gerashchenko, speaking to reporters after meeting with Mr. Summers, said he was already providing the fund with as much information as it needs.

An American view: the angry man from Moscow is playing to the home crowd.

"We can improve the technology once," he said, "but why should we have to account for everything every day? Do we have to publish our accounts in the gutter press or at official councils?"

Among the American demands, which were incorporated in a financial communiqué issued by the finance ministers of the Group of 7 industrialized nations on Saturday night, Russia must agree to quarterly audits of its central bank reserves, the public money that is a key measure of the Government's fiscal health and a major factor in the value of the ruble.

The fund was surprised by the discovery last year that the central bank was linked to an offshore investment company in the Channel Island of Jersey and that the bank had misreported its asset levels to the fund. The offshore company, Fimaco, was acquired by a subsidiary of the central bank during Mr. Gerashchenko's previous tenure as central bank chief, although the Fimaco operations that drew most attention to date fell during the 1994-98 period when he did not head the central bank.

Mr. Summers continued his public warnings to Russia today, repeating the line he took at the opening of a Congressional inquiry last week into corruption, money laundering and the still-unsubstantiated charges that I.M.F. funds had been illegally diverted.

"We are concerned about Russia," Mr. Summers said. "The capacity of the I.M.F. and the World Bank to help bring about effective policies depends on the will and capacity of Russian authorities and the Russian people to carry forward reforms in their national interests." He specifically said it was "critical" that Russia develop "adequate safeguards to ensure that funds provided by" the bank and the fund "are used for their intended purpose."

As the two men sparred from a distance, Russian officials on the sidelines of the annual meetings here of the World Bank and the I.M.F. said they did not know when they would receive an additional dose of aid that had been scheduled for release this month. It is essentially money that will be used to pay back the fund for interest due on past loans — in this case, about $370 million — and as an additional safeguard the money will never actually enter Russia. Instead, the I.M.F. will transfer it from one fund to another; it is akin to getting a loan from a bank to pay one's mortgage from that bank for the month.

The New York Times

MONDAY, SEPTEMBER 27, 1999

The New York Times
MONDAY, SEPTEMBER 27, 1999

A Founder of a Year 2000 Service Quits to Try a Different Approach

By BARNABY J. FEDER

Saying that people are losing interest in efforts to organize neighborhoods and communities for potential Year 2000 computer threats, the co-founder of an Internet-based clearinghouse for such grass-roots activities has resigned as the service's research director.

"We seem to have hit a wall," said Paloma O'Riley, who co-founded the clearinghouse, the Cassandra Project, in June of 1997. Her activism brought invitations to testify before Congress and made her a leader in the pursuit of grass-roots responses to potential Year 2000 problems.

"People are developing a false sense of security," she said last week.

Far from abandoning Year 2000 work though, Ms. O'Riley said she was leaving Cassandra to press public officials to prepare more aggressively for possible disasters. Her new focus on political advocacy might have jeopardized Cassandra's tax-exempt status had she stayed, she said.

Cassandra (www.cassandraproject.org) will continue under Catherine Moyer, a Denver-based data-base designer who co-founded the group and had already assumed much of the public appearance responsibilities from Ms. O'Riley in recent months.

The clearinghouse is being redesigned to focus more on specific areas of concern, including preparations at mental health centers and environmental threats from Year 2000 problems, Ms. Moyer said. The site lists several hundred Year 2000 community groups in the United States and overseas, but no one is sure how many are active.

Ms. O'Riley said advocates of individual and community preparedness had been undermined by the steadily increasing drumbeat of optimistic news about the nation's readiness for 2000.

The final blow, she said, was the recent assertion by the Federal Reserve chairman, Alan Greenspan, that there was a "negligible" chance of widespread disruption of banks and other key institutions in the United States. Mr. Greenspan warned that fear of Year 2000 disruptions was more likely to

BOULDER COUNTY Y2K

Nico Toutenhoofd for The New York Times

Paloma O'Riley, left, with a Year 2000 community group leader, Kathy Garcia.

hurt the economy than was the computer problem itself, especially if people emptied grocery store shelves and bank accounts in anticipation of widespread disasters when computers failed to recognize "00" as 2000.

In the current atmosphere, Ms. O'Riley said, even those officials who believe that it makes sense to prepare for disruptions like loss of power, phones or water are afraid they will be stymied and exposed to ridicule if they act on those beliefs. To counter the inertia, Ms. O'Riley is hoping to come up with ways to make local officials believe that they could face legal or financial liabilities if their failure to act results in breakdowns in local services or public safety.

But Steven Davis, a former computer manager for Montgomery County, Md., who frequently works with community-based Year 2000 programs, said: "Threatening to hold government officials accountable is a tough way to get them to act. I wish her luck."

Ms. O'Riley, a 44-year-old New York native, became a believer in the value of self-sufficiency while living in rural Alaska with her husband and two sons in the 1980's. She first encountered Year 2000 computer issues as a computer security officer at the Oakland Naval Hospital in 1990 during the war in the Persian Gulf. A stint as the Year 2000 project manager for the Rover Group Ltd. in England several years later convinced her that disruptions could be global and widespread.

Ms. O'Riley decided to leave Rover and concentrate on raising public awareness of the potential Year 2000 threat. She and her husband, Kevin, chose Colorado as their base of operations. Mr. O'Riley is a mechanical engineer at the Maxtor Corporation, a maker of computer hard drives in Longmont, Colo., and is active in that company's Year 2000 program.

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26 Poorest Nations Get Debt Break

IMF Relief Program Aids Schools, Clinics;

By John Burgess
Washington Post Staff Writer
Monday, September 27, 1999; Page A01

A plan to cancel up to $27 billion in debt owed by the world's most desperately poor countries won key financial backing from major industrial governments yesterday, clearing the way for funds that now flow to foreign creditors to stay home instead to pay for schools and clinics.

Gordon Brown, Britain's top finance official and chairman of an International Monetary Fund group overseeing the plan, said that enough funding pledges had arrived over the weekend to begin the program "not in years or months, but . . . now."

In the plan, "those to whom the world's greatest wealth has been given are joined with those burdened down by the world's greatest debt," Brown said, calling the relief "historic." Firm numbers for donor contributions will be announced this week.

International banks often are wary of letting borrowers walk away from their signed obligations. This program ranks among their most substantive efforts to date to bend the rules for 26 countries, such as Mozambique, Bolivia and Ivory Coast, which the global economic expansion of recent decades has bypassed.

Rules of the plan require that countries put the saved money into development programs, with an emphasis on education and health, and work with the IMF and World Bank on refining economic policies. Countries that channel saved money to non-approved purposes would risk being thrown out of the program.

The program grew in part from a campaign by a diverse coalition that has united Pope John Paul II, the relief group Oxfam, the Anglican church, the rock star Bono and others. Its members argue that the companies cannot begin to alleviate catastrophic social ills if billions of dollars must go to banks in wealthy countries.

"We need a fresh start for people who are living on the edge of survival itself," said Jeffrey Sachs, director of the Harvard Institute for International Development. "We're talking about places where people are dying because there's no health facility available, because life expectancy is down, because HIV is the worse epidemic since the bubonic plague."

Many groups view the program that resulted as too small. Even after this and other debt-relief programs, the 26 countries first in line to benefit from the aid still would carry about $45 billion in loans. Groups also have objected to the continued role of the IMF, which they see as an army of accountants that doesn't have human needs at heart. But many in the coalition support the plan as the best there is for now.

"This is real progress," said Seth Amgott, an Oxfam spokesman. "It will mean more children in school and better health care in some of the poorest countries in the world."

Broad outlines of the plan, which focuses on loans by government banks, not private institutions, were approved in June during a summit of the industrial world's leaders in Cologne. After that, haggling began as to which nation will pay to clear the debts from lenders' books.

Attention recently has focused on how to get $4.7 billion for a trust fund that would finance debt-clearing by "multilateral" lenders such as the World Bank.

The Clinton administration last week sent a bill to Congress requesting about $600 million for the fund and $400 million for forgiving debt that the United States extended directly to countries. Britain recently upped its pledge to the fund by $50 million and yesterday other pledges came in the weekend that boosted the fund to about $2.5 billion, Brown said last night, enough to get the program underway.

France is among the countries that hasn't yet announced a contribution to the trust fund. Charles Josselin, the French cabinet member who oversees foreign aid and relations with countries of France's former empire, said last night that France is contributing heavily in forgiving loans it extended directly and believes it and other nations with that record should have a smaller burden for clearing multilateral debt.

The IMF, meanwhile, plans to sell up to 14 million ounces of gold in private transactions to cover its part of the forgiven loans.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 16, 1999

REMARKS BY THE PRESIDENT
TO CONFERENCE ON U.S.-AFRICA PARTNERSHIP
FOR THE 21ST CENTURY

Department of State

9:38 A.M. EST

THE PRESIDENT: Thank you. Good morning. Let me say, first of all, to Minister Ouedrago, thank you for your fine address and for your leadership. Secretary General Salim, Secretary General Annan, Secretary Albright; to our distinguished ministers and ambassadors and other officials from 46 African nations, and the representatives of the Cabinet and the United States government. I am delighted to see you all here today. We are honored by your presence in the United States and excited about what it means for our common future.

