
The Role of Selectivity in Enhancing IDA Effectiveness

A Progress Report

Background Paper for the IDA13 Mid-Term Review

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
I. INTRODUCTION.....	1
A. Aid Effectiveness and Selectivity: Achieving Impact Requires Choices	1
B. The World Bank’s Selectivity Framework	4
II. EXERCISING SELECTIVITY.....	7
A. Introduction.....	7
B. Across Countries.....	7
1) Introduction.....	7
2) Allocation of IDA Resources.....	7
3) Allocation of Administrative Resources.....	8
C. Within Countries.....	9
1) Introduction	9
2) Exercising Selectivity	9
D. Across Global Programs and Partnerships	10
E. Activities Across Sectors and Themes.....	12
1) Sector and Themes Concentration	12
2) Aligning Priorities and Lending/Administrative Resources for IDA Countries.....	14
III. CONCLUSIONS AND KEY CHALLENGES	15
Thematic Codes.....	17
Sector Codes	17

ANNEXES

Annex 1: List of IDA Country CASs Reviewed.....	16
Annex 2: List of Sectors and Themes	17
Annex 3: Priority Areas for IDA and Overall Sector/Thematic Focus.....	18

TABLES

Table 1: Top Five Sectors and Themes FY94-FY03	14
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BOXES

Box 1: The Aid Effectiveness Debate.....	2
Box 2: Global Programs Support Country Objectives.....	11

FIGURES

Figure 1: Priority Areas in IDA 11, IDA 12 and IDA 13 (Number of Areas)	13
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ACRONYMS AND ABBREVIATIONS

AAA	Analytical Advisory Activities
ADB	Asian Development Bank
BPRT	Business Planning and Reporting Tool
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CGAP	Consultative Group to Assist the Poorest
CGIAR	Consultative Group on International Agricultural Research
CPIA	Country Policy and Institutional Assessment
DGF	Development Grant Facility
ESW	Economic and Sector Work
GPPs	Global Programs and Partnerships
HD	Human Development
HHI	Herfindahl-Hirschman Index
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HNP	Health, Nutrition and Population
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
LICUS	Low Income Countries Under Stress
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
OED	Operations Evaluation Department
OPCS	Operations Policy and Country Services
PBA	Performance Based Allocation system
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
SFP	Strategic Framework Paper
SME	Small and Medium-scale Enterprise
SSP	Sector Strategy Paper
TA	Technical Assistance
WBI	World Bank Institute
WBG	World Bank Group

THE ROLE OF SELECTIVITY IN ENHANCING IDA EFFECTIVENESS A PROGRESS REPORT

EXECUTIVE SUMMARY

i. Selectivity in the deployment of resources is key to the Bank's effort to improve its development effectiveness. The principle of selectivity (deploying resources where they can have the greatest positive impact) is clear but its practical application is challenging. This paper, reflecting the Bank's strategic framework, considers how selectivity is exercised at three levels: across countries, within countries, and in the context of global program and partnerships. The paper responds to a request by Deputies that Management report on progress towards institutional selectivity at the IDA13 Mid-Term Review, focusing on the Bank's activities in IDA-eligible countries and selectivity across and within these countries.

ii. The paper reviews the deployment of resources at two levels: financial transfers through IDA lending and grants; and the Bank's administrative budget. In this context, the paper also reviews the role that institutional flexibility plays in selectivity through streamlining of internal processes and coordination with the activities of other donors in the context of the recipient country's development strategy.

iii. Long-standing IDA eligibility criteria already recognize the importance of selectivity across countries—with regard to need as measured by relative poverty or income per capita. In addition to meeting IDA eligibility criteria, a country must be pursuing sound policies to promote growth and reduce poverty. Exercising selectivity in the pursuit of development effectiveness has led to financial flows and administrative budget increasingly favoring IDA countries with sound policies and good governance. The leadership exercised by IDA in this regard has contributed to a major shift by donors and multilateral organizations to place policies and governance at the center of the allocation of aid.

