Backgrounder

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A Blueprint for Paul Wolfowitz at the World Bank

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When Paul Wolfowitz takes over the presidency of the World Bank this month, he will face the challenging task of turning the World Bank into a more transparent, more accountable, and more effective organization. Despite its good intentions and hundreds of billions of dollars in development assistance over five decades, the Bretton Woods institution has failed to reach its goal of "a world free of poverty."[1]

A major part of the problem is that the World Bank's mission is based on the false assumption that economic growth and development can be achieved by providing aid. This flies in the face of five decades of development experience and the bulk of economic studies, which indicate that economic freedom and the rule of law are far more important than assistance as determinants of growth. Moreover, providing assistance in bad policy environments is at best ineffective. At worst, it is counterproductive because it gives corrupt governments economic resources to maintain bad policies that retard development.

Despite its failures, support for the World Bank and provision of development assistance remain strong among member states. Given the continued presence of the World Bank, the United States should acknowledge the Bank's weaknesses and work to focus the Bank on activities that facilitate development.

To that end, the U.S. should work with Wolfowitz to focus World Bank assistance on the world's poorest nations and cease lending to wealthier nations that have access to capital markets.[2] Assistance should focus on countries with sound policies and demon-

Talking Points

- Despite its good intentions, the World Bank has failed to reach its goal of "a world without poverty." Many World Bank aid recipients are poorer today than they were more than two decades ago, despite billions of dollars in assistance.
- The World Bank should focus its assistance on the world's poorest nations and cease lending to wealthier nations that have access to capital markets.
- Assistance should be focused on countries that demonstrate commitment to economic freedom and the rule of law—policies linked to economic growth and development.
- The World Bank should disburse assistance through performance-based grants rather than loans.
- Ultimately, the World Bank should help recipients adopt sound policies and gain access to capital markets, which would set them on the path to economic growth and remove the need for the Bank's assistance.

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strable commitment to economic freedom and the rule of law. Finally, the Bank should disburse aid through results-based grants rather than loans, to militate against unsustainable debt, and should finance projects that will produce easily measurable results. These changes will refocus the Bank's resources on low-income countries without ready access to capital markets and create incentives for countries to implement the sound policies that are necessary for development.

Lessons from the Past

At the end of World War II, the United States and the United Kingdom feared that private markets might not provide the resources necessary to reconstruct Europe. In order to forestall this possibility, they pushed to "establish an international framework to prevent a recurrence of economic recession and to promote reconstruction in war-torn Europe."[3] A central component of this framework was the World Bank—then composed solely of the International Bank for Reconstruction and Development (IBRD)—which was intended to finance the reconstruction of war-torn countries. Although the World Bank followed its mandate closely and contributed to the effort, private markets defied expectations and played the major role in the reconstruction of Europe and Japan.[4]

After the postwar reconstruction, the World Bank shifted its focus to poor nations and newly independent former colonies in the hope that it could facilitate development with capital infusions. Despite the best of intentions, many World Bank recipients today remain just as poor as—if not poorer than—they were when lending begun.[5]

The facts are compelling. Despite enormous amounts of economic assistance totaling $261.36 billion between 1980 and 2003,[6] the World Bank has not been able to consistently catalyze strong growth in per capita income in low-income countries. Of the 105 recipients of International Development Association (IDA) credits between 1980 and 2002 for which per capita gross domestic product (GDP) data are available:

- 39 countries experienced negative compound annual growth in real per capita GDP;
- 17 experienced marginal compound annual growth between zero percent and 1 percent;
- 33 experienced compound annual growth of more than 1 percent in real per capita GDP; and
- Only 12 achieved growth over 4 percent.[7]

The World Bank's record in sub-Saharan Africa is particularly bad, with half the recipients experiencing negative compound growth in real per capita GDP.[8]

Solutions for the Future

Five decades later, the lessons are clear: It is not lack of aid that is preventing these countries from

1. World Bank, "Our Dream: A World Free of Poverty," at *www.worldbank.org/ourdream* (May 25, 2005).
2. For the purpose of this analysis, "countries with access to capital markets" are defined as those countries with an investment rate credit rating that is equal to or greater than BBB according to Standard & Poor's.
3. Brett D. Schaefer, *The Bretton Woods Institutions: History and Reform Proposals* (Washington, D.C.: The Heritage Foundation, 2000), pp. 22–29, at *www.heritage.org/Research/InternationalOrganizations/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=10014*.
4. The contributions of the World Bank, the Marshall Plan, and some private investment from the United States pales when compared to the massive private investment that originated in European countries during reconstruction. Such investment responded to sound policies and the rule of law that characterized many European countries. See Schaefer, *The Bretton Woods Institutions*, pp. 22 and 29–31, and Walter A. McDougall, *Promised Land, Crusader State: The American Encounter with the World Since 1776* (New York: Houghton Mifflin, 1997), p. 180.
5. Schaefer, *The Bretton Woods Institutions*, pp. 30–36.
6. World Bank, *World Development Indicators Online*, at *publications.worldbank.org/WDI* (May 25, 2005; subscription required).
7. *Ibid*. Amounts are in constant 1995 U.S. dollars. Four countries were left out of the analysis due to insufficient data.
8. Brett D. Schaefer, "Multilateral Economic Development Efforts in Sub-Saharan Africa," Heritage Foundation *Lecture* No. 858, December 20, 2004, at *www.heritage.org/Research/TradeandForeignAid/hl858.cfm*.