A year ago next week I set out on my journey to Africa. It was, for me, for my wife, and for many people who took that trip, an utterly unforgettable and profoundly moving experience. I went to Africa in the hope not only that I would learn, but that the process of the trip itself and the publicity that our friends in the press would give it would cause Americans and Africans to see each other in a new light -- not denying the lingering effects of slavery, colonialism, Cold War, but to focus on a new future -- to build a new chapter of history, a new era of genuine partnership.

A year later, we have to say there has been a fair measure of hope, and some new disappointments. War still tears at the heart of Africa. Congo, Sierra Leone, Angola, Sudan have not yet resolved their conflicts. Ethiopia and Eritrea are mired in a truly tragic dispute we have done our best to try to help avoid. Violence still steals innocent lives in the Great Lakes region. In the last year, Nairobi and Dar es Salaam became battlefields in a terrorist campaign that killed and wounded thousands of Africans, along with Americans working there for a different future.

But there have also been promising new developments. The recent elections in Nigeria give Africa's most populous country, finally, a chance to realize its enormous potential. The transition may not be complete, but let's not forget, just a year ago it was unthinkable. This June, for the first time, South Africa will transfer power from one fully democratic government to another.

More than half the Sub-Saharan nations are now governed by elected leaders. Many, such as Benin, Mali and Tanzania, have fully embraced open government and open markets. Quite a few have recorded strong economic growth, including Mozambique, crippled by civil war not long ago. Ghana's economy has grown by five percent a year since 1992.

All of you here have contributed to this progress. All are eager to make the next century better than the last. You share a great responsibility, for you are the architects of Africa's future.

Today, I would like to talk about the tangible ways we can move forward with our partnership. Since our trip to Africa my administration has worked hard to do more. We've created a $120 million educational initiative to link schools in Africa to schools in this country. We've created the Great Lakes Justice Initiative to attack the culture of impunity. We have launched a Safe Skies Initiative to increase air links between Africa and the rest of the world; given $30 million to protect food security in Africa and more to be provided during this year.

In my budget submission to Congress I have asked for additional funds to cover the cost of relieving another $237 million in African debt on top of the $245 million covered in this year's appropriation.

We're working hard with you to bring an end to the armed conflicts which claim innocent lives and block economic progress; conducting extensive shuttle diplomacy in an effort to resolve the dispute between Ethiopia and Eritrea. In Sierra Leon we're doing what we can to reduce suffering and forge a lasting peace. We have provided $75 million in humanitarian assistance over the last 18 months. And with the approval of Congress we will triple our longstanding commitment of support for ECOMOG to conduct regional peacekeeping.

We have also done what we can to build the Africa Crisis Response Initiative, with members of our military cooperating with African militaries. We've provided $8 million since 1993 to the OAU's Conflict Management Center to support African efforts to resolve disputes and end small conflicts before they explode into large ones.

Nonetheless, we have a lot of ground to make up. For too much of this century, the relationship between the United States and Africa was plagued by indifference on our part. This conference represents an unparalleled opportunity to raise our growing cooperation to the next level. During the next few days we want to talk about how these programs work and hear from you about how we can do better. Eight members of my Cabinet will meet their African counterparts. The message I want your leaders to take home is this is a partnership with substance, backed by a long-term commitment.

This is truly a relationship for the long haul. We have been too separate and too unequal. We must end that by building a better common future. We need to strive together to do better, with a clear vision of what we want to achieve over the long run. Ten years from now, we want to see more growth rates above five percent. A generation from now, we want to see a larger middle class, more jobs and consumers, more African exports, thriving schools filled with children -- boys and girls -- with high expectations and a reasonable chance of fulfilling them.

But we need the tools to get there -- the tools of aid, trade, and investment. As I said when I was in Africa, this must not be a choice between aid and trade; we must have both. In my budget request for the next fiscal year, I've asked for an increase of 10 percent in development assistance to Africa. But the aid is about quality, and quantity. Our aid programs are developed with your involvement, designed to develop the institutions needed to sustain democracy and to reduce poverty, and to increase independence.

To expand opportunity, we also need trade. Our administration strongly supports the Africa Growth and Opportunity Act, which I said in my State of the Union address we will work to pass in this session of Congress. The act represents the first step in creating, for the first time in our history, a genuine framework for U.S.-Africa trade relations. It provides immediate benefits to nations modernizing their economies, and offers incentives to others to do the same. It increases U.S. assistance, targeting it where it will do the most good.

The bill clearly will benefit both Africa and the United States.

Africans ask for more access to our markets; this bill provides that. You asked that GSP benefits be extended; this bill extends them for 10 years. You said you need more private investment; this bill calls for the creation of two equity investment funds by OPIC, providing up to $650 million to generate private investment in Africa.

We agree that labor concerns are important. This bill removes GSP benefits for any country found to be denying worker rights. You told us we need to understand more about your views on development. This bill provides a forum for high-level dialogue and cooperation.

It is a principled and pragmatic approach based on what will work. No one is saying it will be easy, but we are resolved to help lower the hurdles left by past mistakes. I believe it represents a strong, achievable and important step forward. There are many friends of Africa in Congress and many strong opinions about how best to help Africa. I hope they will quickly find consensus. We cannot afford a house divided. Africa needs action now. (Applause.)

There's another crucial way the United States can hasten Africa's immigration. One of the most serious issues we must deal with together, and one of truly global importance is debt relief. Today, I ask the international community to take actions which could result in forgiving $70 billion in global debt relief -- global debt. Our goal is to ensure that no country committed to fundamental reform is left with a debt burden that keeps it from meeting its people's basic human needs and spurring growth. We should provide extraordinary relief for countries making extraordinary efforts to build working economies. (Applause.)

To achieve this goal, in consultation with our Congress and within the framework of our balanced budget, I proposed that we make significant improvements to the heavily-indebted Poor Countries Initiative at the Cologne Summit of the G-7 in June. First, a new focus on early relief by international financial institutions, which now reduce debt only at the end of the HIPC program. Combined with ongoing forgiveness of cash flows by the Paris Club, this will substantially accelerate relief from debt payment burden.

Second, the complete forgiveness of all bilateral concessional loans to the poorest countries. Third, deeper and broader reduction of other bilateral debts, raising the amount to 90 percent. Fourth, to avoid recurring debt problems, donor countries should commit to provide at least 90 percent of new development assistance on a grant basis to countries eligible for debt reduction.

Fifth, new approaches to help countries emerging from conflicts that have not had the chance to establish reform records, and need immediate relief and concessional finance. And, sixth, support for gold sales by the IMF to do its part, and additional contributions by us and other countries to the World Bank's trust fund to help meet the cost of this initiative. Finally, we should be prepared to provide even greater relief in exceptional cases where it could make a real difference.

What I am proposing is debt reduction that is deeper and faster. It is demanding, but to put it simply, the more debtor nations take responsibility for pursuing sound economic policies, the more creditor nations must be willing to provide debt relief.

One of the best days of my trip last year was the day I opened an investment center in Johannesburg, named after our late Commerce Secretary, Ron Brown, a true visionary who knew that peace, democracy and prosperity would grow in Africa with the right kind of support. I can't think of a better tribute to him than our work here today, for he understood that Africa's transformation will not happen overnight, but on the other hand, that it should happen and that it could happen.

Look at Latin America's progress over the last decade. Look at Asia before that. In each case, the same formula worked: Peace, open markets, democracy and hard work lifted hundreds of millions of people from poverty. It has nothing to do with latitude and longitude, or religion or race. It has everything to do with an equal chance and smart decisions.

There are a thousand reasons Africa and the United States should work together for the 21st century, reasons buried deep in our past, reasons apparent in the future just ahead. It is the right thing to do, and it is in the self-interest of all the peoples represented in this room today. Africa obviously matters to the 30 million Americans who trace their roots there. But Africa matters to all Americans. It provides 13 percent of our oil, nearly as much as the Middle East. Over 100,000 American jobs depend upon our exports to Africa. There could be millions more when Africa realizes its potential. As Africa grows it will need what we produce and we will need what Africa produces.

Africa is home to 700 million people, nearly a fifth of the world. Last year, our growing relationship with this enormous market helped to protect the United States from the global financial crisis raging elsewhere. While exports were down in other parts of the world, exports from the United States to Africa actually went up by eight percent, topping $6 billion. As wise investors have discovered, investments in Africa pay. In 1997, the rate of return of American investments in Africa was 36 percent -- compared with 16 percent in Asia, 14 percent worldwide, 11 percent in Europe.

As has already been said, we share common health and environmental concerns with people all over the world, and certainly in Africa. If we want to deal with the problems of global warming and climate change, we must deal in partnership with Africa. If we want to deal with a whole array of public health problems that affect not only the children and people of Africa, but people throughout the rest of the world, we must do it in partnership with Africa.