iv. At the same time, there is recognition that poor countries under stress (conflicts, catastrophes, etc.) need to be provided assistance that recognizes both the limitations and opportunities of their situation. An important balance must be struck between need and policy performance in exercising selectivity.

v. The application of selectivity in a country program involves compromises between different perspectives on priorities and constraints. The development strategy for an increasing number of IDA countries is laid out in their Poverty Reduction Strategy Papers (PRSPs). PRSPs provide a country-owned policy framework within which the Bank and other donors can prioritize program support and coordinate effective aid delivery. Where possible, the Bank formulates its Country Assistance Strategies (CASs) – the Bank's basic business plan for countries – on PRSPs and consultations with clients and partners. This helps to ensure that the exercise of selectivity reflects both sound analysis and adequately broad participation so that the Bank's program: a) aligns with and reflects the country's development strategies and priorities; b) focuses on activities promising the largest developmental pay-off; and c) ensures synergy between Bank program and other donor activities.

vi. The outcome of this dual effort on PRSPs and CASs has been to strengthen the Bank's design of country assistance programs. The cumulative effect of improved within-country selectivity has resulted in IDA funding becoming more concentrated on the following five sectors: Health and Social Services,

Law and Public Administration, Transportation, Education, and Energy and Mining.¹ From the thematic perspective, IDA operations show an increased emphasis on governance and public sector reform, private sector development, human development, rural development, and social development, gender and inclusion.

vii. At the global level, selectivity entails not only focusing our efforts on areas in which the Bank can make the greatest impact, but also considering the Bank's potential contribution in different partnership arrangements. Avoiding overextension is also essential. With rapid growth in global programs and partnerships (GPPs) in the 1990s, the Bank is taking steps to improve selection and management of global programs, and the number of global programs is projected to remain flat in spite of continuing pressure for Bank involvement in a wide range of activities.

viii. The World Bank's effort to exercise results-promoting selectivity, both at the global and country levels, mirrors a similar effort by the international community. Although the term "selectivity" was not used explicitly in that declaration, the Monterrey Consensus and the international emphasis it reflects on the Millennium Development Goals (MDGs) provide valuable guidance for the effort on selectivity. Efforts on Global Monitoring and on harmonization (as reflected, for instance, in the 2003 Rome Declaration) also have a role to play in enhancing the selectivity of each agency, the coordination among donors, and overall aid effectiveness.

¹ Agriculture was one of the top 5 sectors to receive funds between FY94 to FY99. Energy and mining became one of the top 5 sectors to receive funds beginning FY00.

I. INTRODUCTION

1. Development effectiveness is the central management challenge for the World Bank. Meeting this challenge requires the exercise of selectivity in the whole range of World Bank activities to reflect lessons learned in the pursuit of development results. This paper discusses selectivity in IDA in the context of Bank efforts to sharpen the focus and selectivity of IDA country and global programs, in response to a request by Deputies that Management report on progress towards institutional selectivity at the IDA13 Mid-Term Review. Section I provides the context by discussing the relationship between aid effectiveness and selectivity, and describing how the World Bank's selectivity framework has evolved in response to this debate. Section II discusses how this selectivity framework is applied across countries, within countries and across global programs and partnerships (GPPs). Section III presents conclusions and key challenges.

A. AID EFFECTIVENESS AND SELECTIVITY: ACHIEVING IMPACT REQUIRES CHOICES

2. Every developing country faces different development challenges and differs in its readiness and capacity to address these challenges, as well as in the type of external assistance that may be helpful at each point in time. The World Bank's ability to respond to different needs and situations varies considerably, both in absolute terms and relative to the capabilities of other development agencies. Its effectiveness in helping countries reduce poverty and achieve other development results is therefore heavily influenced by choices on how best to deploy scarce resources across global programs, across countries, within countries, and across instruments. Making such choices in a way that promotes development results constitutes the core of the "selectivity" effort.