addressing their problems; it is anti-market economic policies, corruption, and the absence of the rule of law. The preponderance of economic studies confirms that aid may help the poor to cope temporarily with some of the consequences of poverty but that countries beset by a weak rule of law, corruption, heavy state intervention, and other characteristics that retard growth will not experience long-term sustainable economic growth even if they receive economic assistance. In order to develop, poor countries must adopt policies that promote economic freedom and the rule of law, which in turn are known to be associated with higher levels of economic prosperity.

While the World Bank often states that lending is based on a commitment to policy change, it seldom disburses aid based on existing policy.[9] Instead, the Bank has sought to provide assistance in stages in return for commitments from the recipient to adopt reforms—a policy known as conditionality. Under conditionality, assistance is provided, but reforms seldom materialize. As a result, countries assume ever-greater debt but lack the policies necessary to grow, thereby undermining their ability to repay their debts.

Foreign assistance, through an international financial institution or otherwise, has the potential to help poor countries achieve specific goals, but it cannot replace the political will to implement policy change. Developing countries must make their own internal reforms for their own reasons; reforms imposed through external pressure are likely to be short-lived or poorly implemented. The World Bank's challenge is to help poor nations that demonstrate a commitment to good policy to create opportunities for development by removing barriers to economic growth.

With these lessons in mind, Paul Wolfowitz has a unique opportunity to set the World Bank on a more effective path when he assumes the Bank's presidency. Key aspects of a more effective institution include the following.

Clarifying the World Bank's Mission. Having a clear—and realistic—mission is extremely important because it helps to focus the institution on the right strategy to achieve its goal. The World Bank's self-professed dream of "a world free of poverty,"[10] although admirable, is far beyond its institutional means. This type of institutional overreach leads to unrealistic expectations and is the source of the idea that the Bank should be responsible for curing the ills that afflict poor nations. As a result, the Bank has spent inordinate time and resources addressing the symptoms of poverty rather than its causes.

For instance, poor health care, lack of sanitation, starvation, illiteracy, low life expectancy, and other tragic realities in poor nations around the world are symptoms of poverty. Handing out money to projects that address some of these concerns can alleviate the situation only temporarily. Development efforts that focus on alleviating these consequences while leaving the underlying causes unaddressed are doomed to fail.

The World Bank's focus should be on encouraging poor nations to bolster the rule of law and to increase economic freedom. It is these policies that will remove obstacles to economic growth and pave the way toward reducing poverty. The increased wealth resulting from economic growth would allow parents the luxury of educating their children instead of making them work to help provide for their families, enable individuals to value green spaces for their aesthetic value rather than just their potential as fields for crops or trees for fuel, permit the workforce to worry about the quality of the work environment rather than the lack of employment, and give families the means to engage in preventive health practices that lead to longer lives. By concentrating on increased economic growth, the development strategy permits greater opportunities for individuals to escape poverty and provide for their families.

Focusing Assistance on Low-Income Countries Without Access to Capital Markets. The goal of the World Bank should be to help every nation attain a credit rating and improve its rating to the point that it can borrow on international cap-

9. *Ibid.*

10. World Bank, "Our Dream: A World Free of Poverty."

ital markets at reasonable interest rates. The resources available through international capital markets, foreign direct investment, and increased trade dwarf those available from multilateral and bilateral assistance. Developing countries must tap these resources if they are to develop.

Private capital will be invested where there is potential for profit, provided the risks do not exceed the expected returns. Nations with bad economic policies and weak rule of law are greater credit risks than nations with good policies. This risk is reflected in the higher interest rates that they are charged in financial markets and the relatively low levels of direct investment they receive. This is good insofar as it provides incentives for countries to adopt policies that will lower risks to private creditors—policies that also encourage international and domestic investment and entrepreneurship. Regrettably, the World Bank retards this transition by providing subsidized loans to countries that have access to capital markets, thereby undermining these market incentives.

As shown in the Appendix, the World Bank disbursed 56 percent of its funds in 2004 through IBRD loans, which are targeted to relatively wealthy countries.[11] At least a third of IBRD recipients have an investment grade credit rating (BBB or better) according to Standard & Poor's. Only 44 percent of the World Bank's funds in 2004 were disbursed through IDA credits, which are generally available only to countries with a per capita income less than $865.[12] Of the 62 recipients of IDA credits in 2004, 17 were low-middle-income countries, and 14 had a gross national income (GNI) per capita above the World Bank's 2003 threshold (the most recent available at their Web site) for IDA lending. Only 40 percent of all World Bank (IBRD + IDA) funds disbursed in 2004 went to low-income countries (defined as countries with a per capita income of $765 or less) without access to capital markets. Clearly, the World Bank is not focusing its resources on the poorest of the poor.

