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**THE ROLE OF IDA IN THE GLOBAL AID ARCHITECTURE  
SUPPORTING THE COUNTRY-BASED DEVELOPMENT MODEL**

Attached for the October 21, 2007, Development Committee Meeting is a background report entitled "The Role of IDA in the Global Aid Architecture Supporting the Country-Based Development Model," prepared by the staff of the World Bank.

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**THE ROLE OF IDA IN THE GLOBAL AID ARCHITECTURE:  
SUPPORTING THE COUNTRY-BASED DEVELOPMENT MODEL**

**International Development Association  
Resource Mobilization Department (FRM)  
June 2007**

## ABBREVIATIONS AND ACRONYMS

AAP	Africa Action Plan
AfDF	African Development Fund
AsDF	Asian Development Fund
CAS	Country Assistance Strategy
CRS	Creditor Reporting System
DAC	Development Assistance Committee
EC	European Commission
DFID	Department for International Development
GFATM	Global Fund to Fight Aids, TB and Malaria
GAVI	GAVI Alliance (formerly known as Global Alliance for Vaccines and Immunization)
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group (World Bank)
IMF	International Monetary Fund
JAS	Joint Assistance Strategy
LDC	Least Developed Country
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MDGs	Millennium Development Goals
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PBA	Performance-Based Allocation
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
TA	Technical Assistance
UN	United Nations
UNDP	United Nations Development Programme

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## Executive Summary

**Official Development Assistance (ODA) flows continue to be a chief source of funding for low-income countries, and IDA the largest source of multilateral ODA for these countries.**

While private financial flows have become the dominant form of resource transfers for the more prosperous among developing countries, they are still dwarfed by ODA in most IDA-recipient countries, particularly in Africa. IDA is the largest provider of multilateral official assistance to low income countries and its substantial disbursements—in the order of US\$80 billion during 1994-2005—have been underpinned by a unique set of core strengths. IDA provides support to low-income countries within the context of a country-based framework, widely recognized, *inter alia* in the Paris Declaration on Aid Effectiveness as the most effective approach to achieving economic growth and poverty reduction.

**IDA's role in the international aid architecture is twofold: (i) it directly provides financing and knowledge services to client countries in support of their priorities and needs; and (ii) it supports a platform for the delivery of aid that helps to enhance aid effectiveness.** To perform this dual role, IDA relies on its core strengths, which include: its financial resources; its knowledge base and the quality of its policy advice; a global reach combined with local presence; a multi-sectoral perspective; and its convening power. IDA's value added often derives from its ability to integrate funding and knowledge based on learning from projects and programs and transferring these experiences, including from one country to another. Surveys of IDA beneficiaries and stakeholders provide important perspectives on IDA's comparative advantages and place in the international aid architecture. IDA is widely regarded as having a positive influence in achieving development outcomes, both in absolute terms as well as when compared to other development agencies.

**IDA has designed, piloted and implemented policy innovations that have often been adopted by other development partners.** Examples of such initiatives are the PRSP approach, the performance-based allocation system, and Debt Sustainability Framework (together with the IMF). Furthermore, IDA was the first international financial institution to introduce a results measurement system that systematically tracks key country outcomes as well as the institution's contributions to those outcomes.

**IDA's strengths at the country level allow it to also play a pivotal role in addressing regional and global issues.** Issues such as prevention and control of HIV/AIDS; environmental preservation; regional and global trade integration; and global financial stability ultimately need to be tackled at the country level. By leveraging its country-focused assistance and policy dialogue, IDA helps to integrate regional and global priorities into country strategies. At the same time, through its involvement in global policy making, coupled with its intensive activities in the field, IDA supports the alignment of national, regional and global priorities.

**Recent trends in ODA and in the global aid architecture pose new challenges for aid effectiveness and the achievement of the MDGs, highlighting the need for a renewed emphasis on the country-based model.** In particular, the global aid architecture has become markedly more complex, with a proliferation of donor channels, fragmentation of aid flows and a significant degree of aid earmarking (including through the increasing number and size of “vertical funds”). While new sources of aid may bring with them much needed resources to help low-income countries reach their MDGs, the accompanying fragmentation and proliferation

increase transaction costs and create new challenges for alignment and harmonization. As aid flows become increasingly earmarked for individual compelling purposes, the risk is that the amount left for the countries' highest national priorities may be insufficient.

**Concurrent with the challenges to aid effectiveness, new global issues have emerged.** Over the past decades, concerns have intensified over a growing list of global problems requiring collective action. Notable among these are the spread of HIV/AIDS, the outbreaks of diseases of animal origin, such as the Avian Flu, and the preservation of the global environmental commons. An issue that has gained new impetus and urgency is climate change. This calls for increased investment in clean energy as well as adaptation to the detrimental impact of climate change in the poorest countries, both of which will in turn require increased investment across many sectors. The potential enormity of the challenge associated with climate change further underlines the need for development assistance to be more coordinated, effective, and responsive to rapidly-changing development needs and priorities in developing countries.

**IDA's support to the country-based model through its *platform role* becomes even more critical to address these challenges.** The risks and costs associated with donor proliferation and aid fragmentation reinforce the importance of firmly anchoring aid modalities in a strong country development model. IDA's integrating or platform role—its capacity to adapt to country circumstances, preparedness to act as a “first mover” when appropriate, and its ability to leverage other funding and scale-up poverty reduction interventions by other partners--allows it to play a central role in enhancing alignment and harmonization as well as in achieving sustained results at the country level. In fact, IDA can in many instances act as a sound “horizontal” institutional platform upon which other forms of aid – traditional bilateral ODA, emerging donors, and vertical funds – can effectively operate and work together towards the achievement of the MDGs. This helps counterbalance the adverse effects of donor proliferation and aid fragmentation. At the same time, new global challenges such as climate change are not only best addressed at the country level, but also require the convening power of IDA to build partnerships between governments and the donor community.

**IDA's ability to provide a platform for others does not mean, however, that it plays a leading role among donors in every sector or country.** IDA's role can also be to follow and support the lead of other development partners. Determining when IDA should lead and when it should follow will necessarily need to be done at the country level in dialogue with other partners.

**IDA has the strengths to help raise ODA effectiveness and tackle the new challenges created by shifting aid architecture. However, to fulfill this role successfully, IDA will have to adapt and *intensify its efforts* in four main areas:** (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing critical global challenges with an increased priority given to climate change; and (iv) enhancing alignment and harmonization. This cannot be done through a one-size-fits-all approach, but rather by taking into account country- and sector-specific circumstances. While IDA's *modus operandi* remains based on a country-driven framework, the emerging challenges need to be factored in the policy dialogue with client countries, in the formulation of CASs and sector strategies, and in the design of financial assistance. IDA is also in the process of reforming and modernizing its operational policies, designed to improve its operational effectiveness and thus its ability to meet the challenges outlined above.

**IDA's integrating role can be played effectively going forward only if funding for IDA reaches a “critical mass”.** Only with appropriate financing can IDA provide a platform for other development partners to operate and help achieve strategic coherence in development assistance programs. A declining level of funding would undermine IDA’s capacity to be a strong partner to governments and other development partners. Conversely, with appropriate financing, IDA’s assistance programs can bring about benefits such as: ensuring an appropriate sectoral balance and complementarity across donor development assistance programs; scaling up poverty reduction efforts through large-scale operations; expanding the scope for policy dialogue, harmonization and alignment with national priorities. And finally, IDA’s technical expertise and knowledge base – a public good for all development partners and a driver of its convening power– can be enhanced through the learning that comes with the ability to implement programs and projects, across a wide-range of sectors.

# THE ROLE OF IDA IN THE GLOBAL AID ARCHITECTURE: SUPPORTING THE COUNTRY-BASED DEVELOPMENT MODEL

## I. INTRODUCTION

1. **This paper responds to IDA Deputies' request to discuss the role of IDA in supporting the country-based model at the national, regional, and global levels.** It follows up on discussions held in Paris, on March 5-6, 2007, on the rapidly changing landscape of the global aid architecture.
2. **Official Development Assistance (ODA) flows continue to be a chief source of financing for low-income countries (LICs), and IDA continues to be their main source of multilateral ODA.** While private financial flows have become the dominant form of resource transfers for the more prosperous among developing countries, they are still dwarfed by ODA in most IDA-recipient countries, particularly in Africa. Furthermore, Foreign Direct Investment (FDI) inflows to LICs have been concentrated in a relatively small group of countries, such as those rich in natural resources. On the other hand, IDA is the largest provider of multilateral ODA to IDA-eligible countries, with cumulative gross disbursements in the order of US\$80 billion during 1994-2005.
3. **IDA has long supported low-income countries within the context of a country-based framework.** In fact, IDA's support has traditionally been grounded in detailed analysis of the recipient countries' development needs. Country analytic work has not only provided the basis for the design of Bank support, but also for policy design by the recipient countries themselves and assistance programs of other development partners. In recent years, IDA's support to the country-based model has been framed around the Bank's *Strategic Framework*<sup>1</sup> – currently under review as the Bank is in the process of designing a new long-term strategy – with its two inter-related pillars: (i) building the climate for investment, jobs, and sustainable growth; and (ii) empowering poor people to participate in development and investing in them.
4. **Recent trends in ODA and in the global aid architecture pose additional challenges to aid effectiveness and the achievement of the MDGs.** These trends include: (i) overall ODA flows have trended upwards, but ODA for core development programs<sup>2</sup> has not grown as fast; (ii) a rising share of social sectors in total sector allocable ODA has been accompanied by a declining share of infrastructure; and (iii) the global aid architecture has become markedly more complex, with a proliferation of donor channels, fragmentation of ODA and a significant degree of aid earmarking.<sup>3</sup>
5. **IDA's role in supporting the country-based model has become even more important in light of the growing complexity of the global aid architecture.** By drawing on its strengths, which allow it to provide large financing volumes while focusing on achieving clear development outcomes, IDA can in many instances act as a sound “horizontal” institutional

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<sup>1</sup> World Bank (2001). *World Bank Group Strategic Framework*. January 24.

<sup>2</sup> Total ODA excluding selected special-purpose grants such as debt relief, administrative costs of donors, and emergency assistance.

<sup>3</sup> See IDA (2007). *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*. Paper presented at the first meeting of the IDA15 Replenishment negotiations, Paris, March 5-6.

platform upon which other forms of aid – traditional bilateral ODA, emerging donors, and vertical funds – can effectively operate and work together towards the achievement of the MDGs. Going forward, IDA will intensify efforts in four main areas: (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing critical global challenges with an increased priority given to climate change; and (iv) enhancing alignment and harmonization.

6. **The remainder of the paper is organized as follows:** Section II discusses how the country-based model can continue to support growth and poverty reduction in the context of changing aid landscape. Section III examines IDA's role in supporting the country-based model at the country level. Section IV discusses how IDA's strengths shape its role at the regional and global levels. Section V focuses on the main challenges going forward and how IDA is gearing up to address them. Section VI concludes and suggests a number of issues for discussion. Annex I summarizes external perceptions of IDA's effectiveness and performance, based on Client Surveys conducted by the Bank and assessments carried out by other organizations.

## II. THE COUNTRY-BASED DEVELOPMENT MODEL IN A CHANGING AID LANDSCAPE

### A. THE COUNTRY-BASED DEVELOPMENT MODEL

7. **There is broad agreement that the country-based development model is the most effective approach for achieving results in terms of sustained economic growth and poverty reduction in developing countries.**<sup>4</sup> The country-based model consists of three main strands: (i) nationally-owned development strategies; (ii) donor alignment around country-driven goals, with increased use of country systems wherever feasible and efforts to increase aid predictability; and (iii) mechanisms of mutual accountability encompassing both donors and governments in recipient countries.<sup>5</sup> Accordingly, the interplay of these three strands strengthens domestic policies and systems in recipient countries, unites donors around clear development goals, and sets out a mutual accountability framework for all stakeholders. Therefore, aid effectiveness can be enhanced to the extent that development assistance is channeled through a country-based development model.<sup>6</sup>

8. **The introduction of the Poverty Reduction Strategy (PRS) approach in 1999 was an important step in the evolution of the country-based model, putting recipient country governments in the driver's seat and increasing the focus on results.** It brought a clearer focus on poverty reduction, an emphasis on national ownership of the development effort, and a clearer accountability for development results. Over the past six years, many low-income countries have made substantial progress in articulating and implementing national poverty reduction strategies. At present, 51 low-income countries are implementing their poverty reduction strategies; ten have completed their second PRS. As noted in the 2005 joint Bank-Fund review of poverty reduction strategies, “(...) *the core principles that underpin the PRS approach (...) provide the foundation on which results at the country level are achieved*”.<sup>7</sup> Going forward, to ensure that strategies provide a solid framework for utilizing a significant increase in development resources, it is critical to continue to focus efforts to progressively strengthen content and implementation, as well as the links with the national budgets.

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<sup>4</sup> At the global level, this agreement was affirmed in the Paris Declaration on Aid Effectiveness.

<sup>5</sup> World Bank (2007). “The Country-Based Development Model and Scaling Up”. PREM Poverty Reduction Group, Number 2. The mechanisms of mutual accountability are meant to “ensure that both national governments and donors are responsible for meeting their commitments to country-based development.” (Ibid., p. 1).

<sup>6</sup> See also OECD/DAC: “there is broad agreement that development assistance should be channeled through a country-based development model”. See OECD/DAC (2006). *Using the Country-Based Model to Scale up for Results: An Agenda for Action*. DCD/RD(2006)2/RD2. June, paragraph 6.

<sup>7</sup> World Bank and IMF (2005). *2005 Review of the PRS Approach: Balancing Accountabilities and Scaling Up Results*. September, p. 2 (emphasis added).

**Box 1. Some key elements of robust poverty reduction strategies**

**Content.** Poverty reduction strategies should specify clear priorities for public action, that are appropriate and feasible in light of the diagnostics, capacity, and resources. Some core elements include:

- Prioritized and poverty focused structural and sectoral policies and programs that are consistent with available diagnostics.
- A suitable macroeconomic framework, fiscal choices consistent with poverty reduction and growth objectives, and a credible financing plan with due attention to domestic resource mobilization.
- Results framework, with medium- and long-term goals, indicators of progress, and annual and medium-term targets (framed against the backdrop of the MDGs) – all of which take into account country conditions and are consistent with policy choices in the strategy.

**Implementation and monitoring modalities.** Poverty reduction strategies should be linked to domestic decision-making processes and implementation should be through strong country systems. Three important aspects include:

- A link between the national strategies and annual and multi-annual budget processes combined with well functioning financial management systems.
- Institutional arrangements that sustain adequate monitoring and evaluation of implementation—including data collection and analysis, feedback into the policy processes, and transparency.
- Sound governance arrangements and service delivery mechanisms, as well as transparency and accountability of public institutions and services vis-à-vis the needs of citizens in general and the poor in particular.

**Absorptive capacity.** Strategies need to be feasible to implement. In addition to consistency with the financing envelope, this requires a country-specific understanding of constraints to absorptive capacity at the sectoral and cross-sectoral levels. This requires:

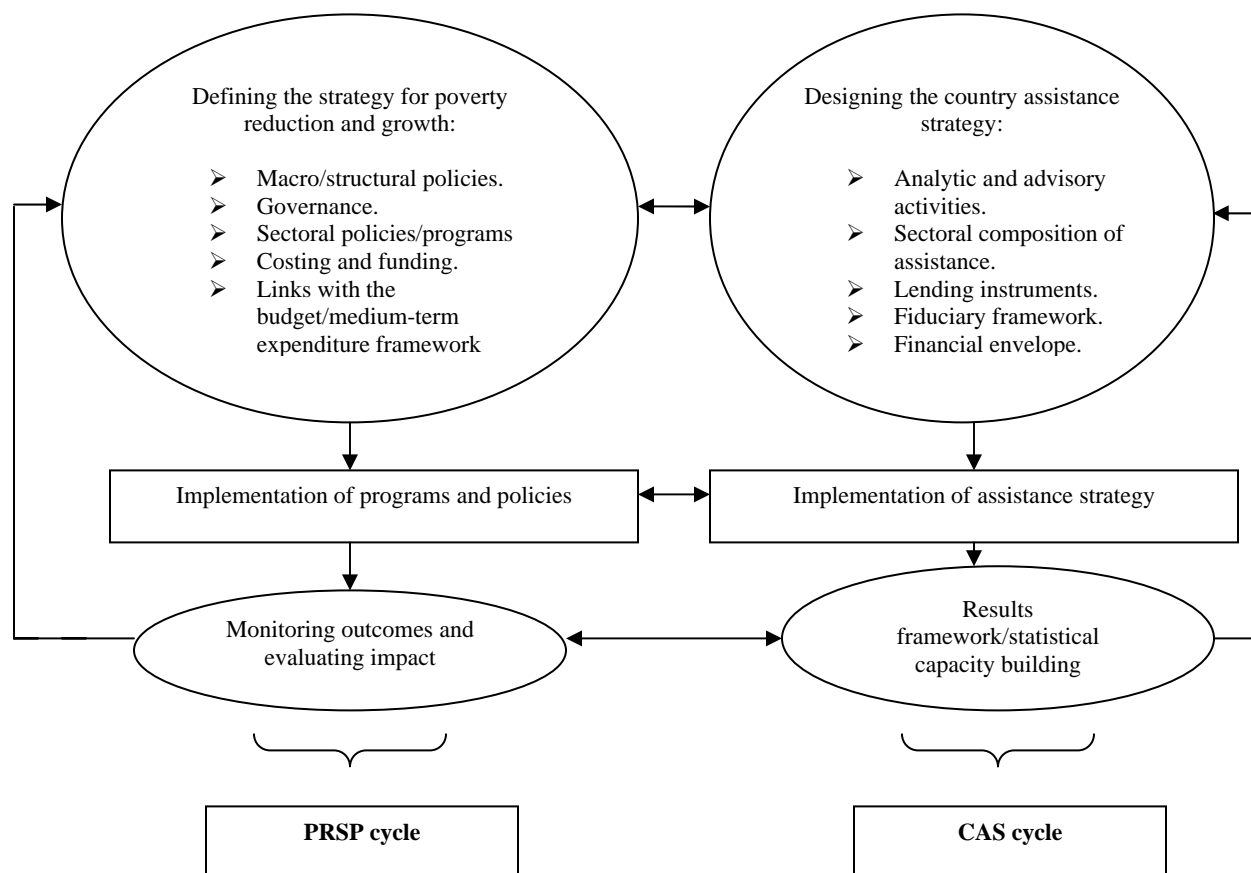
- A country-specific consideration of constraints to absorptive capacity. These could be related to the macroeconomic framework (*e.g.*, debt sustainability issues), human and physical capital, institutional and policy environments, or donor behaviors.
- A sequenced set of interventions to address identified constraints so as to pave the way to absorb effectively significantly scaled-up aid (see paragraphs 11-14).

Source: OECD (2006), *op. cit.*

9. **The country-based model has a number of implications for the delivery of development assistance.** It demands flexibility from development partners to support country priorities and to support the examination of a wider range of policy options. It also requires aid delivery mechanisms that facilitate country ownership of development policies, align and integrate aid into domestic processes, make use of government systems instead of donor specific systems, and focus on results at the project, sector, and country levels.

10. **IDA's delivery of development assistance has traditionally been grounded in detailed analysis of the recipient countries' development needs and challenges.** In response to the expanding range of services and products offered by IDA and the need to ensure consistency with a country's development agenda, IDA adopted the Country Assistance Strategy approach. Figure 1 illustrates how the design, implementation and monitoring of country assistance strategies are aligned with the PRSP process.

**Figure 1. Aligning the CAS with the PRSP: The Country-Based Model at Work<sup>8</sup>**



11. **The effectiveness of the PRSP process is directly related to how active client country governments are in two respects:** (i) in coordinating donor inputs; and (ii) in bringing different stakeholders – civil society, NGOs, academia, etc – into the PRSP approach and building broader ownership. Ultimately, governments should continue to take the lead in coordinating the aid delivery process at the country level.

12. **As countries are gaining experience with the design and implementation of PRSPs, a number of important challenges have been encountered and are being addressed.** These include:

- Many first-generation PRSPs had a strong focus on the delivery of social services to the poor, without sufficient focus on economic growth. The second generation of PRSPs typically has a much greater focus on private-sector-led economic growth (see

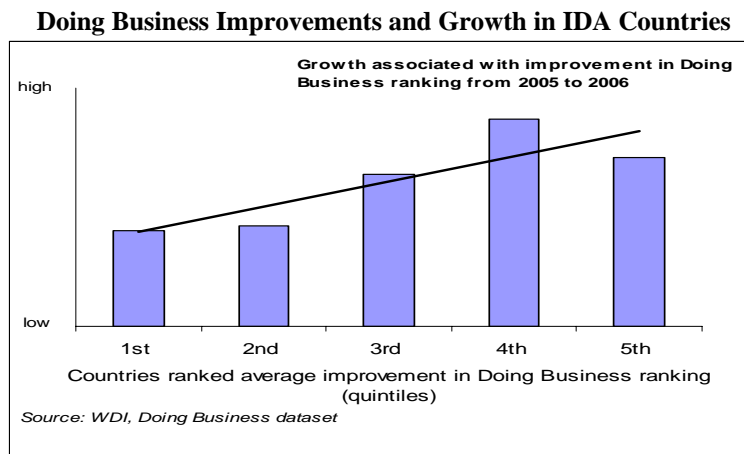
<sup>8</sup> This Figure is adapted from World Bank (1999). *PRSP Sourcebook*, Figure 1, p. 3.

Box 2), recognizing that it is critical for the sustainability of enhanced access to social services as well as for reducing income poverty.<sup>9</sup>

### Box 2. The Pivotal Role of Private-Sector-Led Growth

Policies for sustained, broad-based economic growth are a central ingredient for a sound poverty reduction strategy. Without growth, poverty reduction gains brought about through attempts to reduce inequality alone are bound to be insufficient and unsustainable. Economic growth helps to reduce poverty by raising income levels and creating employment opportunities. In turn, growth can only be sustained in the long run if it is underpinned by a vigorous, thriving private sector: “Without the dynamic force of private initiative, disciplined by competitive markets, poor people will stay poor.”<sup>10</sup>

Entrepreneurial activity thrives in environments with a solid institutional foundation and clear rules of the game. Therefore, a healthy investment climate is a crucial element in any strategy focusing on promoting sustained growth and poverty reduction. Government policies and behaviors play a key role in fostering a sound investment climate, as they can decisively influence “the security of property rights, approaches to regulation and taxation (both at and within the border), the provision of infrastructure, the functioning of finance and labor markets, and broader governance features such as corruption. Improving government policies and behaviors that shape the investment climate drives growth and reduces poverty.”<sup>11</sup> A healthier business environment does have a tangible impact on countries’ ability to unleash private-sector-led growth, as indicated in the Figure below, which related growth outcomes (vertical axis) with improvements in *Doing Business* rankings between 2005 and 2006 (horizontal axis):<sup>12</sup>



IDA plays a key role in supporting private-sector-led growth through its financial assistance – including funding for infrastructure, discussed in detail in Section V, as well as development policy operations that support policy reforms – and non-lending activities. The main focus is on helping governments in client countries promote a sound business environment, where private initiative and competitive markets can flourish, and private investment can be attracted and retained. IDA’s work on private sector development is complemented and enhanced through IFC’s and MIGA’s private sector investment activities.