3. Decisions about what type of assistance to provide in what situation reflect considerations of both need and potential effectiveness. The most straightforward indicators of need are income per capita and the pervasiveness of poverty. More difficult to assess is the potential effectiveness of external assistance. IDA's assessments reflect a heavy emphasis on country performance, and its key selectivity tool is its Performance-Based Allocation system, which channels IDA resources based on country performance track records and pursuit of sound policies. Effectiveness is also a function not only of an agency's own choices and internal business processes, but also of the capacities and activities of others actors and the coordination among them.

4. Valuable lessons of experience have become available over the years and can provide guidance on the choices that are likely to promote positive results. These lessons have been distilled by research carried out at the World Bank and elsewhere on aid effectiveness (see Box 1). A key conclusion from this research is that *financial* assistance can be effective, provided it builds on a solid foundation of policies and governance. This conclusion, together with recognition of the importance of institutions provides a major basis for the World Bank's approach to selectivity across countries, as discussed in Section II.

Box 1: Aid Effectiveness Factors

Recent research by the World Bank into aid effectiveness (Burnside and Dollar, Collier & Dollar) has prompted a debate on the impact of aid on growth – including the issues of conditionality and selectivity. In *Aid, Policies and Growth*, Burnside and Dollar (1997, 2000) showed that aid was effective in promoting faster economic growth only if accompanied by sound policies (i.e., macroeconomic stability, use of market mechanisms, openness to trade, good business environment for the private sector). In 1998, the World Bank published a report *Assessing Aid: What Works, What Doesn't and Why?* stating that aid is effective in accelerating growth only if the quality of economic management in the country is good. The report also found that bilateral aid has been relatively inefficient and less well targeted to poor countries with good policies. This strand of thinking was further developed by Collier and Dollar (1999a, 1999b, 2000, 2001). In their article *Can the world cut poverty in half?* the authors argued that economies grow better if they are soundly managed. In addition, they presented results showing that aid can be most effective in reducing poverty if allocated to poor countries with sound policies. However, the analysis and conclusions of these reports were challenged (Hansen and Tarp 2000, 2001, Dalgaard and Hansen 2001, Guillaumont and Chauvet 2001), with different results indicating that aid can be effective in helping the poor even with unsound policies (Beynon 2001). Others (Gunning 2000) have argued that performance-based selectivity would leave poor people without help under bad governments; that countries with good policies do not need aid and that selectivity tie a country's allocation to some assessment of its policies and thus acts like ex-ante conditionality, potentially conflicting with country ownership. Recent studies by Easterly, Levine and Roodman (2003) and Roodman (2003), found that earlier results may have overstated the aid-policy performance-growth link and pointed to the explanatory importance of other variables. Factors such as external shocks, different types of aid/recipients and institutional factors also influence growth.

This debate on aid helped create some common ground and increasingly the term “policy selectivity” has been adopted by the donor community as a norm for the allocation of resources. There is a general consensus that the impact of aid is greater in the presence of good policies, as reflected notably in the UN's Financing for Development process which led to the adoption of the “Monterrey Consensus” and encouraged donors to commit to expanding aid flows in support of the efforts of countries that are improving policies and governance. The implied selectivity criteria provide more aid to reforming countries where it can be most effectively used. Development effectiveness will not be achieved only with aid nor will developing countries grow only with good policies and institutions. It is necessary to have both and to look for their complementarities. There has been growing support for basing selectivity increasingly on more than just policy-based measures. This is consistent with the recent efforts in the development community to move towards outcome and results-based measures as the basis for allocating aid but faces considerable limitations in practice. A combination of outcome measures and policy measures would help to balance the pursuit of good strategies and to compensate for the long lags between policy implementation and their outcome effect.