Mexico and Argentina both have per capita GNIs of over $3,800, yet received 20 percent of IBRD loans in 2004. (See Appendix.) Moreover, Argentina remains eligible for World Bank loans despite having grossly violated the property rights of thousands of domestic and foreign investors by defaulting on its debt. Despite its relative wealth, a terrible credit history, and political instability, Argentina received 3.5 times more money from the World Bank in 2004 alone than was received by the poor nations of Ethiopia, Burundi, and Eritrea combined. (See Appendix.)

Some may wonder why countries borrow from the World Bank when they have access to capital markets. The answer is that the World Bank subsidizes its loans by charging interest rates far below those available from the private sector.

For example, Indonesia is currently borrowing from both lending arms of the World Bank. Through IDA credits, Indonesia does not pay any interest, only a fee of 0.75 percent. Even under the more market-based lending of the IBRD, Indonesia pays approximately 0.75 percentage point over U.S. Treasury bonds.[13] By comparison, as of April 29, 2005, Indonesia's Global Bond (the latest dollar-denominated bond issued by the government of Indonesia in March 2004) was trading at 3.126 percentage points above U.S. Treasury bonds of similar maturity.[14] Under those circumstances, borrowing from the IBRD saves the Indonesian government 2.376 percentage points versus what it would have paid in the capital markets. This interest rate spread is very significant when dealing with hundreds of millions or billions of dollars.

By providing subsidized loans to countries like Indonesia, which has a per capita GNI that is above the threshold for low-income countries, the World

11. World Bank, *Annual Report*, 2001, 2002, 2003, and 2004, Appendix 9, at *web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20042527~menuPK:58864~pagePK:51123644~piPK:329829~theSitePK:29708,00.html* (May 25, 2005).

12. There are exceptions made in which wealthier countries can access IDA funds. World Bank, International Development Association, "Frequently Asked Questions," at *web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20189587~menuPK:413944~pagePK:83988~piPK:84004~theSitePK:73154,00.html* (May 25, 2005).

Bank not only undermines incentives to make free-market reforms and sound fiscal decisions necessary to reduce credit risk, but also diverts resources away from poor nations to countries that could borrow elsewhere. The Bank should end this practice and focus its efforts on low-income countries that lack or have only marginal access to capital markets.

Selecting Countries Carefully. In trying to help countries cope with some of the symptoms of poverty, the Bank should help in a way that gives the poorest countries' leaders incentives to adopt economic freedom and the rule of law. One way to do that is by emulating the Millennium Challenge Account (MCA). The MCA is a new approach to U.S. foreign assistance that makes assistance available only to countries "that govern justly, invest in their people and encourage economic freedom."[15] In other words, MCA money will be awarded only to countries with relatively good policies.

This idea of establishing preconditions in order to receive foreign assistance—rewarding good policies already in place rather than providing money in hope of encouraging reform—is supported by economic studies indicating that aid is most effective in countries that embrace policies that create incentives for people to behave more productively, thereby encouraging economic growth.[16] Moreover, additional research by the World Bank indicates that increases in overall growth and average incomes result in proportionate increases in incomes of the poor.[17] In other words, World Bank research confirms that focusing on economic growth is an effective strategy to reduce poverty.

Of course, this approach works only if the World Bank actually stops lending to countries with poli-

13. The World Bank extends two types of financing to its members: IBRD loans and IDA credits. IBRD loans are provided to relatively wealthy countries, and IDA development credits are for member states "that cannot meet the IBRD's near-commercial terms." Interest on the IBRD loans is based on the LIBOR (London Interbank Offered Rate) and the cost of borrowing for the IBRD (about 0.25 percent), plus a surcharge between 0.25 percent and 0.5 percent, depending on the type of loan (fixed or variable interest rate) and maturity. All told, the IBRD charges a rate slightly higher than U.S. Treasury Bonds. Funds for IDA credits are raised through direct contributions from donor nations and are replenished approximately every three years. Borrowers are not charged interest on IDA credits, but are charged a 0.75 percent annual administrative fee. They are granted a 10-year grace period and long-term (35-year or 40-year) repayment windows. Schaefer, *The Bretton Woods Institutions*, pp. 20–21.

14. For information about Indonesia's government bond rates, see Bank Indonesia, "Indonesian Government Bonds in International Capital Market," February 17, 2005, at *www.bi.go.id/NR/rdonlyres/43E594DD-A9B9-4AA1-9723-3D1B3426A21F/2080/GovBondIntlIndonesiahistory.doc* (May 25, 2005), and "Information on Yield and Price of Yankee Bond RI'06 and Global Bond RI'14 in The Secondary Market as of 01–29 April, 2005," at *www.bi.go.id/web/en/Info+Penting/IRU/Highlight+News/yankee+and+global+bond+april+05.htm* (May 25, 2005).

