IDA14

Financing Requirements from IDA for Poor Countries during IDA14

International Development Association
June 2004

Acronyms and Abbreviations

AAA	Analytic and Advisory Activities
AFR	Africa Region
CAS	Country Assistance Strategy
CDD	Community Driven Development
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
EAP	East Asia and Pacific Region
ECA	Europe & Central Asia Region
ESW	Economic and Sector Work
FY	Fiscal Year
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
LCR	Latin America & the Caribbean Region
LICUS	Low Income Countries Under Stress
MDG	Millennium Development Goal
MNA	Middle East and North Africa Region
ODA	Official Development Assistance
OECS	Organization of Eastern Caribbean States
OECD	Organization for Economic Cooperation and Development
PBA	Performance-Based Allocation system
PC	Per Capita
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SAR	South Asia Region
SDR	Special Drawing Right
SOE	State Owned Enterprise
SWAp	Sector Wide Approach
TSS	Transitional Support Strategy

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FINANCING REQUIREMENTS FROM IDA FOR POOR COUNTRIES DURING IDA 14

INTRODUCTION

1. This paper provides Deputies with information on the anticipated needs of the world's poorest countries for financial support from IDA during IDA14[1]. Section I provides the context by examining the significance of the IDA14 period in terms of the timeline and scale of effort required for the international poverty reduction objectives centered on 2015 and the Millennium Development Goals. It sets out key considerations relevant to determining the dimensions of the replenishment, and concludes with a summary of the broad strategy and financing requirements. Section II presents specific strategies for each of the six IDA regions, as well as the strategies for the twelve largest IDA borrowing countries (in Africa, South and East Asia). It also highlights ten recent and noteworthy IDA funded projects. The general assumptions underlying the financial assistance projections are presented in Appendix I. Detailed country figures that underlie the IDA14 financing requirements can be found in Appendix II.

I. DETERMINING IDA14 FINANCING REQUIREMENTS

A Critical Period for the MDGs

2. The IDA14 period is of particular significance for the achievement of the international poverty reduction goals summarized in the MDGs. Most development programs and investment projects take six to nine years to implement and become fully productive. The IDA14 period is therefore a critical one to provide strong financial support for poor countries' poverty reduction strategies. A major effort is needed now in order to have social and economic investments in place and delivering their full benefit by 2015. IDA is a crucial instrument in this effort because IDA provides a cornerstone of development assistance based on the strength of its performance based, country-driven approach, the depth of the technical and policy underpinning for its programs, and the importance of its collaboration with other development partners. It also provides the largest share of external financing for countries' efforts to meet the MDGs.

3. A range of estimates exists for the external financing required to support achievement of the MDGs, and further work is underway, including by the Millennium Project led by the United Nations. Earlier estimates based on a broadly sectoral approach suggested an additional $50 billion per annum was required: this figure has been challenged as unrealistically high but also as an under-estimate. Using a country-based approach, the Bank calculated in September 2003 that at least $30 billion annually could be effectively used in the near term[2]. In terms of IDA's role in the overall development assistance effort, this $30-50 billion range implies a proportional increase in IDA14 of 52-86 percent.

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1 IDA14 refers to the period FY06-08 which runs from July 1, 2005 to June 30, 2008.

2 See the paper prepared for the Development Committee: *Supporting Sound Policies with Adequate and Appropriate Financing* (DC2003-0016, September 13, 2003)

4. It is also useful to compare this work-in-progress on MDG requirements with the supply side – that is with the current efforts by the international community to scale up development assistance in support of the MDGs. Actual donor commitments have thus far fallen short of estimates of external assistance required for the MDGs. Nevertheless, OECD/DAC figures, drawn on by the 2004 Global Monitoring Report, show that the donor community has indicated commitments of increased development assistance amounting to about $18.5 billion annually by 2006[3]. If IDA were, again, merely to maintain its share of ODA (and there are clearly strong development effectiveness grounds for arguing that its share should rise), this would imply a 32 percent increase in the replenishment level, to SDR 23.5 billion.

A Constrained Country-based Financial Needs Assessment

5. MDG financing requirements provide important markers for the dimensions of the IDA14 replenishment. The range indicated above is reinforced by the careful bottom-up assessment of IDA financing requirements undertaken by the Bank's regional and country staff for this paper. For each replenishment, IDA assistance requirements are assessed on the basis of country-by-country estimates of development needs and IDA's role and country assistance strategy. This analysis is set out for IDA14 in the following pages. For most IDA countries the PRSP, and experience with its implementation and effectiveness, provide a framework for this process, and for judgments about performance and absorptive capacity Country teams were asked to undertake an assessment of the IDA financial assistance which could effectively be used during the FY06-08 period in support of the countries' poverty reduction strategies. Their responses added up to SDR 10 billion (US$15 billion) per annum, or close to 70 percent above the IDA13 funding level. The identified opportunity for scaling up IDA financial assistance was found across all regions, with South Asia (where the IDA allocations for India and Pakistan are capped) and Africa indicating the greatest need.

6. This high unmet need is confirmed by the strong upward trend in IDA financing during IDA13: after US$7.3 billion in FY03, lending is projected to reach US$9.0 billion in FY04. This was driven by increases in lending in South Asia, East Asia, and Africa. The pipeline for FY05 shows a further increased need for IDA funding in FY05, well in excess of the US$8.5 billion of commitment authority that will remain for the final year of IDA13. It is estimated that if IDA13 commitment authority had not been constrained to SDR 17.8 billion[4], the annual IDA commitments in each of FY04 and FY05 would have been in the US$9.5-10.0 billion range.

7. It is worth noting a critical factor emerging from the country-by-country analysis, which is of particular importance for raising economic growth in the poorest countries. For a variety of reasons, the private sector is not able to play a very strong role in the near term in the provision of vital growth-enhancing infrastructure in poor countries. At the same time, a number of donors

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[3] See *Global Monitoring Report – Policies and Actions for Achieving the MDGs and Related Outcomes* (DC2004-0006, April 16, 2004).

[4] The original estimate for IDA13 regular lending and grants was SDR 17.5 billion. It now appears that this figure will increase to SDR 17.8 billion, since SDR300 million, set aside by IDA for Cote d'Ivoire to cover HIPC-related IBRD debt relief costs, is likely to remain unused during IDA13.

have moved away from large infrastructure investments in their bilateral assistance programs[5]. IDA's country managers are finding, therefore, that IDA's financial assistance is in particularly high demand in recipient countries to support substantial programs of essential infrastructure investments for which there are insufficient sources of development finance.

8. The analysis which follows takes account of these factors, but on a constrained and conservative basis. Broader estimates of MDG requirements include more systematic and sustained financing of incremental recurrent costs than is normally undertaken in IDA-financed programs. Following established practice in previous replenishments, the analysis subjects each country estimate to a specific review in terms of realism and country performance, and also constrains the projections to conform to priorities communicated by IDA donors, especially with respect to the emphasis on Africa, and limits on IDA allocations to high-population South Asian blend countries. The estimated requirements presented in these pages should, therefore, be seen for what they are: as highly conservative assessments of needs for IDA to continue to play its leading role in supporting poor countries' development efforts.

IDA14 Financial Assistance Projection

9. The outcome of the exercise outlined above is an IDA14 financing requirement of SDR 23.1 billion, representing a 30 percent increase over IDA13. Unconstrained IDA13 financial assistance of SDR 18.5 billion would have constituted an increase of 23 percent over actual lending during IDA12 (SDR 15.0 billion), which in turn constituted a 16 percent increase over IDA11 (SDR 12.9 billion). In view of this trend, a 30 percent increase for IDA14 is well within what IDA can effectively deliver, and would permit IDA to continue to play its leading role.

10. The projection of IDA14 financial assistance needs takes into account regional and country-specific opportunities and constraints that have been identified over the first two years of the IDA13 period. The regional strategies that underlie this projection show a number of common features. First, there is the renewed focus on basic infrastructure: roads, electricity, and water supply in particular. Second, all continue to stress sound governance and policies as key to the effective use of development financing. Both infrastructure and governance are key to private sector development and, ultimately, poverty alleviation. Third, in regions or sub-regions where IDA is a leading donor, it has a particular opportunity to catalyze regional cooperation in areas such as health, natural resources management, trade, transportation, and energy. Support in these areas may be provided in part in the form of regional projects, which have been supported by a special allocation since IDA13.

11. Based on the assumptions outlined in Appendix I, the regional financial assistance needs projected for IDA14 are presented in Table 1, with specific figures for a dozen large borrowers. It should be stressed that these are projections based on the most recent performance measures. Actual allocations will depend on future policy, institutional and portfolio performance, as well as the agreed IDA14 replenishment.

