IDA14

Growth in IDA Countries

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Acronyms

AAA	Analytical and Advisory Activities
CAR	Central African Republic
CDD	Community-Driven Development
CEM	Country Economic Memorandum
CFA	Communaute Financiere Africaine
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Policy and Institutional Assessment
DRC	Democratic Republic of Congo
EU	European Union
ESW	Economic and Sector Work
GCFAY	Gross Capita Formation in Proportion to GDP
ISO	International Organization for Standardization
LICUS	Low-Income Countries Under Stress
LIEC	Legislative Index for Electoral Effectiveness
MICs	Middle Income Countries
IDDAY	Overall Development Assistance in Proportion to GDP
O&M	Operation and Maintenance
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
SACU	Southern African Customs Union
SFS	Standard Food Safety
SMEs	Small and Medium Enterprises
WDI	World Development Indicators
WTO	World Trade Organization

GROWTH IN IDA COUNTRIES

I. INTRODUCTION

1. ***Growth and poverty themes have featured prominently in previous IDA Replenishment deliberations***. In these discussions, Deputies sought to endorse and build upon the main pillars of the World Bank's strategy for poverty reduction: (i) good governance, sound macroeconomic management, and policies to enhance efficiency, integration in global markets and growth; (ii) economic services (mainly infrastructure and rural-agricultural development) to enable direct participation in growth; and (iii) human development to foster shared benefits from growth. During IDA13 negotiations, Deputies emphasized growth as a prerequisite for poverty reduction, noting that growth performance among IDA borrowers was uneven and that a large number of countries were stagnating.

2. ***During IDA14 discussions, Deputies expressed concern that economic growth rates for many IDA borrowers were too low to achieve the Millennium Development Goals (MDGs) and proposed "growth" as one of the key thematic areas for review***. This paper responds to that request. It provides an overview of the growth performance and human development of IDA countries during the 1990s, summarizes World Bank activities in the light of these developments and discusses issues for further attention in the coming years.[1] It argues that:

- Per capita income of IDA borrowers increased at an annual rate of 1.9 percent per year during 1995-02. This is a remarkable improvement in economic performance compared to 1981-1994, when per capita income virtually stagnated. This development is encouraging because prolonged periods of sustained economic growth are imperative for sustained poverty reduction;

- Increased political stability, better domestic economic policies, better governance, improvements in health and education of the labor force, and aid flows made the improvements possible;

- However, IDA borrowers face important challenges: per capita income remains low, economic growth rates are highly volatile, physical infrastructure is deficient, human development indicators are low, capacity to manage public resources is low, and institutions need further strengthening.

- Aid can contribute to a more rapid human and physical capital build-up than would be possible if countries were limited to their own savings. However, aid cannot be a substitute for IDA borrower countries' economic and social policies; and

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1 This paper is one in a series of other papers: *Strengthening the Private Sector in IDA Countries*, and on *Working Together at the Country-Level*: The Role of IDA. For a more comprehensive treatment of these issues the reader is referred to these sources.

- Against this background, increasing donor support to finance public infrastructure, maintaining the support for human development programs and enhancing assistance for accelerating integration into world markets are key development challenges. Moreover, improving the quality of economic growth diagnostics and forecasts are crucial for identifying bottlenecks to economic growth and increasing the pragmatism and impact of development programs.

3. ***The rest of the paper is structured as follows.*** Section II explores the recent growth and poverty reduction experience of IDA borrowing countries, and the links between growth performance and poverty reduction. Section III discusses IDA's support for borrowing countries. Section IV lays out the main conclusions and recommendations.

II. GROWTH AND POVERTY REDUCTION IN IDA COUNTRIES

The Growth-Poverty Link

4. ***In parallel to poverty reduction becoming the main goal of development efforts,***[2] ***there is an ongoing debate on the elements that should be at the center of any sensible poverty-reduction strategy***. Even though there remain many open questions regarding how to ensure that the benefits of growth reach all members of society, there is a one area where a significant consensus has emerged in development, policy-making, and academic circles: sustained poverty reduction requires sustained growth.

5. ***Countries that recorded the greatest reduction in poverty are those that experienced prolonged periods of sustained economic growth***. In fact, there is substantial evidence suggesting that the poor typically share in rising aggregate income and suffer from economic contractions.[3] Figure 1 shows a scatter plot relating average changes in headcount poverty to growth, which brings out the strong relationship between growth and poverty reduction. Growth rarely occurs without pulling people out of poverty; poverty reduction is almost non-existent without growth, let alone with an economic decline. This evidence justifies placing growth at the forefront of the development agenda and poverty reduction strategies.[4]

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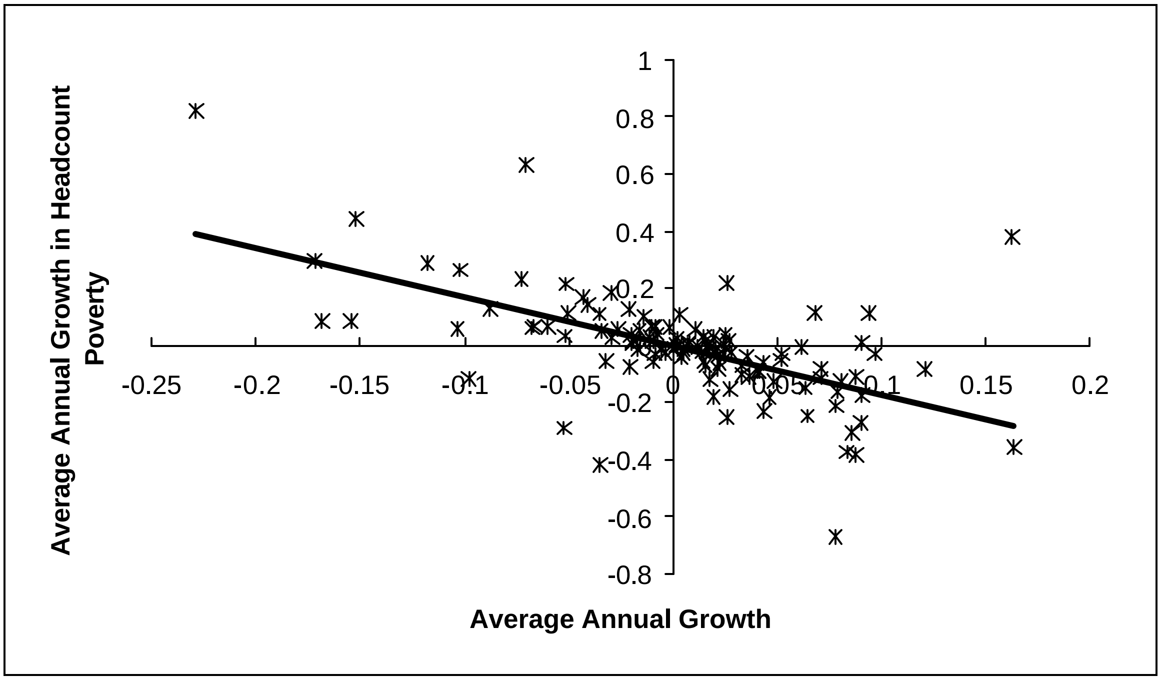
[2] As evidenced by the adoption of the Poverty Reduction Strategy Paper (PRSP) and Millennium Development Goals (MDG) frameworks by most international agencies.

[3] See David Dollar and Aart Kraay, *Growth is Good for the Poor*, Journal of Economic Growth, 7, 195-225, 2002.

[4] This should not be understood, however, as implying that the focus of poverty reduction strategies should only be on growth. In fact, successful poverty reduction strategies also focus on distribution.

FIGURE 1: GROWTH AND POVERTY REDUCTION



Source: Staff calculations based on data from the poverty monitoring database

Growth Performance of IDA Countries

6. ***Growth performance in IDA countries improved significantly since the mid-1990s***. The period 1980-94 was characterized by negative growth in almost 70 percent of IDA countries. In contrast, the period 1995-02 was marked by a recovery in per capita growth rates. This is shown in Figure 2, which plots the median per capita growth rate for IDA countries.[5] The median rate of growth registered an impressive increase from 0.1 percent annually during 1981-94 to 1.9 percent in 1995-02. This represents a marked improvement in the performance of IDA countries in the recent past. The aggregate picture, however, masks significant variations in growth performance among the individual countries (Box 1).

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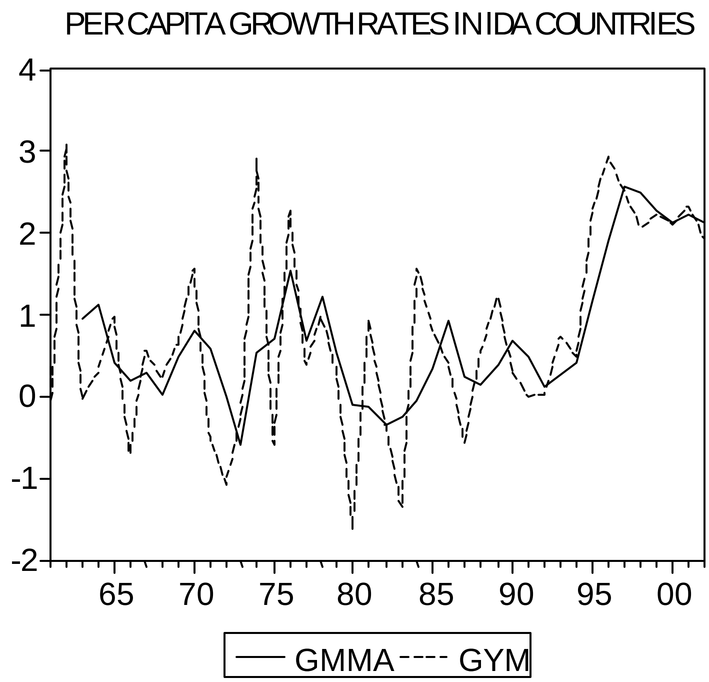
[5] Several observations are in order. (i) To track growth performance in IDA countries consistently, a sample of 35 countries that were IDA-only borrowers as of 1980 (Appendix 1) were used. The definition of the sample is crucial because belonging to the sample itself is a function of the attribute that we are trying to measure. For instance, belonging to the group of IDA borrowers today is related (among other considerations) to the performance of the country in the previous years. As such, countries with good performance are likely to graduate, while countries with poor performance are likely to remain (or reenter) the sample. Therefore, to avoid a selection bias, we defined the current sample as one that includes countries that were IDA borrowers as of 1980. (ii) Studying the median rather than the mean reduces the risk of giving undue weight to extreme observations. (iii) Appendix 1 presents a more detailed description of growth using different samples of IDA countries. We found that regardless of the way the sample is constructed, there is a clear improvement in economic growth performance in 1995-02 in IDA countries.

FIGURE 2:



Source: Based on data from World Development Indicators (WDI)

Note: GYM is the median rate of growth of per capita income, GMMA is a backward looking three-year moving average of GYM.

BOX 1: ECONOMIC GROWTH PERFORMANCE IN SUB-SAHARAN AFRICA

It is instructive to note the diversity in growth performance of sub-Saharan Africa during 1981-94 and 1995-02. Growth performance ranged in a continuum – from low performance in countries afflicted by conflict and poor policies to good performance in countries with strong policy environments and institutions. As seen in the table below, individual country performances differed significantly in the two periods under consideration. Countries that grew faster – such as Benin, Burkina Faso, Ethiopia, Ghana, Mali, Mauritania, Rwanda and Uganda – have strong CPIA ratings. Growth decelerated or is weakest among LICUS, such as Burundi, CAR, Chad, Comoros, DRC, Sierra Leone and Togo. The diversity among these countries has implications for matching IDA's lending and non-lending assistance with country capacity and performance.