15. George W. Bush, remarks at United Nations Financing for Development Conference, Monterrey, Mexico, March 22, 2002, at *www.whitehouse.gov/news/releases/2002/03/20020322-1.html* (May 25, 2005). For more information about the Millennium Challenge Accounts, see Millennium Challenge Corporation Web site, at *www.mca.gov* (May 24, 2005).

16. The notion of preconditions is explained more fully in *Report of the International Financial Institution Advisory Commission*, March 2000, p. 89, at *www.house.gov/jec/imf/meltzer.pdf* (May 24, 2005). For supporting research, see World Bank, *Global Monitoring Report 2005* (Washington, D.C.: International Bank for Reconstruction and Development and World Bank, 2005), pp. 17–65, at *siteresources.worldbank.org/GLOBALMONITORINGEXT/Resources/ch2.pdf* (May 26, 2005); David Dollar and Craig Burnside, "Aid, Policies, and Growth: Revisiting the Evidence," World Bank *Policy Research Working Paper* No. 3251, March 18, 2004, at *papers.ssrn.com/sol3/papers.cfm?abstract_id=610292* (May 26, 2005); David Dollar and Aart Kraay, "Institutions, Trade, and Growth," World Bank, Policy Research Department, published in *Carnegie Rochester Conference Series on Public Policy*, 2002, at *siteresources.worldbank.org/DEC/Resources/Institutions,Trade_and_Growth.pdf* (May 26, 2005); and Craig Burnside and David Dollar, "Aid, Policies, and Growth," World Bank, Policy Research Department, Macroeconomic and Growth Division, June 1997.

17. David Dollar and Aart Kraay, "Trade, Growth, and Poverty," World Bank, Development Research Group, in *The Economic Journal*, Vol. 114, Issue 493 (February 2004), pp. F22–F49, at *siteresources.worldbank.org/DEC/Resources/TradeGrowthPovertyEJFeature.pdf* (May 26, 2005), and David Dollar and Aart Kraay, "Growth Is Good for the Poor," World Bank, Development Research Group, March 2002, at *siteresources.worldbank.org/DEC/Resources/22015_Growth_is_Good_for_Poor.pdf* (May 26, 2005).

cies that impede economic growth and development. The Bank should target its assistance toward countries with relatively good policies. This does not mean that recipients must be models of good policy and the rule of law on the level of Chile or Singapore, but that they must have better policies than many of their peers. Not only will this provide greater assurance that the assistance will be more effective, but it will provide incentives for other nations to adopt policies that will increase their opportunities for economic growth and development.

Giving Grants Instead of Loans. The failure of development assistance to facilitate economic growth has left many poor nations with a large debt burden. It is the small return on development assistance over the years and the justifiable belief that new loans were often approved to finance existing debt (creating a rising spiral of debt that does not contribute to growth) that fuels criticism of World Bank lending and lies at the heart of calls for debt forgiveness. As with many development programs that treat the symptoms of poverty rather than its cause, debt forgiveness treats the symptoms of a heavy debt burden rather than its cause. It is not debt that is preventing these countries from addressing their problems; it is anti-market economic policies, corruption, and the absence of the rule of law that has prevented them from using borrowed sums profitably and has undermined their ability to repay.

However, the world's poorest countries that lack access to capital markets do face problems that could be assuaged through assistance. In such situations, it makes little sense for the World Bank to provide loans that are unlikely to be repaid and that are intended to alleviate the immediate consequences of poverty, such as immunizing children, rather than to spur growth. Such activities should be funded by performance-based grants rather than loans.

In 2000, the International Financial Institution Advisory Commission (IFIAC), appointed by Congress to assess the performance of international organizations and chaired by Allan H. Meltzer of Carnegie Mellon University, proposed a system of performance-based grants for the World Bank. Under the new system, the poor country's government and the World Bank would jointly finance projects to address some of the consequences of poverty. According to the report:

> [T]he share of the cost paid by the country would depend on its per capita income level and credit rating. The poorest nations without capital-market access would receive grants equal to 90% of the service cost, while the development agency's contribution would fall to 10% as the country income level or capital-market access increased.[18]

Although pressure from the Bush Administration led the World Bank to begin providing grants through IDA in 2003, many member states continue to resist transforming Bank assistance wholly to performance-based grants. World Bank officials resisted the change, in part from fear that grants would undermine project effectiveness because they would not have to be repaid.[19] This is unlikely since, under the IFIAC proposal, the recipient of the grant would actually have to match a portion of the grant. Moreover, the grant would fund projects proposed by the recipient only after an outside auditor verifies that the proposed project has been completed. Thus, failure to implement would hurt a priority identified by the recipient. Finally, future grants would depend on the recipient's adherence to the agreed terms of the grant, creating strong incentives to implement the project as planned and permit independent evaluation of the project.