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5 OECD/DAC reports a drop in bilateral infrastructure financing (water supply & sanitation, transport & storage, communication, and energy) from on average \$8.8 billion per annum during 1998-2000 to \$7.3 billion in 2001, and \$6.3 billion in 2002.

12. For Africa, the projected figures show a SDR 2.6 billion increase in assistance to SDR11.3 billion, while maintaining its relative share of 49.0 percent. Substantial increases are expected in assistance to Ethiopia (which is supported by the recent topping up under the HIPC initiative), Tanzania and Nigeria. It also assumes a limited reactivation of Zimbabwe during FY06-08. Financial assistance to South Asia is projected to increase by SDR 1.8 billion, to SDR 7.3 billion, thereby increasing its relative share to 31.5 percent. This is projected to involve substantial increases for the three largest borrowers in the region, India, Bangladesh, and Pakistan. Financial assistance to East Asia is projected to rise to SDR 2.2 billion, including significant increases in Vietnam and Indonesia. The ECA allocation is projected to remain at SDR 1.1 billion. This is the net effect of the increasing allocations to the IDA-only countries in the region, and decreasing allocations to Serbia & Montenegro, Albania, and Bosnia & Herzegovina. The latter have per capita incomes above the IDA cut off. Their access to IBRD financing will grow commensurate with their creditworthiness. The LCR region is expected to somewhat increase its access as a result of the projected reactivation of Haiti. The MNA region is also projected to see a significant increase as a result of the one-time allocation of $500 million to Iraq (see also Appendix I, Para 9).. Chapter II presents an overview of the IDA14 strategies and lending projections for the six IDA Regions, with a special focus on a dozen large borrowers which make up over 60 percent of the total financing projected for IDA14.

IDA14 Assistance Needs Projections
(SDR billion)

	IDA11 (FY97-99) [a/]		**IDA12 (FY00-02) [b/]**		**IDA13 (FY03-05) [b/]**		**IDA14 (FY06-08)**	
	Actual	**%**	**Actual**	**%**	**Estimate [c/]**	**%**	**Projections**	**%**
Africa	**4.9**	38.3	**7.2**	48.0	**8.7**	49.0	**11.3**	49.0
Ethiopia	0.6		0.7		0.8		1.5	
Tanzania	0.2		0.6		0.7		1.1	
Nigeria	0.0		0.5		0.7		1.0	
DRC	0.0		0.4		1.0		1.0	
Uganda	0.4		0.6		0.6		0.8	
Sudan	0.0		0.0		0.2		0.4	
South Asia	**4.2**	32.3	**3.9**	26.0	**5.5**	30.7	**7.3**	31.5
India	1.9		2.1		1.8		2.6	
Bangladesh	1.4		0.6		1.3		1.7	
Pakistan	0.5		0.9		1.0		1.5	
Afghanistan	0.0		0.1		0.6		0.6	
East Asia	**1.1**	8.6	**1.8**	11.8	**1.7**	9.7	**2.2**	9.6
Vietnam	0.8		1.2		1.2		1.3	
Indonesia	0.1		0.3		0.3		0.6	
ECA	**1.6**	12.4	**1.2**	7.7	**1.1**	6.3	**1.1**	4.6
MNA	**0.3**	2.3	**0.3**	2.1	**0.3**	1.7	**0.7**	3.0
LCR	**0.8**	6.1	**0.7**	4.3	**0.5**	2.7	**0.5**	2.3
Total	**12.9**	100.0	**15.0**	100.0	**17.8**	100.0	**23.1**	100.0

a/ Excludes China and Egypt. Includes IDA HIPC grant and IDA Guarantees.

b/ Includes IDA Guarantees. Excludes HIPCs debt services grants.

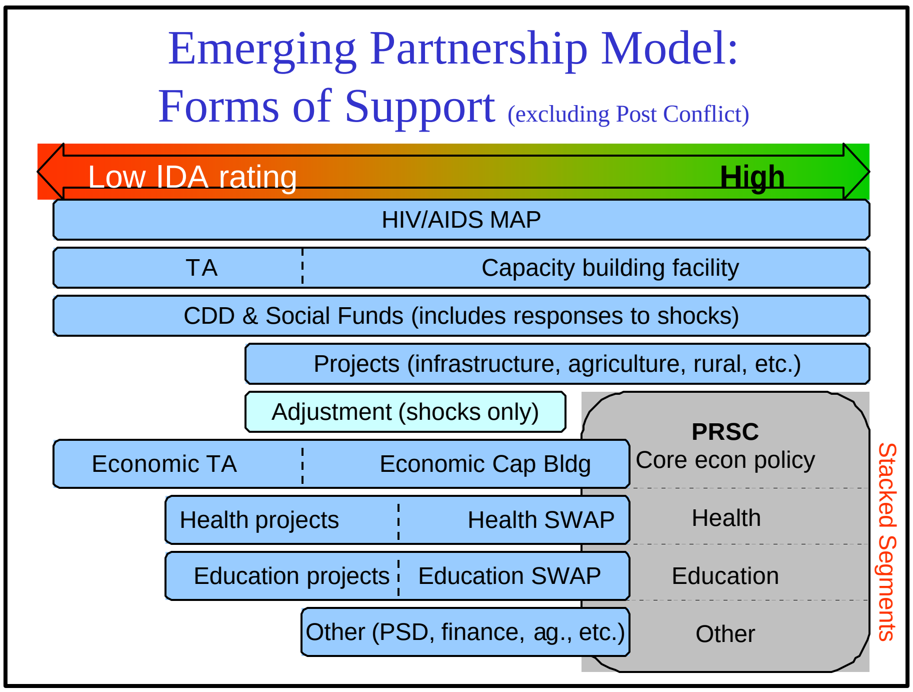
c/ Based on actual commitments for FY03, estimated commitments for FY04 and projected commitments for FY05 (constrained by the remaining IDA13 commitment authority).

II. REGIONAL STRATEGIES AND FINANCIAL ASSISTANCE PROJECTIONS

Africa

13. Regional strategy approaches are important in view of the small size of many countries and the recurrent economic or social spill over effects from neighboring countries. The Strategic Framework for IDA's Assistance to Africa (SFIA)[6] in pursuit of the MDGs lays out an emerging partnership model that tailors the forms of support to the countries' performance level (see Figure I). In the case of *low performing countries* the focus is on HIV/AIDS, community-driven development, and technical assistance projects. As countries progress beyond this level, engagements can be supplemented by projects in social sectors and basic infrastructure, health and education, with the idea of building capacity to move further along the continuum.

Figure I - Emerging Partnership Model: Forms of Support



14. For *middle-high performing countries*, assistance is geared toward building greater capacity in economic management to increase absorptive capacity and lay a foundation for growth. Especially in the social sectors, engagement will shift from stand-alone projects to more sector-wide approaches supported by a range of flexible instruments. Traditional projects (or possibly guarantees) would continue in some areas, notably those related to large-scale infrastructure and rural projects but also in areas such as financial sector reform and private sector development. Technical assistance will also encourage wider capacity-building activities directed toward longer-term sustainability; improving budget and financial management will be

[6] *Strategic Framework for IDA's Assistance to Africa (SFIA): the Emerging Partnership Model*, June 25, 2003, IDA/SecM2003-0406.

an important part of this. At the country team level, sector and capacity-building programs will all be designed to prepare the country for moving up to the next level of performance (for example, from projects to sector programs, from sector programs to programmatic support). Adjustment lending would continue for this group of countries, helping them to cope with emergencies and external shocks and supporting essential reforms.

15. *High performing countries* have demonstrated higher levels of economic and social management and capacity as well as a longer track record of good development policy and implementation. As countries enter this group, they become candidates for programmatic support, which can be delivered through such mechanisms such as the Poverty Reduction Support Credit (PRSC). PRSCs are designed to support core government programs to reduce poverty on the basis of a common framework agreed with the governments and other development partners, and to provide sustainable annual funding. In these countries, IDA may still maintain some sector programs and will still offer stand-alone projects in certain areas, but the number of separate projects per country would fall, rather than increase, even though the level of IDA's commitments would be higher. Traditional stand-alone adjustment lending is no longer necessary for this group, and the functions served by adjustment lending would be subsumed into part of the PRSC.

Box 1 - Fostering the Development of the Private Sector in Zambia

In line with the overall regional and country strategy, the Zambia Enterprise Development Project (EDP) aimed at enhancing existing capabilities in Zambian firms to diversify and reorient the country's economy towards exports. The operation help the country deal with credit market failures in long-term investment funds and short-term export finance facilities by providing credit lines through commercial banks to finance investments and working capital needs. The latter was done through the Multi-Purpose Credit Facility (MCF), which covered more than 87 percent of total project cost. Furthermore, its technical assistance component provided valuable training and advisory services for financial institutions and the Export Board of Zambia.