<sup>9</sup> According to the 2005 joint Bank-Fund review of poverty reduction strategies, “in line with increased attention on the productive sectors, countries are increasingly making growth a central element of their poverty reduction strategies (...).” See World Bank and IMF (2005), *op. cit.*, p. 55.

<sup>10</sup> See *IDA at Work* note “IDA, Entrepreneurship, Job Creation, and Growth”. January 2007, p. 1.

<sup>11</sup> World Bank (2004). *World Development Report 2005. A Better Investment Climate for Everyone*. September, p. 1.

<sup>12</sup> *IDA at Work* note “IDA, Entrepreneurship, Job Creation, and Growth”. January 2007, p. 4.

- Initially, PRSs were often developed in parallel to existing national planning, budgeting, and monitoring processes, which created difficulties in their implementation. Several countries are now undertaking efforts to mainstream the PRS approach into existing processes to ensure that there is a single national instrument for priority setting and indicative resource allocation over a multi-year period.
- Ambitious poverty reduction objectives articulated in many PRSs and related resource requirements exceeded available resources for implementation. This resulted often in tensions between countries' desire to mobilize additional resources to implement ambitious strategies and development partners seeking improved prioritization.
- Many low-income countries – particularly in Africa – are small and cannot absorb substantial aid without anchoring them in sub-regional frameworks for infrastructure and other projects. Hence, multi-country coordination and assistance as well as the spill-over of capacity from larger neighboring countries will increasingly become important extensions to the single country framework.

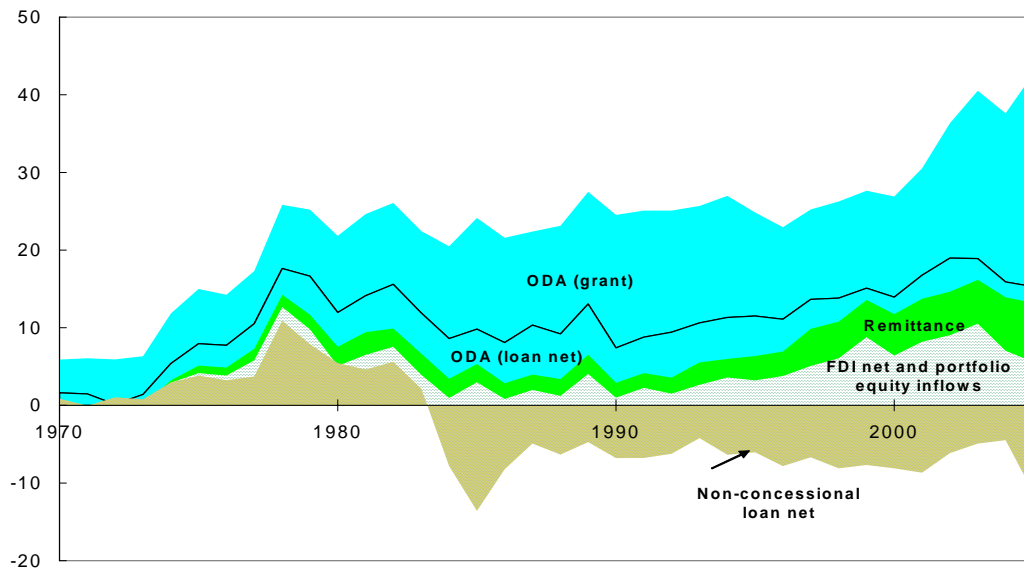
## **B. THE RECENT EVOLUTION OF THE GLOBAL AID ARCHITECTURE**

13. **Official Development Assistance (ODA) continues to represent a key source of net financial flows to low-income countries, particularly in Sub-Saharan Africa.** While private financial flows have become the dominant form of resource transfers for the more prosperous among developing countries, they are still dwarfed by ODA in most IDA-recipient countries, particularly in Africa. “While equity and foreign investments have grown significantly since the mid-1990s, they are highly concentrated in a small number of countries. For most [low-income] countries, official development assistance (ODA) is still the largest single source of capital inflows, contributing nearly half of all net capital flows.”<sup>13</sup> In general, FDI inflows to Africa have been concentrated in either resource rich countries (e.g., Angola, Côte d’Ivoire, Nigeria and Sudan) or better performing countries (e.g., Senegal, Tanzania, and Uganda). Over the 2001-2005 period, IDA itself provided on average 15.5 percent of the total net ODA for IDA-eligible countries. Figure 2 shows that ODA (including debt relief) accounted for the lion’s share in the total net resource flows to IDA countries in Africa over the last three decades.

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<sup>13</sup> Sundberg, M. and A. Gelb (2006). “Making Aid Work”. *Finance and Development*, Volume 43, Number 4, p. 2.

**Figure 2. Net resource flows to IDA countries in Africa (US\$ bn., 2005 Prices)**<sup>1/2/3/</sup>



Source: OECD DAC for ODA data; World Bank Global Development Finance 2007 for the other data.

<sup>1/</sup> The sample limits to current IDA countries in Africa (39 countries).

<sup>2/</sup> Net inflows of non-concessional loans is total debt disbursement minus concessional loan disbursement minus total debt service paid.

<sup>3/</sup> Net flows for non-concessional loans are negative from the early 80s onwards.

**14. Some recent trends in ODA flows and in the evolution of the international aid architecture are potentially at odds with the country-based development model.** The recent emphasis on social sectors – to the detriment of infrastructure – as a destination for ODA flows may reflect global rather than recipients’ needs and priorities as reflected in national development strategies. Furthermore, the proliferation of donor channels, the fragmentation of ODA, and the mounting degree of “verticalization” and earmarking of aid increases the transaction costs and could reduce the overall effectiveness of aid.<sup>14</sup> These trends are summarized in subsections B.1 and B.2 below. Section B.3 briefly discusses the significance of these trends for the country-based model.

### **B.1. ODA Trends at the Sectoral Level**

**15. The last two decades have seen a significant shift in the sectoral composition of ODA flows.** The share of social sectors<sup>15</sup> in total sector allocable ODA to low-income countries increased from less than 30 percent in the early 90s to more than 52 percent in 2000-2004. In the case of Sub-Saharan Africa, the social sector share reached 60 percent in 2000-2004, up from about 33 percent in the first half of the 90s. In parallel, the share of infrastructure in total sector allocable ODA declined from 33 percent to 26 percent over the same period in low-income

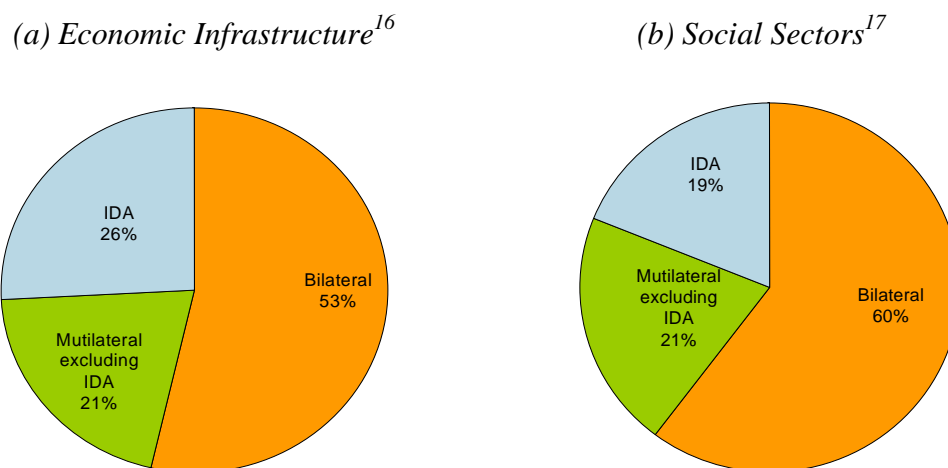
<sup>14</sup> See IDA (2007). *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*. Paper presented at the first meeting of the IDA15 Replenishment negotiations, Paris, March 5-6.

<sup>15</sup> Social sectors, in the OECD/DAC classification, include education; health and population; water and sanitation; government and civil society; and conflict, peace and security. Most of the recent growth in ODA for the social sectors is due to increased aid for health and population as well as for government and civil society.

countries. For Sub-Saharan Africa, the relative decline in infrastructure was even more marked: from 29 percent in 1990-1994 to 19 percent in 2000-2004.

16. **IDA has been a major provider of ODA for infrastructure and social sectors in low-income countries.** Using the DAC classification of sectors, IDA's share in total sector allocable ODA for economic infrastructure in IDA-eligible countries over the 2000-2005 period is around 26 percent (see Figure 3a). IDA's share in social sector ODA over the same period for IDA-eligible countries is about 19 percent (Figure 3b).

**Figure 3. Donor composition of sector allocable ODA commitments to IDA Countries (2000-2005)**



Source: CRS.

## B.2. An Increasingly Complex Aid Architecture

17. **The aid architecture landscape has changed significantly in the last few years in light of the recent increase in the number of vertical funds as well as the growing importance of non-DAC, “emerging” donors.** These new sources of aid bring more resources for poor countries to reach their MDGs. At the same time, the increasing complexity of the aid architecture has increased transaction costs for both donors and recipients, potentially reducing the effectiveness of aid.

18. **The growing complexity of the global aid architecture can be illustrated through three distinct, but often inter-related, phenomena: proliferation, fragmentation, and “verticalization”.** Aid proliferation refers to the increasing number of donor *channels* providing ODA. Fragmentation refers to the increasing number of donor-funded *activities* with decreasing financial size. “Verticalization” is taken to mean an increasingly specialized focus of ODA

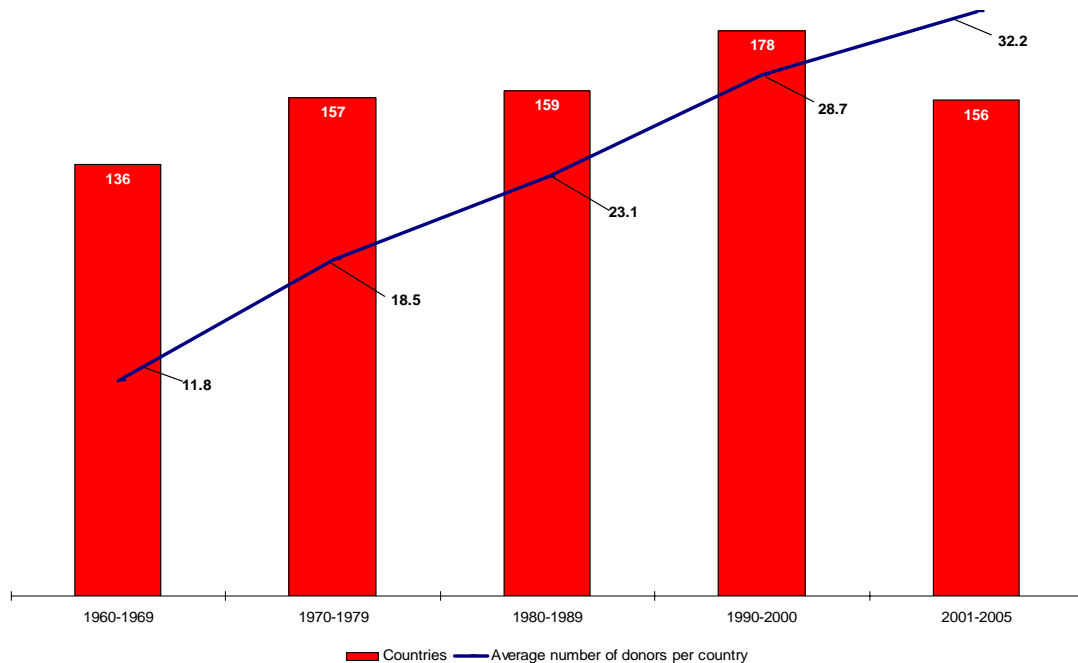
<sup>16</sup> Under the DAC classification, it covers transport and storage, communications, energy, banking and financial services, and business and other services.

<sup>17</sup> Classified by DAC under social infrastructure and services. See footnote 15.

providers on narrowly-defined issues or themes (e.g., HIV/AIDS), often accompanied by earmarking of donor funds.

19. **While new sources of aid bring with them much needed resources to help low-income countries reach their MDGs, the accompanying fragmentation and proliferation trends increase transaction costs<sup>18</sup> and create new challenges for alignment and harmonization.** Figure 4 shows proliferation trends: The average number of donors per country grew from about 12 in the 1960s to more than 30 in 2001-2005. Figure 5 shows fragmentation trends: By 2004, the average number of donor activities per year had grown to 60,000 (from about 20,000 in the late 90s) and their average financial size had declined to US\$1.5 million (from around US\$2.5 million in the late 90s).

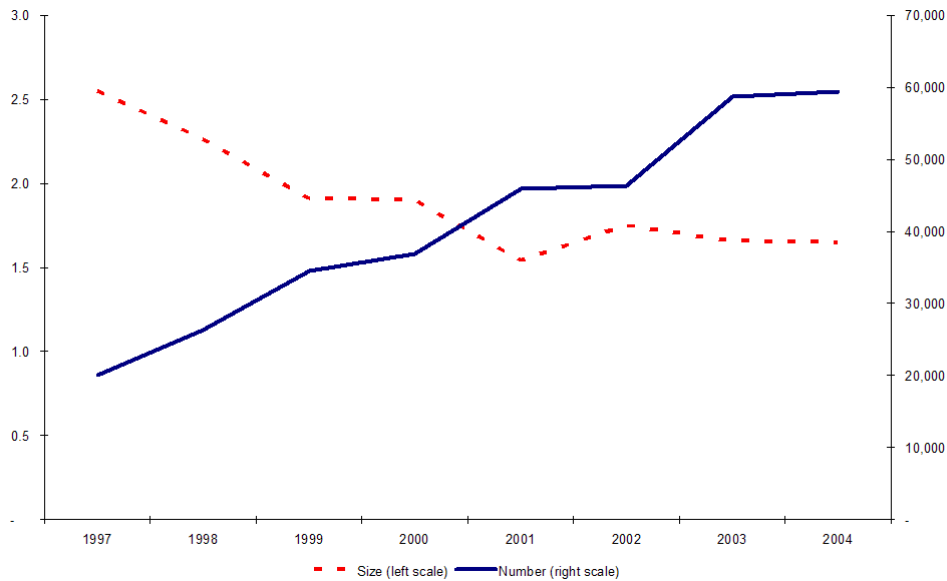
**Figure 4. Donor Proliferation in Low-Income Countries**



Source: CRS

<sup>18</sup> See also World Bank (2007). “Opportunities to Scale Up: Delivering on Commitments”. PREM Poverty Reduction Group, Number 1, p. 2: “Donor support for development translates worldwide into over 60,000 ongoing projects, with some partner countries having over 1,000 donor-funded activities, hosting over 1,000 missions each year, and preparing as many as 2,400 progress reports annually. While some countries can manage these requirements more readily than others, everywhere they burden and erode administrative capacities, weaken country accountability, reduce the attention to strengthening countries’ own policies and systems, and divert financial and human resources away from addressing real development goals.”

**Figure 5: Aid Fragmentation Trends in Low-Income Countries**



Source: CRS

20. **Some of the characteristics of vertical or “earmarked” approaches tend to complement the country-based model, while others tend to weaken it:** On the one hand, vertical approaches help address urgent financing needs for specific development issues (e.g., HIV/AIDS) and achieve economies of scale through a narrower focus. On the other, they may also be associated with problems of increased transaction costs, intra- and inter-sectoral distortions in resource allocations, and displacement of qualified (and often scarce) human resources in recipient countries and, in the long run, sustainability of financing. Therefore, it is critical that *renewed efforts be applied towards achieving balance and complementarity at the country level between vertical and horizontal approaches to aid delivery.*

### C. IMPLICATIONS FOR DEVELOPMENT ASSISTANCE

21. **The recent trends in the global aid architecture highlight the need for a renewed emphasis on the country-based model.** Indeed, the risks and costs associated with donor proliferation and aid fragmentation “reinforce the importance of firmly anchoring aid modalities in a strong country development model”.<sup>19</sup>

22. **While the different aid delivery mechanisms and approaches add to the complexity of the global aid architecture, they are not inherently incompatible with each other, or with the country-based model.** A country-driven approach provides a platform upon which different ways of delivering aid – traditional bilateral ODA, emerging donors, and vertical funds – can work together in an integrated fashion to the benefit of recipient countries. As long as such mechanisms and approaches are framed in the context of country-owned national development

<sup>19</sup> Hoftijzer, M. and L. Cord (2007). “The Country Development Model and IDA”. World Bank, PREM Poverty Group, processed.

strategies, their goals would be mutually reinforcing – therefore making it possible to achieve much needed balance and complementarity.

**23. The Paris Declaration is a significant step forward towards addressing the complexities of the existing aid architecture and restating the centrality of the country-based approach to development aid.** In this context, the following additional efforts would be required from both recipient and donor countries, based on the Paris Declaration principles:

- **Strengthening national development strategies.** Governments in recipient countries would need to continue to focus their attention in a number of areas with respect to their national development strategies, including PRSs: (i) ensuring that goals and targets are clear, sufficiently prioritized, and associated with specific policy actions; (ii) deepening the integration of national development strategies with domestic planning, budgeting, and monitoring processes; and (iii) strengthening governmental accountability to both domestic constituents and donors.
- **Improving the quality of aid.** A number of actions would also be required from the donor community: (i) strengthening donor harmonization and alignment around the PRS; (ii) expanding the use of national systems where it is appropriate; (iii) “where use of country systems is not feasible, establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures”.<sup>20</sup>

**24. Strengthening recipient countries’ ability to make effective use of potentially scaled-up aid, particularly program-based ODA, is an important step to the implementation of the Paris Declaration on Aid Effectiveness.** Data for 23 HIPCs (all of them IDA countries) indicates gradual progress in terms of their public financial management (PFM) systems, with a 10 percent improvement in the 15 HIPC indicators between 2002 and 2004. Working together with other development partners, the World Bank has developed a comprehensive indicator-based framework (PEFA) that tracks progress over time. The PEFA framework has 28 indicators and has been applied in 34 countries so far, with a further 50 (mostly IDA) countries planned to be covered by end 2007.

**25. In this context, IDA’s role in supporting the country-based model has become even more important in light of the growing complexity of the global aid architecture.** By drawing on its strengths, IDA can support a sound country-based platform upon which other forms of aid can effectively operate and work together towards the achievement of the MDGs. In so doing, IDA can help address the adverse effects of aid fragmentation through its ability to provide large-scale financing, sound analytical work, convening power, and its role in fostering alignment and harmonization at the country level. IDA’s strengths and its role in supporting the country-based model will be discussed in detail in Section III.

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<sup>20</sup> See *Paris Declaration on Aid Effectiveness. Ownership, Harmonisation, Alignment, Results and Mutual Accountability*, p. 4.

### III. IDA'S ROLE AT THE COUNTRY LEVEL

26. This Section deals with the role of IDA at the country level, taking external perceptions of IDA's role, importance, and effectiveness as its starting point; this is the object of subsection III.A. It then goes on to review the strengths that IDA brings to support the country-based model, particularly in the context of a more complex aid architecture. This is the focus of subsection III.B.

#### A. EXTERNAL VIEWS OF IDA'S SUPPORT

27. **Surveys of IDA beneficiaries and stakeholders provide important perspectives on IDA's comparative advantages and place in the international aid architecture.** The World Bank carries out client surveys, often as an input to the design of IDA's Country Assistance Strategies. These client surveys solicit structured feedback from a wide range of stakeholders familiar with IDA's work in a specific country, regarding the role and effectiveness of IDA in supporting countries' development efforts. While the World Bank's client surveys only provide information on IDA's performance, assessments carried out by other organizations often allow a comparison of IDA's performance with that of other bi- and multilateral development agencies. Recent assessments have been carried out by the Multilateral Performance Assessment Network (MOPAN), Oxfam International, Debt Relief international, and ODI.<sup>21</sup>

28. This subsection briefly summarizes the main messages of these surveys on key dimensions of IDA's performance and comparative advantage. A more complete discussion of the findings of these surveys can be found in Annex I.

29. **IDA is widely regarded as having a positive influence in achieving development outcomes, both in absolute terms as well as when compared to other development agencies.** This message emerges consistently from all surveys covered in this paper. Some of the key specific findings from the surveys include:

- **The volume of financial resources, knowledge base, and policy advice are the areas where IDA brings the greatest value-added.** Refer to Figure 6 below. According to responses to the MOPAN 2005 assessment, the key comparative advantage of the Bank lies in the financing of large programs and projects, budget support, and policy dialogue.
- **The Bank is ranked as the most effective both among multilateral development banks and vis-à-vis the EC,** according to DFID's 2005 assessment of multilateral organizational effectiveness.
- **IDA is perceived as being highly effective in assisting countries in their efforts to reduce poverty,** according to the Bank's client surveys. These surveys also positively evaluate IDA's overall effectiveness, relevance, and alignment with development priorities.

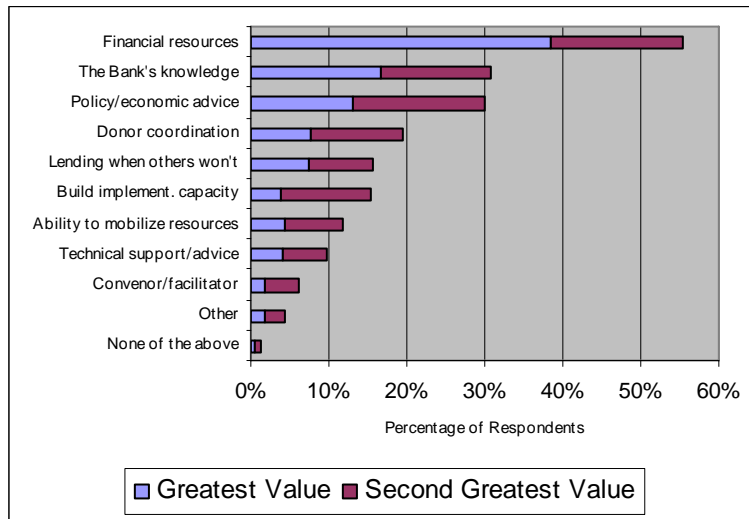
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<sup>21</sup> The Multilateral Organizations Performance Assessment Network (MOPAN) is a group of like-minded donors which in 2003 began to jointly survey the partnership behavior of multilateral organizations at country level.

- **There are still some areas in need of improvement.** For example, the client surveys indicate that more progress is needed in terms of IDA’s consideration of political realities, its operational policies and procedures, and its willingness to explore alternative policy formulations. Most of the surveys see room for improvement in terms of IDA’s alignment with the local context and the use of local knowledge.

**Figure 6. World Bank Client Surveys: Greatest Value of IDA (FY05 and FY06)**

“In broad terms of economic and social development, what is the greatest value brought to your country by IDA?”  
(in percent)



## B. A REVIEW OF IDA’S MAIN STRENGTHS

30. **The client surveys indicate that IDA’s core strengths<sup>22</sup> reside in its financial resources, knowledge base and the quality of its policy advice.** Other strengths often cited include IDA’s **global reach combined with local presence**, its **multi-sectoral perspective**, and its **convener power**. IDA’s strengths can also be grouped in somewhat different, albeit related, ways. For instance, the Strategic Framework for IDA’s Assistance to Africa (SFIA)<sup>23</sup> considers that IDA’s central strengths are its multilateralism, expertise, and financial resources.