Table 1: AVERAGE PER CAPITA GROWTH SELECTED AFRICAN COUNTRIES
(Percent)

	1981-94	1995-02
Rwanda	-1.85	5.22
Mali	-1.39	3.62
Sudan	2.45	3.53
Ethiopia	-1.15	3.14
Uganda	1.94	3.12
Benin	0.31	2.63
Lesotho	2.46	2.54
Guinea Bissau	0.83	2.48
Burkina Faso	0.19	2.15
Ghana	1.36	2.14
Guinea	1.17	2.01
Madagascar	-1.46	0.66
The Gambia	-0.68	1.60
CAR	-1.32	1.5
Mauritania	0.15	1.14
Chad	2.41	0.17
Togo	-2.65	-0.4
Niger	-2.10	-0.49
Comoros	0.15	-0.53
Sierra Leone	-0.96	-0.62
Burundi	0.51	-2.33
DRC	-4.87	-4.51

Source: Based on data from WDI

7. ***The recovery of per capita growth rates of IDA borrowers in 1995-02 was paralleled by improvements in a range of indicators*** (Table 2). For instance:

- Around 80 percent of the increase in the median rate of growth of per capita income between 1981-94 and 1995-02 can be attributed to an increase in total factor productivity;[6]

- The volatility of economic growth rates (measured as the standard deviation of the per capita rate of economic growth) fell;

- About 80 percent of the increase of the median investment ratio to Gross Domestic Product (GDP) is explained by an increase in private sector investment;

- The median share of trade in GDP (exports plus imports of goods and services divided by the GDP) increased. In particular, the median share of exports in GDP increased 6 percentage points after being practically stagnant for three decades. These changes suggest that the isolation of IDA countries from world economic trends in previous decades began to be reversed over the past eight years; and

- The median rate of inflation and its volatility, measured as the standard deviation of the annual rate of inflation, fell.

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[6] A thorough analysis of the sources of growth in the sample is difficult given the quality of the data. However, a back-of-the-envelope calculation can be obtained as follows: the change in the rate of growth of per capita income (1.8 percent) is roughly equal to the change in the share of investment in GDP (the difference between the median in the two periods) times the share of capital in GDP (about 50 percent), times the inverse of the capital-income ratio (about .25) plus the change in total factor productivity. In a related work, Bosworth and Collins (2003) find that per capita GDP fell at an annual rate of 0.2 percent in 1990-00. The difference between this number and the one reported in this paper is explained by differences in the: sample period, countries included in the sample, and their use of regional averages that are GDP weighted. For details see Bosworth, Barry and Susan M. Collins, *The Empirics of Growth: An Update*, March 2003 in http://www.brookings.edu/views/papers/bosworth/20030922.htm

TABLE 2: ECONOMIC INDICATORS

		1961-70	1971-80	1981-94	1995-02
Per capita growth rate	M	0.6	0.3	0.1	1.9
Standard deviation of per capita growth rate	s	0.047	0.056	0.047	0.038
Investment share in GDP	M	10.6	14.6	15.6	18.2
Share of private in total investment	M	n.a.	42.6	54.5	58.8
Trade share in GDP	M	34.2	42.3	45.9	52.7
Export share in GDP	M	14.5	15.2	16.3	22.5
Inflation	M	3.3	11.5	12.4	5.0
	s	4.8	10.5	460.2	55.7
Tax revenue to GDP	M	n.a.	10.0	9.6	8.9
Financial depth (M2/GDP)	M	10.5	16.0	19.3	21.4
Credit to private sector/GDP	M	6.1	10.6	13.3	9.9

M = median
s = Standard Deviation
Source: World Development Indicators, various years.

Why Did Growth Rates Accelerate After 1995?

8. ***While it is still too early to reach definite conclusions whether the change in the average rate of growth of IDA countries after 1995 points toward a permanent or a short-lived episode, the recorded experience of eight consecutive years of positive growth cannot be ignored***. Comparative analysis between IDA countries' growth experience and Middle Income Countries' (MICs) growth experience, suggests that the change in trends can be traced to changes in some key factors that correlate positively with growth rates, namely: increased political stability and governance, better economic policies, integration with the rest of the world, and past improvements in human development.

9. ***Political stability improved broadly in the second half of the 1990s, although individual country situations vary***. Despite continuing conflict and political difficulties in a number of IDA countries, there has been a trend towards improved political rights and political participation generally and this has been accompanied by improvements in electoral processes and an increased rate of succession to high executive offices, consistent with strengthened democratic processes.[7] While there is not a linear relationship between these developments and growth, it is clear that a reduction in instability and improvements in the stable functioning of political

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[7] Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh, 2001. *New tools in comparative political economy: The Database of Political Institutions*. 15: 1, 165-176 (September), World Bank Economic Review.

systems contribute significantly to the security of populations and the confidence of economic actors, and hence to investment and growth.[8] The indicators in Table 3, available for a large number of IDA borrowers since the 1980s, measure various aspects of institutional quality. The movement of these indicators is consistent with broad improvement in governance since the mid-1990s.

- The Freedom House Political Rights Index indicates an improvement in civil liberties in IDA countries. Political rights are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest; and

- The Legislative and Executive Indices of Electoral Competitiveness (LIEC and EIEC respectively) measure the quality of the electoral environment on a one-to-seven scale with one representing the lowest quality electoral environment and seven the highest quality. The median LIEC increased from 3.3. to 6.0 and the median EIEC increased from 3.0 to 5.8.

TABLE 3: INDICES OF POLITICAL STABILITY *

	1971-80	1981-94	1995-02
Freedom House Index P.R.	6.4	5.9	5.3
LIEC Index	2.0	3.3	6.0
EIEC Index	2.2	3.0	5.8

*Median
Source: See Footnote Number 7.

10. ***Better economic policies invited new investment and productivity gains***. Supported by Bank-Fund programs, IDA countries undertook a series of macroeconomic and structural reforms, which included trade liberalization, reduction or elimination of price and market distortions, and liberalization and privatization in financial and productive sectors. Table 4 shows a range of indices measuring quality of economic policy in areas considered critical to improvements in economic performance, a higher index value indicates an increase in quality.[9]

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[8] There is some correlation between these other indicators of institutional quality and the CPIA. For example, the correlation between the CPIA and Freedom House Democracy, used by some bilateral donors in aid allocation is 0.46; and that between the CPIA and ICRG rule of law index, which is a measure of property right, is 0.5. See David Dollar and Victoria Levin. *The Changing Quality and Quantity of Foreign Aid*, 1984-2001. (World Bank, February 2004).

[9] There is abundant econometric evidence of a positive correlation between the rate of economic growth and indicators of openness to trade, private sector development, macroeconomic stability and good governance. Important examples of work relating policies and economic growth are: Barro, Robert J. (1997). *Determinants of Economic Growt: A Cross-Country Empirical Study*, The MIT Press, London, England; Bosworth and Collins (2003) op.cit., and Harberger, Arnold C (1998), *A Vision of the Growth Process*, American Economic Review, 88, 1, (March), 1-32.

- The sound money index illustrates a monetary and exchange rate policy increasingly focused on pursuing price stability;

- The two indices of regulation of international trade in goods, services and factors point towards more openness. The Freedom to Trade Index (a composite index) shows a less distorted international trade environment, the Tariffs Index shows a fall in the level of tariffs on imports;[10]

- The credit market regulation index indicates a widened space for market mechanisms to operate (less interest rate controls and a regulatory environment that facilitates competition);

- The Size of Government Index (a composite of the quality of government spending and tax policies) indicates an improvement in quality of government spending composition; and

- The Legal System and Property Rights Index (a composite measuring quality of the justice system) and the Business Regulation Index (a composite measuring governance and competition policy) show marginal improvement.

TABLE 4: ECONOMIC POLICY INDICATORS[11] *

	1961-70	1971-80	1981-94	1995-02
Sound money	6.7	5.2	5.7	6.0
Freedom to trade with foreigners	3.4	3.7	4.3	5.6
Tariffs	0.3	3.0	3.6	6.3
Credit market regulation	4.1	3.9	4.7	5.6
Size of government	4.9	5.1	5.2	6.0
Legal system & property rights	n.a.	3.8	3.7	3.9
Business regulation	4.1	5.1	4.7	5.0

*Median
Source: See Appendix 3.

11. ***Past investments in human development facilitated economic growth once better policies were in place and political stability consolidated***. Table 5 shows several indicators of the level of education and health of the population of IDA borrowers. All indices illustrate that people from IDA countries are more educated and healthier than they were 10 years ago. However, unless the current trends in HIV/AIDS prevalence rates are sharply reversed, the observed improvements in human development will be reversed over the next decade.

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[10] However, most IDA countries still maintain high level of nominal and effective protection, which generates a strong anti-export bias and domestic regulations that discourage new investment.

[11] For details on the definition of the indices and sources see Appendix 3.

Table 5: SOCIAL IDICATORS OF IDA BORROWERS *

	1961-70	1971-80	1981-94	1995-02
Literacy rate, (% of people ages 15-24)	43.5	47.9	58.5	67.5
Ratio of young literate females to males (% ages 15-24)	53.0	58.0	69.6	79.4
Ratio of girls to boys in primary and secondary education (%)	54.0	62.3	70.5	79.1
School enrollment, primary (% gross)	44.5	62.7	71.3	81.5
School enrollment, secondary (% gross)	7.1	13.4	20.1	26.1
School enrollment, tertiary (% gross)	7.1	13.4	20.1	26.1
Primary completion rate, total	n.a.	n.a.	39.5	51.6
Primary completion rate, male	n.a.	n.a.	45.8	59.4
Primary completion rate, female	n.a.	n.a.	33.6	49.9
Improved sanitation facilities (% of population with access)	n.a.	n.a.	40.9	46.6
Improved water source (% of population with access)	n.a.	n.a.	56.7	61.0
Life expectancy at birth, total (years)	41.3	45.7	49.4	51.1
Mortality rate, under-5 (per 1,000)	243.3	206.1	175.3	155.1
Population growth (annual %)	2.2	2.3	2.5	2.5

* Mean
Source: Global Development Finance and World Development Indicators.

What Are the Challenges Ahead?

12. ***Despite the sustained increase in per capita income and improvement in human development indicators, the achievement of the first MDG may be quite difficult for many low-income countries***. With a growth rate of 2 percent per year, a country with a per capita income below US$350[12] would need about 45 years to reach the level of per capita income cut-off for IDA eligibility.