While the debate on aid, growth and policy is ongoing, a number of new directions on aid effectiveness have emerged. One direction is exploring the new mechanisms on how to use resources to deliver services for poor people. The World Development Report 2004 emphasizes the importance of taking into consideration the three relationships among policymakers, service providers, and poor people. The type of service delivery mechanism needs to be tailored to characteristic of the service and circumstance of the country. Another direction is focused on how to improve the quality of aid. A recent paper prepared by Bank staff “Supporting Sound Policies with Adequate and Appropriate Financing” states that there is no one answer on what makes for good aid. The paper provides three recommendations for aid modalities: i) support good policies with timely and predictable aid; ii) align aid with country priorities and constraints; and iii) provide appropriate forms of aid on sustainable terms.

5. While focusing *financial* assistance on good performing countries is important, this alone is not enough. The challenge is to help countries achieve the Millennium Development Goals (MDGs) while using available resources effectively. This entails responding to the constraints and opportunities in each country with an appropriate mix of instruments—including countries such as those in the LICUS category whose weak policy and institutional performance makes financial assistance less effective. This is of particular relevance for IDA countries where needs are most urgent and country capacity are often weak. Since the resources available for IDA lending are scarce (and those available in grant form are even more scarce), it is important to make the most appropriate allocation of resources.

6. The mix of instruments appropriate to each situation will also vary for different development agencies or donors. In some cases, for instance, the key comparative advantage of the World Bank may be its ability to help design programs that take into account the interconnection among different sectors (such as the role of infrastructure in relieving constraints to improved health or education) rather than its assistance within a particular sector.

7. Decision-making at the Bank is a combination of bottom-up processes that respond to country needs and opportunities and top-down processes that reflect comparative advantage, including changes in capacity because of priorities that have been identified through research or through guidance from all member countries through the Development Committee, the Board and IDA donors. The pursuit of results-promoting selectivity therefore involves a balance between choices at the individual country level and the institutional level.

8. The combination of a systematic approach to allocating (annually, on a three—year rolling basis) IDA’s commitment authority with the CAS process makes it possible to exercise selectivity at the level of individual country programs—including not only lending but also the other key components (analytical work, advisory activities and other development services) of Bank operations. At the institutional level, the Bank’s criteria to guide its institutional priorities include: clear linkages to borrower’s priorities; proven leveraging and catalytic effect; and a clear understanding of the resources required and potential risks involved. The Sector Strategy Papers (SSPs) also help clarify the areas where the Bank can have a comparative advantage and where capacity needs to be strengthened, although focusing on a sector at a time makes it difficult to face aggregate trade-offs.

9. The annual business planning cycle provides the opportunity to exercise selectivity—both with respect to the deployment of resources across countries but with respect to the relative emphasis on country programs, on sector and global programs (many of which also contribute to country programs) and to central services, including in support of knowledge and fiduciary improvements. Progress on the “results agenda” (including results-based CASs, IDA Results Measurement System, and the use of unit compacts to link service delivery and resource deployment across the Bank) will pave the way for more effective solutions to the required balance between top-down and bottom-up perspectives, or between international and country-based priorities. In addition, the need to reconcile the Bank’s planning and resource allocation cycle with individual country cycles (driven by both economic and political factors, such as elections) means that selectivity has to be exercised in the context of institutional flexibility.

10. Exercising selectivity in practice is not easy, however. Pragmatic compromises among conflicting factors have to be reached in the spirit of institutional flexibility at the service of development effectiveness:

- (a) ***Engagement and deployment of resources across countries for maximum development results.*** Concentrating IDA resources on one or two large countries would probably lead to a greater reduction in the number of people living in poverty than spreading IDA activities over more than sixty countries. But providing assistance to all eligible countries is implicit in IDA’s mandate and the Bank’s perspective is richer through global presence.
- (b) ***Reconciling different priorities.*** There are often different perspectives on priorities for IDA support in a particular country. The lessons of experience and the Bank’s institutional priorities, reflecting international agreements, may not match the sense of priorities of the recipient country’s government. Balancing these perspectives may result in compromises on selectivity from the Bank’s institutional perspective, reflecting the importance of ownership and coordinated aid.