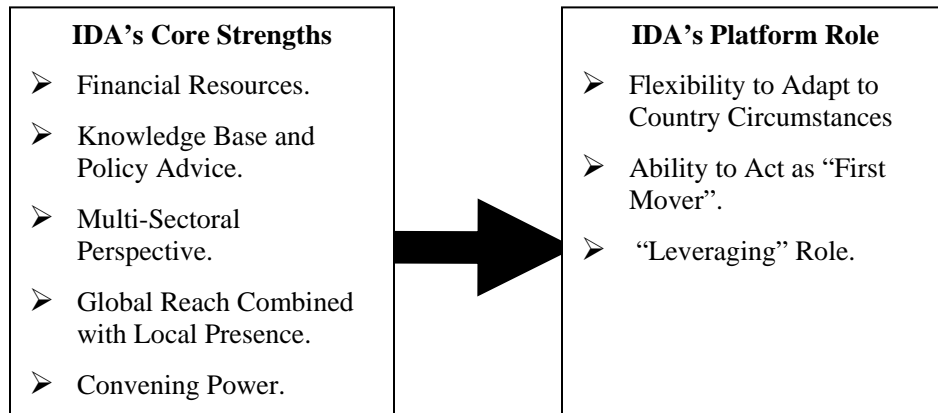
31. **These core strengths enable IDA not only to provide direct support to client countries but to also provide a platform for development assistance.** IDA’s platform role materializes as a combination of other “derivative” strengths. They include: **flexibility** to adapt to country circumstances; preparedness to act as a **“first mover”** when appropriate; and **ability**

<sup>22</sup> The various attributes listed here can only be considered strengths if possessing them facilitates the implementation of some agreed approach. In the case of IDA, such attributes become strengths insofar as they facilitate the implementation of the country-based development model.

<sup>23</sup> See World Bank (2003). *Strategic Framework for IDA’s Assistance to Africa: The Emerging Partnership Model*. Africa Region, June 24, p. 5.

to leverage other funding and scale-up poverty reduction interventions by other partners.<sup>24</sup> Figure 7 below provides a schematic view of IDA’s “primary” and “derivative” strengths:

**Figure 7. A Schematic View of IDA’s Strengths and Platform Role**



32. **In this role, IDA brings greater strategic coherence in development assistance programs at the inter- and intra-sectoral levels.** This helps counterbalance the adverse effects of donor proliferation, aid fragmentation, and earmarking. For example, IDA’s flexibility to adapt to country circumstances helps address distortions in resource allocations potentially associated with earmarking and verticalization. IDA’s ability to provide a platform for others does not mean that it systematically plays a leading role among donors in every sector.

33. **This “platform” aspect allows IDA to play a central role in enhancing alignment and harmonization as well as in achieving sustained results at the country level.** IDA’s performance in meeting the Paris Declaration targets is well above average, and IDA has made good progress in the roll-out of the results framework agreed during IDA14.<sup>25</sup> Still, more work needs to be done to enhance alignment and harmonization, a topic which will be taken up again in Section V, and addressed in more detail in subsequent papers to be discussed in the context of the IDA15 Replenishment.

34. **The remainder of this subsection will review IDA’s core strengths and the various attributes that underpin IDA’s platform role.** It will draw on the work of the IDA Impact Task Force – and on the IDA at Work retrospective put together by the Task Force – as well as on other sources. The different strengths will be reviewed sequentially in B.1 – B.8 below.

<sup>24</sup> This suggested classification is not meant to provide a rigid taxonomy of IDA’s strengths, and is presented here as an expositional tool. In addition, it is not always possible to demarcate precisely which strengths are “core” and which are “derivative”. For example, IDA’s multi-sectoral perspective can only be made possible as a result of the breadth and depth of the Bank’s knowledge base, which combines staff expertise in a wide variety of development issues, in-house research & development, and access to both global and local knowledge. As one additional example, IDA’s global reach ultimately derives from its multilateralism.

<sup>25</sup> That an appropriate platform is critical for the success of individual assistance initiatives can be illustrated with respect to the philanthropic activities of the Bill and Melinda Gates Foundation. As recently reported in the *Seattle Times* (April 30, 2007), Melinda Gates noted that “they [those working for the Gates Foundation] thought they could start an education revolution by spending money to improve thousands of schools across the country. But they learned that without working up the administrative ladder in school districts and with state and federal policy makers, they couldn’t make the changes stick.”

### **B.1. Financial Resources: Volumes, Quality, and Predictability**

35. **IDA is the largest provider of multilateral ODA to IDA-eligible countries, with cumulative gross disbursements in the order of US\$80 billion during 1994-2005.** On a net basis, after deducting credit repayments, cumulative IDA disbursements over the same period amount to about US\$66 billion. Resource transfers from IDA to client countries have involved the use of credits, grants and, more recently, debt relief, through the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI). *The scale of IDA's financial assistance is central to the achievement of the MDGs, since low-income countries continue to rely on ODA as a major source of external funding.* Beyond volumes, IDA also attaches great importance to the *quality and predictability* of its financial assistance to low-income countries.

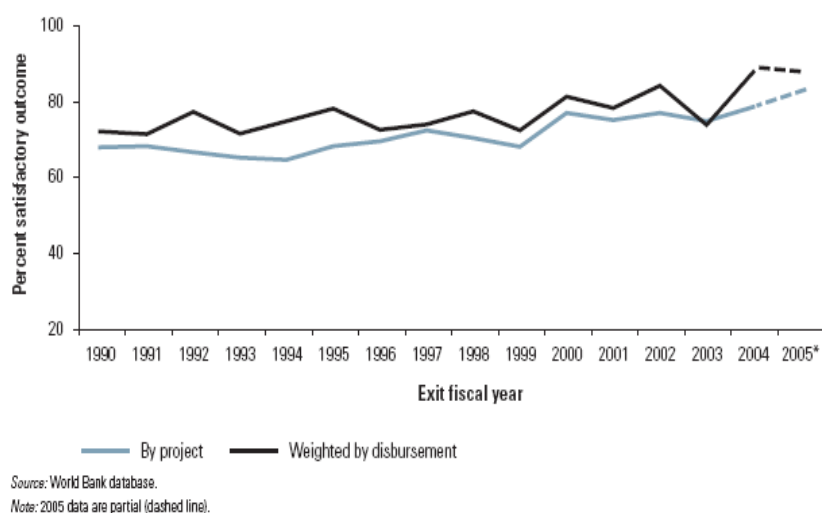
36. **IDA's delivery of large volumes of development finance is underpinned by a strong focus on the quality of its assistance.** Improving delivery, quality and results is at the core of Bank's strategic objectives and is the focus of its management systems. Assessments by the Independent Evaluation Group (IEG) show a continuous improvement of the impact of the Bank's operations measured in terms of project outcomes (see Figure 8), sustainability, and contribution to institutional development. Particularly noteworthy is the strong improvement in the sustainability of development outcomes and contribution to institutional developments. Furthermore, the Annual Report on Portfolio Performance prepared by the Bank's Quality Assurance Group (QAG) provides real-time feed back on the quality of IDA's portfolio, project preparation and supervision, as well as IDAs analytic and advisory activities. Since the mid-1990s, QAG has monitored the quality of the preparation of IDA operations through its annual quality at entry reviews. The latest Quality at Entry Assessment (QEA VII), which sampled projects that went to the Board in FY04-05, rates 91 percent of IDA operations as satisfactory. These are the highest results for IDA projects in seven assessments of quality at entry, a key determinant of successful project outcomes. In addition, QAG's assessment of the quality of IDA's supervision of its portfolio shows a significant improvement during the past decade. In FY05-06, for almost 100 percent of the assessed projects the quality of supervision is rated as being at least moderately satisfactory, compared to only 50 percent of projects in FY97.

37. **IDA's focus on quality and country-level effectiveness led it to become the first international financial institution (IFI) to introduce a results measurement system that systematically tracks key country outcomes as well as IDA's contributions to those outcomes.**<sup>26</sup> Building on lessons learned from the IDA13 results measurement system, a two-tiered results measurement system (RMS) was introduced in IDA14 to track: (i) trends in 'big picture' outcomes at the country level; and (ii) IDA's focus on results. The first tier monitors aggregate progress on fourteen selected country outcome indicators in growth and poverty reduction, public financial management, investment climate, infrastructure and human development. The second tier monitors IDA's contribution to country outcomes using indicators for country programs, projects and aggregate outputs. IDA also committed to implementing results frameworks for all IDA projects and programs.

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<sup>26</sup> IDA's Results Monitoring System was discussed during the IDA14 Mid-Term Review and a detailed update on the RMS will be provided during the 3<sup>rd</sup> IDA15 replenishment meeting.

**Figure 8: Project Performance as Assessed by IEG<sup>27</sup>**



38. **Stability and predictability of funding – in addition to volumes – are also key ingredients for the design of realistic public expenditure programs in aid recipient countries, and IDA fares comparatively well in that regard.** IDA’s disbursements are far less volatile than both domestic fiscal revenues and the total official development assistance (ODA) disbursements. Table 1 below indicates that the volatility of IDA’s disbursements – as measured by the latter’s standard deviation – is consistently lower than the volatility of disbursements from other ODA sources across different time periods.

39. **Predictability of funding – due to continued funding from donors and internal resources – has enabled IDA to support countries to tackle development problems that cannot be resolved overnight.** For example, predictable and sustained support is one of key factors explaining the recent expansion in school access: “It takes time to lay the ground for education results. Much of the accelerated progress of the past five years can be traced to the previous decade of sustained IDA support for training teachers, updating curricula, building schools, delivering textbooks and improving education governance and management.”<sup>28</sup>

40. **Predictable, sustained support is also critical for institution-building, a long-term endeavor that requires a multi-year approach to development finance.** Given that results are often slow to emerge, which may lead to the temptation to focus on shorter-term inputs and outcomes. As noted in a recent *Center for Global Development* working paper, “impatience for results leads to reluctance to invest over the long term (and outside the confines of donor-sponsored programs and projects) in local capacity to do budgeting, personnel management,

<sup>27</sup> Extracted from Independent Evaluation Group (2006). *Annual Review of Development Effectiveness 2006: Getting Results*.

<sup>28</sup> See IDA at Work note “Education: An Impressive Expansion”. March, 2007, p. 4.

auditing, accounting, and other nuts and bolts functions – which require and reinforce institutions, but which do not yield obvious immediate results.”<sup>29</sup>

**Table 1. Volatility of Resource Flows**<sup>1/</sup>

Sources of Funds	Standard Deviations		
	1980-2003	1980-1989	1990-1999
Domestic Revenues	3.65	3.18	2.52
ODA total	6.54	4.91	5.63
ODA multilateral	3.50	2.66	2.87
IDA assistance	1.16	0.75	1.07
Other multilateral assistance	2.77	2.19	2.21

<sup>1/</sup> All sources of funds expressed as a ratio with respect to recipient countries’ GDP. Country-specific standard deviations are measured and then averaged for the sample, consistent with Bulir and Hamann, 2002 and 2006; Arellano, Bulir, Lane and Lipschitz, 2005; Prati and Tressel, 2006. The sample consists of 53 current IDA countries.

## **B.2. Knowledge Base and Policy Advice**

41. **IDA’s knowledge base – its technical expertise – is widely recognized as one of its core comparative advantages, and underpins IDA’s financial assistance.** This growing body of development knowledge benefits directly from IDA’s global reach (see B.4 below).<sup>30</sup> This is reflected not only in IDA’s research and analytical products, such as Economic and Sector Work (ESW), but also in project design and implementation. In fact, knowledge and financing are often integrated as a package of services.

42. **IDA’s value added often comes from its ability to integrate finance and knowledge through programs and projects.**<sup>31</sup> This means developing policy advice based on learning from previous investment operations, and supporting policy and institutional change with complementary investment and policy-based lending. For example, mechanisms for community management of water supply (as e.g. in the cases of Sri Lanka and India) which resulted in faster construction, and better maintenance were based on observations of what worked and what did not in previous water supply projects and Community-Driven Development (CDD) projects.

43. **Providing advice and financing in a package also provides IDA with a strong integrating role and enables IDA to effectively transfer experience from one country to another.** IDA’s Second Road Rehabilitation and Maintenance Project (1998-2005) for

<sup>29</sup> Birdsall, N. (2005). “Seven Deadly Sins: Reflections on Donor Failings”. *Center for Global Development Working Paper No. 50*, p. 5, December.

<sup>30</sup> “IDA has also technical knowledge, including its analytical and project design capacity, that draws from experiences and knowledge throughout the world.” World Bank (2003). *Strategic Framework for IDA’s Assistance to Africa: The Emerging Partnership Model*. Africa Region, June, p. 5.

<sup>31</sup> See e.g. Ngozi Okonjo Iweala’s Op-ed in the *International Herald Tribune*, May 25, 2007: “In these days, it is too easy to overlook how much we need the World Bank. Developing countries are diversifying their sources of finance and aid; that is common sense, and the Bank will have to ensure it is competitive. *However, what is not as widely available is the knowledge and experience the Bank bundles with its finance.* Many emerging economies with access to capital markets still turn to the bank for help because its staff has tremendous experience in addressing problems that have no regard for national borders.” (Emphasis added).

Nicaragua shows how IDA can transfer global knowledge to a country-specific context through financial assistance. Originally designed to improve transportation in Nicaragua by rehabilitating key roads, strengthening road maintenance, and developing the planning capacity of the Ministry of Transport and Infrastructure, the project was quickly amended to focus on emergency reconstruction program in the wake of Hurricane Mitch (1998). A main adjustment to the project design involved switching to a very simple, yet effective and lasting paving technique. The project piloted the use of adoquins—small, cement blocks—in a simple technique which is both inexpensive and labor intensive (rather than gravel or asphalt). In so doing, IDA adapted global knowledge to specific country conditions: “While the adoquin method was known in Nicaragua and used to pave streets in small urban centers, no other donor had ever used it in projects”.<sup>32</sup>

44. **The quality of IDA’s policy dialogue with client countries is closely associated with the relevance and quality of IDA’s analytical work and knowledge products.** Analytical work has become increasingly grounded in the practical needs of advancing the policy dialogue at the country level. A recent review of IDA’s Economic and Sector Work (ESW) program notes that “analytic work is increasingly building on issues identified in CASs or PRSPs, and that it is feeding into the design of programs, policy actions, and operations.”<sup>33</sup> Box 3, using Armenia as an example, illustrates how knowledge plays a key role in IDA’s engagement with client countries.

### **Box 3: Using Knowledge Effectively in Armenia**

In 1993, shortly after Armenia became independent, IDA prepared a *Country Economic Memorandum* which was used by the Government, the Bank and other donors as a key strategic document from which to begin reforms. Since then, IDA has prepared about 40 analytic (AAA) studies including Public Expenditure Reviews, Poverty Assessments, Financial Sector Assessments, Procurement and Financial Management Assessments and specific sector reviews.

“Analytical work was very important to help anchor the decisions of inexperienced officials just waking up from the ‘Soviet sleep’,” said Vahram Nercissiantz, Armenia’s Chief Economic Advisor to the President, in an interview with the IDA Impact Task Force in January 2007. “Without this analytical foundation, arbitrary decisions would have caused many problems down the pike.”

IDA’s analytical work provided the necessary foundation for highly successful development policy operations. For example, the technical assistance provided by the Bank was a key element in enabling the Government to introduce a modern direct trader input (DTI) system in customs administration.

IDA’s analysis of rural development provided analytic underpinning for the US\$235 million United States Millennium Challenge Corporation Compact with Armenia. IDA also provided analytic and logistic support to the Asian Development Bank, which has recently opened operations in Armenia.

But beyond providing this foundation for policy making and donor support, IDA’s analytic work in Armenia has played a central role in building the capacity of the Government. For example, the Central Bank of Armenia has used the recommendations in the Financial Sector Assessment to strengthen corporate governance in banks.

The hands-on training and assistance under the Poverty Assessment has enabled the national statistics agency to conduct an annual household survey and publish a high quality annual social and poverty snapshot. And as per the recommendations in IDA’s Country Procurement Assessment, the Government has strengthened its public procurement laws and begun to roll out an e-Procurement program to increase transparency. These efforts help all public investments, not just those of IDA or other donors, to be used effectively.

<sup>32</sup> See IDA at Work note “Rebuilding Nicaragua’s Hurricane Damaged Roads”, March 2007.

<sup>33</sup> IDA(2006a). *Economic and Sector Work (ESW) Progress Report*. Operations Policy and Country Services. Paper prepared for the IDA14 Mid-Term Review, November, p. 16.

**Box 3 (cont'd)**

A 2006 review of a sample of 14 analytic tasks over the past five years by the Bank's Quality Assurance Group (QAG) found that it had a notable impact on the Government's decision-making and consensus-building. The panel particularly praised the Poverty Assessment and the Public Expenditure Review for *being highly integrative* across health, education, social protection, and rural development. In the latest client survey, stakeholders felt that while IDA's greatest contribution continued to be financial, its role as a knowledge provider was on the rise.

45. **IDA is also uniquely well-placed to provide policy advice – often combined with financial assistance – to help countries improve their macroeconomic performance and to strengthen the micro-macro linkages in the development process.**<sup>34</sup> IDA works closely with the IMF, helping ensure coherence between short-term macroeconomic stability goals and long-term development objectives, and to make sure that IDA's assistance is anchored on a sustainable macroeconomic framework. A recent example of this collaboration is the implementation of the joint Bank-Fund Debt Sustainability Framework (DSF) for low-income countries. IDA Deputies agreed during the IDA14 replenishment that eligibility for IDA grants should be based on rigorous debt sustainability analyses carried out using the DSF methodology.<sup>35</sup> IDA's contributions to help countries achieve and maintain debt sustainability will be addressed in a forthcoming paper for the third meeting of the IDA15 Replenishment discussions. At the same time, IDA supports a broad country dialogue – often accompanied by financing in the form of budget support or investment operations – that promote consistency between macro- and micro-level reforms support to structural reforms. It should be noted that IDA's support to investment climate reforms – covering banking and finance, trade, private sector development, etc – also contribute to achieving and maintaining macroeconomic stability. Finally, IDA supports strengthening of the micro-macro linkages through knowledge products such as Country Economic Memoranda and Development Policy Reviews (see discussion below).

46. **Knowledge products and analytical work also help inform the design of new policies as well as new financial operations.** A clear example can be found in Poverty and Social Impact Analyses (PSIAs), which assess the potential impact of economic reforms on different social groups, particularly the poorest and most vulnerable ones. Recent Poverty Reduction Support Credits (PRSCs) – such as in Benin and Mozambique – have benefited from the insights of PSIAs.

47. **IDA conducts two main categories of analytical report in its client countries: *core reports*<sup>36</sup> which are national in scope and carried out for most countries, and *sector- or issue-specific reports*<sup>37</sup> which are done only in selected countries.** The portfolio of analytical

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<sup>34</sup> See *IDA at Work* note “Macroeconomic Performance: Stabilization, Recovery, and Growth”. March 2007.

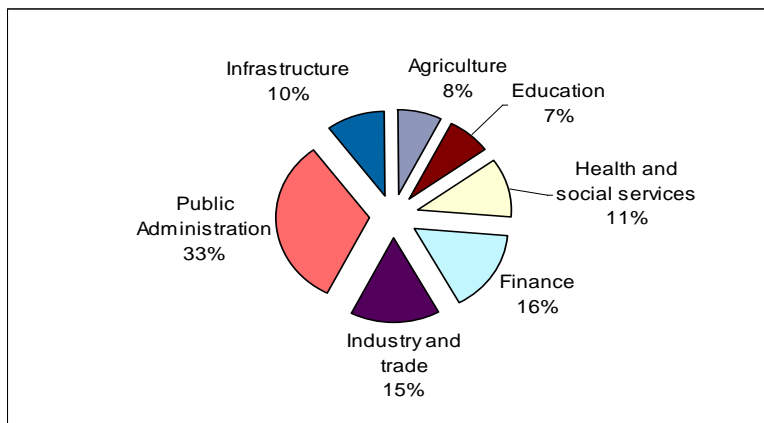
<sup>35</sup> IDA(2006b). *Debt Dynamics and Financing Terms: A Forward-Looking Approach to IDA Grant Eligibility*. Resource Mobilization Department. Paper prepared for the IDA14 Mid-Term Review, November.

<sup>36</sup> Core reports include: poverty assessments, country economic memoranda/development policy reviews, public expenditure reviews, country financial accountability assessments, and country procurement assessment reports.

<sup>37</sup> Examples of sector or issue reports include: institutional and governance reviews; rural development assessments, country gender assessments, country environmental analyses, financial sector assessments, investment climate assessments, diagnostic trade integration studies, and country infrastructure framework reports.

work is decided on a country-by-country basis. IDA's economic and sector work spans a wide range of sectors (see Figure 9). In addition, as discussed in section IV, IDA also produces regional reports and policy documents underpinning regional programs.

**Figure 9. IDA Economic and Sector Work by Sector, FY06\***



\* Includes blend countries, and excludes all ESW tasks that cover more than one country, such as regional and global ESWs. Beginning FY05 ESW classification excludes Conferences/Workshops and Consultations/Country Dialogue.

\*\* Infrastructure is defined as including water and sanitation, energy and mining, information and communication, and transportation.

\*\*\* The sectoral classifications for most core ESW such as Country Economic Memoranda typically span a large number of sectors.

Source: Business Warehouse database, May 6, 2007 and OP 3.10 Annex D, April 18, 2007, for country eligibility criteria.

48. **Analytical work that cuts across sectors is a critical pillar of IDA's policy dialogue in support to the country-based model, which acknowledges the multi-dimensional nature of the development process.** Country Economic Memoranda (CEMs) and Development Policy Reviews (DPRs) are the Bank's staple multi-sectoral analytical products: "In most cases, the CEM/DPR adopted a multi-sectoral approach to growth, incorporating recommendations concerning a variety of sectors such as infrastructure (including transport, power, water, and telecommunication) and human development, in particular education."<sup>38</sup> Public Expenditure Reviews (PERs) also play an important role in strengthening countries' ability to implement sound public expenditure programs both across and within sectors. A cross-sectoral approach is not restricted to such economy-wide studies. For example, water resources management activities provide a clear case in which a broad, cross-sectoral approach is required to push the sector development agenda forward: "Analytical work has demonstrated linkages between water and almost all types of economic activity – including farming, manufacturing, energy and transport – as well as the business climate."<sup>39</sup> Similarly, recent analytical work focusing on water supply and sanitation has increasingly dealt with cross-sectoral issues, including

<sup>38</sup> IDA (2006). "Economic and Sector Work (ESW) Progress Report". Paper presented at the IDA14 Replenishment Mid-Term Review, November, p. 7, fn. 19.

<sup>39</sup> See IDA at Work note "Water Resources: Managing a Scarce, Shared Resource", p. 3, March 2007.

community participation, local government reform, capacity building, and public sector reform more generally.<sup>40</sup> The next subsection further discusses IDA's multi-sectoral perspective.