13. ***Therefore, notwithstanding the improvement in economic performance in 1995-02, the development challenges are daunting***. Significant structural impediments to growth still remain, in addition to continued political instability and conflict in some countries. IDA borrowers' per capita income is low, and while growth volatility has fallen, it still remains high, physical infrastructure is deficient, the level of human capital development is low, the investment climate for private sector investment is difficult, trade reform agenda is unfinished, and management of public resources and institutions remains weak. Against this background, aid can help to accelerate the build-up of human capital and physical infrastructure, and strengthen capacity to use resources effectively. The challenge for IDA countries is to stay the course on

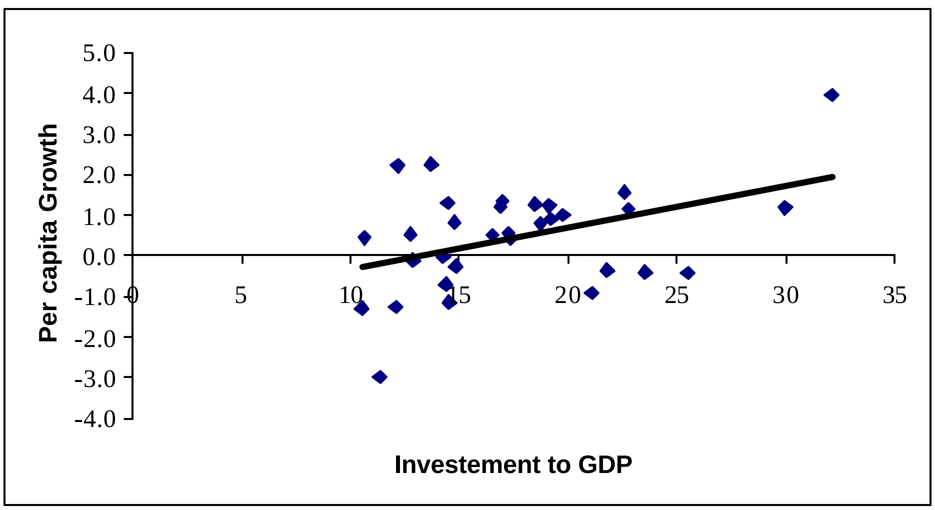
[12] More than 30 IDA countries recorded, in 2002, per capita income levels (Atlas method) below US$350.

policy reforms – to improve management of public resources, enhance transparency to achieve better governance, deepen structural, institutional and regulatory reforms, and achieve an environment supportive of private activities.

14. ***Improving the level of income of IDA borrowers is the main challenge facing these countries in the next decade***. Successfully confronting this challenge requires maintaining high rates of physical and human capital accumulation and increases in productivity and competitiveness. An increase in productivity is critical both to economic growth and poverty alleviation.

15. ***A higher ratio of investment in GDP is a necessary condition to accelerate growth but is not sufficient***. For instance, a higher investment to GDP ratio does not result in a higher growth rate if the new investment in infrastructure and machinery remains idle, the rate of return on investment stays low, or the better skilled workers emigrate. Figure 3 illustrates this fact. It portrays the average growth rate and the average investment to GDP ratio for IDA countries during 1960-02. Differences in the average productivity of investment explain the dispersion around the regression line. Points well above the regression line show higher growth rates than predicted by the investment to GDP ratio (i.e., economies that are more productive than the average); points well below the regression line show lower than predicted rates of growth (i.e., low productivity economies). This finding reinforces the importance of good policies on growth and poverty reduction.[13]

Figure 3. GROWTH AND INVESTMENT RATES



Source: Staff estimates based on WDI

16. ***While growth rates in IDA countries were less volatile during 1995-02 relative to earlier periods, they are still characterized by wide fluctuations***.[14] Political instability in some

[13] A similar conclusion is reached in *The Growth Experience: What Have we Learned From the 1990s* a World Bank review of the experience of middle-income countries with reform during the past decade.

[14] Volatility is measured as the standard deviation of GDP growth per capita. The average of the standard deviation of IDA borrowers reported in the sample fell from 0.047 in 1981-94 to 0.0378 in 1995-02.

countries and volatile terms of trade have been among the main reasons underlying this economic instability. Developing the domestic capacity to resolve conflicts and a more diversified structure of production can go a long way to mitigate these weaknesses but it will also require time and resources. In the transition, access to external savings may be critical to buffer adverse shocks to the GDP.[15]

17. ***The gap between infrastructure demand and supply has grown significantly in low-income countries and is proving to be a bottleneck to growth*** (Appendix 4). The physical infrastructure linking the rural and urban economies of a typical IDA borrower is extremely weak, roads and access to safe water are inadequate, and communications and power supply unreliable. Similarly, port facilities are antiquated and unable to process a rapidly rising flow of trade with the rest of the world. Both access to and quality of infrastructure are insufficient in most developing countries. Current estimates put average annual infrastructure financing needs at 7 percent of GDP (US$109 billion) for all low-income countries for both new investment and for operations & maintenance (O&M) expenditures. Comparing past actual investment and O&M rates (around 3.5 percent of GDP) with the projected requirements suggests the need potentially to increase by several times present levels of financing for infrastructure. Increased pressure to invest more in the development of physical infrastructure in the next decade is likely to either crowd out expenditure in human development or stifle growth unless adequate external savings are available.

18. ***Human capital is low and HIV threatens to erode the gains accumulated in recent years***.[16] One of the main results associated with the IDA support strategy of the past decade has been the steady improvement of most health and education indicators. Absolute levels of education and health status are still low because of IDA country's poverty and part of this gain is today at risk as a result of the spread of HIV.[17] Gains in life expectancy eroded in some IDA countries, especially in Eastern and Southern Africa, over the last decade mostly as a result of the increase in the number of AIDS deaths. Thus, the impact of the increase in mortality on Sub-Saharan Africa's people may be enormous and, if not arrested, can reverse most gains of the past decades.

III. IDA'S SUPPORT FOR BORROWING COUNTRIES

19. ***The role of aid in this context has to be underscored***. With low levels of domestic savings and fragile fiscal capacity, external financial assistance is imperative for IDA borrowers. The bulk of such external assistance has to be official, given that foreign private inflows into these countries are most often of short or medium term nature and tend to be concentrated in enclaves in mineral-rich countries. Thus, IDA has, and will continue to play, a central role in channeling official financial assistance.

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15 For instance the 1993-94 political crisis wiped out one third of the GDP per capita of Rwandans. Overall development assistance in this context may have been instrumental to avoid a fall in domestic consumption that would have enormously aggravated the already calamitous humanitarian situation.

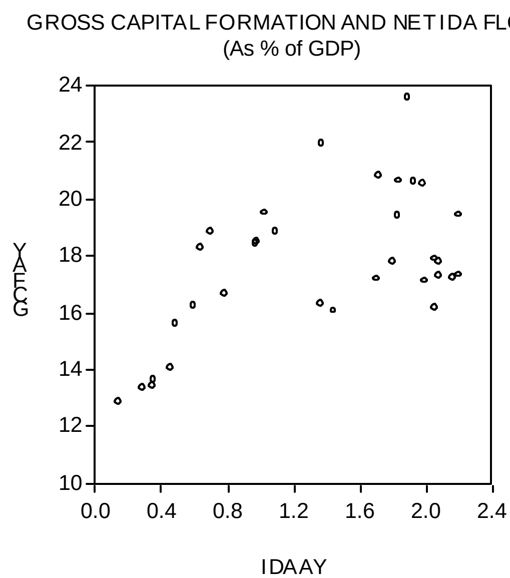
16 See Bloom, David E., David Canning and Dean T. Jamison, *Health, Wealth, and Welfare* in Finance and Development, March 2004, pp. 10-15.

17 For progress in human development indicators see Table 5.

20. ***Net external savings play a major role in the formation of both physical and human capital in IDA countries***. As illustrated in Figure 4, access to net external savings is positively correlated to investment in physical capital formation. The scatter plot shows the average ratio of gross capital formation in GDP and the average ratio of overall development assistance net transfers to GDP in 1961-02.[18] The picture would be sharper if human capital formation was also added as part of the total investment of these countries.

21. ***The high correlation between overall development assistance and the investment share in GDP does not imply that aid has always had a positive developmental effect or that aid effectiveness cannot be increased***. In fact, a challenge to development efforts is to search for ways to improve the impact of programs and to increase the effectiveness of aid. Two recent steps in this direction have been the development of Poverty Reduction Strategies (PRS) at the country-level (to strengthen development program ownership) and the use of an index of domestic policy quality (Country Policy and Institutional Assessment Index, CPIA)[19] as a reference for the allocation of IDA funds across countries (to link fund availability to the quality of the policy environment).[20]

FIGURE 4



Source: Staff calculations based on WDI

[18] The positive association is sustained if the relationship is estimated in first differences.

[19] Country performance is assessed based on their: (i) economic management; (ii) structural policies; (iii) social inclusion and equity policies; and (iv) public sector management.

[20] The 2003 Annual Review of Development Effectiveness prepared by the Operations and Evaluation Department of the World Bank shows that Bank lending is concentrated in countries that have a "relatively good" policy environment. The Bank defines "relatively good" as an overall score of at least 3.0 on the Bank's CPIA index.

Note: GCFAY is the average of the gross capital formation share in the GDP; IDAAY is the average ratio of overall development assistance in the GDP.

22. ***IDA is selective in the use of its resources, limiting eligibility to the poorest countries and making country performance rating a dominant factor in country allocations***.[21] In addition, IDA provides support to improving country policy. While IDA's record in linking its support with improvements in country policy is generally favorable, country conditions play a key role in determining progress of reforms. An OED evaluation of borrower policies over the four year period ending in 2003 found general improvement in country policies.[22] The successful reforms benefited from a favorable environment for change, particularly in countries emerging from crises situations and taking steps to make the transition to market-oriented economies. Reforms are less successful in countries facing socio-economic decline, where political consensus for reforms is lacking and implementation record is poor. Lessons from the recent experience stress the importance of matching reform measures to country conditions, and taking into account track records of previous reforms and specific country risks in designing support programs.

Poverty Reduction Strategies

23. ***Entering its fifth year, the country-led Poverty Reduction Strategy (PRS) has become the principal instrument for many IDA borrowers to determine the approach to growth and poverty reduction and the associated priorities for policy reform and resource allocation***. The recent progress report on the implementation of the PRS found that in some cases, the PRS has contributed to focusing attention on the country-specific constraints to economic growth. It has heightened the need for a strong analytical base for country policy, the need for policy prioritization and for translating analysis into policy and following up with implementation and monitoring. It has served as a vehicle for joint donor support to country-driven policies.[23] The progress report stressed a need to raise the level as well as the quality of country-specific growth diagnostics. In addition it calls for paying greater attention to infrastructure and private sector development, in addition to sustaining the existing emphasis on the social sectors.

24. ***PRSPs provide the anchor for formulating IDA's priorities to assist borrowing countries make progress on their growth and poverty reduction objectives***. The rest of this section discusses key main instruments and themes that aid IDA's growth and poverty reduction efforts in borrowing countries: CASs, Analytical and Advisory Activities (AAA), lending, governance, private sector development and activities supporting trade policy reform.

Country Assistance Strategies

25. ***Lessons from development experience suggest that successful growth strategies require both macroeconomic and microeconomic dimensions to ensure an economic environment that***

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[21] Limited exceptions to performance-based allocations exist for post-conflict countries and regional projects. See *IDA's Performance-Based Allocation System: Update and Outstanding Issues*, February 2004.

[22] World Bank, *OED Annual Review of Development Effectiveness 2003*, June 2004.

[23] *Poverty Reduction Strategy Papers – Detailed Analysis of Progress and Implementation*, World Bank, August 2004.

enables resources to be allocated towards the most productive activities as well as utilized efficiently to raise growth performance. IDA has become better in designing country assistance strategies that build on country circumstances to provide an appropriate mix of both types of strategies to achieve faster growth and foster a broader participation in the growth process. The focus on macroeconomic management, which has been the mainstay of CASs for some time is being combined with issues that relate directly to growth promotion.