During the years of more intense disbursement (2000-2002) the Zambian economy grew between 3 percent and 5 percent annually, driven mostly by the private sector. Furthermore, about 15 percent of total private sector lending in Zambia is now funded by the MCF. Sectoral break-down of MCF beneficiaries and credit sizes indicate that it succeeded in channeling significant resources to non-mining activities - hence contributing to the diversification of the Zambian economy - and to small-sized projects (about one-third of the recipients borrowed/leased for less than US$100,000, with individual loans going as low as below US$10,000). MCF had a significant impact on the Zambian economy: conservative estimates refer to 192 projects directly generating about 6,000 jobs (equivalent to 10 percent of formal employment in the manufacturing sector) and US$ 60 million in revenues, US$11 million in taxes collected, and US$15 million in exports generated. No loss from lending activities was incurred and about half of the total funds have already been re-lent.

The lending prospects in six large IDA borrowers in the region are spelled out below.

16. **Ethiopia** is one of the poorest nations in the world and one where meeting the MDGs will be a daunting task, requiring extraordinary efforts by Ethiopia and its development partners. It will involve innovative solutions to reduce the unit cost of meeting the MDGs (such as private sector involvement and more efficient delivery mechanisms at the local level) and taking into account the country's debt situation. It has been estimated that the funding needed to reach the MDGs would imply a near trebling of current ODA to 30 percent of GDP. Total ODA to Ethiopia (US$13/capita) currently amounts to about half that of the Sub-Sahara African average.

In addition, reaching the MDGs will mean a continued large role for the state (50 percent of GDP), with public investment at more than 22 percent GDP.

17. IDA is the largest donor to Ethiopia, delivering more than half of total external support. Ethiopia recently reached its HIPC completion point, and also received a topping up of debt relief, which reduced the net present value of debt-to-exports (D/X) to 150 percent. However, Ethiopia continues to be a large poor country with a relatively high level of vulnerability and a low export base. To date Ethiopia has received 50 percent of its IDA allocation in grants due to frontloading (with the target of bringing this percentage down to about 40 percent by the end of IDA13).

18. A new CAS (FY06-08) will be prepared during FY05. The CAS is expected to identify new instruments that can attract other donors, especially in the social sectors, so that IDA can focus its support in the medium term on more costly investments such as infrastructure and capacity building. The first PRSC in a series was approved in February 2004 (US$120 million grant equivalent) and forms the backbone of the program of support to Ethiopia's strategy. The series is projected to continue through the FY05-08 period and comprise between one-quarter and one-third of total annual commitments. Overall IDA assistance during IDA14 is projected at SDR 1,469 million.

19. **Tanzania** has achieved macroeconomic stability and the focus of policy reforms is now on rural and private sector development, which are critical for sustaining and accelerating economic growth. In addition, strengthening the institutional and policy framework of the power and transport sectors are priorities for the Bank's policy dialogue, together with a continued focus on public expenditure management, public sector reform, and the strengthening of fiduciary systems. Tanzania is currently preparing a new PRSP (planned for the first half of 2005), on which basis the Bank will prepare a new CAS jointly with a group of other donors. Discussions to date suggest a continued emphasis on the social sectors, particularly education, health, and water, and an increased focus on investment in infrastructure, i.e., roads and power.

20. It is estimated that Tanzania needs about 30 percent more in external financing, especially for: (i) enhancing economic growth through the funding of transport and power sector infrastructure development and maintenance; and (ii) social sector spending to support pursuit of the MDGs. Overall lending during IDA14 is projected at SDR 1,089 million.

21. **Nigeria**'s poverty has been on the rise and reversing this trend would require important policy reforms as well as additional funding. Thus, Nigeria is unlikely to meet the MDG targets. Funding needs are enormous; for example, meeting the "education for all" MDG would require an additional US$650 million investment in education annually, an amount approximately equivalent to the total 2004 capital budget of the federal government. At the same time, however, there is the need to ensure that resources are utilized more effectively than at present and to improve policies and institutions, if the needed US$10–US$12 billion over the next 5–10 years is to make a real difference in moving Nigeria toward meeting its MDG targets. The main pillars of IDA's engagement in Nigeria are: (i) governance; (ii) growth in the non-oil economy, in particular agriculture; and (iii) improved basic services, in particular, water and sanitation, education and health. At this stage, no budget support is foreseen for Nigeria in the next 2–3

years. Overall lending assumes a return to the base case of $500 million per annum, or SDR 1,029 million for the IDA14 period.

22. **The Democratic Republic of Congo** (DRC) is gradually emerging from a decade of social instability and conflict, as well as economic collapse, with the Government on track for implementing a program of economic reforms supported by the Bretton Woods Institutions. With the peace process clearly still fragile but holding, experience to date confirms that aid can make a difference in a difficult conflict-resolution process by contributing to economic and social stabilization at critical junctures. Notwithstanding this progress, DRC is still going through an acute social and humanitarian crisis, with more than two-thirds of the population living on less than $1 a day, and more than one-third eating less than one meal a day. Although detailed data are still missing (due to the collapse of the statistical system), the conflict has clearly caused "development in reverse" in the social sectors, and the situation has deteriorated since 1990 against all MDG targets. Overall, the chances for DRC to achieve the MDGs are seriously compromised—except possibly for target 4 (gender equality in education), target 7 (HIV/AIDS), and target 9 (environmental sustainability).

23. Operations planned in the coming years are expected to support: (i) reconstruction, rehabilitation, and recovery in key sectors (infrastructure, education, health, agriculture, social protection) through a series of sectoral and multi-sectoral projects; (ii) stabilization of the social situation (with a focus on conflict-affected groups); (iii) economic reform, particularly priority structural reforms identified as triggers for HIPC Completion Point, through balance of payments-support operations (within the context of the overall implementation of the Government's economic program); and (iv) revival of economic activity, through interventions in support of private sector and agriculture. While a shift to programmatic lending is unlikely before public expenditure systems are fully restored throughout the country (which may take five to ten years depending on the sector), budget support will remain critical in the coming period. While DRC's fiscal performance has shown significant progress, revenues remain too low to address the post-conflict needs. Moreover, despite having accessed HIPC, debt service is expected to remain between 32 percent and 40 percent of Government revenues until 2007, before starting to fall to 5 percent after 2010.

24. FY06 will the be the fourth and final year during which DRC will receive its full post-conflict allocation. In line with IDA post-conflict guidelines, this special allocation will be phased out over FY07-09, after which DRC will return to regular CPIA and portfolio performance-based allocations. Overall lending during IDA14 is projected at SDR 1,009 million. This assumes a modest improvement in CPIA ratings.

25. **Uganda.** Under current conditions, Uganda is expected to meet only the MDG targets for poverty and hunger, school enrolment and HIV/AIDS. However, if the country can improve its policies and institutions and secure additional funding, it is expected to meet and surpass the targets for poverty, hunger, and HIV/AIDS and to meet those for primary school completion, gender equity in education, and access to safe water. It is currently preparing a revision of its Poverty Eradication Action Plan (PEAP) based on which the Bank is preparing a new CAS jointly with other donors to be presented to the Board in late 2004. The PEAP draft points to increased emphasis on growth, production and competitiveness, enhanced security, and good

governance, in addition to continued attention to social services delivery in a decentralized framework. In line with this, IDA's key priority in Uganda over the coming years is poverty reduction through maintained high levels of growth. Support in this area will focus primarily on private sector development/export competitiveness, rural development, and infrastructure. It will encourage public sector reform, progress on local government/decentralization and institutional development. Furthermore, the Bank will focus on human development, health and education, with special attention to infant and maternal mortality and HIV/AIDS.

26. Support to key sectors and government strategies—e.g., in rural development, social services, decentralization and growth—is mainly provided through a shift to programmatic lending/budget support including PRSCs. IDA will continue to provide support through investment lending for infrastructure projects, including power and roads. Overall lending during IDA14 is projected at SDR 757 million.

Box 2 - Fighting HIV/AIDS in Uganda

At one bleak point in the early 1990s, it might never have been imagined that Uganda would be the first country in Sub-Saharan Africa to curb the spread of the HIV virus. Uganda's HIV/AIDS prevalence rates had reached a staggering 14 percent a decade ago, with infection rates as high as 30 percent in some urban areas.

To fight its epidemic, Uganda developed one of the most comprehensive HIV/AIDS programs in Africa. In support of Uganda's efforts, IDA provided US$50 million for the Sexually Transmitted Infections Project in 1994, the cornerstone of the Government's program to control HIV/AIDS between 1994 and 2000. The results were remarkable: by the end of 2001, adult prevalence had fallen to 6.5 percent from 8 percent in 1999. While the decrease in prevalence has been achieved across all age groups, it is most notable among 15- to 24-year-olds, where prevalence was reduced to 3.7 percent from 11.1 percent, and to 10 percent from 29 percent among males and females, respectively, between 1992 and 2001. The behavioral changes were just as remarkable: Reported casual sex partnerships declined from 14.3 percent to 6.6 percent or a 43.2 percent achievement against the target of 20 percent and condom use increase exceeded the target of 50 percent.