49. **IDA's research is widely disseminated and extensively relied upon by many important audiences.** A survey of 271 high-level policymakers (mainly senior civil servants) in 36 developing and transition countries found that 84 percent of respondents used Bank analytical reports; respondents rated the Bank their most important information source out of a list of 17 domestic and international organizations; and the majority of respondents considered the Bank's work "technically sound, relevant and objective".<sup>41</sup>

50. **IDA's knowledge products and analytical work are in fact a positive externality for the international community.** "IDA's analytical and institutional support that can be viewed as 'public good' for other donors, i.e., by performing these tasks IDA also increases the benefits of other donors' activities."<sup>42</sup> The public goods nature of IDA's knowledge products is also manifested at the regional and global levels, as discussed in Section IV.

### **B.3. Multi-Sectoral Perspective**

51. **IDA's ability to operate on a multi-sectoral basis allows IDA to support an integrated approach to development.** This approach acknowledges that development is a multi-faceted phenomenon that needs to be tackled from a multi-disciplinary perspective. In fact, identifying and removing cross-sectoral constraints is an important ingredient in ensuring that IDA-financed operations have a strong positive impact at the sectoral level. For example, in Bangladesh, IDA support for female secondary education has helped reduce child mortality in Bangladesh, while rural electrification led to improvements in health outcomes by raising incomes, improving the quality of health care and expanding access to health care information through the media.<sup>43</sup> Box 4 illustrates the cross-sectoral nature of IDA's work in the case of Madagascar.

#### **Box 4. Working Across Sectors: The Example of Madagascar**

For several decades, Madagascar's primary forest was disappearing under pressure from slash-and-burn agriculture, which in turn was due to low agricultural yields, rapid population growth, and lack of alternative sources of income. The ensuing degradation of Madagascar's environment had negative effects on other sectors (for example, through the drying up of rivers, silting of ports, destruction of roads due to mud slides, soil erosion, etc.).

In response, IDA has been supporting a large environment program since the early 1990s. In this context, a broad coalition of bilateral and multilateral donors and international NGOs— including Conservation International, the World Wildlife Fund for Nature, and the Wildlife Conservation Society—has been working along with IDA to support Madagascar's National Environmental Action Plan.

<sup>40</sup> See *IDA at Work* note "Water Supply and Sanitation: Improving Services for the Poor", p. 3, March 2007.

<sup>41</sup> See, for example, World Bank (2000) "The influence of World Bank research policy in the Developing World". In: *The World Bank Research Program*, p. 101.

<sup>42</sup> Hoftijzer, M. and L. Cord (2007), *op. cit.*, p.13.

<sup>43</sup> "(...) a child born to a mother with secondary education is around 80 percent less likely to die than one born to a mother with no education.". Independent Evaluation Group (2006). *Annual Review of Development Effectiveness 2006: Getting Results.*, p. 27.

**Box 4 (cont'd)**

It soon became clear that focusing on environmental protection alone would not produce sustainable results unless the decline in per-capita incomes—a key driver of slash-and-burn practices—was reversed. Reducing such practices would require a multi-pronged approach such as: improving agricultural productivity and land titling, developing eco-tourism (to transform preservation of the environment into a source of income for the local population), and more generally creating alternative sources of income through growth.

The development of eco-tourism involved a range of interventions. In addition to making agriculture and infrastructure investments, the government partially liberalized air transport (allowing charters to land) to increase competition and reduce costs. The government also decided to grant visas at the airport, thus removing the constraint imposed by the very small number of Malagasy embassies around the world.

These efforts were buoyed by increased private investment, which resulted from a complementary program of macroeconomic stabilization, current account liberalization, and structural reform. Tourism – and eco-tourism – grew quickly, albeit from a low base. Recent evidence shows that the rate of deforestation has declined from 1.95 percent on average per year for the period 1990-2000 to 1.28 percent on average per year between 2000 and 2005.

**52. IDA’s multi-sector perspective, combined with its ability to focus on several cross-cutting themes, enables IDA to provide countries with support on a wide range of development issues.** While *sectors* refer to the part of the economy that receives support (e.g., education, health, finance, transportation, etc.), *themes* correspond to the goals of IDA’s activities. The themes supported by the Bank are: economic management; public sector governance; rule of law; financial and private sector development; trade and integration; social protection and risk management; social development, gender, and inclusion (see Box 5 on IDA’s support to gender issues); human development; urban development; rural development; and environment and natural resources management.

**Box 5. Mainstreaming Gender**<sup>44</sup>

IDA resources have helped many countries integrate gender issues in development policies and projects. In FY04-05, most credits approved for IDA countries included attention to at least some gender issues in project design. One example is the Bangladesh Female Secondary School Assistance Project, which provided incentives to keep girls in school, and as a result increased girls’ enrollment by over 3 million and allowed Bangladesh to meet the related MDG well ahead of target. Another is the Microfinance Sector in Afghanistan where 75 percent of both the beneficiaries and the loan officers are now female.

Gender issues are also increasingly integrated into Country Assistance Strategies (CAS), poverty assessments (PAs) and other ESW. The Pakistan CAS proposes gender-responsive operations to increase girls’ school enrollment and reduce maternal mortality, and to reduce the spread of HIV infections among sex workers; the Cambodia Poverty Assessment analyses poverty-related gender issues in education, health, decision-making, household work and labor market participation, and highlights the country’s widespread domestic violence.

Gender progress has been greater in health and education than in agriculture, infrastructure, private sector and finance. In FY03-05, over 85 percent of all World Bank health and education projects integrated gender design, compared to 69 percent of projects in these other sectors. This discrepancy mirrors overall progress in development indicators for women, for whom social indicators have improved faster than economic ones. While average life expectancy for women has increased by 15 to 20 years in developing countries since 1970, women’s formal labor force participation still trails men’s by 37 percent.

<sup>44</sup> Based on See *IDA at Work* note “Gender: Working towards Greater Equality”, March 2007, *op. cit.*

**Box 5 (cont'd)**

In an effort to better integrate gender concerns in the lagging sectors, a new World Bank Group Gender Action Plan – *Gender Equality as Smart Economics* – was launched during the Annual Meetings in September 2006. It will guide the Bank's Gender Equality work in the coming four years, with most of the operations under the plan expected to occur in IDA countries.

**53. IDA's multi-sector approach to development is also reflected in multi-sector operations.** IDA's expertise in a wide range of sectors means that it can effectively bring together knowledge and financing in multi-sector operations to simultaneously pursue an array of development goals. Sectors supported under multi-sector operations range from infrastructure to social sectors. For example, almost half of IDA lending to water supply and sanitation has been provided as part of multi-sector operations targeted at urban and rural development as well as social protection.<sup>45</sup> IDA is also well-placed to support multi-sector community driven development (CDD) projects, such as the Kecamatan Development Program (KDP) in Indonesia, the world's largest CDD program. Through KDP, IDA has supported dramatic improvements in terms of basic infrastructure, clean water supply units, more health posts, and rehabilitated schools in more than 30,000 poor villages across Indonesia. Multi-sector projects – typically for community driven development – also account for nearly half (about US\$475 million) of total annual IDA funding for rural roads (about US\$1 billion). A number of economic studies and audits confirm that infrastructure built through community participation, cost as much as 50 percent less than traditional methods for equal or better quality. High levels of community engagement not only bring enthusiasm and satisfaction to poverty reduction, but less money is lost to corruption and other forms of malfeasance, with a greater share of benefits going to the poor.<sup>46</sup>

**54. Poverty Reduction Support Credits<sup>47</sup> (PRSCs) are the centerpiece of IDA's efforts at providing coordinated funding to support Poverty Reduction Strategies.** Introduced in 2001, PRSCs are aimed at countries where IDA has reasonable confidence in the government's budget process and capacity in other areas of government. In Ghana, IDA provided four PRSCs over the 2003-2006 period, amounting to US\$515 million. The PRSC series for Ghana supported a multi-donor budget support mechanism which "has become an important forum for policy dialogue on strategic reforms".<sup>48</sup> By providing sustained financing through five Poverty Reduction Support Credits (PRSCs), IDA has played an instrumental role in supporting a platform for a continued policy dialogue between Government counterparts and an increasing number of donors in Vietnam. Through the PRSC series, IDA provided policy advice and supported reforms in several areas, including trade integration, financial and state-owned enterprise reform, infrastructure, social sector issues, natural resource management, and governance.<sup>49</sup> Besides their economy-wide impact, PRSCs often provide much-needed financial

<sup>45</sup> See *IDA at Work* note "Water Supply and Sanitation: Improving Services for the Poor", p. 3, March 2007.

<sup>46</sup> See *IDA at Work* note "Rural Roads: Linking People to Markets and Services", March 2007. The note also points out that "research shows the synergies among sectors and the strengths of an integrated approach at the local level." (p. 3).

<sup>47</sup> Poverty Reduction Support *Operations* can be in the form of credits and/or grants. The more commonly used term Poverty Reduction Support *Credit* is retained here for ease of exposition and, depending on the context, could refer to either credits or grants.

<sup>48</sup> See *IDA at Work* note "Ghana: Accelerating Growth to Halve Poverty", p.4.

<sup>49</sup> See *IDA at Work* note "Vietnam: Laying the Foundation for Steady Growth". March 2007.

support at the sector level. In the agriculture sector, support through PRSCs – under the sub-sectoral heading “general agriculture” – accounted for about 34 percent of total IDA funding for agriculture during the FY02-06 period.<sup>50</sup> In the health sector, PRSCs have complemented investment lending operations by helping finance recurrent costs, including those related to human resources, and which are often the main constraint to expanding health services coverage.<sup>51</sup> PRSCs may not be appropriate in some country settings – for example, in countries with weak governance and public financial management systems. This is discussed in further detail in subsection B.6 below.

**55. Going forward, however, there is still room for improvement in IDA’s cross-sectoral work.** IEG has pointed out that Bank assistance could have a greater sector impact if more attention is paid to cross-sectoral synergies and complementary effects.<sup>52</sup> The 2006 ARDE stressed the importance of identifying and removing cross-sectoral constraints as a key ingredient in ensuring a strong positive impact at the sectoral level for Bank-financed operations.

#### **B.4. Global Reach Combined with Local Presence**

**56. IDA’s global reach allows it to draw lessons from experiences in different parts of the world and adapt them to specific countries.** IDA also leverages the research and broad resources of the World Bank Group to transfer global knowledge, experience and technical expertise from one country to another, while using its in-country presence to adapt them to country needs (refer to the Nicaragua example in subsection B.2). In fact, IDA’s role in supporting private-sector-led growth is complemented and effectively enhanced by its partnership with IFC and MIGA (see Box 2 as well as Box 6 on the Mozal Aluminum Smelting Project).<sup>53</sup> Furthermore, knowledge transfer occurs not only *within* the group of IDA countries, but also across the entire Bank Group membership. Having staff that work with and have experience in both IDA and IBRD countries also facilitates an exchange of knowledge and the adaptation of technology from countries that may have similar development experiences. For example, knowledge and experience acquired through IBRD’s work with middle-income countries can be transferred and adapted to low-income countries as well (and vice-versa). Ultimately, it is the Bank Group’s staffing mix that enables IDA to combine staff with international experience and expertise *and* staff with a deep understanding of local conditions.

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<sup>50</sup> See *IDA at Work* note “IDA at Work: Agriculture”, p. 3, March 2007.

<sup>51</sup> See *IDA at Work* note “Health: Supporting Systemic Change in a New Global Context”, p. 5, March 2007.

<sup>52</sup> See Independent Evaluation Group (2006). *Annual Review of Development Effectiveness 2006: Getting Results*.

<sup>53</sup> Recent examples of IDA-IFC-MIGA collaboration include the Bujagali Hydroelectric Power Project (Uganda; IDA/IFC/MIGA); Local Initiatives Project I and II (Bosnia and Herzegovina; IDA/IFC); GrameenPhone I and II (Bangladesh; IDA/IFC); Mozal Aluminum Smelting Project (Mozambique; IDA/IFC/MIGA); Société Cottonnière du Gourma (Burkina Faso; IDA/MIGA); Foreign Investment and Export Facilitation (Armenia; IDA/MIGA); Phu My BOT Power Company Ltd. (Vietnam; IDA/MIGA); and the West African Gas Pipeline Company (multi-country; for Ghana, IDA/MIGA).

**Box 6. The Mozal Aluminum Smelting Project**

The joint efforts of IDA, MIGA and IFC helped restore macroeconomic stability to Mozambique, and encouraged investment and economic growth after a difficult period of civil strife.

IFC and MIGA were financing catalysts for Mozal, the largest foreign investment in Mozambique's history, which has generated significant economic growth and employment for the local economy, as well as substantial tax and foreign exchange revenues.

IDA's indirect support for public administrative reform, and direct support in upgrading infrastructure and energy supply and supporting private sector development, were critical to creating the environment needed to attract a major foreign investment project. IDA's contributions were especially significant in following areas: (i) infrastructure development; (ii) privatization of transportation; (iii) energy supply upgrades; and (iv) private sector development.

The project's success has also attracted other major projects to the country. In addition, a subsequent MIGA guarantee has helped improve electricity distribution for the Mozal facility and the surrounding area, and IFC has helped the company improve its sustainable contribution to the local community through small business and community health initiatives.

**57. With a field presence in 64 out of 82 eligible countries, IDA provides assistance to a large number of diverse country settings.** IDA-eligible countries are located in four continents and comprise 2.5 billion people. IDA's local presence has been reinforced by the Bank's decentralization program, facilitating a greater alignment with the local context and better use of local knowledge.

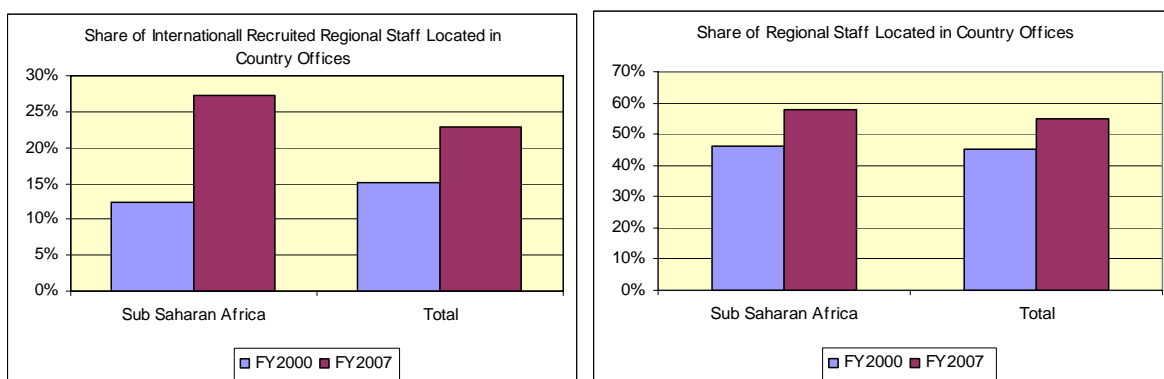
**58. The World Bank maintains Country Offices in most IDA countries.**<sup>54</sup> Since 2000, the World Bank has continued to significantly strengthen its field presence in all Regions. While the overall number of staff in the Regions has declined between FY00 and FY07 by 3.8 percent, the number of staff located in Country Offices has increased by 16 percent between FY00 and FY07. At the same time, the number of Regional staff located at headquarters declined by 21 percent between FY00 and FY07.

**59. As a result of decentralization, the share of Regional staff located in country offices has increased from 45 percent in FY00 to 55 percent in FY07.** See Figure 10. In most Regions, including Africa, East Asia and Pacific, Eastern Europe and Central Asia and South Asia more than 50 percent of staff are located in the World Bank's Country Offices. The share of internationally recruited staff located in Country Offices has also increased significantly from 15 percent in FY00 to 23 percent in FY07, with the Africa, East Asia and Pacific, and South Asia Regions having decentralized the largest number of positions from headquarters to the Country Offices. In the Africa Region, for example, 9 of 10 Country Directors are now based in Country Offices.

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<sup>54</sup> IDA-eligible countries with no World Bank Country Office representation as of April 2007 include Cape Verde, Sao Tome and Principe, Somalia, Kiribati, Myanmar, Samoa, Solomon Islands, Tonga, Vanuatu, Montenegro, Dominica, Grenada, St. Lucia, St. Vincent, Djibouti and Bhutan.

**Figure 10. Bank Staff Located in Country Offices**



60. **An important element of IDA’s decentralization effort is to bring decision making closer to the client, while maintaining the strength of IDA’s fiduciary controls.** This has been achieved by locating more Country Directors in Country Offices, transferring internationally recruited technical staff to the Country Offices, recruiting more professional local staff to assume task management responsibilities, and adjusting Bank policies in order to facilitate the transfer of decision making authority from Headquarter to the Country Offices. The share of Country Directors located in Country Offices has increased from 53 percent in FY00 to 61 percent in FY07, at which time 22 of 36 Country Directors were based in Country Offices. The next phase of decentralization will focus more strategically on leveraging skills mix across development partners.

### **B.5 Convening Power**

61. **IDA’s multilateral ownership provides it with the convening power needed to help coordinate development assistance efforts at the country level.** IDA’s role as a convener is greatly facilitated by its long development experience, untied aid programs, and neutrality.<sup>55</sup> The *IDA at Work* retrospective series describes several instances in which IDA’s convening power helped advance the development agenda, both at the sector and the country levels.

62. **At the sector level, IDA’s convening power has helped establish common donor approaches in designing and implementing sectoral strategies at the global and country levels.** The *IDA at Work* retrospective series shows how IDA’s convening power has helped move the development agenda forward in sectors such as education, environment, roads, and water resource management. On education, IDA’s convening power was instrumental in establishing the Education for All/Fast Track Initiative (EFA/FTI)<sup>56</sup> in 2002. IDA’s role as a convener has also been critical for regional and global transport-related initiatives, such as the Global Facilitation Partnership for Transportation and Trade, the Global Road Partnership, and the Sub-Saharan Africa Transport Program.<sup>57</sup>

<sup>55</sup> “As an international institution, IDA brings a global perspective and can use its convening power to provide leadership.” See World Bank (2003). *Strategic Framework for IDA’s Assistance to Africa, op. cit.*, June, p. 5.

<sup>56</sup> See *IDA at Work* note “Education: An Impressive Expansion”, p. 5, March 2007.

<sup>57</sup> See *IDA at Work* note “Rural Roads: Linking People to Markets and Services”, p. 7, March 2007.

63. **IDA's convening power has been put to effective use in countries at very different stages of development.** In Armenia, a country with per capita income well above IDA's operational cutoff,<sup>58</sup> "IDA's convening power was particularly helpful in building partnerships between the government and the donor community as well as facilitating participation by local communities in this initiative."<sup>59</sup> In Afghanistan, a conflict-affected country eligible for 100 percent grant assistance from IDA and with a per capita GDP of about US\$300 in 2006, IDA's convening power was instrumental in establishing the Afghanistan Reconstruction Trust Fund (ARTF) in 2002. The ARTF provides fiduciary and administrative oversight for multi-donor contributions to support recurrent public expenditures as well as public investments.<sup>60</sup>

## **B.6 Flexibility to Adapt to Country Circumstances**

64. **IDA is able to respond flexibly to country-driven needs, priorities, and performance.** Because it is able to deliver support in the form of both financing and advice in a range of different sectors and through a range of different instruments (e.g., investment or development policy credits and/or grants), IDA can adapt its support to different country situations, and within the context of predictable long-term support can adapt its support to changing needs over a period of time. Furthermore, IDA's performance-based allocation (PBA) system implies that IDA's assistance volumes reflect countries' needs (as determined by population and per capita gross national income) and performance (as measured by IDA's Country Performance Rating, or CPR).

65. **The mix between finance and advice varies from country to country and sector to sector, depending on conditions in the sector/country and the availability of other sources of funds.** Box 7 illustrates how IDA's interventions in post-conflict countries and in faster growing, well-performing countries are quite different on a number of dimensions. In India, for example, although IDA is the main source of ODA,<sup>61</sup> its primary role is that of a trusted advisor: "Because India has substantial financial resources of its own, IDA's impact has been less financial than intellectual. The policy dialogue and knowledge linked with IDA lending, IDA's influential analysis and non-lending technical assistance in the areas of revenue and expenditure reforms, agriculture market liberalization, water resources, civil service reforms, and regulatory reforms, have all been instrumental in introducing international best practice to India and promoting well-informed policy reforms."<sup>62</sup> The *Africa Action Plan*<sup>63</sup> (AAP) provides another example of IDA's ability to provide differentiated assistance to distinct types of countries, under the general principle that IDA country allocations are governed by the PBA system.

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<sup>58</sup> The operational cutoff for eligibility for regular IDA terms in FY07 is a per capita GNI of US\$1,025. Armenia's per capita GNI at the outset of FY07 was US\$1,470.

<sup>59</sup> See *IDA at Work* note "Small Projects Target Poorest, Most Isolated Armenians", March 2007.

<sup>60</sup> See *IDA at Work* note "Afghanistan: Supporting State-Building and Development", p. 7, March 2007.

<sup>61</sup> See e.g., OECD's *Aid-at-a-Glance* Figures for India: <http://www.oecd.org/dataoecd/62/30/1877912.gif>.

<sup>62</sup> See *IDA at Work* Note "India: Using IDA Effectively in a Large Country", March 2007, p.4.

<sup>63</sup> World Bank (2007b). *Accelerating Development Outcomes in Africa: Progress and Change in the Africa Action Plan*. Discussed at the April 15, 2007 Development Committee Meeting.

### **Box 7: IDA's Adapted Role in Different Country Circumstances**

Immediately after the conflict in **Sierra Leone**, IDA's post-conflict assistance program supported: (i) the creation of a multi-donor trust fund to support the disarmament and demobilization of 72,000 ex-combatants, and trained 56,000 to support their re-integration into society, (ii) the recovery of communities most effected by the war – through 397 community identified programs (implemented by NGOs) to restore schools, sanitation facilities, markets and clinics (which eventually reached 1 million people), (iii) priority reforms to kick-start the economy while financing the import of essential food, petroleum and raw materials, and working with other partners to implement a debt relief package and in so doing helping to bring the growth rate up from -8 percent to +7 percent per annum, inflation down from 34 percent to 12 percent, and debt down from 194 percent to 132 percent of GDP over five years; (iv) the re-establishment of basic financial management, budgeting and procurement systems – with some improvement in all governance rankings, (v) getting almost 1 million additional children back to school.

IDA's support to **Burkina Faso** from 1995 to 2005 helped its per capita income rise from US\$240 to US\$400 and its poverty rate fall from 55 percent to 42 percent. In contrast with IDA's post-conflict program for Sierra Leone, the main challenge in Burkina was to support its transition to a market economy, in a small landlocked country with a very harsh Sahelian environment and few opportunities. Given the strong commitment to, and capacity to move on a broad and comprehensive reform package – a core element of IDA's support comprised 10 budget support operations, including six PRSCs which together with related analytical work supported the restructuring of the cotton sector, a framework for infrastructure public private partnerships and a strengthening of the investment climate. This has simultaneously allowed sustained attention to longer term reforms in agriculture (restructuring of the cotton sector, doubling of the irrigated surface area, and expanded production of high value dry season crops) while providing a vehicle for channeling predictable support from 10 key donors – against a common monitoring framework and strengthened public financial management supported by IDA. This was complemented by related investments in infrastructure, decentralized community based development (providing services in 26 of 45 provinces and covering 40 percent of Burkina's 8,000 villages) and harmonized donor support for the social sectors (increasing gross primary enrollment rates from 42 percent in 2001 to 60 percent in 2006, and completion rates from 19 percent to 40 percent over the same period.) With additional resources available from debt relief and the PRSCs, child vaccination and prenatal care are now free in Burkina and child mortality has begun to fall as a result – from 219 to 184 per 1000.