26. ***An examination of a sample of the new CASs (Appendix 2) shows improved coverage of growth, poverty and private sector issues, compared to past approaches that linked growth outlook mainly to macroeconomic reforms***. For example, growth and poverty reduction strategies in Ethiopia, Madagascar, Mozambique and Nepal are underpinned by analyses of potential sector sources of growth, sector constraints on growth and related strategies and policies. The growth outlook is embedded in a framework that embraces human and infrastructure development, governance and investment climate issues. In Armenia and Kenya, the approach to growth is deepened to embrace issues regarding the costs of doing business, governance, the financial sector and competitiveness. CASs for other countries, such as Mongolia, Sri Lanka, Tajikistan and Vietnam, put emphasis on advancing their transition to a market economy, curbing the role of the state, and addressing peace and equity issues, especially relating to regional balance and social inclusion.

27. ***With the emphasis on economic growth and job creation, private sector development, improving country business environment and reducing the costs of doing business have become pillars of CASs***. Twelve Joint IFC/Bank CASs have been prepared since July 2002, with private sector development issues prominently featured to enable a more coherent use of Bank instruments.[24]

28. ***IDA continues to re-orient the CAS to maintain its relevance for growth and poverty reduction***. Two recent developments are relevant in this regard. Following the establishment of a country-led PRS noted earlier as the basis for coordinated donor assistance, Bank guidelines for Country Assistance Strategies (CASs) require country teams to anchor Bank programs in the country's growth and poverty reduction strategy represented by the PRS starting in July 2002. The re-positioning has provided more scope to align Bank priorities for assistance with country policy. Second, the Bank is taking steps to strengthen its focus on monitoring and results. In FY03, result-based CAS pilots were launched in seven countries to help develop measurable assessment of IDA's progress in country support. These pilots are being reviewed in FY05.[25] The lessons and the experience from the pilots are expected to feed into the design and implementation of the results-based CAS in more IDA countries during IDA14.

29. ***Despite recent improvements, it is necessary to identify more clearly bottlenecks to economic growth and strengthen its analytical basis***.[26] With the improved attention being paid to growth comes a need to deepen understanding of the complex issues and interactive processes

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[24] See accompanying paper on Private Sector Development.

[25] The seven countries include five low-income countries that have PRSPs (Armenia, Cameroon, Mozambique, Sri Lanka, and Zambia). The others are Brazil and the Ukraine.

[26] See World Bank, *Country Assistance Strategies: Retrospective and Future Direction*, March 2003. The Retrospective examined 28 CASs and 11 CAS Progress Reports prepared from July 1999 to December 2001.

that underlie a country's ability to sustain and accelerate its growth process and achieve a significant poverty impact. Such an effort is essential for identifying the critical constraints to growth in specific countries and to sequence measures to address those constraints accordingly. In this regard, areas identified for greater attention include building capacity for strengthening growth analysis, developing relevant analytical tools, donor collaboration, and addressing problems regarding the dearth of quality data.

Analytical Advisory Activities

30. ***IDA has emphasized the importance of diagnostic work to provide an informed basis for growth and poverty-reducing policies and has been in the forefront of analytical work on country policy, institutions and development issues***. The launching of an Economic and Sector Work (ESW) reform program in FY99 set the stage for raising the level and quality of ESW in recent years. The effort received impetus under the IDA13 Replenishment Agreement which stressed the role of IDA in: (i) assisting borrowers prepare core diagnostics for the PRSP process; and (ii) addressing knowledge gaps identified by the CAS so as to respond effectively to client requests for policy advise. As a result of the ESW reforms and the powerful impetus under IDA13:

- More growth-related work is being undertaken through periodic network and regional studies, and under existing ESW product lines, such as Rural Development Assessment, Investment Climate Assessment, and Country Economic Memorandum (CEM). Building on this progress requires raising the quality of growth analysis, deepening understanding of the growth trends of key sectors and products, how these sectors respond to policy reforms and potential growth factors that need to be harnessed. The ESW reforms highlight the importance of beneficial cross-sectoral externalities and collaborative efforts that would harness synergy across social and economic sector activities, and aid agencies. In this regard, the CEM needs to integrate various analytical pieces on the key economic and social sectors into a coherent growth strategy supported by a consistent macroeconomic framework.

- ESW coverage of core diagnostic reports (Appendix 5) on poverty, allocation of, and accountability for the use of, public resources, and country economic and sector policies which underpin growth and employment has increased from 50 percent of the full complement of diagnostic reports in FY02 to about 80 percent in FY04.[27] These analytical pieces convey how public resources, including aid, are being used to advance country development objectives in line with the PRS as well as how the overall business environment may be improved to aid private investments.

- ESW products are being linked more closely to the growth and poverty priorities spelt in the PRS and the CAS. In the 35 countries that completed PRSPs during FY00-FY03, the Bank did about a third more ESW than in the preceding four years.[28] For

[27] The core products are the following: Country Economic Memorandums (CEMs) and Development Policy Reviews (DPRs), Poverty Assessments (PAs), Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reviews (CPARs).

[28] In other IDA-eligible countries, the Bank did 11 percent less AAA during the same time period.

example, Poverty Assessments have enriched strategies for poverty reduction in PRSPs and CASs. Country authorities underscored PERs as particularly beneficial for shifting public expenditures, planning individual line ministry programs in the PRSP and strengthening links to the budget. In response to client requests, the composition of ESW is shifting towards areas relevant for addressing emerging development issues as country situations evolve. These include shifts towards country advisory reports and specialized activities, such as capacity building, "just in time" policy notes, workshops, and report dissemination.

- The quality of ESW is improving. Systematic quality differences in ESW products between IBRD and IDA borrowers have diminished in recent years. There is increasing client participation in ESW preparation to help build capacity and ownership and consensus for implementation. Collaboration and exchange with development partners is growing and this will help avoid duplication of effort and enhance IDA's focus and selectivity. Removing remaining gaps in the level and quality of ESW among countries requires adequate and good quality data. The data situation is particularly acute for Low-Income Countries Under Stress (LICUS), which have experienced loss of equipment and suffered erosion in manpower and institutional capacity for data collection, storage and analysis.

Lending Operations

31. ***Human development has been a top institutional priority for Bank lending over the past decades***. This priority, which permeates IDA's strategy in all countries, is based on the understanding in the development community that raising the level of human capital is central to raising productivity, growth and incomes, and for fostering shared benefits from the growth process. Accordingly, social sectors (education, health and social services) accounted for 31 percent of IDA commitments to investment projects since the mid-1990s. IDA plays a lead role in preparing the analytical work and policies that support human development projects. In primary education, for example, IDA has developed a partnership framework to support Education For All. In health, the framework of assistance has stressed harnessing cross-sector synergies by emphasizing lending not only for health services, but also to complementary sectors -- drinking water, sanitation, infrastructure, nutrition and education -- that impact on health outcomes. Special attention has been paid to infectious diseases. For example: IDA has been the largest long-term investor in the prevention and mitigation of HIV/AIDS and in this effort it has used innovative approaches, such as: (i) Multi-Sectoral Aid Program in Africa; (ii) regional programs; and (iii) leveraging of non-IDA financial resources.

32. ***The economic growth trends and the progress in human development noted earlier are at risk*** as they face difficult challenges, most notably high HIV/AIDS prevalence rates in Sub-Saharan Africa and widening infection rates in Eastern Europe and Asia. Only an estimated 15 percent of low-income countries are deemed likely to attain the health MDGs and sixty of 81 IDA countries are at risk of not achieving the education MDG. A combination of factors, such as weak borrower policies, inadequate capacity and gaps in donor funding constrain progress in the social sectors.

33. ***Recent cross-sector studies highlight the synergy that infrastructure development brings to the development process. It helps to link rural-urban and external markets, provides access to social and economic services for households and businesses, and enables direct participation in the growth process***. The World Bank's support for infrastructure development in IDA countries was relatively stable during the 1990s, but remains very small in comparison to their needs.[29] The share of project investments committed to infrastructure (water and sanitation, energy and mining, information and telecommunication, and transportation) was more or less stable at about 27 percent for the IDA countries over the 1990s. During this period, IDA's approach to infrastructure development emphasized the building of alternative institutions to government provision and allowed private participation in large scale capital intensive infrastructure services that had been public monopolies, reforming pricing and import regimes to foster market-oriented activities and rationalizing the regulatory role of the state. The Infrastructure Action Plan introduced in July 2003 is helping to revitalize financing for infrastructure. As a result, IDA commitments to infrastructure rose to an average of around 30 percent of total IDA commitments during FY03-04. The Action Plan focuses on strengthening the infrastructure project pipeline, rebuilding Bank knowledge base through analytical work and employing a broader range of instruments for infrastructure development. This will lead to an anticipated substantial increase of IDA commitments in infrastructure.[30]

34. ***Policy-based lending has accounted for over 25 percent of IDA commitments since the mid-1990s.*** These operations build on a broad understanding in the development community that sound policies, good governance and institutional development are necessary for sustained poverty-reducing growth as they create an environment supportive of (i) the efficient use of public resources in line with country development objectives and (ii) private investment activities. Though these operations involve uncertainty and regional patterns vary, they have been successful in countries where policy change has broad support.[31] Poverty Reduction Support Credits (PRSCs), which encompass the entirety of the Bank's policy and institutional support are anticipated to replace sector adjustment credits and other policy-based lending gradually in PRSP countries. Four-fifths of commitments in the fourteen PRSCs approved through CY03 cover public sector governance, financial and private sector development, human development and social protection, with the latter two areas showing large increases in shares. Task managers report more cross-sectoral interaction by Bank staff arising from preparing and implementing PRSCs.

Governance and Public Institutions

35. Governance reforms, including public expenditure management, the rule of law, and building capacity constitute the core of IDA and development partners' assistance programs to combat corruption and enforce financial controls and public accountability. These reforms seek to ensure that both domestic and external resources are used in line with growth and poverty

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[29] A detailed discussion of infrastructure issues is presented in Appendix 5 of this report and in a separate paper on private sector development prepared for the IDA14 meetings.

[30] IDA commitments rose from $2.2 billion in FY03 to $2.8 billion in FY04.

[31] OED: *Annual Review of Development Effectiveness 2003, The Effectiveness of Bank Policy for Policy Reform*, June 2004.

reduction objectives. Public expenditure management and other governance and institutional reforms are embedded in the key instruments for country support.

- In the area of analytical work, four of the six diagnostic reports that underpin the analysis of the CAS and the Bank's overall policy dialogue concern governance and public resource management. These core reports -- public expenditure reviews, country financial accountability assessment, country procurement assessment reviews and integrative fiduciary assessment focus directly, among other things, on budget preparation, execution and reporting; auditing and enforcing the financial accountability rules; and ensuring a procurement process that is timely and transparent.

- With greater attention being paid to investment climate issues, analytical work on improving the business environment and private sector expansion is being focused mainly on such issues as property rights, the legal and judicial system, scope of responsibilities of the legislature and its capacity to exercise them, regulation of investments and investment incentives, and the overall cost of doing business.

- The implementation of governance reforms has been mainstreamed in operational activities, given the centrality of an appropriate public resource management for getting development results. The findings of analytical work on public expenditure and other governance reforms feature prominently in every PRS and in CASs as well as in programmatic lending and poverty reduction support credits, though in a minority of cases, the scope and quality of issues being addressed need to be improved.

- Increasingly, as the participatory process in preparing PRSs is open to more stakeholders, other societal institutions are being employed to foster institutional performance and accountability. These include involving civic society in budget monitoring by revealing government allocations at the local level government and service delivery institutions, such as schools and clinics, in Uganda. Capacity for parliaments in Burkina Faso, Cameroon and Ghana, for example, are being strengthened in order to monitor the implementation of PRSP budgets and expenditures.