Officials at the World Bank also fear that grants, because they are not repaid, will undermine the bank's resource base and create a greater reliance on frequent contributions from member states. Converting IDA credits to grants could take additional funding, but not as much as critics claim.

One alternative is for IDA contributors to provide resources for an IDA endowment to be invested in low-risk instruments similar to a pen-

18. *Report of the International Financial Institution Advisory Commission*, p. 89.

19. *Ibid.*, p. 90.

sion fund. History shows that the U.S. Congress regularly approves funding for the IDA. Originally, this amount could be similar to that of a typical IDA replenishment, which donors fund every three years. The IDA replenishment, approved in April 2005, was for $34 billion.[20] For example, at an 8 percent rate of return, an investment of this size would yield $2.7 billion annually. Sentiment for support of an IDA investment fund should exceed that for the current system because the original investment would not be disbursed as grants; only the earnings from the investment would be distributed, thereby eliminating the need for future donor contributions.

An alternative source for the IDA endowment would be simply to use the IBRD paid-in capital and uncommitted, undistributed IDA funds.

Regardless of which option is used, the IDA endowment could be a perpetual resource for future IDA grants. Moreover, as current IDA credits are repaid, they could be added to the IDA investment fund to increase the endowment and generate additional resources for grants. As noted by Adam Lerrick, director of the Gailliot Center for Public Policy at Carnegie Mellon University:

> As borrowers repay past IDA credits, these resources would be available to the endowment. At a conservative 8 percent investment return, each $100 increment would produce $8 in additional income for grants. At every moment during [a] 40-year transition period, a larger volume of development programs, gross annual flows, and net annual flows would be supported under the grant structure than is the case under the traditional loan delivery system.[21]

As long as the bank performs well, it should retain donor support. If the IDA fails to perform as envisioned, the donors could reclaim their portions of the investment. Market discipline is good for the World Bank as well as for recipients.

Utilizing the Private Sector to Provide Assistance. Countries are poor because their governments refuse to advance policies that give their citizens the freedom and security to take advantage of economic opportunities, to make a decent living, to save, and to invest in new businesses. Unfree economies create opportunities for corruption and rent seeking by government officials, who collect bribes to let ordinary people bypass the obstacles to doing business that the government creates. As a result, there is little incentive for these officials to reform. If they do so, they lose an easy source of income.

Providing assistance to governments of countries that have a weak rule of law and that lack transparency and accountability invites corrupt use of assistance. Once a loan is disbursed, it is extremely hard to monitor.[22] In addition, the World Bank frequently fails to enforce loan conditions and often continues financing projects regardless of whether or not country officials comply with loan terms.

Worse, Bank loans can undermine reform efforts. For example, the World Bank funds programs in Argentina—such as the "Social Protection VI Project—Jefes de Hogar (Heads of Household)"—that reportedly finance the monthly handouts for the *piqueteros*, a group of unemployed people who damage private property, start riots, and assault citizens who are trying to go to work.[23]

A better strategy would be for the World Bank to contract out directly to private-sector businesses,

20. For more details about the last approved replenishment, see World Bank, "IDA14 Replenishment," at *web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20168247~pagePK:83980~piPK:437394~theSitePK:73154,00.html* (May 25, 2005).

21. Adam Lerrick, "The World Bank as a Foundation: Development Without Debt," Chapter 1 in Marc A. Miles, ed., *The Road To Prosperity* (Washington, D.C.: The Heritage Foundation, 2004), p. 25.

22. Countries like Bangladesh and Pakistan illustrate this point. They are two of the largest recipients of aid since the 1960s and are still as poor as when the aid started. They also rank among the top 15 most corrupt countries in the Transparency International "2004 Corruption Perception Index." For more information, see Ana Isabel Eiras, "IMF and World Bank Intervention: A Problem, Not a Solution," Heritage Foundation *Backgrounder* No. 1689, September 17, 2003, at *www.heritage.org/Research/InternationalOrganizations/bg1689.cfm*.

charities, universities, and other appropriate entities to fulfill measurable objectives. A hospital or a non-government organization could be paid per vaccine when a vaccination project or a predetermined segment of the project is completed. A charitable organization could be paid after feeding children at a local village for the expense incurred. A group of physicians could be compensated after working for a certain period to care for patients in a small town. In this way, the bank could exert greater control over the project's execution, monitor results more easily, and reduce the opportunities for corruption.

Conclusion

With all of its good intentions, the World Bank has failed to achieve its goal of ending poverty and, in some cases, has left recipient countries poorer than when lending started decades ago. Paul Wolfowitz, the new president of the World Bank, has an opportunity to change this disappointing record and turn the World Bank into a more transparent, more accountable, and more effective organization.