**66. The flexibility and adaptability of IDA's approach can also be seen in the context of IDA's assistance to fragile states.**<sup>64</sup> While peace-building and state-building are often common elements across fragile states and situations, IDA has adopted a differentiated assistance strategy framework for different types of fragile states and situations. In many such contexts, IDA plays a key role in strengthening state capacity and accountability. In post-conflict situations, IDA supports the achievement of peace-building goals. The companion IDA15 paper "Operational Approaches and Financing in Fragile States" discusses in detail how IDA tailors its support to fragile states.

**67. At the same time, because of its long term engagement, IDA's role and interventions within particular countries has evolved over time.** For example, the nature of IDA's support has changed considerably in response to emerging challenges and opportunities in Mozambique. In the years preceding the signature of the 1992 peace treaty, IDA focused on laying the groundwork for Mozambique to shift from a socialist to a market economy and from humanitarian to development assistance. Since 1992, IDA has supported Mozambique with 55 projects amounting to US\$2.3 billion and more than 30 major pieces of analytical work. In recent years, Mozambique's economy has been one of the fastest growing in the world. Per

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<sup>64</sup> The companion IDA15 paper "Operational Approaches and Financing in Fragile States" defines fragile states as follows: "Fragile states is the term used for countries that are facing particularly severe development challenges such as weak institutional capacity, poor governance, political instability, and frequently also on-going violence or the legacy effects of past violent conflict." (p. 5).

capita incomes have risen from US\$150 to US\$310 and the percentage of people considered to be extreme poor has declined from 75 percent to 54 percent (see Box 8 below).

#### **Box 8. The Evolution of IDA's Role in Mozambique Over Time**

IDA's support to Mozambique precedes the signature of the peace treaty in 1992. Early support focused on putting in place a financing and reform package, in collaboration with the IMF, to assist Mozambique's transition from a socialist to a market economy and from humanitarian aid to development assistance. The first economic recovery credit included support to redeploy government expenditures to the social sectors, to support smallholder agriculture (including by investing in roads), and financial sector reforms aimed at the creation of a market-based banking system (e.g., through the separation of the commercial and central bank functions of Bank of Mozambique). This was followed by a series of policy-based operations that broadened and deepened the reform agenda (revenue mobilization, fiscal management, private sector development, etc).

In the early years, IDA financed significant amounts of technical assistance (which were phased out as capacity increased when graduates financed by an innovative scholarship program joined the government). Notably, IDA, together with DFID, funded an innovative customs modernization program which involved the private management of customs on a temporary basis until government officials were trained to take it over.

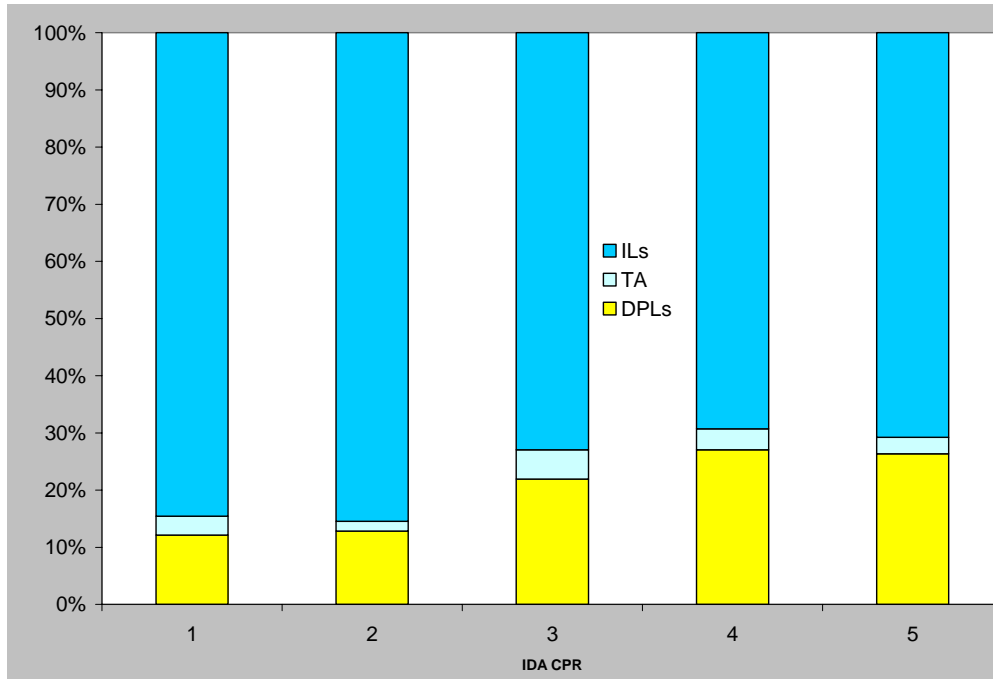
In the mid-1990's, IDA led the first sector-wide approach operation in the roads sector – in coordination with other development partners. The program initially focused on funding road maintenance (until a road fund could fully cover maintenance needs), institutional building and training of construction engineers. Sector wide programs were also developed in other key sectors (health, education, agriculture) aimed at addressing national priorities and harmonizing large flows of external aid. As a result, the share of impassable roads fell from 50 percent to 5 percent and road maintenance increased from 0 percent to 75 percent of target, child mortality fell from 235 to 152 per 1000, and net primary school enrollment increasing from 45 percent to 95 percent, with almost 2 million more children in school. Support to the water sector provided 3.5 million people with access to improved water supplies (up from 20 percent to 32 percent) and sanitation (up from 36 percent to 43 percent).

IDA's analytical work has underpinned lending operations. Over time, focus has shifted towards helping the government to develop its own PRSP and to working with a group of 18 donors to provide uniform financing support to an integrated government-led program, including through PRSCs.

**68. Finally, IDA adapts the choice of instruments to country situations, including the quality – and trends in improvement – of countries' public financial management systems.** Available evidence indicates that IDA has been considerably selective in its use of policy-based operations. In fact, as noted in a paper presented at the Mid-Term Review of IDA14 “selectivity considerations are even more evident for IDA countries, where less than 14 percent of IDA policy-based commitments during FY98-06 have been made to the bottom 40 percent of the CPIA distribution.”<sup>65</sup> A similar pattern can be observed with respect to IDA's Country Performance Rating (CPR). Figure 11 shows the average share of different types of lending instruments – investment operations (ILs), technical assistance (TA) and development policy lending (DPL) – in total IDA commitments for different CPR levels, for the period FY02-06. The chart clearly shows that share of DPLs in total commitments increases with CPR ratings, being on average 6.7 percent for the low-end of the CPR spectrum and 26 percent for the upper-end CPR spectrum.

<sup>65</sup> IDA (2006). *Development Policy Operations. A Framework to Assess Country Readiness for Making Productive Use of Development Policy Operations*. October, p. 5.

**Figure 11. IDA instruments: FY02-6 Average Shares in Total Commitments** <sup>1/2/3/4/</sup>



Source: World Bank staff calculation.

Notes:

1/ The sample is the current 80 IDA countries and excludes Kosovo and Timor-Leste whose CPR ratings are unavailable.

2/ Countries are grouped by their FY02-06 CPR average (rounded): the number of countries per CPR group is as follows: 9 countries for the CPR rating 1 group, 16 for 2, 32 for 3, 20 for 4, 2 for 5 and 1 (Bhutan) for 6 rating.

3/ For share of each instrument in commitments, first a country-specific share of an instrument in the country's FY02-06 total commitment and then a group-specific average share is computed.

4/ CPR rating 6 group is not plotted, since Bhutan is the only country with 6 rating.

### ***B.7 Ability to act as “First Mover”***

**69. IDA’s strengths have enabled it to act as the “first mover” to tackle critical development challenges.** In this role, IDA has engaged with countries on emerging issues or in areas when others either cannot or will not. IDA has often been one of the first of the major development partners to operate and provide significant support in post-conflict and crisis environments where risk mitigation is important;<sup>66</sup> on new and difficult issues, such as HIV/AIDS;<sup>67</sup> in addressing longer term development issues quickly after natural disasters<sup>68</sup> (see

<sup>66</sup> For example, in North East Sri Lanka, Afghanistan, and Timor-Leste. When government capacity is severely constrained or non-existent, other partners such as the UN system are more likely to be able to act as the first mover.

<sup>67</sup> IDA was one of the first partners to put significant funding into addressing issues of HIV/AIDS – especially into prevention and later into treatment as well. See Section IV.B for more details.

<sup>68</sup> Its flexibility has enabled IDA to respond very quickly to unpredictable emergencies and natural disasters by reallocating funds from existing portfolios, quickly committing new funds in the form of both project and budget support financing and using existing implementation capacity to deliver such assistance. This has been clearly demonstrated in a number of countries – including the response to the 2004 floods in Bangladesh, the 2004 Tsunami in South East Asia, the 2005 Earthquake in Kashmir and earlier in flooding in Mozambique and hurricanes in the Caribbean.

Box 9 on the case of Pakistan); and in areas where new concepts need to be established. IDA has also been a first mover and catalyst in developing responses to tackling global issues.<sup>69</sup>

70. **IDA has also designed, piloted and implemented policy innovations that have often been adopted by other development partners.** Examples of such initiatives are the PRSP approach, the performance-based allocation system as well as the Debt Sustainability Framework (together with the IMF). IDA's ability to act as a first mover and to introduce policy innovations benefits from a continuous learning process, both from experience and through internal and external assessments of IDA's programs and projects, such as, for example, through IEG evaluations.

**Box 9: Rapid and Flexible Response to the 2005 Earthquake in Pakistan**

Within two weeks of the October 2005 earthquake, IDA delivered an initial package of US\$470 million in support to Pakistan. This included: (i) reallocating funding from suitable existing credits, (ii) topping up projects with quick supplemental finance, (iii) processing an emergency fast disbursing credit for US\$200 million. Within a month, together with AsDB and JBIC, IDA provided a preliminary damage and needs assessment that was the basis of the Pakistan Government-led donor conference. IDA followed up with a further US\$400m emergency recovery credit to finance the import of raw materials, the government's housing reconstruction program and cash grants to households who had lost family members and livelihoods. By December 2006 housing reconstruction grants had been issued to 435,000 families and 217,000 families had received livelihood support grants.

A key part of IDA's ability to respond quickly, in close co-ordination with other donors was: (i) its pre-existing relationship with a number of agencies in Pakistan; (ii) its strong understanding of government financial management in Pakistan; (iii) its strong local presence to enable a "stick with it" team; (iv) its flexibility to deploy resources from within the IDA envelope and (iv) its ability to draw on expertise used in the Sri Lanka Tsunami – where 100,000 families had received targeted cash grants within three months of the December 2004 Tsunami – and on low cost earthquake resistant housing technology from Japan.

**B.8. Platform for Leveraging Other Funding and "Scaling up" Poverty Reduction Interventions**

71. **The impact of IDA assistance on the ground is magnified by IDA's role as a platform to leverage funding from other sources.** As noted in the *Medium-Term Strategy and Finance* paper, "the Bank Group's reputation, knowledge and global reach enable it to leverage resources from other donors as well as to catalyze and manage trust funds (...) that focus on the world's most pressing problems."<sup>70</sup> In fact, this ability can be seen both at the global level – in the establishment of global programs – as well at the country and sector level. This subsection focuses on the latter two.

72. **At the country level, Vietnam provides another good example of IDA's leveraging role.** Vietnam receives approximately US\$3 billion a year from more than 30 bilateral and multilateral donor institutions. IDA "serves as the coordinator and, often, a catalyst for foreign aid to Vietnam not only because of the funds it mobilizes but also because of its recognized

<sup>69</sup> See discussion on IDA's role in addressing global priorities and issues in subsection IV.B.

<sup>70</sup> World Bank (2007), *op. cit.*, p. 4.

technical expertise. It co-chairs Consultative Group meetings with the Government, leads the PRSC process, and increasingly fosters multi-donor credits and initiatives.”<sup>71</sup>

73. **The impact of IDA’s assistance on Senegal’s water supply and sanitation sector further illustrates IDA’s role as a platform for leveraging other funding.**<sup>72</sup> Through two successive projects, IDA leveraged financing from both donors and commercial banks in an effort to expand access to water in Senegal’s cities, with great success: the access rate rose from 74 percent in 1996 to 98 percent in 2006.<sup>73</sup>

74. **Besides leveraging funding, IDA has often been instrumental in scaling up poverty reduction activities piloted by IDA or other partners.** Sri Lanka’s Gemi Diriya (“village strength”) project has benefited 100,000 households in the poorest districts from local investments (water, roads, credit, income generation activities), with greater cost efficiency, and strengthening village associations while building synergies with the private sector. It builds upon lessons learned during the Village Self-Help Learning Initiative, a four-year pilot financed by IDA. The already-mentioned Indonesia’s Kecamatan Development Project (KDP) places block grants with local councils for investments, scaled up from a 25 village pilot in 1997 to 34,000 villages in 2006, by which time it covered 35 million people. Countries such as Ethiopia, Afghanistan, Guinea, Kyrgyz Republic, Lao PDR, Timor-Leste, and others have adapted this model to their own conditions, while in Indonesia the government is scaling it up to cover the entire economy, adding more than US\$1 billion per year from their own budget.

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<sup>71</sup> See *IDA at Work* note “Vietnam: Laying the Foundation for Steady Growth”, p. 4, March 2007.

<sup>72</sup> See *IDA at Work* note “Water Supply and Sanitation: Improving Services for the Poor”, p. 4, March 2007.

<sup>73</sup> *Ibid.*, p. 4.

## IV. IDA'S ROLE IN ADDRESSING REGIONAL AND GLOBAL PRIORITIES

75. **IDA's strengths and comparative advantages allow it to also play a pivotal role in addressing development challenges that cross national boundaries.** Examples of such challenges include the prevention and control of HIV/AIDS, environmental preservation, regional and global trade integration, and research and sharing of knowledge. Addressing these challenges would often require regional and global collective action by multiple countries and development partners. By leveraging its country-focused assistance and policy dialogue, IDA integrates regional and global priorities into country strategies. By working with multiple countries and actors on the ground, it builds constituencies that help align regional and global priorities with national priorities. IDA's role at the regional level is discussed in subsection IV.A, while subsection IV.B outlines IDA's role at the global level.

### A. THE ROLE OF IDA AT THE REGIONAL LEVEL

76. **Regional programs are key vehicles for delivering regional public goods and helping small economies strengthen their competitiveness.** IDA has based its regional program support on three specific rationales:<sup>74</sup> (i) Achievement of common national objectives such as regional integration, where countries may be able to reap economies of scale or other efficiencies by acting collectively; (ii) Management of shared natural resources, including water basins, protection of biodiversity, and improvement in air and water quality; and, (iii) Integrated or harmonized treatment of trans-boundary issues, such as cooperation among neighboring states to control the spread of diseases like malaria and HIV/AIDS. A good example is Sub-Saharan Africa, where regionally coordinated transport development can help the continent's 15 landlocked countries connect to markets in neighboring countries and open access to the sea for trade. Similarly, regionally integrated power supply and distribution can help Africa's small economies increase their access to reliable and cheaper energy.

77. **IDA plays multiple roles in regional programs:** First, it provides direct financial resources and technical advice to countries and regional organizations in the development of regional projects and participates in the implementation of regional programs in IDA countries, in partnership with others. Second, IDA generates knowledge needed at the country and the regional level, both to underpin effective design and implementation of regional programs and to promote policy discussion among groups of countries on issues where policy harmonization and collective action can improve development outcomes. Those two aspects are covered in subsections A.1 and A.2 below. A summary of IDA's comparative advantages at the regional level is provided in subsection A.3.

#### A.1. Financing of Regional Projects

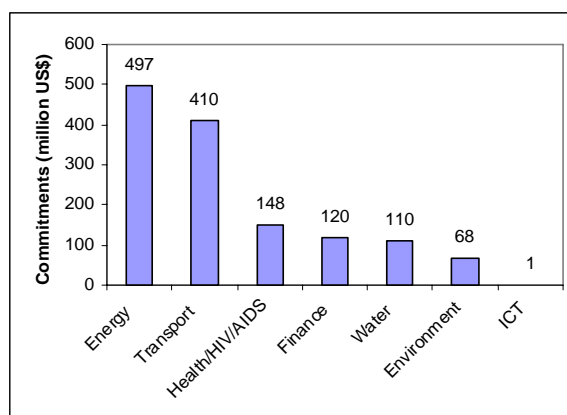
78. **Support for regional projects has become increasingly important in IDA's work program.** IDA's commitments for regional projects have increased significantly over time, rising from US\$155 million during 1995-2000 to US\$993 million during 2001-2006. Recent

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<sup>74</sup> See IEG, *The Development Potential of Regional Programs: An Evaluation of World Bank Support to Multi-country Operations*, Washington, D.C., March 2006.

increases in IDA's financing role have to do with the introduction of the IDA Regional Pilot Program (RPP) since IDA13. This has enabled the Bank to respond more fully to rising demands for regional assistance within IDA, particularly among African countries.<sup>75</sup>

**Figure 12. IDA Commitments for Regional Projects by Sector (2001-06)**



Source: World Bank Business Warehouse.

79. **In addition to its own financing, IDA leverages additional funds committed by other development partners.** IDA's partners in regional programs have included the ADB, EU, IDB, USAID, the Kuwait Fund and French, British, German, Japanese and South African bilateral agencies. Levels of co-financing are comparable with levels achieved in national IDA programs. In addition to external partnerships, IDA also benefits from strong partnerships and complementarities within the Bank Group. Examples include the West Africa Capital Markets Development Project, where MIGA has provided US\$70 million in guarantees; the East Africa Transport and Trade Facilitation Project, where IFC has invested US\$32 million; and the Regional Communications Infrastructure Program where both IFC and MIGA are partnering with IDA. The complementary nature of Bank Group engagements and instruments has been instrumental in helping develop complex programs which have achieved policy alignment and mobilized private sector investment and co-financing.

80. **Africa is the main recipient of IDA's support to regional projects.** Within IDA financing of regional projects during 2001-06, approximately 89 percent went to Africa, about 9 percent to Europe and Central Asia, with the remaining 2 percent going to Latin America and the Caribbean. East Asia and Pacific and South Asia did not receive any IDA funding for regional projects during 2001-06.<sup>76</sup>

<sup>75</sup> A comprehensive review of the experience with the Pilot Program was recently undertaken as part of the mid-term review of IDA14 in "IDA14 Mid-Term review of the IDA pilot program for regional projects," Washington, D.C., 2006.

<sup>76</sup> For the purpose of funding from the Regional Pilot, IDA defines regional projects as those involving at least three countries --and this in part explains the lack of viable regional projects in South Asia as well as in the East Asia and Pacific Region. Further, the regional development banks have played a greater role in financing of regional projects in East Asia and Pacific, and Latin America and the Caribbean.

81. **By sector, the bulk of IDA's support to regional projects goes to infrastructure (75 percent)** (Figure 12). Within infrastructure, the energy sector has been the strongest source of demand, followed by the transport sector. In the energy sector, regional projects<sup>77</sup> have interconnected the electricity grids of neighboring countries to begin development of regional power pools and energy markets. In transport, regional projects<sup>78</sup> have facilitated transport connectivity and created conditions for improved trade between neighboring countries. Regional health sector projects<sup>79</sup> have focused mainly on preventing the spread of HIV/AIDS across borders. Regional projects in finance<sup>80</sup> have supported regional payment systems and capital market development. Regional water, environment and ICT projects similarly supported trans-border development issues such as the Senegal River Basin Multipurpose Water Resources, and investments in international communications and connectivity.

82. **The performance of regional programs supported by IDA overall is satisfactory.** From its review of regional programs completed between 1995 and 2005,<sup>81</sup> IEG concluded with cautious optimism that the proportion of regional programs having successful outcomes can be comparable with national programs which IDA supports. IEG noted the generally greater technical complexity of regional programs and highlighted the need for investment engagements to be underpinned by thorough analytic work and policy reform.

83. **IDA's pipeline of regional projects has grown rapidly, reflecting in part an increase in demand, particularly in Africa.** Total commitment under the Regional Pilot Program stood at US\$477.6 million in FY06. In FY07 commitments are estimated at about US\$650 million in Africa alone. Going forward, Africa's annual demand for regional financing for the period of IDA15 is projected to be even stronger.<sup>82</sup> The growing demand is not restricted to Africa and also includes – although to a lesser extent – Europe and East Asia (e.g., regional power trading and water resource management for the Greater Mekong Sub-region), and the Caribbean countries (e.g., a CARICOM-wide catastrophic risk insurance initiative). In view of these growing demands, a strong replenishment of IDA15 would help support a range of critical regional infrastructure projects (energy, transport, water resources), investment in financial and

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<sup>77</sup> The projects included: the West Africa Power Pool, the Southern Africa Power Market, the West African Gas Pipeline, and the Energy Community of South Eastern Europe (Albania, Bosnia-Herzegovina, Serbia, Montenegro).

<sup>78</sup> The projects included Africa Trade Facilitation, which covered several countries of Southern and Eastern Africa, and the West and Central Africa Air Transport Safety project. The countries covered are: Rwanda, Burundi, Uganda, Kenya, Malawi, Tanzania, and Zambia.

<sup>79</sup> The projects are: West Africa HIV/AIDS and transport project, the Abidjan Lagos Transport/ HIV/AIDS Corridor, Regional HIV/AIDS Treatment Acceleration Project, Regional Capacity Building Network for HIV/AIDS Prevention Care and Treatments, The Great Lakes Initiative on HIV/AIDS Support, the Central Asia AIDS Control project, the Pan-Caribbean Partnerships Against HIV/AIDS, and the Central America HIV/AIDS project.

<sup>80</sup> The projects are: Central Bank of West African States (BCEAO) Regional Payment Systems; Bank of Central African States (BEAC) Regional Payment System; and, West African Economic and Monetary Union Capital Markets Development.

<sup>81</sup> See IEG, *The Development Potential of Regional Programs: An Evaluation of World Bank Support to Multi-country Operations*, Washington, D.C.

<sup>82</sup> See the paper: "The Demand for IDA15 Resources and Strategy for their Effective Use" for further details on projected financing requirements under various scenarios for the IDA15 period.

capital market development, and investment in the management of shared natural resources, including river basins.

## **A.2. Knowledge Support for Regional Programs**

84. **IDA also provides regional analytical and advisory services.** Over the four-year period (FY02-05) covered in a recent IEG review, the Bank supported a total of 865 regional and global analytic and advisory activities,<sup>83</sup> with a total cost of about US\$145 million. Over time, the activities have grown from 140 tasks and US\$16 million in FY02 to 239 tasks and US\$56 million in FY05 – a quadrupling in dollar terms. Through these analytic and advisory activities (AAA), IDA supports development of sector knowledge on a regional basis and *inter alia* provides the intellectual underpinnings to distill priorities among competing regional investment projects.