Finally, I'd like to just state a simple truth that guides our relations with all nations. Countries that are democratic, peaceful and prosperous are good neighbors and good partners. They help respond to crises. They respect the environment. They abide by international law. They protect their working people and their consumers. They honor women as well as men. They give all their children a chance.

There are 46 nations represented here today -- roughly a quarter of all the countries on Earth. You share a dazzling variety of people and languages and traditions. The world of the 21st century needs your strength, your contribution, your full participation in the struggle to unleash the human potential of people everywhere. (Applause.)

Africa is the ancient cradle of humanity. But it is also a remarkably young continent, full of young people with an enormous stake in the future. When I traveled through the streets of the African cities and I saw the tens of thousands, the hundreds of thousands of young people who came out to see me, I wanted them to have long, full, healthy lives. I tried to imagine what their lives could be like if we could preserve the peace, preserve freedom, extend genuine opportunity, give them a chance to have a life that was both full of liberty and ordered, structured chances -- chances that their parents and grandparents did not know.

The Kanuri people of Nigeria, Niger and Chad say, "hope is the pillar of the world." The last decade proves that hope is stronger than despair, if it is followed by action. Action is the mandate of this conference.

Let us move beyond words, and do what needs to be done. For our part, that means debt relief, passage of the Africa Growth and Opportunity Act, appropriate increases in assistance, and a genuine sense of partnership and openness to future possibilities. For your part, it means continuing the work of building the institutions that bring democracy and peace, prosperity and equal opportunity.

We are ending a decade, the 1990s, that began with a powerful symbol. I will never forget the early Sunday morning in 1990, when I got my daughter up and took her down to the kitchen to turn on the television so that she could watch Nelson Mandela walk out of his prison for the last time. She was just a young girl, and I told her that I had the feeling that this would be one of the most important events of her lifetime, in terms of its impact on the imagination of freedom-loving people everywhere.

We could not have known then, either she or I or my wife, that we would have the great good fortune to get to know Mr. Mandela, and see his generosity extended to our family, and to our child, as it has been to children all over his country. But in that walk, we saw a continent's expression of dignity, of self-respect, of the soaring potential of the unfettered human spirit.

For a decade, now, the people of South Africa and the people of Africa have been trying to make the symbol of that walk real in the lives of all the people of the continent. We still have a long way to go. But let us not forget how far we have come. And let us not forget that greatness resides not only in the people who lead countries and who overcome persecutions, but in the heart and mind of every child, and every person -- there is the potential to do better, to reach higher, to fulfill dreams. It is our job to give all the children of Africa the chance to do that.

Thank you very much. (Applause.)

END 10:00 A.M. EST

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release March 16, 1999

PRESIDENT CLINTON ANNOUNCES NEW U.S. INITIATIVE ON DEBT
March 16, 1999

President Clinton today called on the international community to pursue a comprehensive approach to debt relief for the heavily indebted poorest countries -- the HIPCs -- which, if fully implemented by creditors and the HIPCs, could result in forgiving an additional $70 billion in debt.

Today's proposal extends the U.S. commitment to providing more relief, more quickly to a broader range of heavily indebted poor country that have strong reform programs.

The following are key elements of President Clinton's initiative, and the US will work with its colleagues in the G7 to implement these proposals:

1) Front Loaded Relief: Focus on early cash flow relief by the international financial institutions, in conjunction with ongoing forgiveness of cash flows by the Paris Club, to accelerate relief from debt payment burdens without undermining the incentive for sustained economic performance.

2) Deeper Debt Reduction: Complete forgiveness of bilateral concessional loans, rather than rescheduling as is done at present; forgiveness of bilateral non-concessional debt up to 90%; and in exceptional cases on a broader base of debt.

3) Avoid Future Debt Problems: Seek international commitment to provide at least 90% of new aid to HIPC countries on a grant basis.

4) Exceptional Relief in Exceptional Cases: Deeper debt reduction in exceptional circumstances to those countries where it can make a real difference.

5) Innovative Approaches: To channel resources from HIPC receiving debt reduction from debt service into education or environmental protection, using innovative financial instruments like debt-for-nature swaps; and take new approaches to promote reconstruction in countries emerging from protracted conflicts;

6) New Financing: Gold sales by the IMF, additional contributions to the World Bank's HIPC Trust Fund and other creative approaches to help meet the costs of this initiative.

If all HIPC-eligible countries qualify, these proposals would reduce an additional $3 billion in U.S. bilateral debt than under the current HIPC initiative and would leverage almost $70 billion in additional debt relief from other creditors.

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Shesol -

My wife (who works at the WB)
[gave this to me for you. I
don't know how helpful it all is —]
but here you go.

Kaplan

PRESS BACKGROUNDER

The World Bank

THE WORLD BANK GROUP: FOUR YEARS OF CHANGE AND RENEWAL — A PROGRESS REPORT

"This is a moment in history in which we can determine whether we will be able to face the next generation in the knowledge that we have maximized the potential of this institution. Some people say I am emotional on these things. But it is what I believe. And I say it because I believe it. It is why I am here. It is why I think the management is here. And it is why staff is here. Otherwise, we would work somewhere else. So I believe that it is important to restate at the beginning of this discussion that what we are talking about is something that will affect the peace and stability of our planet, and will affect the lives of our children, and which is really a remarkable cause."

JDW, Address to the Informal Meeting of the Board, March 13, 1997

James D. Wolfensohn's arrival at the World Bank Group four years ago marked the beginning of an intense process of renewal focused on becoming a more effective, stream-lined, and client-oriented institution, with the over-arching goal of fighting poverty at the forefront of our efforts. The following background brief outlines progress so far.

Changing Strategy to Make Us More Effective in Fighting Poverty

The Strategic Compact – Endorsed by the World Bank's Board of Executive Directors on March 31, 1997, the Strategic Compact set the standards of a comprehensive program of renewal for the Bank which would seek to position it as a more effective partner and catalyst for development into the next century. Through the Compact, the Bank's shareholders and management are investing in and implementing a series of changes over 30 months to better serve its member countries: by improving its products, speeding up its processes, lowering its costs, and increasing its development impact. All Compact initiatives are now under implementation, changing the way the Bank Group does business. The Compact is paying off with higher quality and greater efficiency in our work. Although challenges remain, all five semi-annual progress reports to the Board have indicated significant progress. The recently completed Fifth Progress Report notes the Bank Group's strengthened focus on poverty reduction through high quality and increased services and the significant progress made in FY99 in taking social and structural issues into account.

Comprehensive Development Framework – In keeping with the mandate of change and renewal, Jim Wolfensohn outlined a vision for a Comprehensive Development Framework (CDF) during the 1998 World Bank/International Monetary Fund Annual Meetings. Following an intense effort to lay the groundwork in the fall of 1998, the CDF is now being piloted in 12 countries. At its core, the framework focuses on a holistic approach to development, applied over a 10-20 year timeframe, with the country in the driver's seat and with strong partnerships among donors, the private sector and civil society. The proposal also seeks to put the social, structural, and human aspects of development on a par with the more traditional macroeconomic analysis of countries – arguing that unless we take these two sides of the same coin together, we will only see one half of the development picture.

The country both "owns" and directs the development agenda, with the World Bank and the country's other partners each defining their support in their respective business plans. For example, in Bolivia, the government is using the CDF to foster intensive country discussion on the societal transformation and institutional aspects of the development challenge in Bolivia. The CDF pilot, launched in June 1999, aims to help Bolivia and its partners be more effective in reducing poverty. In the West Bank and Gaza, strong partnership is already imbedded through forums such as the Consultative Group and the Ad Hoc Liaison Committee, and through extensive field-level donor coordination and close relationships with the Palestinian Authority, the private sector, NGOs, and local communities and focusing on such topics and water, municipal finance, and legal reform, which feed into CDF approach. And in Ghana, the CDF has been successfully launched through the "Mini-CG", a government-partner group established to improve coordination. Other countries in active discussion with the Bank and other partners, exploring ways in which the CDF might be piloted in their country include Cote d'Ivoire, the Dominican Republic, Eritrea, Ethiopia, Kyrgyz Republic, Morocco, Romania, Uganda, and Vietnam.

Having An Impact Where It Matters Most – Strengthening Development Effectiveness

Highest Quality Rate for Project Design and for Outcomes – In latest estimates of the Operations Evaluation Department, 77 percent of Bank projects had satisfactory outcomes in FY99 (including 7 percent with outstanding outcomes), up from 65-70 percent range in 1990-96. The Strategic Compact has been the driving force behind these gains, which translate into improved performance on an incremental $4 billion of lending (double the original target).