This effort should start with setting a more appropriate mission for the World Bank: encouraging poor nations to bolster the rule of law and to increase economic freedom. It is these policies that will remove obstacles for economic growth and pave the way to reducing poverty.

Key elements in the strategy include focusing assistance on low-income countries that have good policies but lack access to capital markets and providing that assistance through performance-based grants that have quantifiable benchmarks. These changes will help the poor to cope with the desperate life they live while giving countries incentives to implement sound policies, to reform, and to promote a strong rule of law, which is the only path to eliminating poverty.

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23. According to the World Bank, another one of these projects is currently in the pipeline. For a list of World Bank projects in Argentina, see World Bank Group, "Projects Database: Argentina," at *web.worldbank.org/external/projects/main?pagePK=217672&piPK=95916&theSitePK=40941&menuPK=223661&category=regcountries&regioncode=7&country-code=AR* (May 25, 2005).

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Annual IBRD and IDA Projects Approved, by Country, as of June 30, 2004

Country	Per Capita Income*	Sovereign Credit Rating (Foreign Currency)	2004 Loans**			2003 Loans**			2002 Loans**			2001 Loans**		
			IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Afghanistan				293	293		215	215		100	100			0
Albania	$1,740			58	58		43	43		88	88		28	28
Algeria	1,930				0	184		184	31		31	42		42
Angola	740			55	55		50	50			0			0
Argentina	3,810	SD/--/SD	1,586		1,586	1,100		1,100	735		735	441		441
Armenia	950			85	85		40	40		39	39		61	61
Australia	21,950	AAA/Stable/A-1+			0			0			0			0
Austria	26,810	AAA/Stable/A-1+			0			0			0			0
Azerbaijan	820			25	25		66	66		70	70		50	50
Bahamas, The		A-/Stable/A-2			0			0			0			0
Bangladesh	400			527	527		554	554		321	321		280	280
Barbados	9,260	BBB+/Stable/A-2			0			0			0	15		15
Belarus	1,600				0			0			0	23		23
Belgium	25,760	AA+/Stable/A-1+			0			0			0			0
Belize	3,370	CCC/Negative/C			0			0			0	14		14
Benin	440	B+/Stable/B		20	20		10	10		41	41		10	10
Bhutan	630			37	37			0			0			0
Bolivia	900	B-/Stable/C	15	54	69		80	80		83	83		100	100
Bosnia-Herzegovina	1,530			97	97		23	23		102	102		124	124
Botswana	3,530	A/Stable/A-1			0			0			0			0
Brazil	2,720	BB-/Stable/B	1,267		1,267	1,237		1,237	1,566		1,566	1,677		1,677
Bulgaria	2,130	BBB-/Positive/A-3	150		150	268		268			0	102		102
Burkina Faso	300	B/Stable/B		120	120		160	160		122	122		137	137
Burundi	90			110	110		78	78		36	36		48	48
Cambodia	300			60	60		69	69		48	48		45	45
Cameroon	630	CCC/Stable/C		20	20		81	81		6	6		58	58
Cape Verde	1,440			4	4		16	16		24	24		5	5
Central African Republic	260				0			0		17	17			0
Chad	240			20	20		137	137		65	65		67	67
Chile	4,360	A/Stable/A-1	211		211	25		25	99		99			0
China	1,100	BBB+/Positive/A-2	1,218		1,218	1,145		1,145	563		563	788		788
Colombia	1,810	BB/Stable/B	645		645	905		905	482		482	186		186
Comoros	450			13	13			0		6	6		11	11
Congo, Democratic Republic of	100			736	736		454	454		500	500			0
Congo, Republic of	650			19	19		41	41		90	90			0
Costa Rica	4,300	BB/Negative/B			0			0	17		17			0
Côte d'Ivoire	660				0			0		212	212			0

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Annual IBRD and IDA Projects Approved, by Country, as of June 30, 2004 (cont.)