- Donor collaboration is a central part of governance reforms.[32] For example, the Public Expenditure Financial Accountability group is a collaborative initiative involving the EU, the World Bank, IMF and seven bilateral donors, including France, Norway, Switzerland, and UK. An OEDC-DAC Joint Venture on Public Financial Management is involved in developing a best practice paper on capacity building and public financial management.[33] In addition, in the countries afflicted by political instability and conflict, the Bank has worked closely with donors to assist their transition to normal relations with IDA and the development community. The Bank has sought a demonstrated willingness of the country to resolve the conflict and

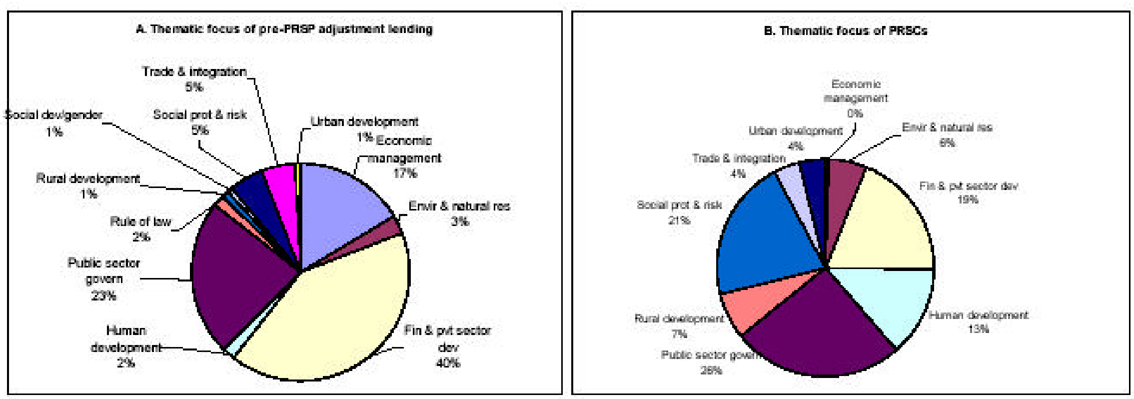
[32] PRSP Progress Report. August 2004 op cit.
[33] See paper on *Working Together at the Country-Level* prepared for the IDA14 deliberations.

coordinated donor assistance as key ingredients for undertaking transition assistance. Given the complex political and socio-economic challenges facing these countries, the willingness of country actors and joint donor efforts will remain key to bringing these countries into the mainstream of development assistance.

Private Sector Development

36. ***Private sector development through improving country business environment and reducing the costs of doing business are central pillars of country policy dialogue and financial assistance for accelerating economic growth and job creation***. A private sector development (PSD) strategy released in April 2002 defined the approach and content of private sector activities within the World Bank Group. Compared to the previous approach which broadly stressed sound macro-fiscal and financial management, including privatization of state-owned concerns, the new strategy expands the reach of Bank policy and programs to address micro-efficiency issues that impede private investments. The strategy puts emphasis on: (i) extending the reach of markets through investment climate reform; (ii) providing direct support for micro, small and medium enterprises; (iii) extending the role of the private sector in delivery social services (health, education); and (iv) private participation in the development of infrastructure. A separate report provides details of private sector activities and emerging issues.

Chart 1: PRSCs Have More Balanced Sectoral Focus than Previous Adjustment Lending to PRSP Countries



Source: OED Review of The Poverty Reduction Strategy Process

Trade Policy Activities

37. ***Much of the work on trade is focused on the impact of trade and complementary policies on growth and poverty.*** Given the dependence of IDA countries on single crops and the small size of their domestic markets, export expansion and diversification are critical for sustained, high economic growth. To strengthen the institutional support for the trade work, the Bank created a new Trade Department in July 2002 and realigned the roles of existing units. The renewed trade work linking policy research, capacity building and training, and country operations in coordination with other agencies engaged in similar activities:

- *Strengthening of trade policy dialogue* is a core element of country development strategy; this dialogue is expanding as a result of the Integrated Framework (IF) Program, a multi-agency program led by the Bank, which aims to identify the constraints and the potential to expand and diversify exports in the LDCs. The implementation of the IF Program is under way in some 20 IDA countries (e.g., Burundi, Cambodia, Ethiopia, Guinea, Lesotho, Malawi and Mali) and involves mainstreaming trade policies in the PRSP. Policy reforms emphasize competitiveness (customs reform, product standards, investment climate, and improving infrastructures that facilitate trade). For example, the most recent adjustment credits for Cameroon, Tanzania, and Ethiopia have focused on trade facilitation and competitiveness. Thirty-six trade facilitation projects in 25 countries are anticipated during FY04-FY06.

- *Capacity building and advice on trade negotiations involves* helping borrowers improve trade and trade negotiation capacities, especially in view of Doha trade issues and the WTO accession process in many countries. The work process involves explicitly linking with other groups engaging in trade-related activities. The World Bank Institute (WBI), which has responsibility for capacity building, has expanded its activities rapidly. For example, WBI has been involved in programs to strengthen capacity to cope with the accession process to the WTO (and the post-accession follow-up) in Vietnam, Laos, Ethiopia and Madagascar. On multilateral and regional trade negotiations, WBI has been scaling up joint activities with the WTO, including the Geneva-based trade policy training courses.

- Operational trade work, carried out in close coordination with the regions, puts emphasis on technical assistance, trade facilitation, agricultural standards and market access issues to assist IDA countries integrate better into the world economy and the multilateral trading system. Diagnostics of the key constraints to a country's successful integration with the multilateral trading system and global economy is followed by appropriate technical assistance. Lesotho, for example, has received approval for an agricultural export project, and the Bank is currently preparing a project to implement the Standards and Food Safety (SFS) Agreement in Nepal. The Bank is also supporting trade diagnostic studies in low-income countries, such as Botswana, Indonesia, Kenya and the Kyrgyz Republic.

- *Regional integration*. A new instrument has been created, with the regional integration assistance strategies adopted so far for West Africa and recently for Central Africa. The Bank also provides technical assistance to each sub-regional organization to strengthen its institutional capacities and support their transition toward deeper integration (Customs Union being an example). The Bank also provides technical advise to regional organizations (COMESA, SACU) to assist them in their negotiations for free trade agreements with the EU and the US.

- *Series of transport and trade facilitation audits* have been initiated to identify critical drivers of high trade transaction costs, especially in landlocked countries, and provide a basis for technical assistance and investment projects (e.g., Malawi and Zambia).

> Seven such projects were launched in FY04; and 10 more are expected to be conducted each year during the next three years. Mainstreaming the SFS Regulations project will help countries develop capacity to manage SFS systems and promote exports of higher-value agricultural products, which are being increasingly subject to strict standards in industrial country markets. Over the next three years, the Bank plans to develop national standards strategies in eight countries, support SFS components of Bank investment projects in six countries, and develop four pilot projects to integrate small agricultural producers into global supply chains.

38. ***Further work in the coming years will emphasize trade and poverty, including issues related to adjustment costs and the distributional effects of reforms***. Increases in country-specific work are envisaged, including studies investigating why some countries have successfully used trade reforms as part of a growth strategy. Given the importance of agriculture for development outcomes and poverty reduction, and the high profile of agricultural policy both in the WTO and regional agendas, continued efforts will be put into analyzing the implications of global reform for individual developing countries and specific agricultural commodities. Much of the on-going work, such as on services, trade and growth and regionalism, will continue in the coming years.

39. ***This section has highlighted the key elements of IDA's assistance framework for contributing to the growth of borrowing countries***. The framework builds on the lessons of development experience which indicate that successful poverty-reducing growth requires: (i) sound policies and institutions which ensure the productive use of resources; (ii) infrastructure facilities that remove market isolation and broaden participation in the growth process for households and businesses; and (iii) investing in people to provide opportunities and shared benefits from the growth process. In this regard IDA's assistance framework has stressed: (i) sound macroeconomic management; (ii) good public sector governance and accountability to ensure that public resources are used appropriately; (iii) expansion of private investments and improvements in investment climate to lower transactions costs to the private sector; (iv) human development; (v) investing in physical infrastructure; and (vi) trade. Given the diversity among IDA borrowers, there is emphasis on aligning IDA's assistance to country programs and tailoring the specifics of such assistance to country circumstances. IDA continues to strengthen this framework and its impact through various measures, including recent steps in the area of monitoring and measuring results. The next section will highlight IDA's priorities going into IDA14.

IV. Conclusions and Recommendations

40. ***Over the past eight years the economic performance of many IDA countries improved significantly***: per capita economic growth increased and growth volatility has fallen. Governance reforms and a more hospitable political environment as well as improved domestic policies combined with aid flows underlie these higher growth patterns. Sustaining these developments may support steady reduction in poverty over the next decade.

41. ***IDA has contributed to this endeavor in various ways, especially by focusing on the social sectors, financing infrastructure and improving governance, based on increased coordination with development partners***. Improvements in governance have strengthened the capacity of borrowers to provide public goods and to manage more effectively significant aid flows. Investment in social services has increased, and the people of IDA countries are today more educated and healthier than ten years ago, which invites creation of new and more productive jobs. While the progress is encouraging, a large development agenda remains. Many countries need to build on institutional reforms so as to absorb higher levels of aid flows. Some countries still afflicted by political instability and conflict need to turn around and reach an internal consensus for needed reforms. The progress made in human development is at the risk of being reversed by the impact of HIV/AIDS. Other constraints to growth, including infrastructure, remain.

42. ***Looking to IDA14, it will be essential for IDA to pursue the growth agenda further*** to consolidate the governance reforms and increase the reach and competitiveness of markets and private producers in IDA countries. This will require further institutional measures to strengthen accountability for public resource use and remove impediments to private investments, support human development, increase investment in physical infrastructure, and pursue stronger trade-enhancing policies by both IDA countries and the international community.

- Sustaining the progress made in human development will entail sustaining the new trend in growth. In turn, this will expand the potential base for mobilizing complementary internal financing for aid-supported investments. An appropriate mix of measures will be required to raise school completion rates, health services and access to safe water. Arresting the spread of HIV/AIDS is critical.

- Further improvements in governance are critical if increased aid and domestic resources are to be used as intended and to enlist the confidence of private investors. Combating corruption and fiscal transparency will be critical for tax compliance at home and larger inflows of external assistance. IDA would have to emphasize assistance to borrowing countries so as to strengthen their capacity to implement and monitor programs, and extend access to more and better quality services for users through strengthening internal capacity to finance the recurrent costs and maintenance of such services. Issues concerning the investment climate, such as property rights, judicial systems and the rule of law, and investment regulation, would need attention.

- The start which has been made in reversing the declining trend of infrastructure investments will have to be kept up in order to eliminate this constraint and harness growth potential. The development of IDA countries in the next decade will be closely related to their capacity to integrate inside the national borders and with the rest of the world. The 'hardware' of this integration will be the expansion of physical infrastructure to reduce transport and communication costs. Despite its small role relative to the large financing needs, the Bank can play an important catalytic role by providing direct investment financing as well as carrying out analytic work, supporting policy reform, and transferring knowledge in order to improve infrastructure services and ultimately "crowd-in" private investment. Opportunities to blend instruments and financing across the World Bank Group, in this manner, are becoming more frequent in low-income countries. One of the major challenges for IDA in the coming years is to increase lending to improve infrastructure while maintaining support to the social sectors.