27. **Sudan**, the largest country in Africa, is in the process of peace negotiations after decades of devastating civil war and weak governance that has imposed enormous costs in terms of human life, population displacement, and lost opportunities for development. While the exact timing of a final peace agreement in the civil conflict is uncertain, the peace negotiations being held under the auspices of the Inter-Governmental Authority on Development and supported by the United States, United Kingdom, and Norway are promising. Recently a preliminary peace agreement has been signed by the negotiating parties from North and South. The situation in the north western Darfur region, however, remains a cause of major concern at this time. Despite its significant endowment of resources, Sudan remains one of the poorest countries in the world. Poverty is widespread with deep economic and social inequities between as well as within: (i) regions; (ii) rural and urban areas; (iii) war-affected and peaceful areas; (iv) large numbers of displaced persons and residents; and (v) men and women. While economic growth is being revived, this growth has been concentrated in a few states and urban areas.

28. Our projection assumes that by the start of the IDA14 period an effective peace agreement—including resolution of the recently flared-up conflict in the North West—and reengagement with IDA will have been realized. The latter would require for FY05 a substantial amount of resources to clear external debt arrears (estimated at more than US$20 billion, of

which US$301 million are to IDA[7]) and provide positive flows to help meet its enormous reconstruction and development needs. Subject to the solidification of the peace process and a parallel increase in institutional capacity, IDA's financial assistance to Sudan during FY06-FY08 is projected at SDR 399 million.

Box 3 - Striving for Peace in Sierra Leone

With the onset of civil war in 1991, Sierra Leone plunged to last place in the world's Human Development Index, measured each year by the United Nations Development Programme. Half of the country's population was displaced, and it was impossible for humanitarian or development aid to reach half of the country's war-battered territory. However, working with the World Bank and other international partners through the Disarmament, Demobilization, and Reintegration (DDR) Program, the Government of Sierra Leone has been able to strive for a lasting peace. The DDR program was part of a long-term effort initiated in 1997 by the World Bank and the UK's Department for International Development. It was shaped by a UN-supported peace agreement based on reconciliation, and it included all the parties to the conflict. Coordinating with international supporters, the World Bank managed a US$31.5 million Multi-Donor Trust Fund while the UN oversaw the disarmament process as part of the broader effort to cement the new peace initiative.

Altogether, some 72,500 combatants have been disarmed and demobilized; of these, more than 56,000 signed up for reintegration assistance, 48,000 participated in the economic and social reintegration of ex-combatants (TEP) program, with roughly half of these employed or self-employed one year after the program's completion. In parallel, the Emergency Recovery Support Fund (ERSF) supported 269 community projects in the affected areas, which served to get 84 schools and 28 health centers back into operation, gave 200,000 people access to potable water, put more than 9,000 hectares of land back under cultivation, and improved production on close to a million hectares. The efforts served as an incentive to attract more than 220,000 internally displaced people back to their areas of origin and clearly contributed to the sustained peace, which has now held for almost two years.

South Asia

29. The South Asian regional strategy is based on the pillars of growth and human development. Growth will be furthered by a focus on improving the investment climate, including direct infrastructure investment. Human development will be supported by improving the quality of service delivery in water supply, sanitation, energy, health and education—the latter with special focus on the inclusion of girls and young women. The inclusion of disadvantaged groups (women, castes, and tribes) is a cross-cutting theme for this region's strategy. Other cross-cutting themes concern limiting the threat of HIV/AIDS, strengthening public accountability, and furthering regional integration. The prospect for IDA lending in the four large IDA borrowers in the region are spelled out below.

30. **India**. The past decade has seen significant progress on growth and poverty reduction. In primary education, substantial improvements have also been recorded in literacy, enrollment, completion and gender balance. However, advances on health outcomes, especially maternal mortality and reducing malnutrition, are less impressive. Progress has lagged in some regions, including the four populous states of Uttar Pradesh, Bihar, Madhya Pradesh and Orissa, where more than half of India's poor people live. As a result, India still houses 40 percent of the world's poor population. Restructuring public expenditure to priority areas, including infrastructure investments and basic social service delivery, in the context of fiscal constraints, is a priority for India. The FY05-08 CAS envisages increased use of programmatic investment

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[7] As of May 15, 2004.

lending as a tool to support national programs in the areas most critical to meeting the MDGs. While maintaining the Bank's support for the long term reform process through programmatic lending at the state level, it will also seek to reengage with the national government, and work closely with partners—both official and private—that can join in providing substantial financing.

31. The agenda for policy reform and poverty reduction in the Government's Tenth Plan will set the framework for the next World Bank Group CAS. The core message of the FY05-08 CAS will reflect a number of strategic thrusts in order to achieve a major step-up in the Bank's impact and delivery: (i) a focus on outcomes as a pre-requisite for all new lending and analytic work; (ii) lending selectivity to focus IDA's limited resources on activities where its assistance is welcomed and where its contributions among those of other donors can be most effective; (iii) application of "guidelines for engagement" to encourage key sectoral reforms with investment lending; and (iv) expansion of IDA's role as a knowledge provider and generator, attuned to national and state circumstances. IDA's focus will be on human development, rural livelihoods (with an emphasis on community-driven approaches), as a complement to the IBRD's increased lending for infrastructure.

32. Assuming a proportional increase in India's cap, IDA lending to India is projected at SDR 2,560 million. This is well within the range of IDA lending that could be effectively absorbed by the country. Within this envelope, it is envisaged that the priorities for distributing IDA remain unchanged: (i) IDA-only funding for projects that directly address social/poverty issues; and (ii) a 50/50 IDA/IBRD blend for adjustment loans.

Box 4 - Delivering Universal Primary Education in India

Between 1951 and 1991, India made great strides in education, raising literacy rates to 52.2 percent from 18.8 percent. As impressive an achievement as this was, the country was experiencing difficulties expanding the primary education system to keep up with population growth, with negative repercussions for poverty reduction. Initiated in the early 1990s, the District Primary Education Program (DPEP) was designed to facilitate India's efforts to achieve universal primary education and it has since become the world's largest education program. The program grew to consist of seven Bank-funded projects totaling US$1.3 billion, along with states and districts funded by the European Commission, the U.K. Department for International Development, the Government of the Netherlands, and UNICEF. The broader program has covered 271 low literacy districts in 18 states, served approximately 30 million children, and created 63,000 schools, including more than 50,000 alternative, or community schools.

The last program to close, DPEP II, has contributed to raise overall enrollment rates by 20 percent across districts included in the program, 25 percent for girls and 19 percent and 20 percent, respectively, for scheduled casts and tribes. In addition to girls, who were formerly prevented from attending school, the beneficiaries include working children and children with mild to moderate disabilities (of the total number of children identified with mild to moderate disabilities, 77 percent were mainstreamed into schools). Overall repetition rates declined to 6.3 percent from 9 percent. Three years of program implementation boosted scores 40 percent over the baseline in mathematics and 23 percent over the baseline in language for Class 1, and 18 percent in mathematics and 15 percent in language for Class 3/4. The additional years—2000 to 2003—yielded additional 13 percent and 12 percent increases over the midterm in mathematics and language for Class 1, and 23 percent and 16 percent in mathematics and language for Class 3/4. Finally, the targets of providing physical infrastructure in the form of 21,100 classroom and repairs of 13,900 existing ones were achieved.

Although variation among districts and states is substantive—reflecting varying degrees of poverty—the overall improvements are very encouraging, particularly given the scope of the program, which affects educational opportunities and outcomes among hundreds of thousands of children.

33. **Bangladesh** has already met the MDG target of eliminating gender disparity in basic education and made substantial progress toward universal education. For most other indicators it has made commendable progress toward the MDGs, and can achieve the goals, assuming considerable additional public expenditures accompanied by improved efficiency of existing spending and of the country's institutional and policy framework. Emphasis of public expenditures and policies on the social sectors has contributed to rapid progress in human development. Currently, combined expenditures in education, health, social safety net, and disaster management make up about one-third of the country's total budgetary expenditures. Still, more resources are needed to meet the human development goals. Education receives more than 2 percent of GDP in public spending—making the sector the biggest recipient—and health receives 1 percent of GDP. However, Bangladesh's public spending per capita on education and health (US$12) remains well below that of India (US$21) and Sri Lanka (US$37).