Country	Per Capita Income*	Sovereign Credit Rating (Foreign Currency)	2004 Loans**			2003 Loans**			2002 Loans**			2001 Loans**		
			IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Croatia	5,370	BBB/Stable/A-3	209		209	53		53	202		202	19		19
Cyprus		A/Stable/A-1			0			0			0			0
Czech Republic	7,150	A-/Stable/A-2			0			0			0			0
Denmark	33,570	AAA/Stable/A-1+			0			0			0			0
Djibouti	910				0		23	23		25	25		10	10
Dominica	3,330			3	3			0	1	2	3			0
Dominican Republic	2,130	SD/--/SD	120		120	72		72			0	28		28
Ecuador	1,830	B-/Watch Neg/C	54		54	100		100	67		67	32		32
Egypt, Arab Republic of	1,390	BB+/Stable/B	341		341	12		12	50		50			0
El Salvador	2,340	BB+/Stable/B			0	18		18	143		143			0
Equatorial Guinea					0			0			0			0
Eritrea	190				0		60	60		65	65		170	170
Estonia	5,380	A/Stable/A-1			0			0			0			0
Ethiopia	90			320	320		404	404		210	210		667	667
Fiji	2,240				0			0			0			0
Finland	27,060	AAA/Stable/A-1+			0			0			0			0
France	24,730	AAA/Stable/A-1+			0			0			0			0
Gabon	3,340				0			0			0			0
Gambia, The	270				0			0		31	31		15	15
Georgia	770			48	48		75	75		3	3		90	90
Ghana	320	B+/Stable/B		161	161		220	220		331	331		141	141
Greece	13,230	A/Stable/A-1			0			0			0			0
Grenada	3,710	SD/--/SD			0	7	7	14	1	3	4	5	5	10
Guatemala	1,910	BB-/Stable/B			0	80		80	185		185	83		83
Guinea	430				0		25	25		145	145			0
Guinea-Bissau	140			7	7			0		26	26			0
Guyana	900			10	10		17	17			0			0
Haiti	400				0			0			0			0
Honduras	970			155	155		22	22		40	40		206	206
Hungary	6,350	A-/Stable/A-2			0			0			0			0
Iceland	30,910	AA-/Stable/A-1+			0			0			0			0
India	540	BB+/Stable/B	390	1,033	1,423	836	687	1,523	893	1,297	2,190	2,035	520	2,555
Indonesia	810	B+/Positive/B	266	56	322	439	145	584	232	71	303	284	209	493
Iran, Islamic Republic of	2,010		359		359	200		200			0			0
Iraq					0			0			0			0
Ireland	27,010	AAA/Stable/A-1+			0			0			0			0
Israel	16,240	A-/Stable/A-1			0			0			0			0

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Annual IBRD and IDA Projects Approved, by Country, as of June 30, 2004 (cont.)

Country	Per Capita Income*	Sovereign Credit Rating (Foreign Currency)	2004 Loans**			2003 Loans**			2002 Loans**			2001 Loans**		
			IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Italy	21,570	AA-/Stable/A-1+			0			0			0			0
Jamaica	2,980	B/Stable/B			0	130		130	130		130	75		75
Japan	34,180	AA-/Stable/A-1+			0			0			0			0
Jordan	1,850	BB/Stable/B	38		38	240		240	5		5	120		120
Kazakhstan	1,780	BBB-/Stable/A-3			0	40		40			0	65		65
Kenya	400			265	265		111	111		17	17		350	350
Korea, Republic of	12,030	A-/Stable/A-2			0			0			0			0
Kosovo				4	4		11	11			0			0
Kyrgyz Republic	340			31	31		28	28		15	15		72	72
Lao People's Democratic Republic	340			36	36		25	25		45	45		42	42
Latvia	4,400	A-/Stable/A-2			0	20		20	2		2	38		38
Lebanon	4,040	B-/Stable/C	5		5	32		32	109		109	20		20
Lesotho	610			21	21			0			0		29	29
Liberia	110				0			0			0			0
Lithuania	4,500	A-/Positive/A-2			0			0	43		43	99		99
Luxembourg	45,740	AAA/Stable/A-1+			0			0			0			0
Macedonia	1,980	BB/Positive/B	55		55			0		35	35	47	50	96
Madagascar	290	B/Stable/B		230	230		162	162		44	44		268	268
Malawi	160			116	116		137	137			0		74	74
Malaysia	3,880	A-/Stable/A-2			0			0			0			0
Maldives	2,350				0			0			0			0
Mali	290	B/Stable/B		127	127			0		114	114		70	70
Malta	10,780	A/Stable/A-1			0			0			0			0
Mauritania	400			84	84			0		123	123		18	18
Mauritius	4,100				0			0	42		42			0
Mexico	6,230	BBB/Stable/A-3	666		666	1,172		1,172	660		660	1,982		1,982
Moldova	590			63	63		25	25		46	46		10	10
Mongolia	480	B/Stable/B		18	18		8	8		29	29		64	64
Morocco	1,310	BB/Positive/B	37		37	76		76	5		5	98		98
Mozambique	210	B/Positive/B		97	97		201	201		271	271		18	18
Myanmar					0			0			0			0
Nepal	240			186	186		97	97		23	23			0
Netherlands	26,230	AAA/Stable/A-1+			0			0			0			0
New Zealand	15,530	AA+/Stable/A-1+			0			0			0			0
Nicaragua	740			101	101		27	27		33	33		182	182
Niger	200			110	110		60	60		109	109		95	95
Nigeria	350			322	322		230	230		427	427		174	174

Annual IBRD and IDA Projects Approved, by Country, as of June 30, 2004 (cont.)