In FY99, the Bank also achieved an estimated 86 percent satisfactory rating for project quality-at-entry, compared to 82 percent in FY98 and 66 percent five years ago. Management is now pushing project quality, not quantity. In FY96, Jim Wolfensohn created the Quality Assurance Group (QAG), as a "watch dog" to bring greater discipline to the project process while also providing positive input in operations. QAG gives real-time evaluations of the quality of Bank-financed loans, Economic and Sector Work (ESW), and other activities. QAG also has corporate responsibility for managing the Annual Review on Portfolio Performance (ARPP), which assesses the status of the entire Bank portfolio.

Fighting Poverty More Strategically, Efficiently, and Effectively – Changes in Lending

Focusing on Quality, Not Quantity, But Also Lending Unprecedented Amounts – Total IBRD and IDA commitments in FY99 reached a record level of $29 billion, due in large part to the Bank's continued support to East Asia. Lending to the Latin America and Caribbean region also increased, partly in response to ripple effects from the East Asian crisis and Hurricane Mitch. In FY99, IDA lending totaled $6 billion; with IBRD lending at $24 billion. Total gross disbursements reached $24.2 billion in FY99. Four years ago total IBRD and IDA lending stood at $22 billion.

Successfully Securing Critical Funding for the International Development Association (IDA) – IDA's new commitments in FY99 amounted to $6.8 billion. Thanks to a joint effort by IDA recipients and World Bank staff, IDA's portfolio quality continues to improve. The IDA 12 agreement has now been successfully concluded. There is a strong consensus among IDA donors that poverty reduction in the poorest countries must continue to be IDA's overriding objective.

Increasing Lending in the Social Sectors – Lending for the social sectors increased by 40 percent during the first two years of the Strategic Compact, compared to the prior two years. Lending in the social sectors has grown rapidly since FY95 – from $4.2 billion in FY95 to a record high of $7.3 billion in FY99. Part of the Bank's response to the global financial crises has been to work with countries to help protect public expenditure in crucial areas in the social sectors; protect access to basic social services, especially for the poor; improve social insurance; and increase project and program impact on health, nutrition, population, and education indicators.

Shifting Regional Lending – Regional lending shares have remained broadly unchanged since FY95, except in East Asia and Latin America, where adjustment lending has risen sharply since FY95, reflecting the Bank's lending response to crisis-related problems. East Asia's lending program in FY95 was $5.7 billion and Latin America's $6.1 billion, compared with $9.76 billion this fiscal year for East Asia and $7.74 billion for Latin America and Caribbean.

Expanding Work with the Private Sector – Through 255 new projects, IFC pursued its mission to reduce poverty by promoting private sector investment in developing countries, and proved that such investments remain profitable by earning $249 million in net income for fiscal year 1999, a slight increase over the FY98 result of $246 million.

The annual report for the 1999 fiscal year ending on June 30 reports that IFC increased commitment of its own resources to $2.8 billion and mobilized another $800 million in syndicated loans to projects in 79 developing countries. In FY98, IFC had committed less for its own account – $2.7 billion – but syndicated loans had been much higher a year ago, at $2.4 billion. The year-over-year decline in syndicated loans reflects the difficult world financial environment which led many commercial banks to cut back their exposure to developing countries. Loans mobilized by IFC from commercial banks were, in fact, one of the few sources of long-term lending for developing countries in the past year. New project approvals increased to $3.5 billion for IFC's own account, up from $3.4 billion in 1998. The total committed portfolio for IFC's own account grew from $11.4 billion last year to $12.9 billion in 1999.

Strengthening the Bank's Guarantee Arm (**MIGA**) – For the first time in its 11-year history, the Multilateral Investment Guarantee Agency (MIGA) surpassed the $1 billion mark in the amount of guarantee coverage issued in a single year. The $1.3 billion of coverage issued insured investment projects in 29 developing member countries. This compares with $830.9 million of coverage issued in fiscal 1998, and $614 million in fiscal 1997. MIGA received approval from its Council of Governors for a doubling of its authorized capital from $1 billion to $2 billion, to ensure it has the necessary resources to meet the anticipated demand in coming years for its guarantees services. During fiscal 1999, MIGA announced landmark increases in the availability of its insurance coverage to meet the growing demand for its guarantee services. In addition to raising the allowable limits of political risk insurance that MIGA may issue on its own account, MIGA renegotiated its ***treaty reinsurance arrangements*** with ACE Bermuda

Insurance Ltd. and concluded a new reinsurance treaty with XL Insurance Company. Under the new agreements, ACE and XL will each reinsure up to $50 million per project and $150 million per country. Together, these changes substantially increased MIGA's ability to respond to the demand of its clients for insurance per project up to $200 million, and per host country up to $620 million; facultative reinsurance can further increase these limits. In total, since the creation of the Agency in 1988, MIGA has issued 420 guarantee contracts for $5.5 billion in coverage, which has facilitated an estimated $30 billion in foreign direct investment in some 66 developing countries and transition economies.

Changing The Way We Do Business – A New Approach to Operations

Emphasizing the Link Between Strategy and Operational Priorities – In 1998, the Bank fundamentally changed its traditional budget process with a new approach geared to linking resources to results. As a key adjunct to this approach, it launched the Strategic Forum – an annual meeting of the management team to thrash out strategic priorities and allocate the budget accordingly. The Forum is supplemented by monthly Corporate Days where Senior Managers track strategy and operational priorities against results.

Giving Frontline Activities Budgetary Priority – In line with our Compact targets, the Bank has shifted resources from supporting activities from 'backline' – administrative and central services – into 'frontline' activities – operational programs in the regions and networks.

Moving Closer to the Client – Regions are aggressively pursuing their decentralization efforts to the field. Nearly half of our Country Directors are now located in local offices. By end-FY99, 24 out of 51 Country Directors are now located in the field, compared with only 4 two years ago; and 20 percent of regional staff in country offices compared to 18 percent at end-FY98. Clients have responded positively to the shift in decision-making authority to country offices, and feel that communication with the Bank has been enhanced and project implementation has improved. An increasing number of Consultative Group meetings are also held in-country. IFC has also greatly expanded its field presence, particularly in countries that have not received a great deal of private investment to date. In 1995, IFC had personnel in 25 overseas locations – today that number has risen to 70.

Increasing Efficiency – We continue to reduce the elapsed time between appraisal and Board delivery of projects – what was 7 months in FY98, is 5 months today. Projects in FY99 were prepared in half the time and at two thirds the cost of five years ago.

Changing the Country Assistance Strategy (CAS) – One Size Cannot Fit All – The CAS is changing too: focusing on putting poverty outcomes – not outputs – at the core. The approach to the CAS and to operations in general has also become much more participatory – recognizing not only central government as our client, but local government, regional government, and civil society as well. In FY99, of the 20 full CASs discussed by, or distributed to the Board up to mid-April 1999, all but one were prepared with the benefit of some form of consultation with non-government stakeholders.

Going Public – A Major Milestone – The CAS – once the most secret Bank document – is also now subject to extensive consultations in a growing number of countries and in several cases is widely disseminated, publicized in the media, and posted on websites. As of July 1, 1999, a new policy took effect requiring disclosure of all IDA CASs after Board discussion. IBRD CASs can be disclosed at the request of the government concerned. In addition to publishing the CAS, this year the Bank will review its disclosure policy as a whole.

Spreading the Word – In 1996 Jim Wolfensohn outlined his vision of a Knowledge Bank – not just as a key tool for maximizing development impact, but also as a prerequisite for a much more decentralized Bank. The Bank's upgraded and continuously updated external website receives an average number of 250,000 hits per day. New initiatives include *"Development News"* the Bank's daily on-line news magazine which includes a daily press clippings service.

The World Bank Institute (WBI) has developed pilot on-line Internet courses with the African Economic Research Consortium and 13 partner universities, and has developed similar programs in Russia. The World Links for Development program is expanding its on-line educational links between teachers and students across the globe. By the year 2000, at least 1,200 secondary schools in 40 developing countries will have connected with schools in North America, Europe, Japan, and Australia. And site receivers for the African Virtual University are now installed in Kenya, Uganda, Ethiopia, and Zimbabwe, with plans to expand to another eight countries. In FY99, the Bank launched the World Bank Learning Network, a distance learning program that offers interactive video- and web-based courses, linking participants around the world.

In client countries, the Bank Group is expanding its financing aimed at reducing the information infrastructure gap and through InfoDev – the Information for Development Program – we are providing technical assistance for countries in the process of liberalizing their telecommunications regimes, grants for pilot initiative in Internet training centers, and electronic commerce. Total funding for InfoDev amounts to $34 million. InfoDev has supported the Y2K effort by conducting regional and national awareness and planning seminars, developing and distributing a Year 2000 toolkit for use by national governments, and making technical assistance grants to help governments design national Y2K plans. As of the end of June, 1999, 105 countries had requested about $39 million in grant assistance, with 92 approved for a total of $15 million. In addition, some 80 governments have launched Y2K programs in developing countries with InfoDev's support.

Introducing Sector Strategy Papers (SSPs) – Introduced in 1998, SSPs help identify countries where sector performance is significantly below average, and where treatment in the CAS is a must. A rich pipeline of SSPs is planned for FY99-02 in areas such as culture and sustainable development, local government, education, population, and rural development.