34. Recent progress on reform is encouraging, particularly in areas considered critical for the country's future. Governance remains a major concern, with a renewed effort to deal with the issue strategically at the sector and program level. Among the most relevant policy areas, the Bank is emphasizing SOEs and banking reform, quality of education, tax and customs administration, public administration, and improving the regulatory and institutional framework of the energy and telecommunications sector. The new CAS, based on the PRSP that is currently being prepared, will continue to emphasize health and education sectors. IDA also envisages continued reengagement in priority sectors—such as power, water and export infrastructure—and intensified efforts in the agriculture sector. Once the PRSP is completed, PRSCs will be a

central part of the lending program, most likely starting in FY05. Investment lending will be selectively used in key sectors (i.e., power, infrastructure, possibly ports), coupled with technical assistance credits to build institutional and policy making capacity. Programmatic support is also being emphasized through multi-donor SWAps, building on the lessons learned from the first generation SWAp in Health and Population.

35. While Bangladesh still has large unmet needs, overall levels of aid flows have continued to decline in recent years. On the other hand, Bangladesh is included among the less indebted low-income countries, and the macroeconomic situation is projected to remain stable. The IDA14 projection foresees an increase of the country's envelope to SDR 1,724 million. This is well within the range of scaled up programming that the country team believes could be effectively used.

36. **Pakistan**. The CAS is based on the Poverty Reduction Strategy for 2003-08[8], which aims for higher growth resulting in lower poverty and a reduced social gap. It is based on four pillars: (i) achieving sustained high and broad-based economic growth—focusing particularly on the rural economy—while maintaining macroeconomic stability; (ii) improving governance and consolidating devolution, both as a means of delivering better development results and ensuring social and economic justice; (iii) investing in human capital, with a renewed emphasis on effective delivery of basic social services; and (iv) targeting the poor and vulnerable, to bring the marginalized sections of the population and backward regions into the mainstream of development and to make marked progress in reducing existing inequalities.

37. The lending instruments best suited to pursue this strategy are: (i) policy-based lending to pursue the governance and sectoral reform agenda; (ii) programmatic sector and investment lending to support implementation of reforms in economic management and governance (e.g., tax administration, public financial management) to improve the delivery systems for education and health and to enhance community infrastructure services (including water management). This approach combines budget support with programmatic investments tailored to meet the needs of the associated institutional reorganization and modernization programs.

38. Assuming a close to 25% increase from Pakistan's current high case of $600 million per annum, IDA lending to Pakistan is projected at SDR 1,532 million. This is well within the range of IDA lending that could be effectively absorbed in this country.

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8 Government of Pakistan. 2003. *Accelerating Economic Growth and Reducing Poverty: the Road Ahead*.

Box 5 - Supporting the Turnaround of Pakistan's Economy

Slow economic growth, combined with successive years of drought in the late 1990s and early 2000, contributed to the rise in poverty in Pakistan, which in 2001 afflicted more than 32 percent of Pakistanis. The government that came into power in 1999 launched a comprehensive program of reforms, articulated in an interim Poverty Reduction Strategy in 2001, to stabilize the economy, revive economic growth, accelerate poverty reduction, and improve social indicators. The World Bank Group quickly stepped up its technical and financial assistance in response: IDA supported the implementation of cross-cutting economic and governance reforms with two Structural Adjustment Operations and two regional multisectoral Structural Adjustment Operations for Sindh and the Northwest Frontier Provinces. The Bank also stepped up its program of analytical work, which helped inform the Government's reform strategy and supported IDA's lending program.

Growth has now accelerated, external financial inflows are increasing, and the Government is gradually consolidating its domestic and external reputation as a reformer. In 2002/03 GDP growth accelerated to 5.1 percent and is projected to accelerate further in 2003/04. Inflation remained low and external balances continued to improve (from –3.5 percent of GDP in FY1999 to 0.2 percent in FY02). For the first time in a decade, Pakistan is on its way to successfully completing the IMF-supported Poverty Reduction and Growth Facility (PRGF) program. Finally, debt re-profiling resulted in a significant reduction of the debt burden: This has allowed the Government to increase expenditures on priority sectors—in particular, education, health and infrastructure—which it has done over the past three years. International markets and investors have rewarded the country's efforts, with ratings improving and good demand for the February 2004 Eurobond issuance.

Table 1: Pakistan: Selected indicators

	FY03	FY06	FY98	FY00	FY02	FY03 Est.	FY04 Proj.
Real GDP fc	2.1	5.1	1.7	3.9	3.4	5.1	5.3
Consumer prices	9.8	13.0	11.8	3.6	2.7	3.1	4.0
Consolidated government budget balance incl. grants (in % of GDP)	-6.7	-6.7	-6.8	-5.5	-4.4	-1.7	-3.1
Total government debt (in % of GDP)	95.4	89.1	90.1	100.9	96.7	88.8	83.1
Exports (US$ Billion)	6.8	7.8	8.1	8.2	9.1	10.9	12.2
Imports (US$ Billion)	-10.0	-10.3	-11.2	-9.6	-9.4	-11.3	-12.9
Current account balance excluding official transfers (in % of GDP)	-8.3	-4.9	-6.8	-3.5	0.2	4.6	2.0
Gross reserves (in millions of U.S. dollars)		2,741	1,141	908	4,330	9,521	11,955

Source: IMF.

39. **Afghanistan** has made major strides since it emerged from a long period of conflict two years ago. Still, major challenges, especially with respect to governance, security, and opium production, remain. At the Berlin conference in late March 2004, donors endorsed the Government's seven-year program *Securing Afghanistan's Future* with a cost of US$27.5 billion. Half of this will be targeted on rebuilding infrastructure. The other half will be split evenly between education/social protection/health and security expenditures. IDA's commitment involved a firm pledge for FY05 of US$285 million and similar amounts during FY06-07 assuming continued performance on implementation and a strong IDA14 replenishment. Assuming US$250 million for FY08 (Afghanistan's first post-conflict allocation phase-out year), this results in a SDR 563 million Afghanistan projection for the IDA14 period.

East Asia & Pacific

40. The East Asia and the Pacific regional strategy stresses the need for: (i) improving governance to enhance the effective use of IDA resources, (ii) strengthening government capacity to implement programs and projects, (iii) coordinating with the major bilateral donors and the Asian Development Bank to leverage scarce concessional resources; and (iv)

encouraging SOE and financial sector reforms—identified as priority in the Bank's leading analytical work—and/or improvements in the investment climate. Cross-sectoral work on PRSPs, integrated Public Expenditure Reviews, and multi-donor technical assistance for public financial management is expected to expand in the future. As spelled out below, Vietnam and, to a lesser extent Indonesia, would continue to receive the lion's share of the region's IDA allocations.

41. **Vietnam's** progress on poverty reduction and policy performance has been noteworthy. Between 1990 and 2002, the number of poor people (living on $1/day) fell to 11 million from 34 million. It rates well in macroeconomic management and in social inclusion and equity when compared to other countries at a similar development level. There has also been progress in the financial sector. With the planned accession to WTO by end 2005, the country's policy performance is expected to further improve.

42. Vietnam's development agenda with localized MDGs is laid out in the Government's Comprehensive Poverty Reduction and Growth Strategy published in 2002. It translates a vision of transition towards a market economy with socialist orientation into concrete public actions. It commits Vietnam to full openness to the global economy over the coming decade, and the creation of a level playing field for the public and the private sectors. It emphasizes that the transition should be pro-poor, and notes that this will require heavier investment in rural and lagging regions. It gives strong emphasis to poverty reduction and social equity and to a more modern system of governance. The combination of fast growth and stable distribution of wealth explains the remarkable accomplishments of Vietnam in terms of poverty reduction and the poverty MDG has already been met. Progress in other sectors has been robust as well, with the enrollment and completion targets attainable. The challenge for the country, however, is to maintain its focus on pro-poor and pro-equity policies. As for the health, water and sanitation targets, Vietnam must also carry out significant institutional reforms in the coming years if it is to reach them.

43. Building administrative capacity, especially at the provincial and local levels, will be crucial to the effectiveness of policy implementation. Particularly daunting will be the challenge of modernizing the legal and institutional framework that was inherited from the era of central planning into one more adapted to current needs. Creating a vibrant private sector that can compete internationally and provides employment opportunities will also be key, especially as SOEs privatize. Given Vietnam's substantial progress thus far and its improving investment climate, these reforms along with additional aid will place the country on track to achieve all the MDGs by 2015.

44. IDA's engagement in Vietnam will continue to be along three themes: implementing the reform agenda and completing the transition to a market economy; enhancing equitable, socially inclusive and sustainable development; and adopting a modern public administration, legal and governance system. The mode of delivery for IDA lending will respond to the Government's priorities. Investment lending for infrastructure, especially to increase services for lagging regions and urban poor as well as ethnic minorities, will remain the focus of IDA assistance. Other investment projects such as those to address the modern public administration, legal and governance reform will be another critical area of support. Budgetary support to the country will

be provided through a series of PRSCs. IDA will also shift its assistance gradually to SWAp operations, initially in the education and transport sectors.