- Assisting borrowers to achieve greater economic integration with the rest of the world is important to increase productivity and reduce poverty. While infrastructure provides the hardware for market integration as noted earlier, the 'software' of this integration will be the reduction of 'behind the border' barriers that impose high transaction costs and adversely affect business development. Success depends mostly on IDA borrower government initiatives to improve trade policies, but broader access to developed country markets, in particular for agricultural products, is also critical. The Bank will contribute to the integration of IDA countries to the global economy by continuing to work with other donors in supporting the Integrated Framework.

- The Bank will have to continue to play a lead role in analytical work that will deepen understanding of the levers for growth at the country-level and to raise its quality. More specifically, more efforts will need to be put into analytical work that would foster better integration of growth and macroeconomic, sector and structural reform issues. This will involve identifying constraints to growth, and giving increased emphasis to competition policies as well as other microeconomic and institutional elements that are critically important for ensuring rapid growth, including a deeper analysis of the political economy factors in sustaining growth. To that effect the Bank will produce on a regular basis Country Economic Memoranda and other analytical work that focus more on sources of economic growth and their linkage to poverty alleviation.

- Raising the level and quality of analytical work will require supporting projects directed at improving the quality of statistics. The capacity of IDA borrowers to collect information, to store it and to analyze it will need to be strengthened to help design informed policies in the PRSP and the CAS and for monitoring these policies and assessing results. Countries afflicted by conflict will require special attention to restore statistical capacity.

APPENDICES

Appendix 1: Growth Performance in IDA Countries

The appendix checks for sensitivity of the growth results in different samples of IDA countries. It concludes that the improvement in performance of IDA borrowers is sustained regardless of how the sample is defined. The samples considered were: (i) current set of 81 IDA countries; (ii) current set of 66 IDA-only countries; (iii) current set of 70 IDA minus post-conflict countries; (iv) current African IDA set of 39 countries; (v) set of 35 countries that were IDA-only in 1980, and (vi) set of 10 CFA countries that were IDA-only in 1980. The results are summarized in the table below.

Median of average growth in selected samples

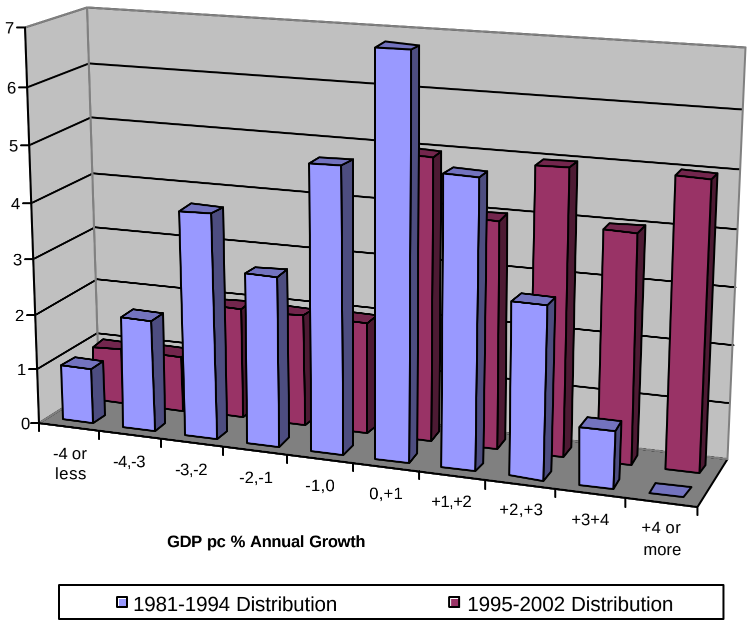
	1961-70	1971-80	1981-94	1995-02	# countries
IDA 80 Country Subset	0.587	0.254	0.075	1.937	35
IDA 80 CFA Country Subset	0.673	-0.914	-0.655	0.606	10
Current IDA Complete Set	1.363	0.824	-0.090	1.937	81
Current IDA Only Set	1.004	0.511	-0.299	2.053	66
Current IDA minus Post Conflict Set	1.026	1.019	-0.178	2.056	70
Current IDA AFR Countries Set	1.024	0.314	-0.416	1.059	39

Below, we discuss three samples of interest in greater detail. For each, we look at the statistical distribution of the rate of growth of per capita GDP of IDA borrowers during 1981-94 and in 1995-02. We present the differences in growth performance between the two periods by overlapping both statistical distributions using the same scale, so that one can read vertically the number of countries that had rates of growth between, say, -4 and -3 in each period. The graphs illustrate the changes. It is very clear that there is a significant improvement in economic growth performance since the mid-1990s. This is the reason why the distribution 'shifts' to the right.

Sample 1: Countries that were IDA-only in 1980

The definition of the sample may have important consequences in the conclusions when a country's inclusion in the sample is itself a function of one of the attributes being evaluated. For instance, belonging to the group of IDA borrowers today is related, among other things, to the country's past performance. Countries with very good performance over a significant period of time are likely to graduate from IDA, while countries with poor performance are likely to remain or re-enter the sample. To avoid this selection bias it is convenient to define the relevant sample as including those countries who were IDA borrowers as of 1980. This sample includes the following countries:

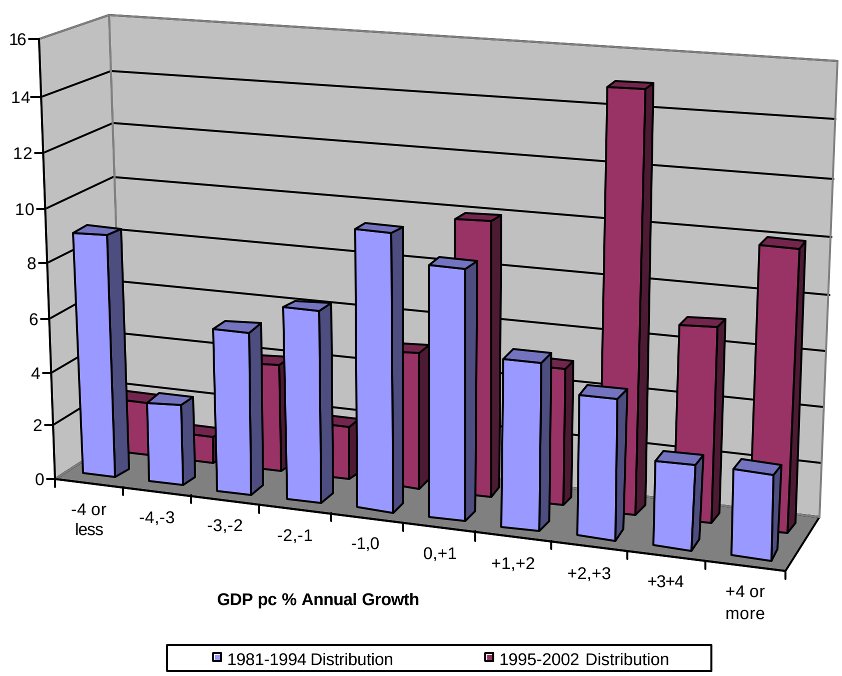
Afghanistan, Bangladesh, Benin, Bolivia, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Congo Democratic Republic, Equatorial Guinea, The Gambia, Ghana, Guinea, Guinea-Bissau, Haiti, Lao PDR, Lesotho, Madagascar, Maldives, Mali, Mauritania, Myanmar, Nepal, Niger, Rwanda, Samoa, Sierra Leone, Somalia, Sudan, Togo, Uganda, Vietnam and Yemen Republic.



Sample 2: All IDA borrowers in 2003

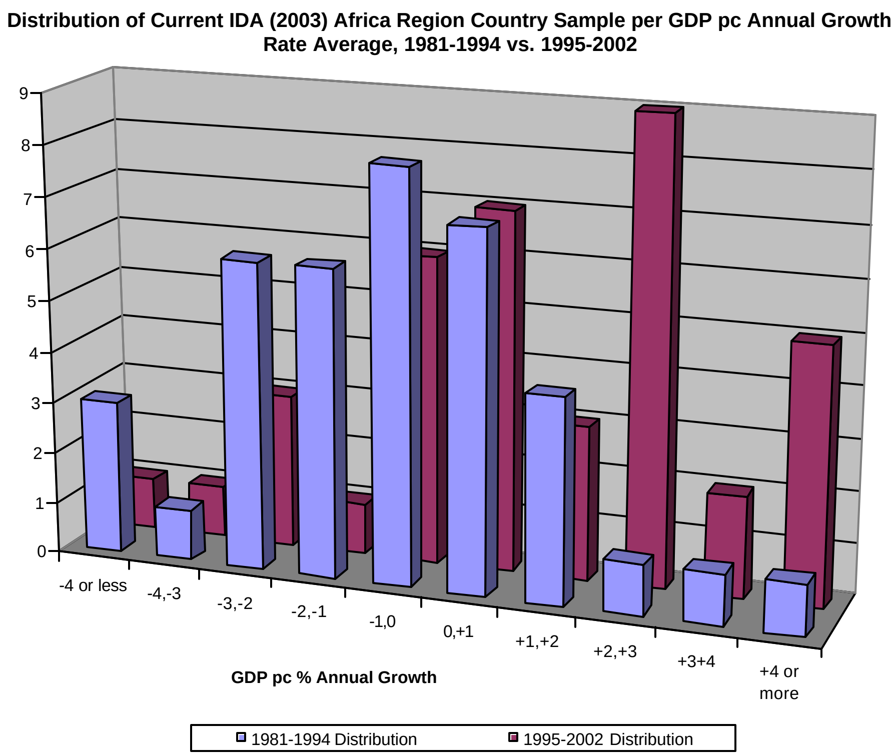
The results for this sample are very similar to those obtained above. The distribution shifts to the right, the number of countries in the upper tail of the distribution (the best performers) increased rapidly and the number of countries in the lower tail (the poor performers) fell.

Distribution of Current IDA (2003) Only Country Sample per GDP pc Annual Growth Rate Average, 1981-1994 vs. 1995-2002



Sample 3: All Sub –Saharan Africa IDA borrowers in 2003

The histogram for this sample reveals the same pattern analyzed before. There is a fairly general improvement in economic performance across the region, at the same time there are remarkable differences in economic performance which can be traced to same of the factors described in the main text, particularly low governance and conflict.