Reforming Operational Policy – To help staff and our clients better understand our operational policies, a new Operational Manual has been launched on the Bank's external web site. The restructured Manual is part of an ongoing work program of operational policy reform.

Strengthening Safeguards – A Safeguard Policy Unit has been set up in the network for Environment and Socially Sustainable Development to facilitate and monitor compliance with environmental and other similar policies. Central monitoring of compliance is also being strengthened with procurement and other fiduciary policies.

Listening to Client Feedback – The Bank has stepped up the frequency and openness of its efforts to get feedback from clients, as well as measure our performance under the Compact. In

1998, client surveys were piloted in 12 countries. Since then we have rolled out a program of client surveys to a further 13 countries, and we plan to mainstream this initiative. In 1998, we undertook a major survey of opinion makers in developed countries.

Communicating Globally – In partnership with the UN and Intelsat, the Bank has established a global communications platform linking 65 Bank Group local offices with plans to link all offices by the end of the year. And we are offering global videoconferencing and an array of new distance learning tools. The most comprehensive overhaul of systems in the Bank's history is also well underway. The Information Systems Renewal is an institutional Strategic Compact initiative to replace the Bank's 160 systems and databases with SAP, an institutionally-managed, integrated global system that is Y2K compliant. The system "went live" in July 1999.

Reacting to a Dramatically Changing World

While management and staff have continued to work hard to reinvent the Bank, the external environment is shifting dramatically – testing our responsiveness while we are working to build it from the ground up. We are being pulled into demanding new directions and our response reflects the growing flexibility of the Bank – requiring new products and services and a more effective response to issues of social and environmental sustainability, and the changing roles of the public and private sectors – this being the holistic approach to poverty alleviation of the CDF.

Responding to the Crisis – At the 1998 Bank/Fund Annual Meetings, Jim Wolfensohn confirmed the Bank's commitment to a leadership role in addressing the social and economic devastation that can follow financial market collapse. He urged the international community not to overlook the dramatic impact that the financial crisis is having, particularly on the poor. Our response has been strong, with commitments in education, population, health and nutrition, and social protection increasing from $1.0 billion in the first half of FY98 to $1.8 billion in FY99. The Bank is also focusing on financial and corporate restructuring, safety nets to protect the vulnerable, and adjustment lending. Since the crisis began, the Bank has approved $13.72 billion for the East Asian crisis countries.

In 1998, the Special Financial Operations Unit (SFO) was created to enable the Bank to respond in a rapid and sustained basis to financial sector crises in three client countries in East Asia. Working closely with the country departments, SFO's mandate is to provide immediate support to governments to help them stabilize their financial systems, followed by support for structural reforms. While the situations of individual crisis countries (and therefore the approach of the Bank and its partners) have varied, in each case SFO and its partners have pursued assistance strategies comprised of several elements: establishing a resolution framework; restructuring; and building a sound financial system. SFO's interventions in the crisis countries include policy advice, direct technical assistance, helping governments identify and bring in outside experts and firms, and preparing and supervising the financial sector components of Bank loans.

The immediate programs are directed at reducing instability and uncertainty in the domestic financial markets and assisting governments develop a program and institutional framework to restructure and resolve nonviable financial institutions. Over the longer-term, the goal is to build a stronger and more competitive financial system and an accompanying regulatory system to minimize the likelihood of future problems in the financial sector.

Strengthening Our Work in the Financial Sector – The Bank has intensified its effort in countries vulnerable to financial crisis. The program in these countries is anchored on a Bank strategy that is built around three broad themes: making systems stable and resilient to crises; making systems efficient and cost-effective; and facilitating broad access to key financial services. The approach in the vulnerable countries has been grounded in four related activities: intensify the level of dialogue with authorities to ensure official recognition of vulnerability and enlist their support for further efforts to evaluate and mitigate it; assess financial sector vulnerability in priority countries against certain standards; develop with the authorities and other partners, in particular the IMF, the so-called standby policy matrices that can form basis for rapid response in the event of the crisis; and carry out technical and advisory work, financing or other activities to remedy the underlying sources of vulnerability.

A centerpiece of the Bank' s program of strengthening financial systems in non-crisis countries is the Financial Sector Assessment Program (FSAP), which is being developed jointly with the IMF. This program, which is currently being implemented as a pilot, provides for an ongoing cycle of comprehensive assessments of vulnerability areas and developmental needs in the financial sector of the Bank's client countries.

As part of its capacity-building effort, the Bank carried out an expedited recruitment program which has resulted in an increase of financial sector staff by 50 percent since it started in September 1997.

Adjustment Lending – Focus on Poverty Reduction – More than half of adjustment lending in FY99 was poverty-focused, with strong support to social sectors. This assistance helped protect social spending for basic services, strengthen safety nets, and put in place reforms ensuring a pro-poor, job-creating economic recovery. East Asia and Latin America together accounted for $10.2 billion, with the Europe and Central Asia Region at $3.4 billion. Support for the financial sector – financial systems, corporate governance, bankruptcy laws, and disclosure – was the other important dimension of adjustment lending.

Incorporating the Social Side of Economic Development – We are mainstreaming the social dimensions of development in operational work, with CASs now reviewed to ensure stakeholder participation. Pioneering work is also being undertaken on issues such as improving understanding of social capital and how it can increase the effectiveness of development projects. As prescribed by the CDF, there is also increased attention to social safeguard policies, especially on resettlement and indigenous peoples, and we have launched a new initiative on the protection and enhancement of cultural heritage.

Tackling Poverty at the Global Level

More and more of the challenges faced by governments in the coming decades will arise from global economic and social forces that generate transnational demands which cannot always be efficiently addressed at the national level. Issues such as the spread of **AIDS**, **deforestation**, and the need for **global financial regulatory standards** are a few examples that call for a development agenda that encompasses these transnational issues. There has been a growing interest within the Bank and among its clients and partners to take a more proactive and systematic role in addressing public policy challenges that cross borders. The Bank has already embarked on a number of global and regional initiatives and will continue to work closely with the UN and other partners in civil society and the private sector in shaping and managing a global policy agenda to fight poverty.

Expanding Our Work On Judicial Reform, Corporate Restructuring, and Corporate Governance – The Bank's Financial Sector Board has launched new Bank-wide efforts, in cooperation with the IMF, to monitor and analyze the status of client country financial systems and to fund technical assistance to high-priority client countries for both financial sector capacity-building and for crisis intervention. New tools and strategies have been developed for banking crisis resolution and their effectiveness in mitigating the effects and consequences of crises will be assessed. The Bank is also expanding its work on judicial reform (including training judges, reforming courts, advising on judicial systems, and designing bankruptcy laws); on corporate restructuring; and on corporate governance.

Promoting Good Governance – In 1996, Jim Wolfensohn took corruption out of its political box and redefined it as a cancer eating away at economic development. A year later, the Bank issued its report *Helping Countries Combat Corruption*, outlining a four-part strategy for dealing with corruption. Since the Bank explicitly put corruption on the development agenda, over two dozen countries have approached the World Bank for assistance in combating corruption. The Bank is also redoubling its efforts to take governance into account – even in those countries that do not request assistance – as it designs and implements its country assistance strategies.

The Strategic Compact put aside about $4 million per year for three years (FY98-00) for specific anticorruption activities. This is additional funding to what is already a very large amount of money lent by the World Bank for public sector institutional reform and governance – we estimate about $5 billion dollars of lending per year. This includes, for example, work in civil service reform, budget management, tax administration, decentralization, legal/judicial reform, and sectoral institution building.

Stepping Up The Fight Against Corruption – In an effort to help countries help themselves and improve their governance, the Bank has become actively engaged in external anti-corruption and become an international leader in this effort, while at the same time improving its own internal control structure. In May 1998, an Oversight Committee on Fraud and Corruption was established. The Committee is responsible for reviewing all allegations of fraud and corruption received by any member of the Bank Group, and then determining when and how an investigation should be conducted. The Committee reports directly to the President.

To help ensure that allegations of fraud and corruption are reported, the Bank has also set up a telephone hotline with multilingual capabilities, which operates 24 hours a day, seven days a week. It is available for use by Bank Group staff and the public. The telephone number in the United States and Canada is 1-800-831-0463.

The Bank is also tightening up our oversight of the Borrower's procurement processes. As part of this move, we are now periodically commissioning procurement audits undertaken by independent firms of international repute. In the course of the past two fiscal years, 54 projects have been audited. As a result of the audits, the Bank has declared misprocurement on about 40 contracts with a total contract value of $40 million – out of a total of 45,000 contracts the Bank finances annually totaling roughly $45-50 billion.

To complement these activities, the Bank has also put in place new procedures for debarr contractors from future Bank-financed contracts if indeed it is found that the contractors h committed fraud or corruption in the procurement or execution of Bank-financed contracts. In November, Jim Wolfensohn appointed a Sanctions Committee to review the findings of investigations. So far, seven cases have been submitted to the Sanctions Committee, some of which involve a number of accused firms/people. Three of the cases have resulted in debarment.