45. IDA will be working with other partners in supporting Vietnam. The country's development partners as a whole are increasingly gathering around the Government's Comprehensive Poverty Reduction and Growth Strategy as a guiding framework for all development assistance with the 20 Government-Donor-NGO partnership groups as coordinating forum. The Consultative Group continues to be at the center of an active policy dialogue between donors, private sector, civil society and Government. PRSCs with increasing donor co-financing will become an effective tool for day-to-day dialogue between the Government and the donor community.

46. The country will require an increase in ODA from the current net inflow of US$900 million per year to about US$1.2 – US$1.5 billion for CPRGS goals. Vietnam could use a substantial increase in aid in accelerating its progress towards the MDG targets. While an increase on this scale will mean that the ratio of aid to GDP will rise over the medium term, it will remain low in absolute terms and should be sustainable as income and domestic revenues expand at the projected growth rates. Within the overall external resources envelope, the demand for IDA resources continues to remain high. IDA's presence in the country through investment lending and policy work provided through the PRSC is critical for CPRGS. The IDA lending volume increased from around US$300 million per year in the 97-99 period to US$610 million in 02-04. The IDA14 projection foresees an increase of the country's envelope to SDR 1,268 million. This is well within the range of scaled-up programming that the country team believes could be effectively used.

Box 6 - Bringing Support to Vietnam's Program of Reforms

The World Bank introduced Poverty Reduction Support Credits (PRSCs) in May 2001 to support countries that are eligible for IDA loans to implement their Poverty Reduction Strategies. PRSCs focus on poverty reduction as the central objective of development assistance with the goal of enhancing country ownership, facilitating partnerships with other institutions, and building on rigorous analytical underpinnings for fiduciary, social, structural, and sector reforms. In order to do so, they align resource flows with country policies and budget cycles to the extent possible.

Unlike other countries in the region that suffered from the 1997 financial breakdown, Vietnam avoided a fiscal, balance-of-payments, and banking crisis through judicious and prudent macroeconomic policy. Structural reforms also picked up steam during the 1998-2001 period relative to the previous three years: This created a positive enabling environment for the first Vietnam Poverty Reduction Support Credit.

The Vietnam PRSC supported the Government's program of reforms aimed at restoring higher growth and faster poverty reduction in the country. In particular, the program supported measures to improve the climate for private sector, reform state-owned enterprises, restructure banks, liberalize trade, and strengthen public expenditure management, since these were the dominant constraints to faster growth and poverty reduction in Vietnam. The objective was to open up the economy to more competition, enhance transparency, and promote efficient investment, especially private investment. Such objectives were largely met: the rate of GDP grew from 5.5 percent to more than 7 percent by the end of 2003, foreign direct investment increased from 2 percent to 3.2 percent of GDP by the end of 2002 with the establishment of 50,000 new private SMEs (compared to the originally envisioned 30,000), while the share of manufactured and processed products increased from 37 percent to 48 percent of total exports. The ensuing Vietnam PRSC II and III have capitalized on the lessons learned from the positive experience with the first PRSC, and are currently supporting the country's ongoing struggle against poverty.

47. **Indonesia** received temporary access to IDA in 1998 following the 1997 economic crisis when the economy contracted by 13 percent and the number of Indonesians facing dire poverty more than doubled. Since the crisis, Indonesia has embarked on a large-scale transformation from an autocratic, centralized state to a democratic, decentralized one. It has successfully regained macroeconomic and political stability, but—due largely to the scale of political and institutional transformation—economic growth has remained below 4 percent and poverty reduction remains a challenge. Under current World Bank growth projections, the IDA per capita GDP threshold would only be achieved by mid-FY05[9], while the pre-crisis per capita GDP would not be regained until 2008.

48. Today 110 million people still live on less than $2 a day and remain vulnerable to falling back into severe poverty. In terms of the MDGs, Indonesia continues to under-perform its neighbors with respect to access to quality health, education and other basic services. The reforms undertaken in the country's political remake could lead to a more effective and accountable government, a restoration of growth and MDG attainment, provided the country stays the course and receives adequate technical and financial assistance.

49. IDA is needed and well placed through the new FY04-07 World Bank Group Country Assistance Strategy for Indonesia to play a key role over the next few years through innovative governance programs, including large-scale community-driven development, to generate sustainable poverty reduction. As long as progress on governance reform continues, Indonesia could achieve the MDGs and even surpass some (poverty and education), provided external assistance is increased two to three times above the current levels, keeping pace with reforms. The new CAS, which puts governance reform at its core, supports a path toward higher growth and achievement of the MDGs, through a stronger investment climate and improved service delivery to the poor, matched by greater access to IDA and IBRD funds as governance improvements are made. Indonesia's improving performance, including a decline in time and costs of registering a business and recent developments in governance reform, are cause for optimism.

50. As described in the CAS, IDA and IBRD support and reward broad-based governance reforms in two ways: through the CAS trigger framework and through a governance-focused "platform" approach to investment lending. At the country-level, reform is targeted at specific governance and other reform objectives supported by the CAS. It is at this level that the Bank is supporting the Indonesian-led development of a national Poverty Reduction Strategy. The Government's intent to establish a medium-term expenditure framework is creating for the first time a clear link between the budget process and progress on poverty reduction objectives. At the project level, the cross-sectoral platform approach introduced in the CAS aims to use IDA-supported projects, leveraged by analytic and advisory activities, partnerships, and capacity-building activities, to systematically increase standards of governance for specific levels of government so that IDA can help to have an impact on achievement of the MDGs. IDA is a key component of the overall CAS and plays a special role in the innovative poverty and social programs. The success of the community-driven development model, which is mostly IDA-funded, underpins the new platform approach to lending and shows how IDA can bring impacts to scale.

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9 By this projection Indonesia will be receiving hardened terms in FY08 (they apply after the country's GNI PC has exceeded the IDA cut off level for at least two years)

51. Though improving, Indonesia's credit rating remains weak at five grades below investment, similar to many other IDA recipients. Its debt situation, once precarious, appears sustainable, but is still shrouded with risk, and the economy remains vulnerable to shocks. At this time, a gradual reduction of Indonesia's IDA borrowing over the IDA14 period is expected, at the end of which it would graduate back to IBRD borrower status. This implies an FY06-08 projection of about SDR 140 million per annum. In case significant progress would be made across the range of reforms areas, Indonesia would be able to access "high-case" funds of up to SDR 250 million per annum[10]. The IDA14 projection of SDR 585 million assumes an even chance that this will happen.

Box 7 - Empowering Communities in Indonesia

When the Kecamatan Development Fund (KDP) was conceived in 1998, Indonesia was in the midst of an extreme financial and political crisis, which threw more than 30 million Indonesians back into dire poverty. The economic crisis brought to the forefront the vulnerability of the country's approach to economic development and governance: 32 years of authoritarian rule had stifled local-level initiative and decision-making.

KDP was designed to address this myriad of problems by improving local governance and increasing the participation of communities in their own development. Its objectives were to strengthen Kecamatan- (sub-district) and village-level government and communities by empowering them to manage increased funding and become accountable for it; and to contribute to rural development by providing increased economic opportunities at the village level in the poorest Kecamatan.

By the end of 2002, KDP had worked in some 18,000-20,000 villages, almost one out of every four villages in the country, with a total beneficiary population of some 35 million people. More than 126,000 village-wide public meetings were held on KDP with an average of 36 percent women attending and 53 percent representation of the poorer members of the communities. From 1998 to 2002, KDP funded more than 50,000 physical infrastructure, economic and social activities across the country worth US$189 million.

Efforts have been revamped under the IBRD/IDA co-financed KDP-II and KPD-III: The new projects place more emphasis than previously on developing local technical capacities for design, management, and maintenance. The purpose of better local governance remains higher quality growth.

Europe and Central Asia

52. IDA plays an indispensable role in enabling the Bank Group to support poverty reduction and development needs in ECA. Overall, the ECA region is witnessing an improving policy environment, including on the governance front, in many of its IDA countries. Nonetheless, the transition challenges are still daunting throughout the countries of the Commonwealth of Independent States (CIS); significant poverty issues persist; and governments in a majority of ECA's IDA or IDA/IBRD blend countries are struggling with serious post-conflict issues and/or potential for new conflicts, which can degenerate and undermine hard fought development gains in the absence of adequate support from the international community. The region includes a diverse group of countries in (i) South Eastern Europe (Albania, Bosnia and Herzegovina, Moldova, Serbia and Montenegro, and the territory of Kosovo); (ii) the South Caucasus (Armenia, Azerbaijan and Georgia); and (iii) Central Asia (Kyrgyz Republic, Tajikistan and

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[10] Double base case lending of previous CAS (almost double for IDA), and almost 50 per cent increase in high case amount, which was not realized under the previous CAS (lower high case IDA allocation due to fund limitations).