85. **IDA is at the forefront of development of regional integration strategies that are aligned with regional priorities.** Commencing in 2000, IDA has developed four Regional Integration Assistance Strategies (RIAS) to set strategic frameworks for regional IDA support in Africa. A RIAS for West Africa was discussed with the Board in August 2001 and a RIAS for Central Africa in February 2003. Similar analyses were prepared for East Africa and Southern Africa. Both the IEG and Africa Region reviews confirmed the continuing validity of strategic priorities identified in the RIAS. Based on experience implementing the strategies under the IDA Regional Pilot Program, the Africa Region is now preparing a RIAS at the continental level, to be discussed by the Board in FY08.

86. **IDA's recent and ongoing regional diagnostic studies address issues of trade and regional integration, infrastructure and shared water resources.** Studies in FY06 included a review of implementation of customs unions; analyses of gaps in regional infrastructure (especially trade corridors, regional power systems and international telecommunications links); and three regional assessments of financial sector integration, with emphasis on access to trade-related financial instruments.<sup>84</sup> Ongoing studies during FY07-FY08 include, among others, the Zambezi Basin study,<sup>85</sup> and the East African energy market study, among others. In work on Africa, large analytical activities increasingly are undertaken jointly with other partners, with AfDB in particular.

87. **Finally, IDA also supports several regional partnerships.** An example is the Nile Basin Initiative (NBI), where 10 countries that share the Nile River have come together to jointly develop and manage their shared resource to fight poverty, catalyze socio-economic development, and promote peace and stability in the region. IDA has supported the NBI since its inception in 1997 by facilitating dialogue and cooperation, coordinating donor contributions

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<sup>83</sup> A recent IEG review of regional and global AAA shows that overall quality is good: 87 percent of the AAA were rated as moderately satisfactory or better (IEG, "Quality of Global and Regional AAA", November 2006).

<sup>84</sup> See "East African Community (EAC) Financial Integration Report, June 2006; "Southern African Development Community (SADC) Financial Integration Report," June 2006; and "Economic Community of West African States (ECOWAS) Financial Market Integration Report," June 2006. (P096471, P099076, P096472).

<sup>85</sup> The study provides the analytical foundations for defining a long-term support strategy for investments within the 8 Zambezi riparian countries: Angola, Botswana, Malawi, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe.

through the multi-donor Nile Basin trust fund, promoting institutional development, and providing technical assistance and advisory services.

### ***A.3. IDA's Comparative Advantage in Regional Programs***

88. IDA's comparative advantage in supporting regional programs arises from its combination of regional expertise, strong national level policy engagements and longstanding role as a convener of governments and donors. The specific comparative advantages include its:

- **Capacity to deliver complex regional projects and analytical work:** Getting multiple countries to buy into a shared objective is often complex. IDA is well-positioned to meet this challenge.
- **Ability to leverage resources within and outside the World Bank Group for regional projects:** IDA can mobilize financing from other sources, combine it with support from IFC and MIGA, and deliver the financing needed to unlock large scale regional projects. Examples include the Regional Communications Infrastructure Program, East Africa Transport and Trade Facilitation and West Africa Gas Pipeline. In each of these large programs the participation of IDA has been key to unlocking the potential for private investment to support development of regional infrastructure.
- **Ability to link regional integration and country assistance strategies (CASs):** The extensive engagement of IDA in country policy dialogue and supporting economic sector work offers IDA significant advantages in terms of integration of regional issues with country priorities as well as policy harmonization among groups of countries in sectors where regional approaches offer opportunities for wider markets, linking the supply and distribution of electrical power, controlling HIV/AIDS, and managing trans-boundary water resources.
- **Ability to scale up support for regional infrastructure, particularly in Africa.** Bank analyses show that while in many sectors Africa can compete at the factory gate, competitiveness at a port is badly eroded by weaknesses in infrastructure. A range of critical regional infrastructure activities that would help remove some key bottlenecks to development (energy, transport, water and sanitation) remain inadequately financed. These are critical to help Africa sharpen competitiveness and leverage additional trade related growth. These issues are addressed from a regional standpoint because this is the most effective way to focus on competitiveness or environmental sustainability at the country level. In addition to infrastructure, further investment in the management of shared natural resources and river basins is essential for countries to sustain livelihood, productivity and growth.<sup>86</sup>

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<sup>86</sup> The 47 countries of Sub-Saharan Africa share 69 major water basins. Acting purely nationally, no country can assure its own water security.

## B. ADDRESSING GLOBAL PRIORITIES AND INVESTING IN GLOBAL PUBLIC GOODS<sup>87</sup>

89. **Global economic integration, coupled with emerging development challenges that cross national boundaries, has led to the emergence of several global programs and initiatives.** These programs often address global public goods such as prevention and control of HIV/AIDS and Avian Flu, environmental preservation (climate change, ozone depletion, land degradation, biodiversity loss; protecting water and forest resources; promoting agricultural research), trade integration, and research and sharing of knowledge.

90. **The Bank has long supported global priorities and programs** (see Table 2). Its first involvement in global programs dates back to the establishment, in 1972, of the Consultative Group on International Agricultural Research. Since then, the Bank's participation in global programs has steadily grown. The 1990s and early 2000s especially saw a substantial increase in the number of global programs. These include: the Global Environment Facility (GEF), the Multilateral Fund to Implement the Montreal Protocol (MFIMP), the International AIDS Vaccine Initiative (IAVI), the Global Alliance for Vaccines and Immunization (GAVI) and the Global Fund for Aids, Tuberculosis and Malaria (GFATM). In FY 2006, the Bank participated in over 160 global programs and partnerships.<sup>88</sup>

91. **The Bank Group plays multiple roles in global programs** (see Box 10). Historically, these multiple roles of the Bank at the global level have been combined with IDA's presence on the ground to support effective implementation of global programs and priorities in poor countries. Indeed, most global programs have fostered country-level investments, standards, technical assistance, and capacity building.<sup>89</sup>

### Box 10. The World Bank Group's Role in Global Programs and Partnerships

The Bank Group as a whole plays multiple roles in global programs and partnerships, which IDA leverages in its country-based operation:

**Convening role.** The Bank brings together multiple parties and actors to respond to global issues requiring collective action. An example is the recent Avian Flu initiative. Spurred on by the potentially catastrophic nature of the threat of avian flu, the World Bank –in partnership with the European Commission, and the Chinese Government – cosponsored a pledging conference in Beijing, which generated US\$1.9 billion to support efforts to prevent the spread of the disease. Subsequently, the Bank helped establish a global program – known as the Global Program for Avian Influenza (GPAI) – which would channel some of the resources pledged at the Beijing Conference, with the Bank managing the fund to fill emerging gaps as needed.

**Financing role.** The Bank, through its Development Grant Facility (DGF), the main mechanism for grant funding of innovative global programs and partnerships, has contributed about US\$170 million a year to global programs and partnerships since 1998.

<sup>87</sup> This section draws on ongoing Bank work on Global Public Goods, entitled: "Global Public Goods: A Framework for the Role of the World Bank", Global Programs and Partnerships (GPP).

<sup>88</sup> The Bank is also involved in about 58 additional programs and partnerships, which are regional in nature.

<sup>89</sup> See IEG, "Addressing the Challenges of Globalization: An Independent Evaluation of the World Bank's Approach to Global Programs", January 10, 2005.

**Box 10 (cont'd)**

**Implementation role.** The Bank is playing a key role in global programs and priorities, in terms of mainstreaming and integrating global programs into national development strategies; and investing directly in global commons at the country level.

**Catalytic role.** The Bank's grant financing catalyzes and leverages substantial additional resources from other donors. In total, the typical Bank's grant contributions of about 15 percent of total program budget would help mobilize more than US\$1 billion annually from international organizations, bilateral donors, developing country governments, NGOs, foundations and the private sector.

**Trustee or fiduciary role.** The Bank also serves as a trustee for many of the global programs and partnerships, including the Global Environment Facility (GEF), the Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM), Education For All - Fast Track Initiative (EFA-FTI), and others. Nearly two-thirds of the annual resources associated with global programs and partnerships – are channeled through trust funds administered by the Bank. The Bank's role in these trust funds ranges from accounting and reporting to management and supervision, including allocation decisions (for Bank-executed trust funds).

92. **IDA's role in global programs and priorities is twofold:** mainstreaming and integrating global programs into national development strategies; and investing directly in global commons at the country level. Over the years, IDA has played these twin roles with regard to protection of environmental commons, communicable diseases, reforms in international trade system, production and dissemination of global development knowledge, and the fostering of global financial stability, which are discussed in B.1-B.5 below. A summary of IDA's comparative advantages at the global level is provided in subsection B.6.

**B.1. Environmental Commons**

93. **IDA has invested in environmental protection for more than two decades.** IDA's engagement on the global environment commons has focused on its direct link to sustainable development at the country level. Over the past two decades, IDA's aggregate commitments under the environment theme have been approximately US\$9 billion. In addition, IDA has leveraged significant amount of resources through trust funds and funding. Over the last five years alone, environment-related trust fund disbursements exceeded US\$2.4 billion. In addition, IDA has partnered with the GEF in the implementation of a number of environmental projects, thus demonstrating IDA's complementary role to vertical funds. This support has helped mitigate air pollution in urban and industrial areas; provided cleaner and more reliable supplies of water; made land management more sustainable; built environmental institutions; dealt with climate change; and protected biodiversity. Internal evaluations have shown that this lending has been delivered with high quality.

94. **In recent years, climate change has emerged as a significant development issue.** Two key recent reports – the *Stern Report on the Economics of Climate Change* and the *Intergovernmental Panel on Climate Change (IPCC): Fourth Assessment Report* – underscore the need for quick measures to slow down climate change. There is growing evidence that the Earth's climate is changing due to human activities, such as use of fossil fuels and land management practices (e.g., deforestation). The changing climate – warmer temperature, increasing sea level, melting mountain glaciers, changing precipitation patterns, and more extreme weather events – is expected to have significant global and country-level consequences.

95. **The impact of climate change is expected to be even more severe for developing countries, putting the achievement of the MDGs at risk, and requiring an appropriate response by the international aid community and in particular IDA.** The IPCC Fourth Assessment points out that “*over the next half-century, climate change could impede achievement of the MDGs.*”<sup>90</sup> Climate change is expected to have tremendous cross-sectoral consequences, in view of the anticipated adverse impact on water availability, agriculture, health, the durability of major infrastructure, and the sustainable use of natural resources. IDA’s work on climate change going forward is discussed in Section V.

## **B.2. Communicable Diseases**

96. **HIV/AIDS.** AIDS is a major threat to global health, and a roadblock to lasting development, especially in sub-Saharan Africa. UNAIDS estimates that almost 25 million of the 39.5 million people infected with HIV worldwide live in Sub-Saharan Africa. In 2006, about 2.9 million people died of HIV-related illnesses in Africa.

97. **IDA was the first source of substantial funding for HIV/AIDS**<sup>91</sup> in Sub-Saharan Africa, the Caribbean, and India, and remains the most flexible financing source. Beginning in the late 1980s, IDA has committed over two billion dollars to support HIV and AIDS responses in 67 countries, and has helped scale up HIV prevention, treatment, and care, benefiting millions of people, especially in Sub-Saharan Africa and South Asia.

98. **IDA’s Multi-Country AIDS Program (MAP) – especially the grant resources set aside under IDA13 – paved the way for other global health initiatives focused on AIDS.** It helped to increase total resources for HIV in developing countries from US\$300 million in 1996 to US\$8 billion in 2005 (including US\$2 billion in domestic public and private spending). An independent evaluation by IEG during 2005 concluded that “IDA assistance has induced governments to act earlier or in a more focused and cost effective way. It has helped raise political commitment, create or strengthen AIDS institutions, enlist NGO and prioritize activities”.

99. **Currently, with the large grant resources of GFATM and the US President’s Emergency Plan for AIDS Relief (PEPFAR), IDA is no longer the principal financier for AIDS, but it remains a key source of support.** It continues to strengthen national and sub-national capacity for planning, managing, and monitoring HIV responses and thus enabling countries to use other sources of global funding effectively. IDA is also a valued source of funding because it can be used flexibly to complement other sources, deliver sustained support to strengthen health systems, and support investments and outreach outside the health sector that are key for preventing HIV transmission – for example, in education, transport, income generation, for grassroots initiatives that reach poor and remote communities, and marginalized groups that often drive HIV epidemics.

100. **Avian Flu.** The outbreak of Avian Flu has brought to the forefront the new challenge of confronting the potential human health impacts of animal diseases. It has focused the attention

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<sup>90</sup> *Intergovernmental Panel on Climate Change (IPCC): Fourth Assessment Report, Summary for Policymakers*, p. 20.

<sup>91</sup> See: <http://siteresources.worldbank.org/IDA/Resources/IDA-HIV.pdf>.

of the international community on the need to develop better country level systems to monitor these types of diseases and to respond to outbreaks when they occur in order to minimize the chances of widespread human contagion.

101. **Since the emergence of the Avian Flu as a threat, IDA has invested – through projects – to minimize the threat at the country level.** As of May 2007, 39 countries have received financing under the Avian Flu program, with a total commitment of US\$182 million in IDA credits and grants.<sup>92</sup> These projects have financed public awareness and information campaign, focusing on risk and behavior change communications; animal health, including short and long term virus prevention, containment, and control; and human health, including enhancing the coordination, surveillance and response capacities of the public health sector. On average, 40-60 percent of project costs have consisted of measures to deal with animal health and 30-40 percent of those costs have been for human health aspects.<sup>93</sup>

### ***B.3. International Trading System***

102. **IDA has played a significant advocacy role at the global level in trade liberalization and improving trade policy capacity at the country level.** The global welfare gains from full liberalization of merchandise trade are estimated at US\$280 billion a year by 2015, of which US\$86 billion would accrue to developing countries.<sup>94</sup> At the global level, IDA has been a strong advocate of a more liberal and nondiscriminatory trade regime, calling for trade reforms. It has worked with the donor community to make a case for additional development assistance to be allocated to strengthen trade capacity and help countries adjust to and benefit from global trade liberalization.

103. **At the country level, IDA has increased efforts to more fully integrate and strengthen trade policy and facilitation issues in national development strategies.** Aid for trade can support policy reform and infrastructure investments. In sub-Saharan Africa, for example, a typical import transaction takes 58 days (versus 14 days in the OECD), and each day of delay reduces export volumes by 1 percent on average.<sup>95</sup> This is mainly due to poor roads and ports, as well as poorly performing customs. One vehicle through which IDA has directed greater attention to trade issues is through the Integrated Framework for Trade-related Technical Assistance. The latter has been key in cutting the delays of goods in ports and customs, and addressing trade policy reforms. IDA lending on trade-related projects has seen a substantial rise in the past 5 years.

### ***B.4. Development Knowledge***

104. **IDA produces and disseminates global knowledge on development.** It does so both through direct (project and program) experience as well as through developing and disseminating comparative data that would enable better benchmarking and understanding of development.

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<sup>92</sup> The countries include: Albania (\$5 million), Armenia (\$6.25 million), Azerbaijan (\$5.1 million), Georgia (\$7 million), Kyrgyz Republic (\$4 million), Lao PDR (\$4 million), Moldova (\$8 million), Nigeria (\$50 million), Tajikistan (\$5 million), and Vietnam (\$25 million).

<sup>93</sup> The program documents are available at [www.worldbank.org/avianflu](http://www.worldbank.org/avianflu).

<sup>94</sup> See World Bank, *Global Monitoring Report 2006*, p. 93, Washington, D.C.

<sup>95</sup> Ibid.

Examples of comparative data and knowledge produced and disseminated by IDA include measurement of poverty and inequality based on household surveys, the quality of the business environment, costs of doing business, transparency and corruption indicators, trade restrictiveness indicators, tracking the flows of public resources, pollution disclosure data, debt data and debt sustainability analysis, and other regular reports such as the World Development Report, and the Global Monitoring Report. This service is of relevance to international markets, the development community at large, and countries and their citizens who can themselves assess their economic performance relative to comparator countries. IDA can provide this service because of its country-level involvement, its objectivity and quality control, and capacity to design and implement comparative measurement methods across countries.

**105. As pointed out before, IDA's ability to provide sound development advice and knowledge benefits from the Bank Group's ability to operate in a full range of countries – not just IDA countries.** In other words, some of the lessons that IDA applies (or makes available for application by others) in IDA countries have been generated through IBRD's experience and dialogue with middle-income countries.

**106. One recent area of focus has been on international migration and remittances.** In the past, the impact of migration on sending and receiving countries has been under-researched, due mainly to data unavailability and political sensitivities. However, international migration has significant economic, social, and cultural implications. In 2004, migrant remittances stood at US\$160 billion, far surpassing development aid and representing the largest source of foreign exchange for some developing countries. In view of the importance of international migration, IDA's knowledge work has included efforts to improve data and indicators; study the developmental and financial impacts of remittances and migration; and develop a better understanding of the policies and institutions that would enhance the benefits of migration.

### ***B.5. Global Financial Stability.***

**107. IDA also plays an important role in fostering global financial stability through surveillance of and capacity building in financial sectors in IDA eligible countries.** The joint Bank-Fund Financial Sector Assessment Program (FSAP) and joint Bank-Fund Reports on the Observation of Standards and Codes help to identify areas of vulnerability and propose reforms. The identification of reforms is often followed-up by project and program support for implementation that would help strengthen a country's resilience to financial crises.

### ***B.6. IDA's Comparative Advantage in Global Priorities***

**108. IDA's comparative advantage in supporting global programs and priorities are its:**

- **Ability to link global issues with country strategies.** A solid understanding of country-level sectoral and cross-sectoral development issues, as well as access to a range of financial instruments, places IDA in a strong position to assist governments in merging global interests into national development strategies. When applicable, IDA can link global issues to country programs through country strategies, AAA, lending/grants, and global program and trust fund activities.
- **Ability to invest in global public goods at the country level.** IDA also directly finances investment in global public goods at the country level, in particular in

preventing the spread of communicable diseases (HIV/AIDS, avian flu); in protecting the environment; in integrating trade policy and capacity issues in national development strategies; and in generating comparative development data and knowledge, and disseminating such data worldwide.

- **Capacity to play a leading role in tackling emerging global priorities such as climate change and clean energy.** IDA is positioned to take a leading role (in partnership with the GEF and other multilateral and bilateral partners) in financing investments in clean energy necessary to reduce emissions of greenhouse gas and help decelerate climate change, as well as help poor countries adapt to climate change.

## V. CHALLENGES GOING FORWARD

109. **As noted in Section II, rising trends in donor proliferation, aid fragmentation, as well as “verticalization” and earmarking are increasing the complexity of the aid landscape.** At the same time, ODA flows have tended to favor the social sectors at the expense of infrastructure, possibly reflecting some disconnect between global priorities and recipient demand at the country level.

110. **At the same time that development assistance is becoming more complex, new global challenges are emerging.** Over the past decades, concerns have intensified over a growing list of global problems requiring collective action. Among these are the spread of HIV/AIDS, the outbreaks of diseases of animal origin, such as the Avian Flu, and the preservation of the global environmental commons. An issue that has gained renewed impetus and urgency is climate change. This calls for a new agenda for increased investment in clean energy as well as adaptation to climate change in poorest countries, both of which will in turn require increased investment across many sectors.

111. **These emerging challenges make IDA’s support to the country-based framework even more vital. IDA would be able to respond to these challenges by *intensifying efforts in four focus areas:*** (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing global challenges with an increased priority given to the challenge of climate change; and (iv) enhancing alignment and harmonization. These four areas are discussed in subsections A-D below. Subsection E briefly covers ongoing reform and modernization efforts with respect to IDA’s operational policies, which will help IDA effectively meet the challenges outlined in this Section.

### A. STRENGTHENING COMPLEMENTARITY WITH VERTICAL APPROACHES TO AID DELIVERY

112. **A renewed emphasis has been placed on the need for balance and complementarity between vertical and horizontal aid.** In the last decade, in health sector alone, over 70 Global Health Partnerships (GHPs) have been created to address global health issues.<sup>96</sup> GHPs now are the dominant model of organization in health. Similarly, several vertical funds have been created in environment, and more recently in education. A conservative estimate puts the share of global funds in total ODA at just above 3 percent, yet they have become sufficiently large to dominate public investment programs in their respective sectors in several low income countries. In addition, the proliferation in the number of these funds – some with overlapping mandates – has contributed to alignment and harmonization challenges at the country level.

113. **Emerging evidence shows that the challenge of complementarity and balance is the greatest in the health sector.** GHPs have brought much-needed attention to and funding for their focus areas. However, they have also brought a number of challenges: (i) recipient countries’ ability to absorb GHP resources; (ii) insufficient intra- and inter-sectoral coordination at the country level; (iii) the establishment of separate mechanisms for financing, particularly when country systems are weak; and (iv) medium-term fiscal sustainability concerns. While

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<sup>96</sup> See WHO/World Bank, *High-Level Forum on the Health Millennium Development Goals: Selected Papers 2003-05*, 2006.

similar issues arise in the context of global programs focusing on education and environmental issues, they seem as yet to be less pronounced than in the health sector. For example, the Education-For-All/Fast Track Initiative (EFA/FTI), the main global initiative focusing on education, founded in 2002 with active IDA engagement, is widely recognized as providing a framework for harmonized donor support to the education sector.

**114. Recipient countries and aid agencies thus face new challenges in better integrating the vertical global funds into countries' own strategies and priorities, budget management, and delivery systems.** In recognition of these challenges, and in the context of the Paris Declaration and follow up activities, the Bank and the OECD/DAC co-sponsored a policy workshop (Paris, December 5, 2006) to focus attention on improving the alignment of global programs at the country level. This has led to a draft Good Practice Guidance on aligned implementation of global programs at the country level, which extends the Paris Declaration principles to global programs to improve alignment of global programs. This draft is currently under discussion.

**115. Ultimately, the long-term effectiveness and sustainability of vertical approaches depend critically on complementary sectoral and macro-level policies which IDA can support.** IDA can support the integration of horizontal and vertical aid by establishing a 'horizontal platform' upon which the vertical funds can operate effectively. Long-term achievement of their objectives depends on fiscal sustainability, a supportive policy environment – including policy measures in related sectors – and broader capacity building measures. IDA can focus more on identifying and supporting such policies, which include:

- **Growth-promoting policies.** The sustainability of the gains through vertical funds can be put in jeopardy without a growing economy. A robust growth rate would both make it easier for the government to fund complementary investments, and for households to increase their incentives to sustain demand for global programs directly. Growth, therefore, helps underpin the sustainability of financing of the activities spawned by vertical funds.
- **Complementary policies aimed at achieving sectoral fiscal and institutional sustainability.** A recent study<sup>97</sup> demonstrates that, in addition to increased aid, a combination of complementary domestic policy policies and reforms – such as increasing the share of government budget spent on health, increasing economic growth, and increasing revenue – are vital to achieving fiscal sustainability.
- **Complementary pricing and regulatory reforms, which are needed for some global vertical funds to succeed.** This may be particularly important in the case of the Consultative Group on International Agricultural Research (CGIAR). In some African countries, for example, there are still monopolies in the marketing and distribution of seeds, specific crops and fertilizers – inhibiting the incentives for adoption of new technologies by farmers, often further exacerbated by restrictions on international trade.

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<sup>97</sup> Williams, G. (2006). "Fiscal Space and Sustainability from the Perspective of the Health Sector", *High Level Forum on the Health Millennium Development Goals*, World Health Organization.