Appendix 2: CAS and Growth: July 2002 to June 2004

Country	Growth Strategy and Analysis	GDP Growth
Armenia FY05-FY08	Emphasis: private sector-led growth, with reforms focused on the financial sector, government services and infrastructure. Discussion of growth-poverty linkages.	5.7% to 6.8%
Azerbaijan FY03-FY05	Key issues: management of oil windfall through measures concerning governance, financial sector policies, technical/business skills development, management of Dutch Disease and infrastructure development.	5.5% to 7.4%
Benin FY04-FY06	Examines the key sector (cotton) for growth. It discusses reforms to accelerate growth through increased competition, rural agricultural expansion and delivery of economic services (power and telecommunication).	6.5%
Cameroon FY04-FY06	Key issues: governance and private sector development. Emphasis on investments in agro-businesses and industry. Constraints: administrative and regulatory barriers, weak infrastructure (power); inadequate financing and business development services for SMEs.	5.2%
Chad FY04-FY06	Growth strategy linked closely to oil exploitation and use of oil resources, efficient exploitation of other sectors, such as livestock and farming, including reform of the cotton sub-sector through the privatization of government interest.	11% - 2003 42% - 2004 15% - 2005 4-5% - 2006
Ethiopia FY03-FY05	Analysis of sources of growth, with emphasis on private sector development, human development, agriculture-led industrialization and reduction in vulnerability to shocks.	Up to 8.0%
Ghana FY04-FY07	Emphasis on macroeconomic measures, improving the investment climate, governance, and infrastructure. Limited analysis of sector structure and policy issues.	5%
Guinea FY04-FY06	Discusses constraints to growth in key sectors: mining and fisheries. Stresses investment climate issues, governance, research and extension services for livestock, and small scale irrigation schemes.	5% to 6.1%
Kenya FY04-FY07	Growth is a priority pillar, with emphasis on improving investment climate, macroeconomic stability, improved public sector management and governance.	2.5% to 4.9%

Country	GROWTH STRATEGY AND ANALYSIS	GDP Growth
Kyrgyz Republic FY04-FY07	External public debt is a drag on growth. Requires skillful macroeconomic management to shift the origin of debt from public to private sector, raise domestic savings and broaden the role of the private sector in growth. Need to harness sector potential in agriculture and attract private investments into large scale hydro and mining, and SMEs.	4.2%
Madagascar FY04-FY06	Discusses potential sources of growth in the key sectors. Strategy: improve governance and raise rural incomes. Use infrastructure platform to enable the development of agriculture and agro-processing, mining, tourism and export processing zones in four regions. Harness irrigation infrastructure to stimulate rural growth.	6%
Malawi FY04-FY06	Growth analysis based on detailed study with strategies to expand agricultural exports (tea, sugar, cotton, paprika, nuts, tobacco) and SMEs in textile production. Key reforms include improving land management, agricultural marketing and eliminating supply chain bottlenecks.	6%
Mali FY04-FY06	Launched growth diagnostics through a CEM and Integrated Framework for Trade to provide inputs into a multi-sectoral sources of growth project for agricultural diversification.	-1.5% to 5.5%
Mauritania 2002-05	Growth is first pillar of CAS, with emphasis on structural reforms to remove barriers to competition and raising the role of the private sector.	5.1% to 6.4%
Mongolia FY05-FY08	Consolidate transition to a market economy. Reduce climatic and external trade vulnerabilities. Stress PSD, environmental policies, and regional balance in infrastructure and human development. Align donor support to implement PRS.	5.5%
Mozambique FY04-FY07	Succinct analysis of sector sources of growth. Key policies stress improving investment climate, fostering private-public partnerships in infrastructure, expanding public services and building structures to support enforcement of public accountability.	7% to 11%
Nepal FY04-FY07	Growth outlook is linked to sector strategies: agriculture, manufacturing, tourism, trade, transport, construction and public services. Emphasis on human development, social inclusion (gender), governance and capacity building.	3.4% to 5.4%

Country	GROWTH STRATEGY AND ANALYSIS	GDP Growth
Niger FY03-FY05	Sources of growth emphasize investments in irrigation, agro-pastoral activities, environmental management and infrastructure. Improved macroeconomic management with emphasis on the financial sector and privatization.	3.9% to 4.1%
Rwanda FY03-FY05	Discussed sources of growth in the context of sector resource endowments.	6.1% to 7.3%
Senegal FY03-FY05	Highlights the role of key sectors and measures to overcome constraints related to infrastructure, investment climate, administrative barriers and unfavorable terms of trade.	6% to 8%
Sri Lanka FY03-FY06	Core issue: Macroeconomic stability, peace building through equity and regional balance in social service delivery. Limiting the role of state enterprises and expanding private sector. Rural development with emphasis on reform of agricultural input and output markets, land reform, labor market reform and rural infrastructure.	5% to 6%
Tajikistan FY03-FY05	Improvement in investment climate. Strengthen institutions needed for a market economy. CDD. Growth from productivity gains from privatization; increased demand, due to remittances and small and medium scale enterprises.	Base case: 5%
Vietnam FY03-FY06	Key issues: manage the transition to market economy; socially inclusive policies: lagging regions, gender, minorities, improved social service; strengthen governance.	5.2% to7%
Yemen FY03-FY05	Promote non-oil private sector investment, human resource development, infrastructure investment and social safety net.	3.8% to 5.5%
Zambia FY04-FY06	Improve on illusive macroeconomic stability. Anchor growth on diversified and export-oriented strategy. Strong emphasis on macroeconomic stability, governance reforms and reform of the public sector, including the PEs and human development.	Base case: 3.5% to 5%

Appendix 3: Notes on Table 4

Notes:

1. "Grades" are based on a 1 to 10 scale, 10 being the top score.
2. Data are available for a subset of the 19 IDA-only countries of 1980 (of the 35 included in the original subset):
    i. Bangladesh
    ii. Benin
    iii. Bolivia
    iv. Burundi
    v. Central Afr. Rep.
    vi. Chad
    vii. Congo, Dem. R.
    viii. Ghana
    ix. Guinea-Bissau
    x. Haiti
    xi. Madagascar
    xii. Mali
    xiii. Myanmar
    xiv. Nepal
    xv. Niger
    xvi. Rwanda
    xvii. Sierra Leone
    xviii. Togo
    xix. Uganda
3. Data are available for the years 1975, 1980, 1985, 1990, 1995, 2000, 2001.
4. ***Exception*: Source: The World Bank; data are available starting with the year 1981, but vary greatly with respect to number of available observations.

Source: Gwartney, James and Robert Lawson with Neil Emerick. Economic Freedom of the World: 2003 Annual Report. Vancouver: The Fraser Institute, 2003. Data retrieved from www.freetheworld.com

The Areas and Components of the EFW Index

1: Size of Government: Expenditures, Taxes, and Enterprises

A. General government consumption spending as a percentage of total consumption.
B. Transfers and subsidies as a percentage of GDP.
C. Government enterprises and investment as a percentage of GDP.
D. Top marginal tax rate (and income threshold to which it applies).
i. Top marginal income tax rate (and income threshold at which it applies)
ii. Top marginal income and payroll tax rate (and income threshold at which it applies)

2: Legal Structure and Security of Property Rights

A. Judicial independence: the judiciary is independent and not subject to interference by the government or parties in disputes (GCR).

B. Impartial courts: A trusted legal framework exists for private businesses to challenge the legality of government actions or regulation (GCR).

C. Protection of intellectual property (GCR).

D. Military interference in rule of law and the political process (ICRG).

E. Integrity of the legal system (ICRG).

3: Access to Sound Money

A. Average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years

B. Standard inflation variability in the last five years.

C. Recent inflation rate.

D. Freedom to own foreign currency bank accounts domestically and abroad.

4: Freedom to Exchange with Foreigners

A. Taxes on international trade.

i. Revenue from taxes on international trade as a percentage of exports plus imports.

ii. Mean tariff rate.

iii. Standard deviation of tariff rates.

B. Regulatory trade barriers.

i. Hidden import barriers: No barriers other than published tariffs and quotas (GCR).

ii. Costs of importing: the combined effect of import tariffs, license fees, bank fees, and the time required for administrative red-tape raises costs of importing equipment by (10 = 10% or less; 0 = more than 50%) (GCR).

C. Actual size of trade sector compared to expected size.

D. Difference between official exchange rate and black market rate.

E. International capital market controls

i. Access of citizens to foreign capital markets and foreign access to domestic capital markets. (GCR)

ii. Restrictions on the freedom of citizens to engage in capital market exchange with foreigners—index of capital controls among 13 IMF categories.

5: Regulation of Credit, Labor, and Business

A. Credit Market Regulations

i. Ownership of banks: percentage of deposits held in privately owned banks.

ii. Competition: domestic banks face competition from foreign banks (GCR).

iii. Extension of credit: percentage of credit extended to private sector.

iv. Avoidance of interest rate controls and regulations that lead to negative real interest rates.

v. Interest rate controls: interest rate controls on bank deposits and/or loans are freely determined by the market (GCR).

B. Labor Market Regulations

i. Impact of minimum wage: the minimum wage, set by law, has little impact on wages because it is too low or not obeyed (GCR).

ii. Hiring and firing practices: hiring and firing practices of companies are determined by private contract (GCR).

iii. Share of labor force whose wages are set by centralized collective bargaining (GCR).

iv. Unemployment Benefits: the unemployment benefits system preserves the incentive to work (GCR).

v. Use of conscripts to obtain military personnel

C. Business Regulations

i. Price controls: extent to which businesses are free to set their own prices.

ii. Administrative conditions and new businesses: administrative procedures are an important obstacle to starting a new business (GCR).

iii. Time with government bureaucracy: senior management spends a substantial amount of time dealing with government bureaucracy (GCR).

iv. Starting a new business: starting a new business is generally easy (GCR).

v. Irregular payments: irregular, additional payments connected with import and export permits, business licenses, exchange controls, tax assessments, police protection, or loan applications are very rare (GCR).

GCR = Global Competitiveness Report
ICRG = International Country Risk Guide

Appendix 4: Strengthening Infrastructure in IDA Countries[34]

The Need for More Infrastructure Services

The contribution of infrastructure to economic growth, which is particularly strong in low-income countries, is gaining recognition. Numerous studies have demonstrated that economic returns to investments in infrastructure services are high, and infrastructure services can make significant contributions to the growth of an economy. This link is stronger in the early stages of development, when infrastructure is scarce and basic networks have not been completed. There is now much greater acknowledgment that growth in low-income countries can be significantly enhanced by providing greater access to quality infrastructure services.

Although demand for infrastructure in low- income countries has grown significantly since the mid-1990s, its supply has not kept pace. Both access to and quality of infrastructure are insufficient in most developing countries. Current estimates put average annual infrastructure financing needs at 7 percent of GDP (US$109 billion) for all low-income countries for both new investment and for operations and maintenance (O&M) expenditures. Comparing past actual investment and O&M rates (around 3.5 percent of GDP) with the projected requirements suggests the need to potentially double present levels of financing for infrastructure (see Table 1).

Table 1: Expected Annual Needs for New Investment and Maintenance in Infrastructure, 2005-10

	New Investment		Maintenance		Total	
Country Income Category	**Billions of dollars**	**Percent of GDP**	**Billions of dollars**	**Percent of GDP**	**Billions of dollars**	**Percent of GDP**
Low	50.0	3.18	58.6	3.73	108.6	6.92
Lower middle	183.2	2.64	173.0	2.50	356.2	5.14
Upper middle	136.0	0.42	248.0	0.76	384.0	1.18
All developing countries	233.1	2.74	231.7	2.73	464.8	5.47

Note: These estimates exclude the needs in electricity transmission and distribution as well as in ports and airports.
Source: Global Monitoring Report, 2004.

Infrastructure investment has declined sharply since the mid-1990s, constraining growth and exacerbating the gap between infrastructure demand and supply. While ODA for infrastructure declined during the 1990s, IDA stayed engaged and its financing for infrastructure for IDA borrowers did not fall off. During the 1990s, the public sector in developing countries reduced its participation in infrastructure, primarily due to anticipated increases in private sector participation and fiscal adjustment programs.[35] In addition, private investment, although on the

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[34] This note draws on: (i) World Bank, (2004). Global Monitoring Report; (ii) World Bank, (2004). Infrastructure Development: Update on the Implementation of the Infrastructure Action Plan, Development Committee Discussion Paper; and (iii) World Bank, (2003, 2004). Infrastructure Action Plan.