Uzbekistan). As the impetus for reform, capacity, and access to resources varies, IDA's role and strategic approach will continue to be highly differentiated across these sub-groups of countries.

53. *South Eastern Europe* has a large number of countries that have emerged from conflict and have limited access to concessional resources (none of the countries has access to concessional lending from regional development banks, and several have not had access to the IMF's PRGFs). IDA has played a key role in supporting reconstruction and growth, including being seen as a honest broker between divided parties. Going forward, in countries where there is a strong impetus for reform (typically where there is the possibility of accession to the EU), IDA will provide further support for reforms to accelerate growth. Where the impetus for reform is weaker and where capacity for implementation is limited, IDA will focus more selectively on areas which are critical to either growth or equity, with projects that are simple to implement and which have a strong element of capacity building embedded in them. IDA is also expected to play a key role in regional projects on HIV/AIDS, transport and trade facilitation, and energy. A key issue facing the countries in this group that are at relatively high-income levels is constrained access to development assistance (the "gap" issue), which is likely to compromise growth and achievable progress towards the MDGs. For this group of countries, it is vital to take an integrated and systematic approach that looks at this obstacle to development.

54. The *South Caucasus* is also a sub-region that has suffered from the scourge of conflict. With the exception of Azerbaijan, the countries have no access to a concessional regional development bank. IDA has played an important role in supporting growth, poverty reduction, and institutional development in both Armenia and Azerbaijan. Both countries have shown significant progress across the CPIA rating categories, with challenges still to be met in strengthening governance. Progress in Georgia has been more limited, but recent political changes augur well for future reform and development efforts. Going forward, IDA is intensifying its support for the PRSP processes in all three countries and shifting more heavily to programmatic approaches, both in lending and core knowledge work. Despite their strong legacy in human development, meeting the MDGs—particularly in health and environment—represents a challenge for the countries in this group. Finally, although formal regional activities are complicated by unsettled conflict in the South Caucasus, IDA is intensifying its regional approach to common strategic issues, especially in the area of trade and transport facilitation, and using its convening power to facilitate cross-country dialogue, technical exchange and knowledge sharing.

55. The *Central Asian Republics* include the poorest countries in ECA and those which face the greatest development challenges, including both conflict-related issues and fragile social environments. They are highly dependent on concessional donor financing, particularly grants. This is especially true of the Kyrgyz Republic and Tajikistan, where more resources are justified on performance grounds but debt levels are very high. IDA has played an important role in these countries, and enhanced needs can be foreseen as they face a rapid deterioration of their physical and human infrastructure. Without a sharp acceleration in both country and donor efforts, these countries are not anticipated to grow rapidly or meet the MDGs. As elsewhere in the ECA region, regional projects—in HIV/AIDS and water resources, for example—are going to be important.

Box 8 - Land and Real Estate Registration Project in the Kyrgyz Republic

As the Kyrgyz Republic continues the process of transition to a market system, proper handling of rights in immovable property is essential for development. Heretofore, information on land and real estate had been collected and maintained in an uncoordinated and incomplete manner by a number of different agencies.

IDA is supporting the development of markets for land and real estate and the more intensive and effective use of land and real estate through the introduction of a reliable and well-functioning system for registration of rights in immovable property. The Land and Real Estate Registration Project addresses these issues by putting in place a reliable system for registration of rights in land and real estate, reviewing and simplifying existing procedures associated with transactions in land and real estate, and conducting systematic registration.

By the end of 2003, a total of 265,000 registrations had been recorded; the number of secondary transactions, as well as the total number of mortgages, was also increasing strongly, well ahead of the 5 percent annual growth rate anticipated. Also within the same time frame, more than 1million properties had been surveyed and nearly 850,000 properties prepared for registration (the project target was 600,000). Included in the number of properties registered were nearly 315,000 properties that lacked full supporting documentation or had discrepancies between their documents and the situation on the ground and have had their rights regularized, granting secure tenure where it did not exist before.

The Project has been successful not only in achieving its stated objectives ahead of time, but also in constructively linking its positive results with the concurrent Kyrgyz Second Rural Finance Project, whose objective is to strengthen and expand a sustainable rural financial system accessible also to those with limited collateral.

Middle East and North Africa

56. The region includes only two regular IDA-eligible countries, Yemen and Djibouti. Yemen has shown steady progress, especially on the macroeconomic front since the end of the civil war in 1995. Slow but steady progress is being made on governance, but only two of the MDGs at this time appear within reach by 2015. Consequently there are substantial financial assistance needs, and, at the same time, a lagging capacity to sharply increase IDA lending. They are projected at SDR 342 million. The small country of Djibouti, which suffers from adverse conditions in its region, faces major challenges meeting its MDGs. In addition, the projection includes $500 million of IDA funding for Iraq, which is now expected to occur during FY05-06 (see also Appendix I, Para 9).

Box 9 - Providing Basic Services to Isolated Villages in Yemen

Remote mountain villages in Yemen, one of the world's poorest countries, often lack the most basic services such as schools and clean water. The Social Fund for Development (SFD) was established in 1997, with support from the World Bank, to help reduce poverty, provide basic health and social services to remote and poor communities, and provide economic opportunities.

In remote mountaintop villages, the SFD has worked with communities to restore traditional water-harvesting systems and also increase girls' school enrollment by constructing new classrooms. In some communities, the SFD has supported new health centers and connected remote villages with marketplaces by building new roads.

Education projects amount to more than 50 percent of the SFD's activities, followed by water and healthcare projects. Since its establishment, the Fund has signed contracts for more than 2,420 projects, of which some 1,115 have been completed, benefiting more than five million people across Yemen. Data for 1999 shows that in the beneficiary communities, girls' enrollment rates have attained levels almost 20 percent higher than in other communities.

The SFD's achievement to date enabled it to attract a large number of multi- and bilateral donors to the donors meeting, and a number of them have already confirmed their financial support for the SFD III Project. The total project cost for the Third Social Fund for Development is US$400 million, of which IDA is financing US$60 million while Government is financing 10 percent. This represents a considerable increase from the second (US$175 million) and first versions of the project (US$80 million).

Latin America and the Caribbean

57. LCR sees a need for increased IDA financing in support of the region's IDA borrowers' pursuit of the MDGs. The countries constitute a diverse group. Bolivia's per capita income has slipped below the new IDA operational cut off level of US$895; its needs for IDA financial assistance are increasing while country performance is eroding as a result of recent social and economic difficulties, and prospects for IBRD borrowing remain limited. Honduras and Nicaragua are well-performing, mid-sized countries, with the GNI/capita in Nicaragua (US$730) approaching the cut-off level, and that of Honduras (US$970) exceeding it. Both countries will continue to have ample opportunities for effective use of IDA funding while on the road towards IBRD creditworthiness. Guyana is a poorer and weaker performing small state. Haiti is a LICUS country facing continued difficult conditions; its reactivation is expected in FY05, when a special IDA allocation will be needed to allow a positive net flow after arrears clearance. IDA will seek to assure continued strong support during the FY06-08 period, provided that the positive current momentum can be sustained. Finally there are the small-state OECS blend countries. Accordingly, the strategies are highly customized to the varied country capacity constraints and transaction costs. In response, the Region plans to: (i) focus on selectivity in CASs; (ii) increase where appropriate the use of programmatic approaches; (iii) enhance stakeholder participation; (iv) look for opportunities for regional project initiatives, e.g., in Central America and in the Caribbean; and (v) intensify partnerships with other donors.

Box 10 - Linking Gender Equality with Tourism and Regional Development in Honduras

Honduras has rich natural and cultural resources, yet ranks as one of the poorest countries in Latin America with a high incidence of extreme poverty in rural areas. To increase economic growth, Honduras is pursuing a robust tourism development strategy that capitalizes on its many exceptional natural and cultural resources. Building on recent encouraging trends—in 2002, tourism in Honduras grew by 20 percent with more than 800,000 visitors—the Honduras Regional Development in the Copan Valley Project, approved in FY03, includes also specific attention to gender issues in an income-generation component. This includes training, technical assistance, and capacity building for employment or small enterprise development linked to natural/cultural tourism. The income-generation component also includes Fondo Prosperidad, which is designed to provide opportunities for community groups, particularly indigenous female groups, to access resources for economically viable enterprises linked to tourism development. The project's indicators target increases in average number of visitors by at least 20 percent, doubling the average length of stay and expenditure by tourists, with positive trickle-down effects for municipalities' revenues, growth of small enterprises in the region, and employment.