The Bank's anti-corruption initiatives are taking root in all regions and many other units across the Bank. The Bank has provided assistance to over two dozen countries in the form of anti-corruption workshops for governments and civil society, diagnostic missions, surveys, and reports. In FY99, an Anti-Corruption Core Program was piloted in Africa that has reached out to representatives of government, civil society, and the private sector from seven African countries.

Within the Bank, awareness of anti-corruption and governance issues has been strengthened by including them in CASs. Additionally, the Bank has instituted a number of measures to strengthen internal controls that will increase its own capacity and result in diminished reliance on external legal counsel and investigators.

Helping the Poorest of the Poor: HIPC – In April 1996, Jim Wolfensohn and Michel Camdessus launched the Heavily-Indebted Poor Country (HIPC) Initiative, an agreement among official creditors designed to help the poorest, most heavily-indebted countries, escape from unsustainable debt. The HIPC process is well underway. Since the fall of 1996, the eligibility of 12 HIPCs has been reviewed, of which 10 countries have qualified for debt relief packages estimated to amount to $4.3 billion in net present value terms (NPV), or up to $8.5 billion in nominal debt service relief over time. Of these ten countries, four (Bolivia, Guyana, Mozambique, and Uganda) have already received relief.

In 1999, the World Bank and IMF launched a comprehensive HIPC review and consultation. The aim was to assess the progress made and identify areas where the Initiative could be strengthened. Over six months, the Bank and Fund established an interactive web-page and held formal consultations in 10 countries from Africa to Europe to North and Central America, canvassing the ideas and recommendations of representatives from governments and civil society. Altogether, the review solicited more than 1,000 pages of valuable and detailed proposals from dozens of sources and hundreds of people from every walk of life. These views formed the basis for two joint papers presented to the Boards of both institutions, and contributed significantly to the formulation of proposals from governments, including that of the Group of Seven Industrialized Countries (G-7). The Bank is currently studying options required to finance a set of proposals which would more than double the cost of the existing framework. The Bank is determined that whatever option is chosen will ensure that debt relief *be additional* to—and not a substitute for—existing development assistance. The Bank is also working closely with the IMF, governments, and civil society on a new approach to developing assistance strategies, which enable countries to use debt relief—and available financial resources more broadly—to fight poverty.

Adding Post Conflict Work to the Bank's Agenda – The Bank has sought to respond to the growing demand for conflict-related assistance and is playing a critical role in the reconstruction of countries emerging from conflict. Since its inception in 1997, the Post-Conflict Unit has provided strategic support in 35 countries worldwide. The Post-Conflict Fund, part of the

Bank's Development Grant Facility, provided $16 million in FY98-99 for post-conflict activities. In the Balkans, the Bank played a leadership role in coordinating the international community's response to the Kosovo crisis. We provided supplementary assistance on an emergency basis to neighboring countries (e.g., Albania, Macedonia), while maintaining our reconstruction work in Bosnia/Herzegovina and other ECA countries.

Establishing a New Commodities Initiative – Managing risks in highly volatile commodity markets remains one of the major challenges of development, especially for the poorest countries. In order to address this issue, the Bank convened an International Task Force (ITF) on Commodity Risk Management in Developing Countries to explore new, market-based approaches to assist developing countries better manage their vulnerability to commodity price fluctuations. Based on its extensive deliberations and consultations, the ITF has prepared a discussion paper summarizing its recommendations. A consensus has been reached on the principles of a possible new market-based approach to bridge the gap between providers of risk management instruments and entities in developing countries that lack access to these instruments. ITF members further recommend the creation of an international *intermediary* that would help bridge this gap. The Bank will continue to lead this important work to set the framework for further action within the international community in this area. Poverty reduction is a major objective in addressing the challenge of commodity risk management.

Making Sustainability Increasingly Central to the Bank Group's Work – Poverty reduction is intrinsically linked to environmental and social sustainability. Lending policies and strategic guidelines have been revised to make them more responsive to and supportive of the goal of sustainable development, and environmental issues are increasingly addressed in all Bank work.

In his 1997 Earth Summit address to the United Nations General Assembly's Special Session on the Environment, Wolfensohn noted there was an urgent need for decisive action to protect the environment and outlined five priorities where the World Bank, in partnership with governments, conservation groups, and the private sector, could make a real difference – climate change, protecting biodiversity, ozone depletion, desertification, water.

As a result our concerted efforts, based on preliminary analysis, we are approaching 100 percent satisfactory quality-at-entry on environmental aspects of projects. Significant progress has also been made over the past two years in promoting new partnerships with non-governmental groups – through such initiatives as the World Bank-Worldwide Fund for Nature (WWF) Alliance for Forest Conservation and Sustainable Use, and in the conception and design of new products like the Prototype Carbon Fund. President Wolfensohn's chairmanship of the forest industry Chief Executives Officers' (CEOs') Forum led to the formation of public-private partnerships to improve forest concession management in the Congo Basin and Russia. We are also drawing up good practice guidelines to help Bank borrowers deal with pollution – the new *Pollution Prevention and Abatement Handbook* was approved late in 1998, replacing earlier guidelines and was prepared by IBRD and IFC in collaboration with the World Health Organization and United Nations Environment Programme (UNEP). The *Handbook's* guidelines and standards have proved to be of broad interest and useful as valuable benchmarks for investors, client governments, banks, and insurance companies.

Improving the quality of the Bank's work on environmental and social issues is a fundamental objective of the Bank through the CDF. Ten key operational policies, known as the Safeguard

Policies, address environmental, social, rural, and legal issues of Bank operations. Their implementation affects the quality of all Bank products and services.

Recognizing the Importance of Rural Strategy – Demand for Bank support for rural projects is growing. The pipeline for agricultural and rural development projects for FY97-99 averaged 58 new projects per year, up from 46 per year in FY94-96. FY99 lending for rural development projects totaled about $4 billion with 52 rural projects approved, and included projects supporting rural transport, rural water supply and sanitation, and natural resource management. Comprehensive rural strategies are in place in 21 countries and are under preparation in 24 more – there were few before 1996. Eighty percent of projects completed in the rural sector have been rated satisfactory – meeting targets set in the Bank's Rural Action Plan.

Addressing Social Underpinnings

Recognizing the Critical Importance of Education – The Bank's commitment to international education goals are reflected in the increased size, scope, and diversity of the education portfolio. The most dramatic shift has been from "hardware" – civil works and equipment fell from almost 100 percent in the 1960s to 45 percent in the late 1990s – to "software" – training, technical assistance, books and system reforms. There has also been a shift from a narrow project approach to a broad sectoral one, a change in regional distribution, and more lending for primary and especially girls education. Total new lending in education in FY99 was $2 billion, through 25 new education loans in 22 countries totaling $1.3 billion, and $0.7 billion in education components in projects in other sectors.

Strengthening Social Protection – Lending for social protection has more than doubled over the last 4 years. Bank work is focusing particularly on pensions, social assistance, safety nets and labor markets, and extending into newer areas of child welfare and disabilities. The social protection portfolio remains one of the best in the Bank's quality ratings.

Supporting Microfinance – The Consultative Group to Assist the Poorest (CGAP), a multi-donor initiative, was established in 1995, initially as a three year program, to reduce poverty by increasing very poor households' access to financial services through financially sustainable microfinance institutions (MFIs). CGAP was renewed for five years in 1998 after an external review which underlined the program's outstanding performance and recognized its innovative and catalytic nature. The Bank has played an active role in supporting microfinance efforts, both through CGAP, and with involvement with the Microcredit Summit Campaign. Over the last four years, the microfinance portfolio has more than trebled, and currently stands at over $300 million. Over the last three years IFC has also expanded its support for microfinance institutions. It has done this both directly through its support for such institutions as K-Rep in Kenya, as well as a number of others, and through its support for innovative approaches such as an investment fund, which seeks to mobilize private capital, which is then invested in microfinance institutions in Latin America.

Extending the Reach – The "Extending IFC's Reach" initiative was launched in September 1996 to help attract new private capital to countries and regions whose difficult conditions have kept them from drawing much attention from investors. IFC has set up a full-time presence in all 16 of the program's target markets and generated more than $1 billion of new investment, most of it directed to small and medium enterprises sponsored by local entrepreneurs.

Changing our Instruments to Accommodate our Needs

Speaking in Languages Clients Understand: Local Currencies – The International Finance Corporation (IFC) was one of the first, if not the first, borrower in eight emerging market currencies, including, the Philippine peso, the South African rand, the Slovak koruna, and the Polish zloty in 1996; the Russian rouble, the Israeli shekel, the Estonian kroon, and the Singapore dollar in 1998.