[35] There is growing evidence that fiscal adjustment usually leads to a disproportionate decrease in public capital expenditures, especially in infrastructure projects (Global Monitoring Report, 2004).

upswing in the early 1990s, declined sharply after 1997.[36] Finally, official development assistance (ODA) for infrastructure also fell during the 1990s, although primarily in middle-income countries. These declines have proven to be a significant bottleneck to growth. One study suggests that if Africa enjoyed the growth rates in telecommunications and power generation infrastructure comparable to those observed in East Asia in the 1980s and 1990s, its annual growth rate would have been 1.3 percent higher.[37]

Fiscal constraints, slow reforms and weak institutions have contributed to the decline in infrastructure investment. Public investment in many low-income countries is constrained by limited fiscal space, forcing governments to choose among high priority areas. In recent years, public funding has been directed largely to social expenditures in many developing countries. At the same time, the expected flows of private capital for infrastructure investments have not materialized, particularly in low-income countries. This is primarily due to the macroeconomic environment, uneven progress on sector policy and regulatory reform, weak institutional capacity and governance structures (especially at local government levels), all of which are critical to attracting private investors.

Meeting the needs for infrastructure requires more financing, deepened reform and stronger institutions. Increasing financing for infrastructure service delivery is critical -- to spur growth, improve basic services and contribute to poverty reduction. Additional funds must be mobilized from all sources: domestic and foreign private investment, public domestic investment, and the international financial institutions as well as the bilateral donors.[38] At the same time, financing needs to be coupled with continued efforts to strengthen institutional and governance structures and improve policy and regulatory regimes to improve the efficiency of service delivery and ultimately to attract private participation in infrastructure in low-income countries.

The World Bank Group's Role in Infrastructure in IDA Countries

The WBG has begun to re-emphasize the critical role of growth and the key contribution of infrastructure, especially in low-income countries. Following several years of less visibility, there is now increasing representation of infrastructure in country programs. In recent Country Assistance Strategies (CASs), there has been a trend towards a more in-depth treatment of the growth agenda, and infrastructure's contribution to this agenda.

The role of the WBG in providing support for infrastructure services has also evolved over time. The Bank Group's business model features several elements: (a) shifting from financing capital assets solely to supporting infrastructure service delivery more broadly (highlighting a greater focus on policy and regulatory reform and capacity building to support infrastructure

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36 Most of the increase in private investment during the early part of the 1990s went into energy and telecommunications in Latin America, East Asia and Eastern Europe.

37 See Global Monitoring Report. Chapter 6.

38 According to a recent estimate, around 70 percent of all infrastructure spending in developing countries in the 1990s was financed by governments' or public utilities' own resources. During this period, the private sector contributed approximately 20-25 percent while ODA finances only around 5-10 percent. These proportions vary across sectors, with some attracting more private investment (e.g., telecommunications) while others rely on official assistance (water and sanitation).

activity); (b) acknowledging the important role of public funding for infrastructure, especially in low-income countries where it will take time and effort to attract private financing;[39] and (c) recognizing the critical role that the WBG can play to leverage funds from other sources. Despite its small role relative to the large financing needs, the WBG can play an important catalytic role by providing direct investment financing as well as carrying out analytic work, supporting policy reform, and transferring knowledge and institution building, in order to improve infrastructure services and ultimately "crowd-in" private investment. Opportunities to blend instruments and financing across the WBG, which are an important part of this model, are becoming more frequent in low-income countries.

A WBG infrastructure strategy developed in 2003 has already yielded results, but more can be accomplished in IDA countries. An Infrastructure Action Plan (IAP)[40] to revitalize WBG infrastructure business was formulated to: (i) respond to client demand for infrastructure; (ii) rebuild the country-level diagnostic work; and (iii) strengthen the WBG's instruments and approaches. The Bank's involvement in infrastructure in IDA countries is guided by the IAP, under which significant progress has been made. Among other achievements, a robust pipeline of new investments is under preparation to begin to address client demand. Tangible results in FY04 have already been achieved: IDA commitments in FY04 totaled $2.8 billion compared to $2.2 billion the prior year, and this level is expected to continue in subsequent years. However, the current IDA envelope is presently a constraint to IDA's infrastructure support; with larger IDA resources, infrastructure commitments could have grown significantly faster in FY04 and beyond.

The WBG needs to exploit its comparative advantage to ramp up infrastructure activities in IDA countries to tap growth potential. More needs to be done for IDA countries to increase public funding for infrastructure investments, to better target those investments to poor populations, to accelerate sector reform and strengthen governance and institutional capacity, and to help attract private finance. The WBG is uniquely placed to support these efforts, by:

i. **Providing public funding for infrastructure investments**. The Bank has traditionally supported both large infrastructure investments in individual countries as well as smaller community-based or local projects. These are important engines of growth in IDA countries. More recently, the Bank has gained experience with newer approaches to support infrastructure activity: multi-country infrastructure projects to improve regional infrastructure networks,[41] and infrastructure components in broader investments, where infrastructure is positioned within the context of multi-sectoral outcomes. For example: (a) regional/cross-country projects have become an important business line in Africa: four operations are under execution, representing

[39] Over the past decade, the Bank's lending for infrastructure to IBRD countries declined significantly. It moved out of traditional investment lending in IBRD countries and increased policy-based lending in those countries, signaling an expectation to rely increasingly on private financing for infrastructure investments. These trends did not hold for IDA countries where lending for infrastructure remained relatively constant.

[40] See IAP (July 2003), IAP Update (April 2004), and Development Committee paper (Sept. 2004).

[41] Addressing the lack of integration of regional infrastructure networks across national boundaries can enable infrastructure to make its full contribution to development. Cross-country roads, information and communications technology (ICT) and other technologies which facilitate the flow of goods, water, and energy are obvious candidates.

total commitments of $415million, and another six are in the pipeline representing approximately $600 million in commitments; and (b) trade logistics, to facilitate trade competitiveness and promote stronger growth, is a new area of multi-sector intervention: there are currently 15-20 trade and transport facilitation operations in the pipeline for the next three years.

ii. **Targeting poor populations**. Pragmatic and politically feasible approaches to tariff setting and subsidies are needed to improve cost recovery and efficiency and at the same time meet social objectives of reaching the poor. One approach to achieve this balance is Output-Based Aid (OBA), which has been used in several Bank projects to expand services to the poor or to subsidize their access. The OBA approach is a way to improve service delivery to poor communities by attracting public-private partnerships under performance-based arrangements. Currently over 30 such projects are under preparation or implementation.[42]

iii. **Supporting sector reform and institution building**. The Bank has launched an effort to deepen knowledge, and measurement, of various dimensions of infrastructure service delivery (access, quality, affordability of services) and progress on sector policy reform. The Bank is beginning to build this knowledge base through its diagnostic work, for example, via in-depth infrastructure assessments such as the "Recent Economic Developments in Infrastructure (REDI)" template.[43] This work is expected to be pivotal for improved policy support to clients -- to promote reform and efficiency improvements -- as well as to strengthen client capacity for financing and managing infrastructure. It is also a critical element of the results agenda, to better measure and manage outcomes by both donors and clients.

iv. **Attracting private financing**. Improving the policy and institutional environment is necessary to attract private investment. IDA countries will also be well-served by an increased use of existing Bank instruments designed for this purpose, such as guarantees, and blending of instruments across the WBG. Until 1997, only a limited number of the Bank's risk mitigation instruments were available for IDA countries. In 1997, the Bank guarantees program was expanded to include a pilot program of guarantees in IDA-only countries.[44] Also, new accounting of guarantees in the CAS envelope has recently been introduced which, in effect, counts only 25 percent of the guarantee's face value against the IDA allocation. This is expected to enable a scaling-up of the use of Bank guarantees. The WBG has also increased support for projects which blend financing from across the institution (IDA, IFC and MIGA) which serve to leverage significant amounts of private capital. Currently, six IDA guarantees have been approved, for a total of $441 million, which have mobilized a total of $2.9billion in financing. There are four more IDA guarantees in the pipeline for FY05 for a total of $120 million, which is

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42 The Bank is also managing a trust fund, the Global Partnership for Output-Based Aid (GPOBA), which supports the design and evaluation of OBA schemes and the dissemination of knowledge on OBA. A new window to provide direct funding for the subsidy component of OBA transactions via GPOBA grants is currently under preparation.

43 The REDI template provides a snapshot of the state of a country's infrastructure services and institutions, the associated investment needs, and an analysis of key sector policy issues.

44 The IDA guarantees pilot program is limited to US$500 million. This guarantee was designed as an instrument of last resort to support critical additional financing in IDA countries where other instruments were not available or not appropriate. This pilot program provides partial risk guarantees, which ensures payment in the form of debt service default.

expected to leverage $796 million in financing. In addition, several ICF-MIGA-IDA blend projects, leveraging private sector investments, are under way, including the NT2 hydropower project for Laos, Pamir power in Tajikistan and the West African Gas Pipeline.

Appendix 5: ESW Products

Formal Reports

- ***Country diagnostic reports***—standardized ESW products with their own toolkits and quality assurance arrangements established by the Sector Boards—are divided into two subcategories:
- ***Core diagnostic reports***, which underpin the analysis for the CAS and the Bank's overall policy dialogue, consist of the following:
  - ***Poverty Assessments (PAs)*** provide an analytic synthesis of existing knowledge about the country's poverty situation, the impact of growth and public actions on poverty; and the adequacy of poverty monitoring and evaluation systems. They identify key knowledge gaps in these areas, and provide new analysis to addresses specific gaps or to complement existing work.
  - ***Country Economic Memoranda (CEMs)*** and provide in-depth assessment of a country's economic and sectoral policies and development path. In some cases, CEMs may be replaced by other integrative products, such as Development Policy Reviews (DPRs), that provide a more concise assessment of social, structural, and key sectoral policies and priorities.
  - ***Public Expenditure Reviews (PERs)*** analyze the equity and efficiency of public expenditure and assess the effectiveness of public expenditure management processes (budget formulation, implementation, and reporting) in achieving fiscal discipline, linking budget allocations to the government's strategic policy priorities, and enabling cost-effective provision of public services.
  - ***Country Financial Accountability Assessments (CFAAs)*** examine a country's private and public financial management systems, assess strengths and weaknesses of accountability arrangements in the public sector, identify risks the weaknesses may pose to the use of Bank funds, and support the government in designing and implementing financial management capacity-building programs.
  - ***Country Procurement Assessment Reviews (CPARs)*** analyze a country's public sector procurement structure, and establish the need for and guide the development of an action plan to improve a country's system for procuring goods, works, and services.
  - ***Integrative Fiduciary Assessments*** provide an integrated view of a country's public expenditure, procurement, and financial management systems. They integrate the work normally carried out through a PER, CPAR, and CFAA.
- ***Other diagnostic reports*** address sector-specific or thematic issues of high priority and provide upstream analysis to support future lending operations. They include:
  - Accounting and auditing assessment (ROSC)
  - City development strategy
  - Corporate governance assessment (ROSC)
  - Country environmental analysis
  - Country gender assessment
  - Country infrastructure framework report
  - Energy-environment review
  - Financial sector assessment program report
  - Institutional and governance review
  - Insolvency assessment (ROSC)
  - Investment climate assessment
  - Knowledge economy study
  - Legal and judicial sector assessment
  - Recent economic developments in infrastructure (REDI)
  - Risk and vulnerability assessment
  - Rural development assessment
  - Social protection, health, and education sector reviews
  - Social analysis
  - Trade and integration study

Country advisory reports provide advice on special topics.

Regional reports address development issues that cut across several countries.

Other Products/Tasks

Policy notes/other products are less formal reports and events such as workshops, conferences, country dialogue and consultations, which do not result in formal reports. Starting in FY05, only policy notes will remain in this category (see paragraph 32)

Process tasks are activities that support the Bank's diagnostic/advisory services without generating separate identifiable products.

Source: Improving The Bank's Analytical and Advisory Services: World Bank. September 2004