Appendix I

General Assumptions for the IDA14 Financial Assistance Projection

1. **Eligible Countries.** The number of countries eligible to borrow from IDA during IDA14 is expected to remain at 81 through the end of FY07. Serbia & Montenegro and Indonesia are candidates for graduation.

2. During the new replenishment period IDA will continue to base its allocations to eligible countries on: (i) its PBA system, with major stress on governance; (ii) the capping of the allocations to three large blend countries, India, Pakistan, and Indonesia; and (iii) special allocations for a limited period[11] to selected post-conflict countries.

3. **Large Blend Countries.** Given the competing demands on IDA resources, it is assumed that IDA allocations to India, Indonesia, and Pakistan will need to continue to be constrained. India is a true blend with substantial IBRD financing. It is assumed that its IDA 13 share of about 11 percent will be maintained during IDA14. As for Pakistan, its IBRD lending is expected to gradually grow to substantial levels over the period. Its allocation is currently capped at US$600 million per annum. Its 7 percent share of the overall IDA envelope is also envisaged to be maintained during IDA14. Finally, Indonesia's access to IBRD is expected to increase over the IDA14 period, after which it is expected to return to IBRD-only borrower status.

4. **Gap Countries**. Serbia and Montenegro, Bosnia and Herzegovina, and Albania are referred to as "gap countries", with a per capita income well above the IDA cut off[12], but still limited or no access to IBRD financing . This creates, at times, demand for IDA financing in excess of the country's performance-based allocation. IDA is looking to guide gap countries towards graduation to IBRD, by identifying steps that are required to enhance the country's creditworthiness, incorporated specific triggers for discrete levels of IBRD engagement. Bosnia and Herzegovina, and Albania could become creditworthy for a limited amount of IBRD financing during the IDA14 period.

5. **Other Blend Countries**. In the case of Bolivia, per capita income has fallen over the last four years to US$890 in 2003, just below the IDA cut off in FY05[13]. Limited access to IBRD will depend on country developments. Azerbaijan may graduate to IBRD at the end of IDA14. The remaining blend countries include the small island states of Dominica, Grenada, St. Lucia, and St. Vincent, and four "notional blends", Nigeria, Zimbabwe, Uzbekistan, and Papua New Guinea, for which the date of renewed access to IBRD is highly uncertain at this time.

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[11] At the time of the IDA13 mid-term review in November 2003, it was decided to stretch the eligibility period to four years, with three years phase out to regular allocations (vs three years and two years phase out before). At the same time, the post-conflict allocation norms were somewhat lowered so that the projected total extra allocations would remain about the same.

[12] The operational cut off for FY05 is GNI/cap $895; this figure is updated annually.

[13] As a result it will return in FY05 from hardened terms to blend terms.

6. **Post-Conflict Countries**. At this time, nine countries are eligible for IDA post-conflict allocations: Afghanistan, Angola, Burundi, Democratic Republic of the Congo, Republic of the Congo, Cote d'Ivoire, Eritrea, Sierra Leone, and Timor-Leste. Sierra Leone, which became eligible in FY00, is scheduled to return to regular IDA allocations in FY07, while the Republic of Congo and Eritrea (which became eligible in FY02) will see their special allocation phased out over the course of the IDA14 period. The projection assumes that Sudan and Liberia will qualify as post-conflict countries and return to active status.

7. **Regional Projects Provision**. During IDA13 a pilot program to support regional projects was developed[14], setting aside US$300 million per annum to finance two-thirds of the project cost, with one-third being covered by the participating countries. It is assumed that this will be continued during IDA14.

8. **Reactivation**. Five IDA countries are currently non-active: Liberia, Myanmar, Somalia, Sudan, and Zimbabwe. Reactivation of Liberia and Sudan is assumed for FY05, that of Zimbabwe in FY06-08. Myanmar and Somalia are at this time not expected to return to active status during IDA14 and are therefore not included in the projection. Haiti is assumed to come out of arrears in FY05.

9. **Iraq**. The Interim Strategy Note of the World Bank Group for Iraq in January 2004 envisaged a five year lending program that would include IDA financing in the first two years: FY04-05 of $500 million (and $500 million from IBRD), conditional on the resolution of "threshold issues", concerning security, the status of the Iraqi government, and arrears clearance. In the light of delays to date, it is now expected that the US$500 million IDA financing will occur over the period FY05-06. The total US$500 million is part of the IDA14 projection, since the IDA financing in FY05 is envisaged to also be covered by IDA14 by using temporary access to additional internal resources.

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[14] *Pilot Program for Regional Projects* (IDA/SecM2003-0532, October 7, 2003)

APPENDIX II: IDA14 Assistance Needs Projections: FY06-08

(SDRm) [a/]

	IDA12 (FY00-02) Actual [b/]	IDA13 (FY03-05) Projections [c/]	IDA14 (FY06-08) Projections [d/]
Africa			
Angola	25	126	220
Benin	67	92	150
Burkina Faso	220	272	274
Burundi	101	151	173
Cameroon	78	118	195
Cape Verde	25	20	19
Central African Republic	34	2	9
Chad	163	151	70
Comoros	14	9	6
Congo, Democratic Rep. Of	400	960	1,009
Congo, Republic	72	73	64
Cote d'Ivoire	190	89	229
Eritrea	182	94	43
Ethiopia	689	832	1,469
Gambia, The	36	6	22
Ghana	402	506	538
Guinea	129	38	86
Guinea-Bissau	39	7	11
Kenya	279	335	462
Lesotho	31	26	30
Liberia	NA	292	41
Madagascar	322	314	468
Malawi	79	193	225
Mali	249	153	236
Mauritania	174	89	99
Mozambique	346	312	375
Niger	167	138	145
Nigeria	535	668	1,029
Rwanda	157	159	203
Sao Tome & Principe	8	5	4
Senegal	351	124	220
Sierra Leone	102	135	91
Sudan	NA	227	399
Tanzania	621	738	1,089
Togo	NA	3	18
Uganda	613	613	757
Zambia	285	190	194
Zimbabwe	4	2	259
Regional Projects	11	437	401
Subtotal	**7,200**	**8,700**	**11,333**
South Asia			
Afghanistan	80	557	563
Bangladesh	648	1,273	1,724
Bhutan	16	30	35
India	2,079	1,829	2,560
Maldives	13	2	7
Nepal	58	330	446
Pakistan	930	1,021	1,532
Sri Lanka	122	412	400
Regional Projects	NA	NA	25
Subtotal	**3,947**	**5,454**	**7,291**

APPENDIX II: IDA14 Assistance Needs Projections: FY06-08

(SDRm) [a/]

	IDA12 (FY00-02) Actual [b/]	IDA13 (FY03-05) Projections [c/]	IDA14 (FY06-08) Projections [d/]
East Asia			
Cambodia	104	117	81
Indonesia	311	281	585
Kiribati	NA	1	4
Lao	68	55	115
Mongolia	97	29	46
Papua New Guinea	0	6	31
Samoa	4	15	7
Solomon Islands	3	1	3
Timor-Leste	NA	11	31
Tonga	5	8	3
Vanuatu	3	1	4
Vietnam	1,175	1,193	1,268
Regional Projects	NA	NA	49
Subtotal	**1,768**	**1,719**	**2,226**
ECA			
Albania	136	82	53
Armenia	123	108	113
Azerbaijan	127	103	204
Bosnia-Herzegovina	207	129	84
Georgia	107	111	89
Kosovo	NA	19	10
Kyrgyz Republic	92	62	83
Moldova	44	73	65
Serbia and Montenegro	137	322	86
Tajikistan	95	39	80
Uzbekistan	16	46	98
Regional Projects	NA	32	93
Subtotal	**1,085**	**1,128**	**1,059**
LCR			
Bolivia	149	106	122
Dominica	2	3	3
Grenada	6	6	4
Guyana	4	21	19
Haiti	NA	49	82
Honduras	217	153	137
Nicaragua	258	120	114
St. Lucia	11	7	7
St. Vincent & the Grenadines	4	5	5
Regional Projects	NA	6	49
Subtotal	**650**	**476**	**542**
MNA			
Djibouti	39	25	9
Yemen, Republic of	279	282	342
Iraq Provision ($500m)	NA	NA	343 e/
Subtotal	**318**	**306**	**694**
Total	**14,968**	**17,783**	**23,145**

a/ SDR 1 = US$ 1.45731

b/ Excludes Macedonia SDR 66.3m (Macedonia graduated to IBRD in FY02), includes IDA guarantees for Bangladesh and Uganda.
and Uganda (SDR 86.8m).

c/ FY03 actual and FY04 estimate includes IDA guarantees. FY05 Projection is based on the revised FY05 allocation.

d/ Excludes inactive countries: Somalia and Myanmar.

e/ Represents $250 million annual IDA financing for both FY05 and FY06. (The FY05 financing is envisaged to be funded
by temporary access to internal resources.)