Country	Per Capita Income*	Sovereign Credit Rating (Foreign Currency)	2004 Loans**			2003 Loans**			2002 Loans**			2001 Loans**		
			IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Norway	43,400	AAA/Stable/A-1+			0			0			0			0
Oman		BBB+/Stable/A-2			0			0			0			0
Pakistan	520	B+/Stable/B	50	731	781		297	297		800	800		374	374
Panama	4,060	BB/Stable/B			0			0	11		11	83		83
Papua New Guinea	500	B/Positive/B			0			0	57		57			0
Paraguay	1,110	B-/Stable/C	54		54			0	9		9			0
Peru	2,140	BB/Stable/B	357		357	243		243			0	150		150
Philippines	1,080	BB-/Stable/B	97		97	184		184	130		130	65		65
Poland	5,280	BBB+/Positive/A-2	326		326			0	100		100	155		155
Portugal	11,800	AA/Negative/A-1+			0			0			0			0
Romania	2,260	BB+/Positive/B	230		230	486		486	60		60	130		130
Russian Federation	2,610	BBB-/Stable/A-3	100		100	581		581	351		351	398		398
Rwanda	220			20	20		116	116		25	25		119	119
Samoa	1,440			17	17		5	5			0		5	5
São Tomé and Principe	300			7	7			0			0		10	10
Senegal	540	B+/Stable/B		45	45		46	46		45	45		255	255
Serbia and Montenegro	1,910	B+/Stable/B***		125	125		225	225			0			0
Seychelles	7,490				0			0			0			0
Sierra Leone	150			25	25		105	105		65	65		14	14
Singapore	21,230	AAA/Stable/A-1+			0			0			0			0
Slovak Republic	4,940	A-/Positive/A-2	75		75	5		5	201		201			0
Slovenia	11,920	AA-/Stable/A-1+			0			0			0			0
Solomon Islands	560				0			0			0			0
Somalia					0			0			0			0
South Africa	2,750	BBB/Stable/A-3			0	15		15			0			0
Spain	17,040	AAA/Stable/A-1+			0			0			0			0
Sri Lanka	930			176	176		233	233		75	75		37	37
St. Kitts and Nevis	6,630				0	4		4	9		9			0
St. Lucia	4,050		4	4	8			0	9	12	21			0
St.Vincent and the Grenadines	3,310		3	3	6			0	4	5	9			0
Sudan	460				0			0			0			0
Swaziland	1,350				0			0			0			0
Syrian Arab Republic	1,160				0			0			0			0
Taiwan, China		AA-/Negative/A-1+			0			0			0			0
Tajikistan	210			11	11		20	20		41	41		53	53
Tanzania	300			451	451		251	251		402	402		76	76
Thailand	2,190	BBB+/Stable/A-2	84		84			0			0			0

Annual IBRD and IDA Projects Approved, by Country, as of June 30, 2004 (cont.)

Country	Per Capita Income*	Sovereign Credit Rating (Foreign Currency)	2004 Loans**			2003 Loans**			2002 Loans**			2001 Loans**		
			IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Timor-Leste	460			4	4			0			0			0
Togo	310				0			0			0			0
Tonga	1,490			11	11			0		6	6			0
Trinidad and Tobago	7,790	BBB+/Positive/A-2			0	20		20			0			0
Tunisia	2,240	BBB/Stable/A-3	166		166	112		112	253		253	76		76
Turkey	2,800	BB-/Stable/B	1,586		1,586	300		300	3,550		3,550	1,028		1,028
Turkmenistan	1,120				0			0			0			0
Uganda	250			190	190		407	407		181	181		358	358
Ukraine	970	BB-/Stable/B	282		282	300		300	330		330	53		53
Uruguay	3,820	B/Stable/B			0	556		556	61		61	6		6
Uzbekistan	420				0	35	25	60	56	20	76			0
Vanuatu	1,180				0			0			0		4	4
Venezuela, República	3,490	B/Stable/B			0			0			0	30		30
Vietnam	480	BB-/Stable/B		706	706		293	293		593	593		629	629
Yemen, Republic of	520			145	145		177	177		78	78		142	142
Yugoslavia, former					0			0		172	172			0
Zambia	380			50	50		150	150		7	7		100	100
Zimbabwe					0			0			0			0
Overall Total			**11,045**	**8,674**	**19,720**	**11,231**	**7,268**	**18,499**	**11,452**	**8,068**	**19,520**	**10,487**	**6,749**	**17,236**

*Per capita income is GNI per capita in 2003 U.S. dollars.

**Loan amounts are in the millions of dollars.

***Credit Rating for Serbia is separate from Montenegro, which has a rating of BB/Stable/B.

Note: Names in bold indicate countries that have access to capital markets.

Sources: World Bank, Annual Report 2001–2004, Appendix 10; World Bank, *World Development Indicators 2005*, at *www.worldbank.org/data/wdi2005/index.html*; Standard & Poor's, Credit Rating's List: Sovereigns, May 13, 2005, at *www2.standardandpoors.com/servlet/Satellite?pagename=sp/Page/FixedIncomeBrowsePg&r=1&l=EN&b=2&s=133&f=1* (May 13, 2005).