**116. Complementary public investments are also critical for the success of vertical approaches, and IDA can play a key role in both design and finance of such investments.**

For example, it has been shown that primary school enrollment for poor students depends heavily on the availability of school feeding programs (also highly important for school performance). At the same time, an expansion of primary education will require investments in expanding secondary education. In a similar vein, major investments in irrigation and in land management influence the rate of adoption of new agriculture technologies and the returns of global programs such as the CGIAR.

**117. Going forward, CASs, sectoral strategies and country analytical work such as PERs would need to pay more attention to the interplay between vertical funds and the country-based model.**

In particular, new country or sector strategies as well as ESW should take into account more explicitly the need for complementarity. New CASs should elaborate more explicitly how global issues will be reconciled with country-level priorities. In addition, major global programs and Trust Funds could be mainstreamed as integral parts of country and sector assistance strategies when appropriate. The recently-issued Mozambique CAS has made progress in that direction. Public Expenditure Reviews would also need to take into account more explicitly the complementarity or interplay between vertical funds and the country-based model, particularly as NGOs and independent agencies benefit directly from financial assistance from the vertical funds. But there is no one-size-fits-all approach to deal with these issues: Different solutions will emerge depending on the country, sector, and vertical fund concerned. The recently-approved Bank strategy for the Health, Nutrition and Population shows how the Bank has approached the complementarity issue in a sector where the presence of vertical funds is particularly large.

**118. The new strategy for Health, Nutrition and Population (HNP) sets the stage for revitalized Bank's – and IDA's – support in view of changes in the architecture for development assistance for health.<sup>98</sup>**

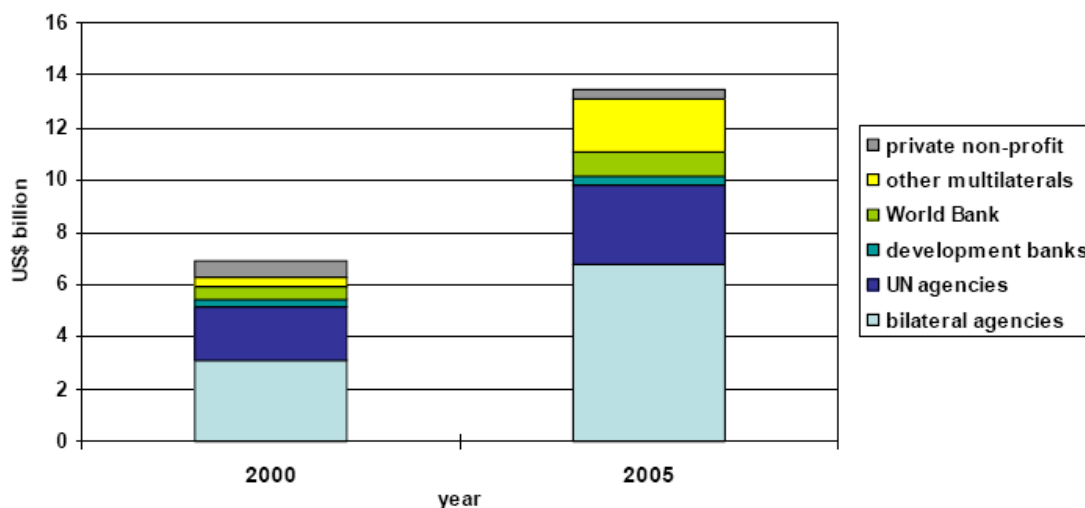
The new HNP strategy starts from the recognition that over the last decade, the Bank was surpassed as the main single HNP financier, and an increasingly prominent role is being played by other aid providers, such as global funds, the Bill and Melinda Gates Foundation, and bilateral donors. This is clearly illustrated in Figure 13 below. The new HNP strategy also notes that “much of this new funding is earmarked for combating priority diseases such as HIV/AIDS, malaria, tuberculosis, and some vaccine-preventable diseases; less for health system strengthening at country level, for maternal and child health, for nutrition, and for population priorities.”<sup>99</sup>

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<sup>98</sup> World Bank (2007c). *Healthy Development. The World Bank Strategy for Health, Nutrition, and Population Results*. Approved by the Board on May 1, 2007.

<sup>99</sup> *Ibid.*, p. 11.

**Figure 13. Development Assistance for Health by Source, 2000 and 2005<sup>100</sup>**



Source: C. M. Michaud 2007.

Note: "Other multilateral" includes the European Union, Global Alliance for Vaccines and Immunization (GAVI), and Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM).

"World Bank" total includes only IDA lending.

119. **The HNP strategy emphasizes the Bank's core sectoral comparative advantage in health system strengthening, which is by definition a multi-sector endeavor.** In practice, health system strengthening means "putting together the right chain of events (financing, regulatory framework for private-public collaboration, governance, insurance, logistics, provider payment and incentive mechanisms, information, well-trained personnel, basic infrastructure, and supplies) to ensure equitable access to effective HNP interventions and a continuum of care to save and improve people's lives."<sup>101</sup> The multi-sector nature of health system strengthening can be clearly seen in the various elements involved in such systemic approach: public sector reforms; development of health financing mechanisms; strengthened fiduciary mechanisms; and improved governance at the country and sectoral level.<sup>102</sup> For example, through the Health System Reform Project, IDA is supporting system-wide reform in Honduras' health sector, with the aim of extending the coverage and raising the quality of health care, particularly for the poor. Although the project is still ongoing, access to health care has increased, especially among women and children.

120. **In an environment of increasingly earmarked aid for health, policy and technical dialogue – in addition to financing – become central vehicles for IDA's contribution to achieve HNP results at the country level.** Policy dialogue, technical assistance and capacity building, as well as support to health system strengthening, help establish an enabling environment that increases the effectiveness of vertical approaches to health issues.

<sup>100</sup> Figure A1 in Annex A of HNP Strategy, *op. cit.*, p. 82.

<sup>101</sup> *Ibid.*, p. 14.

<sup>102</sup> *Ibid.*, p. 47.

## B. ENSURING APPROPRIATE SECTORAL FUNDING

121. **Consistent with the country-based model, the sectoral composition of IDA assistance is decided in the context of CASs. At the same time, it is important that decisions on the sectoral composition of assistance in the CAS design process also take into account overall – not just IDA – ODA flows going to each sector.** This is particularly important in view of the recent trends in sectoral ODA, and in order to ensure an appropriate sectoral balance in development assistance programs. This subsection briefly looks at broader issues of financing needs for two critical sector groupings of which ODA trends were discussed in Section II: Social sectors and infrastructure.

### B.1. Social Sectors

122. **Social sector-related needs in IDA countries remain huge and further scaling-up will be required to meet the MDGs, despite the sector’s increased share of ODA.**<sup>103</sup> While overall ODA for the social sectors has gone up, a significant part of this increase – particularly for health – is associated with greater verticalization. Therefore, there is room for enhanced involvement by IDA in the social sectors in ways that *both* provide additional volumes *and* reinforce complementarity and balance.

123. **Again, the health sector illustrates the point that appropriate financing levels remain an essential ingredient in IDA’s engagement with clients in this sector.** As noted in the HNP strategy, “it is important to highlight that, although the share of Bank financing in total development assistance for health has decreased, Bank lending, particularly through the *International Development Association (IDA)*, is *strategically crucial to ensure much-needed health system strengthening (for which dedicated international financing is scarce), and it is essential to set the enabling environment for effective disease-specific financing to achieve results.* This was stated again and again by client countries during preparation of this new strategy.”<sup>104</sup>

124. **In contrast with the health sector, the Bank is the world’s largest external financier of education, and IDA is the largest source of education financing for low-income countries.** IDA has channeled more than US\$8 billion in education assistance over the last ten years to 71 countries. Most of this (about US\$5 billion) has focused on primary education, in view of the Millennium Development Goal of achieving universal primary completion by 2015. IDA is the main source of external financing for primary education in many countries, including India, where IDA provides US\$ 500 million in support of the sector-wide Sarva Shiksha Abhiyan program.<sup>105</sup>

125. **Nonetheless, despite considerable progress, more remains to be done, and the education sector will need to continue to rely on sustainable, predictable ODA.** While the

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<sup>103</sup> With respect to the health sector, Gottret and Schieber note: “Although health aid increased to more than \$10 billion in 2003 from \$2.6 billion in 1990, estimates indicate that between three and seven times that much would be needed to reach the Millennium Development Goals for Health.” In Gottret, P. and G. Schieber (2006). *Health Financing Revisited*. Washington, DC: The World Bank, p. 124.

<sup>104</sup> Ibid., p. 15. Emphasis in original.

<sup>105</sup> See *IDA at Work* note “Education: An Impressive Expansion”, March 2007.

estimated number of primary school-aged children out of school declined to 77 million today from 100 million in 2000, universal access is far from been achieved. Only 25 of 81 IDA-eligible countries in 2006 had achieved or were on track to achieve universal primary completion (the second MDG ) by 2015.<sup>106</sup> In addition, even though aid to education has expanded significantly, there remains a need for *more and better aid*: “aid is not sufficiently predictable or flexible to enable countries to make confident medium-term plans such as for teacher training; it is insufficiently coordinated, making transaction costs quite high for the recipient country; and many of the countries that need aid the most have quite low absorptive capacity.”<sup>107</sup> Progress has been made under the Education For All – Fast Track Initiative (EFA/FTI), and IDA has played and will continue to play a pivotal role in advancing the EFA/FTI agenda.

## **B.2. Infrastructure**

**126. Financing needs are even more evident in infrastructure,<sup>108</sup> in light of the relative decline of its share in total sector allocable ODA,** as discussed in Section II. In fact, considerable gaps remain in access to infrastructure services. In the developing world, it is estimated that 1.1 billion people are without safe water, 1.6 billion are without electricity, 2.4 billion without sanitation, and more than 1 billion without access to an all-weather road or telephone services. The access gap reflects at least in part a huge infrastructure investment shortfall. The gap has been estimated at more than US\$100 billion/year<sup>109</sup> is needed for new infrastructure investments as well as for the maintenance of the existing infrastructure stock in low-income countries. Presently, only about half of these needs are met.

**127. Closing the infrastructure access and investment gaps is a necessary step to achieve meaningful development results and to meet the MDGs.** Infrastructure services have been shown to contribute to poverty reduction and economic growth in several ways: (i) improved health outcomes can result from better infrastructure services; (ii) access to infrastructure services – particularly electricity, water, and transport – can help improve educational outcomes; and (iii) infrastructure services also contribute to improved productivity of business, households and government services; and (iv) more and better infrastructure services lowers costs and expands market opportunities for businesses, thereby increasing productivity, improving the business environment, and promoting economic growth.

**128. IDA remains the largest multilateral source of physical infrastructure financing,** under the DAC sector classification system.<sup>110</sup> With about US\$3.4 billion in commitments for

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<sup>106</sup> *Op. cit.*

<sup>107</sup> Kagia, R. (2006). “Securing the Future Through Education: A Tide to Lift All Boats”. In Bhargava, V. (ed.). *Global Issues for Global Citizens. An Introduction to Key Development Challenges*. Washington, D.C.: The World Bank, p. 196.

<sup>108</sup> The discussion of infrastructure is based on the background note “Role of IDA in Infrastructure”, April 2007, prepared by the Sustainable Development Network of the World Bank. Infrastructure is an umbrella term that comprises a wide number of individual sectors, including but not limited to transport, energy, water supply and sanitation, and information, communications and technology. IDA is also active in natural disaster risk management.

<sup>109</sup> Fay, M. and T. Yeppes (2003). “Investing in Infrastructure – What is Needed from 2000 to 2010?” *World Bank Policy Research Working Paper* No. 3102, July.

<sup>110</sup> See IDA (2007), *op. cit.* Physical infrastructure is used here to refer to three sectors under DAC’s classification for economic infrastructure: (i) transport and storage; (ii) energy; and (iii) communications.

physical infrastructure during 2004-2005 – 20 percent of the total for IDA-eligible countries – IDA is only surpassed by Japan in terms of physical infrastructure support. During the 2004-2005 period, 58 percent of IDA’s physical infrastructure commitments were classified as transport and storage; 36 percent as energy; and 6 percent as communications.

129. **However, in view of the immense financing needs described above, there is a strong case for scaling up IDA’s support to infrastructure going forward.** A heightened level of IDA support to infrastructure would be critical to help close the infrastructure investment gap. Selectivity would continue to be a central consideration: “IDA can play an important role by directing a large share of assistance to those countries that are taking concrete action to improve the efficiency of their sectoral agencies and service providers and to put in place programs that effectively reach the underserved poor.”<sup>111</sup> Scaled-up support to infrastructure should not be limited to ODA – or IDA – alone: IDA will also continue to play a critical role in helping leverage increased funding for infrastructure from other sources, including private and domestic public resources. Ultimately, policy dialogue, institutional capacity building, and concessionary financing would help “crowd in” as much private sector financing as possible to ensure a sustainable, private-sector-led growth in IDA countries.

130. **Scaled-up IDA assistance for infrastructure will be used to meet a number of more specific sectoral priorities.** At the country level, decisions on how these priorities will be converted into specific actions will continue to be made as part of the CAS process. The main infrastructure priorities going forward include:<sup>112</sup>

- *Transport.* Focus will be on: (i) improving transport accessibility for poor rural communities; (ii) removing physical and institution transport bottlenecks to trade; and (iii) strengthening IDA engagement in urban transport issues.
- *Water.* Main priorities include: (i) improving provision of urban water supply and sanitation services; and (ii) expanding assistance for water resource management.
- *Energy.* IDA’s engagement on energy issues will concentrate on: (i) promoting energy access for enterprises and households (see also subsection C); (ii) connecting public facilities such as schools and clinics; and (iii) meeting the basic energy needs for cooking and lighting.
- *Information, Communications and Technology.* Focus will be on expanding access, particularly to broadband connectivity and telephony. IDA will also explore innovative approaches to sector regulatory frameworks, and invest to complement the private sector.
- *Natural Disaster Risk Management.* IDA’s approach will continue to focus on reducing disaster losses and mainstreaming hazard risk reduction into development plans. But IDA will also confront the challenges associated with the increased risk of natural disasters brought about by global warming. This will be the topic of the next subsection.

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<sup>111</sup> See background note “Role of IDA in Infrastructure”, *op. cit.*, p. 28.

<sup>112</sup> *Op. cit.*, pp. 28-30.

### C. ADDRESSING THE CHALLENGE OF CLIMATE CHANGE

131. **IDA's response to the challenge of climate change has been developed as part of the Bank's Clean Energy Investment Framework (CEIF).<sup>113</sup> The main elements of the response proposed in the CEIF are:**

- *Improving Access to Energy.* IDA is expected to play a major role in financing country-level investments necessary to expand energy access. Improving access to clean energy is also one of the flagships of the *Africa Action Plan*. As part of these efforts, and closely linked to the broader infrastructure strategy as well, "IDA will focus on mobilizing finance for sector-wide approaches for energy, including raising donor and private financing through sector syndications in pilot countries by FY10."<sup>114</sup> IDA will work closely with other parts of the World Bank Group to meet these challenges.
- *Supporting the Transition to a Low Carbon Development Trajectory.* The CEIF aims to support the transition to a low-carbon economy through scaling up of both financing and knowledge activities. The CEIF Action Plan includes measures aimed at: (i) further developing and implementing sectoral strategies focused on energy efficiency, renewable energy, and transportation; and (ii) implementing IDA-funded low carbon projects that contribute to growth and poverty reduction, while reducing greenhouse gas emissions and local pollution. IDA funding can leverage other important sources of finance like IFC, GEF, Carbon Finance,<sup>115</sup> as well as other sources that may emerge as a result of the ongoing climate change discussions.
- *Supporting Adaptation to Climate Change.* Climate change will impact water availability, agriculture, health, the durability of major infrastructure, and the sustainable use of natural resources. In South Asia, for example, global warming is expected to cause flooding and rising sea levels that could have a major impact on Bangladesh and Maldives. In addition, the Himalayan water flows could be disrupted. In Sub-Saharan Africa, rainfall variability is projected to increase, leading to both more droughts and floods. This will put particular stress on the high proportion of rural communities as well as on the infrastructure and services of rapidly growing cities.

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<sup>113</sup> In September 2005, the Development Committee requested the World Bank to develop an *Investment Framework for Clean Energy and Development*, which was issued in July 2005. The Bank then presented in April 2006 "*Clean Energy and Development: Towards an Investment Framework*", which outlines key elements of the framework. In September 2006, the Bank presented a progress report to the Development Committee in a document titled "*An Investment Framework for Clean Energy and Development: A Progress Report*". In March 2007, the Bank developed an action plan, titled "*Clean Energy for Development Investment Framework: The World Bank Group Action Plan*", which was discussed by the Board of Directors.

<sup>114</sup> See background note "Role of IDA in Infrastructure", op. cit., p. 31.

<sup>115</sup> See *IDA at Work* note "Environment: Managing Resources for Sustainable Development", March 2007, p. 6: "carbon finance is the general term applied to resources provided to a project to purchase greenhouse gas emission reductions." The Bank established two carbon funds, the BioCarbon Fund and the Community Development Carbon Fund.

132. **As a result of these challenges, IDA itself will need to strengthen its capability to respond to climate change.** While IDA will continue to operate within the framework of its country-driven business model, its long-term approach towards country assistance, project selection and design decisions will all be affected by changing climate circumstances peculiar to each country.

133. **IDA's adjustment to the climate change challenge will also have financial implications.** Currently, IDA leverages its support for clean energy through the GEF and carbon fund facilities. Given the large investment needs, funding to scale up the mitigation and adaptation work will need to be integrated in country and sector programs. IDA is well positioned to promote this. Funding from IDA will allow it to deliver a transformed mitigation and adaptation package, and leverage other sources of funds, like GEF, Carbon Finance, and others that may emerge. Under this approach, IDA could provide the core financing for energy and adaptation solutions at a scale that can make a real difference, while providing additional financial enhancements to bring in the private sector, and accelerate technology transfer. In the short term, GEF resources for adaptation – amounting to a commitment of about US\$110 million out of total of US\$230 million of available funds to date<sup>116</sup> – will be critically important. In the longer term, the scaling up of financial assistance for adaptation will have to be mainstreamed into IBRD lending and IDA credits/grants and similar sources of international finance, which support otherwise conventional sectoral projects, but which are designed and implemented taking into account adjustments necessary to adapt to climate change.<sup>117</sup>

134. **A strong replenishment of IDA15, coupled with other additional concessional financing and partnerships, will be essential for the CEIF to succeed.**<sup>118</sup> The level of financing that will be available in IDA15 will be an important determinant of scaling up the clean energy initiatives. Scaling up of the program also relies on both the international and domestic private sectors, with an important role for IFC to play.

#### D. ENHANCING ALIGNMENT AND HARMONIZATION

135. **To successfully address development challenges, new and old, IDA needs to continue to enhance its country-level effectiveness and sharpen its results focus.** IDA will continue to

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<sup>116</sup> Made up of \$50 million in the Special Priority for Adaptation (SPA) from the main GEF Trust Fund; \$60 million in the Special Climate Change Fund (SCCF), and about \$120 million in the Least Developed Countries Fund (LDCF).

<sup>117</sup> Since the Global Environment Facility (GEF) is set up to provide grant funding to furnish the incremental financing needed to tap a cleaner energy source or to use a cleaner technology, the scaled up IDA funding is envisaged to focus mostly, but not exclusively, on baseline financing. Baseline financing refers to the costs of the energy project that would have been incurred if the country would have gone with the energy option that does not provide global environmental benefits. Incremental financing refers to the resources needed to cover the extra costs incurred by going with the cleaner option, while producing the same amount of energy. In this way, when both IDA and GEF resources are available, the scaled-up IDA funding can play a complementary role, by helping to provide the national sustainable development benefits, while the GEF grants would fund the global environmental benefits, i.e., a mitigation of greenhouse gas emissions. When scarce GEF resources are not available, IDA can provide both baseline and incremental financing.

<sup>118</sup> As noted in the CEIF, “scaling up of the program relies on both the international and domestic private sectors to be effective and sustainable, and increased private public partnerships. A strong replenishment of IDA15, accompanied by additional donor concessional financing will be essential”. Ibid., p. 23.

take a leadership role in the implementation of the Paris Declaration on Aid Effectiveness and support the strengthening of governance in recipient countries. This subsection briefly looks into alignment and harmonization, which are among the main preconditions for effectiveness of aid at the country level. More detailed discussions on harmonization and country-level effectiveness will be found in papers to be presented at the third IDA15 replenishment meeting.

**136. Alignment with national development strategies has been a cornerstone of IDA's support to the country-based model.** Grounding IDA's results-based Country Assistance Strategies on countries' poverty reduction strategies, as well as increasing the use of programmatic approaches and country systems, are key elements of IDA's efforts to ensure alignment of its support with countries' strategies. In addition, IDA's platform role helps advance alignment of all development partners with IDA countries' needs and priorities. This includes analytic and advisory activities which assist countries in the development of poverty reduction strategies as well as support to the improvements of country systems, especially for financial management, procurement, and safeguards.

**137. An important aspect of the alignment agenda is the increased use of country systems by all development partners where it is appropriate.** IDA is seeking to strengthen countries' ability to make effective use of scaled-up ODA, particularly program-based approaches. In this context, IDA also will continue its leadership role in assisting countries in strengthening their financial management and procurement systems and in providing effective support for good governance. This includes work on strengthening budgeting, expenditure frameworks, treasury operations, audit and procurement functions. As noted previously, the Bank is working closely with other development partners on the implementation of the PEFA framework, which monitors progress on 28 public expenditure management and financial accountability indicators in client countries.

**138. Strengthening, rather than bypassing country systems is one of the guiding principles of the Bank's recently endorsed Governance and Anti-Corruption (GAC) Strategy, the implementation of which is a priority for IDA.**<sup>119</sup> Following a very wide-ranging consultation process in over 40 countries, the Governance and Anti-Corruption strategy was unanimously endorsed by the Development Committee in April 2007. This is now accepted as an agenda that flows from the Bank's mandate to reduce poverty, and the challenge in the coming IDA period is to work with clients, partners and a wide range of other stakeholders to implement the strategy. On the use of country systems, the GAC strategy points out that the Bank "can rely on self-standing 'ring-fenced' projects as a straightforward way of addressing fiduciary risks, but the developmental advantages of using country systems—where circumstances are appropriate—are large and sustainable. The use of country systems can reduce costs for the government and the Bank, enhance capacity, increase country ownership and project sustainability, and facilitate harmonization."<sup>120</sup>

**139. IDA is also committed to implementing a range of measures that will allow it to make significant progress in fostering harmonization as set out in the Paris Declaration.** The data from the 2006 baseline survey on the Paris Declaration show that IDA's performance on most indicators is well above average. In addition, further efforts are being taken to reach the

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<sup>119</sup> World Bank (2007). *Strengthening World Bank Group Engagement on Governance and Anti-Corruption*. March.

<sup>120</sup> *Op. cit.*, p. 24.

targets set for 2010, including changes to IDA's internal staff incentive systems and policies and procedures.

140. **IDA is playing an important role in advancing the harmonization agenda among all development partners.** This includes work at the international level to promote harmonization, including the World Bank's participation in the OECD-DAC Working Party on Aid Effectiveness and Donor Practices. At the country level, IDA is advancing donor harmonization through a range of activities, such as taking a lead role in donor coordination and supporting coordination efforts substantively through IDA's deep country and sector knowledge in most countries.