Simplifying Lending: Single-Currency Loans – Over the last few years, the Bank has moved from being a single-product institution – offering only the Currency Pool Loan – to borrowers, to one offering a menu of lending products to better meet their needs and expressed preferences. The introduction of single-currency loan options culminated in a massive loan conversion exercise and the introduction of flexible lending terms and a wide range of new financial products, including hedging instruments. These have been well received. Of loans approved by the Board in FY99, 100 percent have been single-currency loans.

Offering More Flexible Lending – Designed to increase the Bank's flexibility and client responsiveness, *Adaptable Lending*, which consists of two new major lending instruments – Learning and Innovation Loans (LILs) and Adaptable Program Lending (APLs) – was approved by the Bank's Board in the Fall of 1997. A LIL is a fast-track (under 60 days) loan of under $5 million focusing on experimentation, learning, and piloting prior to larger-scale operations. APLs provide, through a series of loans, phased and sustained support for the implementation of a long-term development program that reflects economic priorities and contributes to poverty reduction. In FY99, LILs and APLs numbered 27 and 28, respectively, compared to 15 and 11 the prior year. Reviews of the new instruments are planned.

Introducing PSALs/PSACs and SSALs – Programmatic Structural Adjustment loans (PSALs)/Poverty Reduction Support Credits (PRSCs) and Special Structural Adjustment Loans (SSALs) were approved by the Board on October 22, 1998. Another variation of the PSAL is Public Expenditure Reform Loans (PERLs), which focus specifically on public sector expenditure allocation and management, building on a satisfactory public expenditure review. These instruments – adaptations of adjustment lending – offer quick-disbursing budget support. They strengthen the Bank's ability to help countries at risk prevent crises and help countries in crisis manage their response. PSALs/PSACs, firmly grounded in the CAS, are designed to help countries address systemic social, structural, and institutional reform issues over time to ensure that the solid foundations for sustainable development are in place. Use of SSALs is reserved for IBRD borrowers in exceptional circumstances where structural origins of a potential or actual crisis imply major social and poverty consequences. The borrower must express an interest in such a package. To date, the Bank has prepared two SSAL packages – for Argentina and Brazil.

Expanding IDA Guarantees – To encourage the flow of private capital into poor countries, the Bank has begun extending limited guarantees to IDA countries. Two new guarantee instruments were introduced – the IBRD Enclave and the IDA-Only countries guarantees were approved by the Board in May and August 1997. The first IDA-Only guarantee – for the Azito Power Project in Cote d'Ivoire – was approved by the Board in December 1998. The first IDA-Only partial risk guarantee ($30 million) – for the IFC-funded Azito Power Project in Cote d'Ivoire – was approved by the Board in December 1998.

Introducing New Partial Credit Guarantees – Bank Management has also submitted to the Board a proposal to extend the existing IBRD partial credit guarantee instrument from "project-based" to "policy-based" guarantees. Such policy-based guarantees would guarantee a portion of the debt service of sovereign borrowings from private creditors associated with the implementation of structural and social policies and reform programs.

This new instrument could play a catalytic role in helping IBRD borrowers with strong economic and social programs improve their access to private foreign financing. Initially, the Bank will proceed with a $2 billion pilot program of policy-based guarantees to test the instrument and gain experience. The Board approved the proposal in April 1999.

Securing a Selective Capital Increase – Approved last year, the selective capital increase results in five countries gaining about 25,000 additional shares and IDA gaining an additional $250 million in special contributions and higher levels of contributions in the future from these five countries – Korea, Brazil, Spain, Denmark, and Turkey.

Leveraging the Bank's Assistance Through Trust Funds for Immediate Assistance – External donors have leveraged the Bank's assistance to crisis countries through commitments for new trust fund programs such as the Central America Emergency Trust Fund ($21.4 million) to help Central American countries recover from the devastation of Hurricane Mitch, and increased funding from the Policy and Human Resources Development Fund (PHRD) to fund technical assistance activities in Indonesia, Korea, Malaysia, the Philippines, and Thailand. The new Asian-European Meeting (ASEM) Financial Crisis Response Trust Fund totals $47 million, with over $20 million in funding proposals already approved.

Adjusting the Basics: Loan Pricing – In response to the run-off of old, high-coupon, fixed-rate loans, the diminishing positive effect on net income of the lag in the variable lending rate of the currency pool loans, and a projected low interest rate environment which reduced the contribution of equity to earnings, as well as the unexpected loan growth of FY98 due in part to lending in response to the East Asian crisis, the Board approved an increase in the loan spread by 25 basis points – to 75 basis points above the Bank's funding cost, and a one percent front-end fee payable upon effectiveness.

New Loans and Hedging Products – In February 1999, the Board approved new loan and hedging products for IBRD borrowers, for introduction on September 1, 1999. The new loan and hedging products are: a ***fixed-spread LIBOR-based loan***, with increased flexibility for borrowers to tailor loan maturities and to manage currency and interest rate risks over the life of the loan; and, ***hedging products***, which are linked to borrowers' existing Bank loans to assist borrowers in managing their currency, interest rate, and commodity price risks.

Changing the Structure of the Way We Work

Making Sure All Bases are Covered – To help improve the quality of our products and services, five Networks have been established – Human Development; Environmentally and Socially Sustainable Development; Finance, Private Sector, and Infrastructure; Poverty Reduction and Economic Management; and Core Services – to help share development expertise across the Bank and with our clients. Ninety web-based thematic groups have been formed to share knowledge, ideas, and best practice.

Leveraging Cutting-Edge Research – A pilot survey of policymakers shows that 75 percent have used Bank research products, with over 65 percent citing the specific reports that they have used. Journals produced by the Development Economics Vice Presidency now reach about 10,000 readers, and one out of six development articles and publications on university reading lists are from the Bank.

Expanding and Improving Management Positions – In an effort to improve transparency and excellence, competition for positions at all levels is now open to external and internal candidates. In 1997, one hundred and fifty managers were asked to reapply for their positions and appointments were cleared by a seven-person committee. As a result of this process, over 50 new managers were brought in from the outside or promoted internally.

Diversifying the Staff Profile of the World Bank – Increasingly recognized as a business imperative, diversity is being mainstreamed into basic Bank Group business processes, with a concerted effort to bring in more staff from developing countries and more women. In 1998, the Bank developed a new structure to more comprehensively address diversity issues, creating a Diversity Program comprising the Offices of the Senior Adviser of Gender Equality and the Senior Adviser on Racial Equality, and drawing up Diversity agreements and targets with each unit head.

Putting More Women in Higher Positions – The number of women in senior management positions is now 19 percent – a figure that has doubled since 1992, and will double again by 2003. We now have 7 women vice-presidents – up from one, four years ago. New "stretch" targets have now been set by management and approved by the Board as part of the reform of human resources – 30 percent women at levels 25+, and 45 percent women at levels 22-24 by FY03. There is also more integration of field offices and headquarters with the expansion of the Anti-Harassment Adviser network to resident missions.

Creating a Compliance Advisor Ombudsman for IFC and MIGA – IFC has now – for the first time – established clearly defined environmental, social, and disclosure policies and procedures, which establish leading edge standards for engaging in business practices in developing countries. These policies require that project sponsors consult extensively with local communities during project planning and implementation. Jim Wolfensohn has also created and appointed the first Compliance Advisor Ombudsman for IFC and MIGA to help foster more constructive solutions with respect to environmentally and socially complex private sector projects.

Tightening up the Way We do Business

Introducing the Loan Administration Change Initiative (LACI) – Launched in 1996, LACI integrates project accounting, procurement, contract management, disbursement, and audit and moves away from time-consuming voucher-by-voucher disbursement methods to quarterly disbursements. This simplifies disbursement and significantly reduces the administrative burden on borrowers.

Through these renewal efforts, the Bank seeks to improve overall development effectiveness, increase the quality and success of development projects, and help borrowers build their own capacity to achieve their development goals. LACI is more than an administrative process; it is a tool to enhance development effectiveness. LACI is based on the premise that sound financial management is a critical ingredient of project success. Sound financial management helps projects perform better by providing timely and relevant information to decision-makers, speeding disbursements, and reducing in-progress delays or bottlenecks. LACI also promotes the strengthening of borrowers' own in-country capacity for sound financial management, not just for Bank-supported projects, but for all development activities they undertake. The process encourages collaboration between technical and financial staff working on projects and it enables project managers to quickly identify problems and make necessary adjustments.

Keeping the Bank's Budget in Line – The administrative budget for the last two years has been formulated to provide continuing support for key initiatives endorsed under the Strategic Compact, which target cost-effectiveness and aim at creating the foundation for a truly global organization. The *Cost-Effectiveness Review (CER)* was the most extensive review of its kind in the Bank's history. It indicated that the share of resources allocated directly to the frontline can be increased in line with Compact targets; and it found that underlying productivity gains can drive improvement in both the quality and quantity of our services. In FY99, 61 percent of resources were for front-line services, higher than the target of 60 percent. Our ability to redeploy resources better will be enhanced by improved expenditure forecasting and greater flexibility in resource management. The new SAP system's improved reporting capabilities will be standardized and utilized through the year.