141. **IDA does not always play a lead role in partnerships.** IDA works under the leadership of bilateral donors with the mandate and the skills sets to engage more directly on political issues. In other cases, other multilaterals take the lead: in Bangladesh, for example, while the Bank takes the lead on support to secondary education, the primary education program is led by the Asian Development Bank.

142. **More recently, the coordination work has been taken one step further through joint programming and Joint Assistance Strategies (JASs).** Recent examples of JASs include those prepared for Ghana, Tanzania and Uganda. Another important area for advancing harmonization at the country level is by leading or contributing substantively to the preparation of program-based approaches, including SWAps, and budget support operations. An important strategy for greater harmonization is to eventually align donors' process, fiduciary requirements, and safeguards with those used by recipient countries. To move towards that goal, IDA's fiduciary analytic work – which is generally being undertaken jointly with other development partners – provides the basis for fiduciary reforms in many countries. Issues related to country-level effectiveness will be dealt with by subsequent IDA15 Replenishment documents.

143. **Support to the Resources and Results (R&R) processes is also aimed at facilitating the effective scaling up of aid.** R&R processes are “country-specific coordination mechanisms, to consistently focus on results, the link to overall development finance, and mutual accountability.”<sup>121</sup> Through R&R processes, countries present strategies that identify funding gaps and demonstrate how additional resources will deliver results, a mix of financing options, taking into account debt sustainability issues as well as complementary roles for development partners, including the private sector. In addition to the participation by OECD/DAC members, IDA also tries to ensure the inclusion of emerging new donors such as China and the private sector, as important partners into financing national strategies. The Africa Action Plan points out that “in countries with well-developed national strategies and clearly defined financing needs, the Bank Group will continue to use R&R processes to provide more comprehensive coverage of development financing needs”.<sup>122</sup> The first Resources and Results Roundtable was held in Ghana in June 2006.

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<sup>121</sup> World Bank (2007). “Opportunities to Scale Up: Delivering on Commitments”. PREM Poverty Reduction Group, Number 1, January, p.3.

<sup>122</sup> *Africa Action Plan, op.cit.*, p. 26.

## **E. MEETING THE CHALLENGES: ONGOING REFORMS TO IDA'S OPERATIONAL POLICIES**

144. **IDA is currently in the midst of an important process of reforming and modernizing its operational policies, designed to improve its operational effectiveness.** Key reforms adopted in the past few years include:

- The new policy on Additional Financing, adopted in May 2005, which permits IDA to (i) scale up successful operations with greater speed and efficiency to enhance the results on the ground, and (ii) provide additional financing in response to intervening emergencies.
- The new policy on Rapid Response to Crises and Emergencies, adopted in February 2007, which permits it to respond more quickly to crises and emergencies.
- As part of implementation of the new Rapid Response policy and of IDA's overall effort to improve the effectiveness of its response to fragile states generally, IDA also adopted organizational and staffing changes relating to its work in fragile states, designed to enhance IDA's local presence and help attract qualified staff to working on fragile states.

145. **Management has also commenced an important reform of consolidating and modernizing policies governing investment lending, so as to improve effectiveness, efficiency and responsiveness of this key lending instrument.** This reform effort is based on the important work and findings of the IEG evaluation of Internal Controls over IDA Operations. It is aimed at creating a single principles-based umbrella policy for investment lending that would: (i) rationalize the applicable procedures governing investment lending by embedding a risk-based model of internal controls; (ii) rebalance attention and resources between preparation/approval and supervision/implementation, with greater focus on results on the ground; (iii) appropriately reflect different client countries' and projects' needs and risks ; and (iv) align investment lending policy with IDA's current development and business model, client countries' needs and strategic objectives. The revised policy will also better reflect the principles of harmonization and collaboration with development partners and the focus on results, thus enhancing IDA's alignment and harmonization efforts.

## **VI. CONCLUSIONS AND ISSUES FOR DISCUSSION**

146. **This paper re-examined the role of IDA in a changing aid architecture landscape.** IDA's role is grounded on its country-driven business model, designed to respond to countries' needs, priorities, and ability to make effective use of aid resources. IDA's core strengths – financial resources, a wide and deep knowledge base, multi-sectoral perspective, global reach with local presence – come together to produce a platform upon which other development partners can operate effectively. These strengths also allow IDA to play a pivotal role at the regional and global levels, since addressing regional and global issues ultimately needs to be addressed at the country level.

147. **This re-examination is taking place at a time when development assistance is becoming a more complex business, and new global challenges are emerging.** The potential

enormity of the challenge associated with climate change further underlines the need for development assistance to become more agile, coordinated, effective, and responsive to changing needs and priorities in developing countries. At the same time, however, recent trends in developing assistance suggest a movement in the opposite direction: more fragmentation, more proliferation, more earmarking.

148. **In such a context, a platform for development assistance is needed more than ever before, making IDA's role in supporting the country-based model even more critical.** The risks and costs associated with donor proliferation, aid fragmentation as well as verticalization and earmarking reinforce the importance of firmly anchoring aid modalities in a strong country development model. Therefore, IDA's platform role could provide a key service to donor and recipient countries' alike by counterbalancing the adverse effects of fragmentation, proliferation and verticalization of aid.

149. **These emerging challenges require that IDA intensifies its efforts in four main areas:** (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate funding; (iii) addressing the challenge of climate change; and (iv) enhancing alignment and harmonization. This cannot be done through "off-the-shelf" or one-size-fits-all approaches, but rather by taking into account country- and sector-specific circumstances as well as in close collaboration with other development partners. While IDA's *modus operandi* remains based on a country-based model, the *environment* in which IDA operates is changing dramatically, and this needs to be factored in the policy dialogue with client countries, in the formulation of CASs and sector strategies, and in the design of lending operations. In particular, going forward, new CASs should pay more attention to regional and global issues which have a country-level impact, and major global programs and trust funds could be mainstreamed as integral parts of country and sector assistance strategies when appropriate. IDA is also in the process of reforming and modernizing its operational policies, designed to improve its operational effectiveness and thus its ability to meet the challenges outlined above.

150. **The fact that IDA has the ability to address a wide range of challenges does not mean that IDA would be present in every sector for every country, or that IDA would systematically play a leading role among donors.** For each country, the focus areas for IDA assistance will continue to be determined through the CAS process and within the parameters of the performance-based allocation system. Furthermore, while in many cases IDA can play coordination and leadership roles, in others IDA would play a supportive role as a development partner.

151. **IDA can continue to play an effective, integrating role only if its funding reaches a "critical mass".** The key point is that *the volume of financial assistance by IDA enhances its ability to effectively deploy its strengths at the country level.* A declining level of IDA funding at country level would undermine IDA's capacity to be a strong partner to both the government and to the other development partners operating in-country. And, if IDA is not strong at the country level, it will likely not be able to deliver effectively at the regional and global levels either. Conversely, with appropriate financing, IDA's assistance programs can produce many benefits: (i) an appropriate sectoral balance across donor development assistance programs can be achieved; (ii) successful poverty reduction efforts can be scaled up through large-scale operations; (iii) instruments for coordinated funding such as PRSCs and SWAPs can be used more extensively, capitalizing on donor harmonization efforts at the country level; (iv) IDA's

knowledge base – a public good for all development partners – can be enhanced through learning that comes with greater scope for launching new lending operations, across multiple sectors; and (v) a wider variety of issues can be addressed by working with a broader range of stakeholders, thereby expanding the scope for policy dialogue, capacity building and convening power. Appropriate financing would also allow IDA to provide a platform for other development partners to operate and help achieve strategic coherence in development assistance programs.

**152. Deputies may wish to consider the following issues for discussion:**

- Do Deputies agree with the analysis of recent trends in ODA flows, changes in the international aid architecture, and emerging global issues such as climate change? Have the implications of such developments for the country-based model been adequately distilled?
- Do Deputies feel that the paper appropriately captured IDA’s strengths in supporting the country-based model, as well as IDA’s comparative advantages at the regional and global levels?
- Do Deputies agree that IDA will need to intensify its efforts in the following four focus areas: (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing the challenge of climate change; and (iv) enhancing alignment and harmonization?

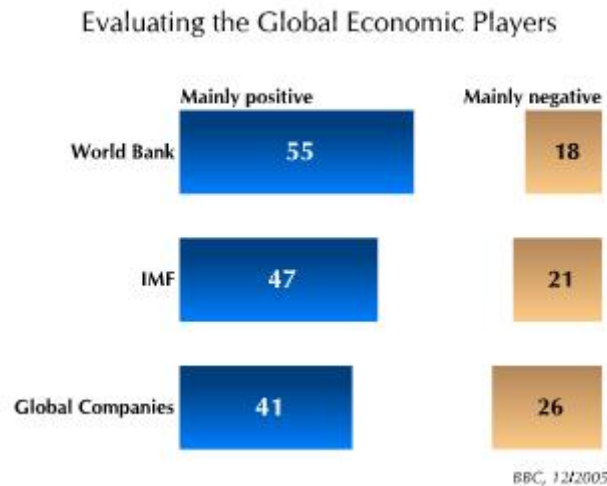
## ANNEX I. EXTERNAL PERCEPTIONS OF IDA'S PERFORMANCE AND EFFECTIVENESS

This Annex summarizes insights from these surveys on key dimensions of IDA's performance and comparative advantage, in terms of overall effectiveness; main products offered by IDA (financing, knowledge, and convening, coordinating, and catalytic services); and sectoral performance and priorities.

### A.1. Stakeholders' Views of IDA's Overall effectiveness

**IDA is widely regarded as having a positive influence in the world, both in absolute terms as well as when compared to other development agencies.** For example, 55 percent of respondents in a poll of 32 developed and developing countries carried out in December 2005 rated the World Bank as having a positive influence in the World, while just 18 percent rated it as having a negative influence (see Figure A.1). The approval ratings of the World Bank are generally significantly higher in recipient countries. MOPAN assessments also suggest that the overall perception of the World Bank at country level is that of a strong and influential actor in development policy and cooperation.

**Figure A.1. Evaluating the Global Economic Players**



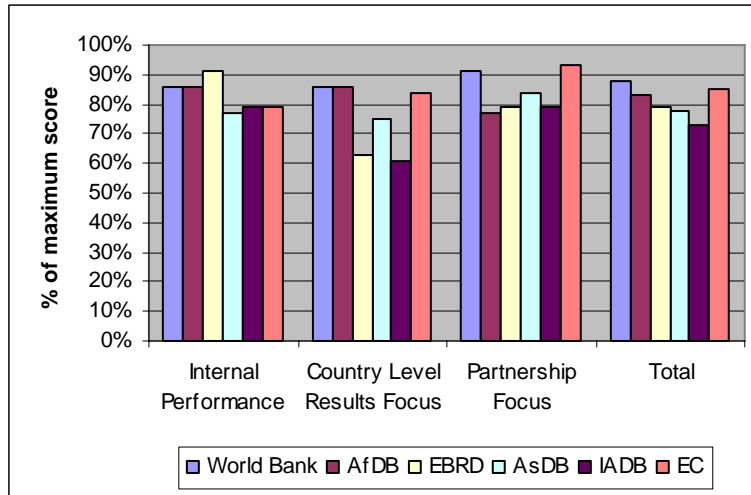
**MOPAN respondents to the 2005 assessment almost unanimously agree that the key comparative advantage of the World Bank lies in the financing of large programs and projects, budget support and policy dialogue.** This is underpinned by more than 90 percent of the respondents indicating that the Bank's technical support is of very good quality.

**DFID's 2005 assessment of multilateral organizational effectiveness<sup>123</sup> (Multilateral Effectiveness Framework, MEFF) rates the World Bank as the most effective among multilateral development banks as well as vis-à-vis the EC.** It classifies the World Bank as a "mature reformer" which has adopted results based management some time ago and which is currently consolidating reforms, comprising a fine tuning of system and a gradual incorporation

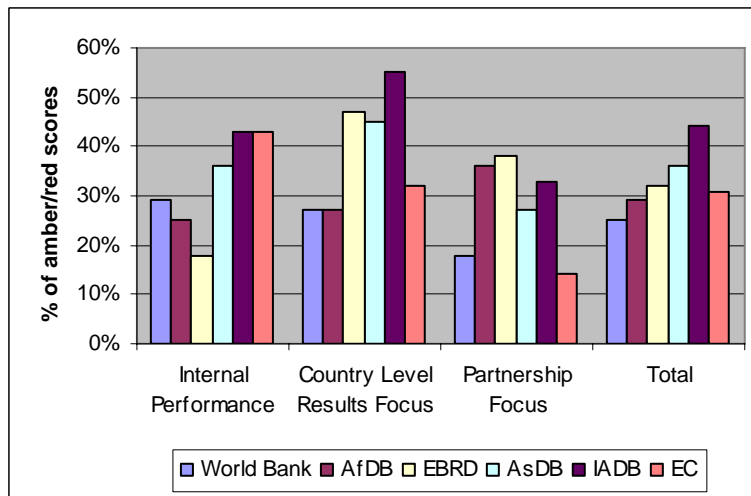
<sup>123</sup> Scott, Alison. 2005. *DFID's Assessment of Multilateral Organizational Effectiveness: An Overview of Results*. International Division Advisory Department. DFID. June 1, 2006.

of newer agendas. Nonetheless, DFID's assessment sees scope for further improvements in the World Bank's internal performance, country level focus, and partnership focus.

**Figure A.2. MEFF index as percentage of maximum score**

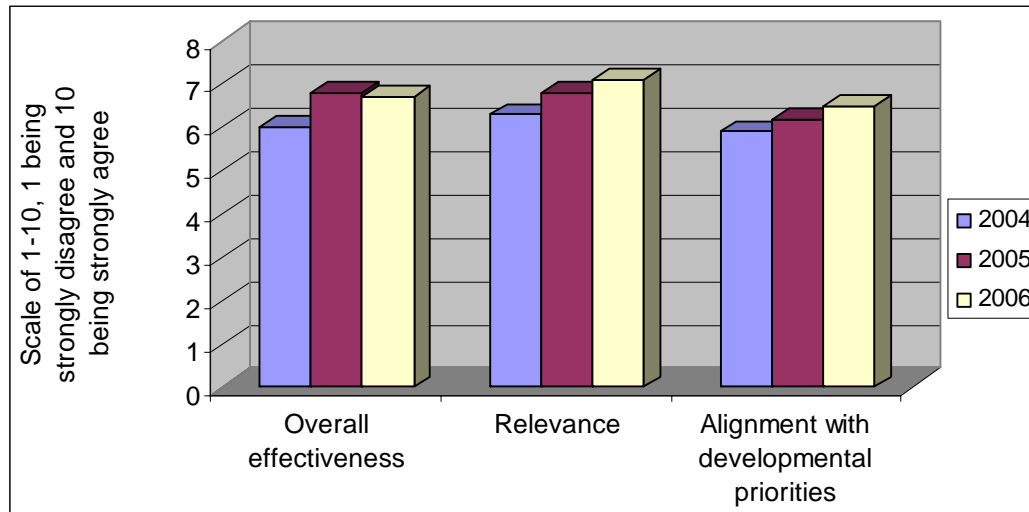


**Figure A.3. Scope for improvement according to MEFF assessment**



The World Bank's client surveys indicate a positive assessment of IDA's overall effectiveness, relevance and alignment with development priorities. In addition, in recent years IDA's performance is perceived as having improved significantly.

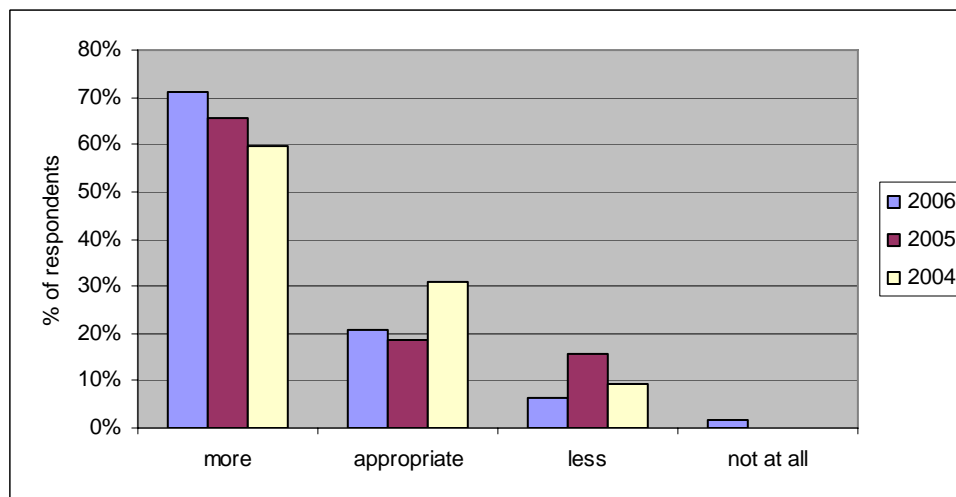
**Figure A.4. World Bank Client Surveys: Client perceptions on IDA's overall effectiveness, relevance, and alignment with developmental priorities, 2004-2006**



Reflecting the positive assessment of IDA's relevance and overall effectiveness, a large majority of stakeholders would like to see an increased level of IDA involvement in the countries' development strategies. The share of respondents that would like to see scaled-up IDA involvement has increased from about 60 percent in 2004 to more than 70 percent in 2006.

**Figure A.5. World Bank Client Surveys: Stakeholders would like to see scaled-up involvement of IDA**

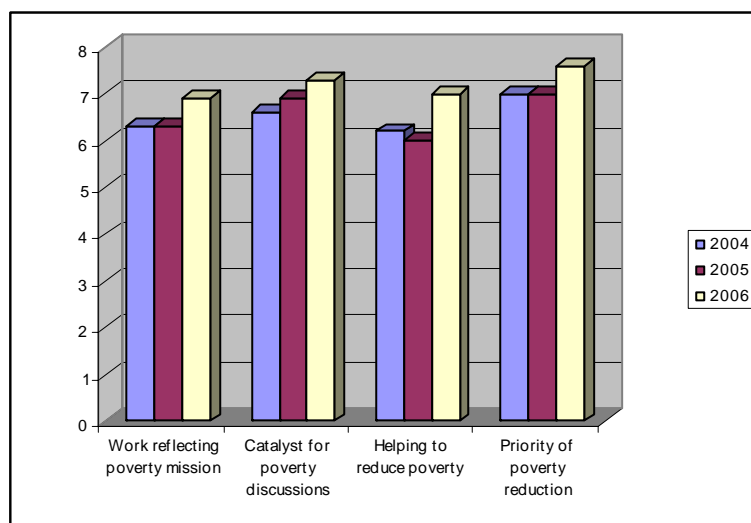
“What should be the level of involvement of IDA in \_'s development strategies?”



Client surveys also suggest that IDA's country work has a clear focus on poverty reduction, and IDA is perceived as being highly effective in assisting countries in their efforts to

**reduce poverty.** In addition, the surveys also suggest that the perceptions of IDA’s poverty reduction work have improved significantly between 2004 and 2006, indicating that IDA has become even more focused and effective in supporting the fight against poverty in client countries.

**Figure A.6. World Bank Client Surveys: Client perceptions on IDA’s overall effectiveness, relevance, and alignment with developmental priorities, 2004-2006**



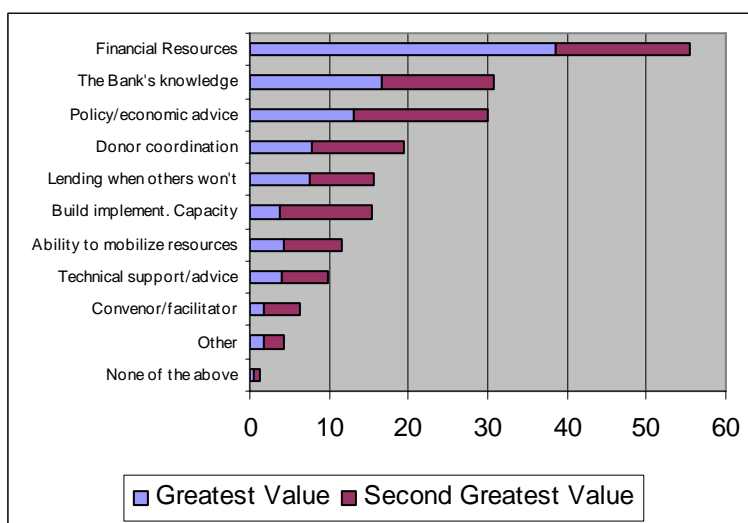
**At the same time, client surveys suggest that consideration of political realities, nimbler operational policies and procedures, and willingness to explore alternative policy options are areas in need of more progress.** A survey of donor practices carried out by OXFAM<sup>124</sup> in 2004 also suggests that the World Bank was considered as imposing too burdensome reporting and conditionality requirements, but fared well on long-term commitments and delivering on time and through the budget.

## **A.2. Main products offered by IDA**

**Financial resources, followed by IDA’s knowledge and policy and economic advice are widely considered to be the areas where IDA brings the greatest value to recipient countries.** Other assessments broadly confirm the results of the World Bank’s client surveys with regard to the relative importance of various types of support offered by IDA. However, most of the surveys also see scope for enhancing the effectiveness of IDA’s technical strengths through better alignment with the local context and better use of local knowledge.

<sup>124</sup> Oxfam International. (2005) *Paying the Price. Why Rich Countries must invest in a War on poverty.* Oxford. The survey focused on five main variables: simplifying reporting requirements, delivering aid on time, committing for the long term, fitting in with the government budget cycle, and imposing minimal conditions.

**Figure A.7. World Bank Client Surveys: IDA's Greatest Value-Added (FY05 and FY06)**  
 "In broad terms of economic and social development, what is the greatest value brought to your country by IDA?"



### A.3. Sectoral involvement

**Clients and other stakeholders consider IDA involvement important across a wide range of areas.** Helping to strengthen infrastructure, agriculture development, the financial system and reducing poverty and corruption are considered to be the most important areas for IDA involvement, closely followed by helping to bring about economic growth and strengthening education, water and sanitation, health, and transport. However, even for the lowest rated of the 23 surveyed areas, namely strengthening the regulatory framework and the judicial system and ensuring that attention is paid to gender disparities, IDA involvement is still considered to be important.

**The effectiveness of Bank support is rated above average in most areas.** The five areas in which Bank support is considered to be most effective include strengthening infrastructure development, the financial system, the education sector, and the private sector and ensuring that attention is paid to the environmental impact of Bank programs and strategies. Only in the areas of social protection, telecommunications, judicial systems, and reduction of corruption, and improving the quality of the poor in urban areas is the average rating of the Bank's effectiveness less than 3, the midpoint of the assessment scale from 1 to 5. *It must be stressed that these results reflect relative rankings, not absolute statements regarding importance of the various issues, on the part of respondents.*

**The relative importance of Bank involvements varies significantly across regions, underlining the importance of region and country specific approaches to selectivity rather than Bank wide approaches.** For example, in African countries Bank involvement in the education and health sector is considered to be most important, in Europe and Central Asia IDA support for infrastructure and the financial system rate highest, while in East Asia and the Pacific infrastructure, environmental and natural resources management, financial system and poverty reduction are rated highest, while in South Asia, agriculture, infrastructure, and water and sanitation are on top of the list. The perceived effectiveness of Bank support also varies across regions, matching the variations of the importance of Bank involvement.