Strengthening External Partnerships to Improve our Impact

Making Relations with Other International Agencies More Strategic – Our new partnership strategy, stressed by the CDF, moved from consultations to implementation. Over the last four years we have expanded our work with other multilaterals, notably the various parts of the United Nations and the European Union over a variety of issues. We are also increasingly focusing on emerging issues such as the debate on international financial architecture and efforts to combat fraud and corruption, with pilot activities initiated in over two dozen countries. Close collaboration with European partners has led to the creation of the ASEM Trust Fund for the Asian financial crisis, which is providing $40 million in additional expertise and training to affected countries.

The Bank has increased its emphasis on creating working partnerships with governments, development agencies, and civil society in order to leverage its global knowledge and development impact. A new Partnership Council has been formed to pull together key Bank actors to set institutional priorities, discuss common issues and strategies, share information, and track initiatives.

The CDF is predicated on a partnership approach to development. Regular meetings with MDBs now address a host of key partnership issues, including the architecture of the international financial system and crisis response. Steps are being taken to harmonize policies among MDBs, and a vast number of partnership arrangements including cofinancing and operational collaboration are being pursued with various bilateral partners.

Working Together with Civil Society – Bank dialogue with NGOs, foundations, trade unions, and religious organizations has expanded significantly. The Bank now has 63 civil society specialists working in field offices. Recognition of the contribution of NGOs is illustrated in their growing rates of involvement in Bank projects. One-half of the 286 Bank projects approved in FY98 provided for some degree of input by NGOs or community-based organizations. The Bank is also working with NGOs on a number of new initiatives and we have forged new relationships with major foundations, for example, supporting dissemination of innovative technologies with the Rockefeller Brothers Fund, the Turner and MacArthur Foundations; protecting cultural heritage with the Getty Trust; and an initiative with the Ford Foundation to focus on the contributions which community development foundations can make to poverty alleviation. In February 1998, President Wolfensohn and Anglican Archbishop of Canterbury, Dr. George Carey, co-hosted a meeting on development at Lambeth Palace of 12 religious groups. This has led to the creation of an informal network-the World Faiths Development Dialogue (WFDD) with its own secretariat, which has been active in both policy advice and promoting in-country discussions, on such topics as delivery of social services; post-conflict reconciliation; and food security. In 1999, for example, the WFDD gathered faith-based perspectives on the upcoming WDR 2000/2001 on poverty, and facilitated debate in Tanzania, Ethiopia and India between faith-based groups of all denominations and governments and donor agencies. For more information, the WFDD website is at www.wfdd.org.uk.

In FY99, 54 percent of projects approved included NGOs in some capacity, a significant increase over the previous year. NGOs also played a greater role in policy-related work, including economic and sector work and CAS preparation. Three-quarters of CASs prepared in the second half of FY98 and FY99 included consultations with civil society and NGOs, and nearly half involved broad and substantial participation.

During FY99, the Bank renewed its efforts to support NGO and civil society participation by reorganizing its Civil Society Thematic Team to include senior staff from all regions and networks, in addition to the already existing NGO Unit.

IFC consulted extensively with NGOs and civil society in developing its revised environmental and social policies – the first time the Corporation has engaged in such systematic consultation with NGOs.

Expanding Private Sector Partnerships – The Private Sector Development (PSD) Group works to coordinate the Bank Group's private sector activities and enhance its external partnerships. In 1996, the Bank launched the *Business Partnership Center (BPC)* as the main point of contact for the business community and a vehicle for developing strategic partnerships.

Four years ago, with private sector flows dwarfing official assistance, the Bank began to look at the implications of corporate social responsibility for development. Today, in collaboration with our private sector and civil society partners, we have initiated the *Business Partners for Development (BPD)* program, which is supporting and promoting strategic examples of tri-sector partnerships for the development of communities around the world.

BPD is a global network of business, government, and civil society, with the World Bank Group as an equal partner. Examples of these partnerships include, the Natural Resource Cluster, co-convened by British Petroleum, CARE International, and the World Bank Group; the Global Partnership for Youth Development, co-convened by Kellogg's, the International Youth

Foundation, and the World Bank Group; and the Knowledge Resource Group, co-convened by Civicus, the Prince of Wales Business Leaders Forum, and the World Bank Group.

Creating the Annual Meetings' Program of Seminars – Four years ago, we broke new ground at our Annual Meetings by launching a series of seminars designed to bring together corporate executives, senior government officials, and other leading international figures for discussion and debate on key issues affecting the global economy. The Program has grown in both scope and prominence since its initial launch. Last year, more than 2500 individuals participated compared to just over a thousand in 1995. We've increased the number of sessions, added keynote addresses (a highlight of the Program), offered networking events and receptions, and most recently introduced the Bank/Fund Expo. Over the years, feedback on the seminars has been overwhelmingly positive.

Bringing Together High-Level Women in Finance and Economics – Last year, the World Bank co-hosted, along with the Council of Women World Leaders, at Harvard's John F. Kennedy School of Government, an inaugural meeting of women in key financial positions in government worldwide. This gathering brought together over thirty women with financial and economic portfolios from 28 developed and developing countries. At this year's Annual Meetings, the group will meet at World Bank headquarters in Washington.

Changing the Bank Group's Internal Culture

Clarifying the World Bank Group's Mission Statement, and Putting the Fight against Poverty at the Center of Everything We Do – In 1998, the Bank posted a draft mission statement on its internal web and asked staff for comments, suggestions, and rewrites. The result of this extensive debate was a new mission statement launched in January 1999:

> *To fight poverty with passion and professionalism for lasting results.*
> *To help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors.*
> *To be an excellent institution that is able to attract, excite, and nurture committed staff with exceptional skills who know how to listen and learn.*

Improving Upward & Downward Communication – With more town hall meetings between Senior Management and staff, 360 feedback evaluations, and web pages, World Bank staff is more involved and "in the loop" than ever before. Tremendous emphasis is placed on breaking down the "barrier" between staff and managers, with a significant investment in improved listening and communication. In the recent 1999 Staff Survey, feedback has been positive, with staff generally feeling that the internal changes are for the better and that the Bank is now more focused on its mission.

Compensating Bank Staff – In December 1998, the Board unanimously approved a new compensation system for the Bank Group that better aligns the Bank's salary structure to the market, and strengthens the links between pay and performance. The Board package also included significant changes in the Bank's benefits programs, and a more cost-effective package of field assignment benefits that is more in line with other international organizations.

Keeping Staff at the Top of Its Game – At the same time, strong emphasis has been placed on staff development. The new World Bank Institute (WBI) incorporates the two previous main training arms of the World Bank: the Economic Development Institute (EDI) and the Learning and Leadership Center (LLC). Active in 149 countries, with 350 staff members, and 400 activities for client training annually, the WBI trains 15,000-20,000 external participants annually; and provides 1,300 training activities for Bank staff annually, with 20,000 Bank participants trained annually. Over 100,000 viewers are reached by media communication programs annually. The WBI has a budget of US$64 million — of which US$16 million is donor financing.

In 1996, Jim Wolfensohn launched the Executive Development Program – a 7-week training course for managers organized by Harvard, Stanford and INSEAD. So far, 500 managers have attended the course. The program includes a week spent in the field living in a village or slum.

Providing Easy Access to Grievance – In 1998, the Bank brought in Judge Shirley Hufstedler, a former U.S. Court of Appeals judge and set up a Committee to review the grievance system as a whole. The Committee submitted its final draft report to an external review panel consisting of three highly regarded experts in the field.

The Committee's recommendations are now being implemented. These include: the establishment of a Conflict Resolution Network, a new professionally-managed Mediation Service, strengthening of the Office of Professional Ethics with separate officers for investigation and outreach, and strengthening of the Ombudsman Office.

Recognizing Those That Strive to be Their Best – Awards for Excellence have been established to recognize innovation and excellence in the workplace, with 235 staff awarded thus far.

Creating a Culture of Innovators – In 1998, the Bank launched its first Innovation Marketplace, calling on staff throughout the Bank Group to put forward new and creative ideas on how to help clients better address their development challenges. Over 150 new ideas were submitted, of which eleven, that directly addressed corporate priorities, were selected for development and funding. These eleven are now nearing completion, and are expected to significantly strengthen the Bank's offering of products and services. The next Innovation Marketplace will take place in January 2000.

In the fall of 1998, the Bank Group launched its first Private Sector Development Exchange to showcase ideas for Bank Group collaboration from staff across the Group. More than 70 proposals were submitted involving more than 500 staff, and grants were awarded to fourteen teams. Like the Innovation Marketplace, the PSD Exchange will become an annual event.

Entering the 21st Century

Entering the twenty-first century, the Bank will focus on raising world consciousness of the poverty challenge; building knowledge of the issues surrounding the problem and its resolution; partnering intensively with governments, civil society, private sector, and aid agencies to maximize development impact; and supporting government efforts through poverty-focused lending and nonlending instruments that evolve in response to changing needs.

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