- (c) ***Managing risk through diversification.*** The potential effectiveness of IDA interventions often depends on the sustainability of policy and institutional reforms. Strict selectivity may lead to a smaller range of activities than the uncertainty on the policy environment would recommend. Hence, selectivity may be weakened in order to manage the risk of wholesale collapse of the country program.
- (d) ***Ensuring comprehensive perspective and selective involvement.*** The complexity of the process of economic development requires the Bank to be comprehensive in analysis and requires involvement in a wide variety of sectors and issues. To make this consistent with the exercise of selectivity, it is important to combine comprehensive diagnostic activities, which can also help support aid coordination, with the discipline to limit IDA's engagement to those areas where the impact is likely to be greatest. Also, IDA's engagement should focus on our comparative advantage, in coordination with participation by other donors and agencies in line with their respective strengths. For example, some of the latest CASs reflect selectivity by supporting some, but not all, of the Poverty Reduction Strategy Paper's (PRSP) pillars; and by limiting the number of individual operations in the program.

B. THE WORLD BANK'S SELECTIVITY FRAMEWORK

11. The World Bank's framework for selectivity – formally articulated in the Strategic Framework Paper² (SFP) – comprises a three-level cascade of choices:

- (a) ***Across countries,*** selectivity is guided by client need and opportunities for effectiveness. The Bank's measures of need are based on measures of income and poverty, while effectiveness is measured directly by program evaluations and indirectly by measures of client policy and institutional performance. Since financial assistance is most effective in countries with sound policies and institutions, the World Bank focuses its lending on countries with good performance ratings. In country circumstances such as weak institutions, poor policies, or conflict that prevent lending from being used effectively, the World Bank focuses its efforts on analytic and advisory work and on promoting good governance to help clients reach the point where they can absorb external financing productively.
- (b) ***Within countries,*** selectivity is guided by the principles of the Comprehensive Development Framework (CDF) and PRSP. Through the Country Assistance Strategy (CAS), the Bank focuses its efforts on areas where client demand and ownership is clear, where the World Bank has a comparative advantage, and where it complements rather than overlaps with the activities of our partners.
- (c) ***At the global level,*** selectivity is driven by the Bank's corporate priorities, including its commitment to the MDGs. Global programs are an essential ingredient to scaling up the World Bank's impact. To maximize its impact, however, selectivity must be exercised through engagement on those global issues which reflect the Bank's comparative advantage, working more closely with the Bank's partners in complementary roles and ensuring that the World Bank's global work is effectively connected to country-based programs.

² World Bank Group Strategic Framework (OM2001-0007), January 24, 2001.

12. Within this framework, selectivity is exercised through a series of interlinked choices made by combining top-down and bottom-up approaches at different levels of the Bank and relying on two allocation mechanisms for financial aid resources and for administrative budget resources.

“Top down” approach

- (a) ***Financial assistance***. The amount of funds available for commitment (from donors, IDA credit repayments and transfers from IBRD) is established on a three-year basis reflecting the replenishment cycle. Under IDA’s Thirteenth Replenishment, IDA commitment authority for the July 1, 2002 to June 30, 2005 period was set at SDR 18.1 billion.³ These resources are allocated to individual countries annually, on a three-year rolling basis, through a Performance Based Allocation (PBA) system. These allocations provide a lending/grant envelope for the CAS and, in that context, are sometimes adjusted in consultation with the Board to reflect changes in circumstances or exceptional needs and opportunities.
- (b) ***Administrative budget***. Similarly, decisions on how to allocate administrative budget resources across countries are guided by an indicative Bank-wide benchmarking system focusing on poverty and country performance as well as the country’s population. This provides a reference point for Regional business plans, which also include direct and indirect support for country programs and which are linked to the results agenda through the “Unit Compact” exercise. Country budgets and regional support, together with resources available from Network-managed programs, the World Bank Institute (WBI) and others (including trust funds), provide Country Directors with an administrative budget envelope for the country program.

“Bottom-up” approach

- (c) Selectivity is exercised at the country level. Country Directors – on the basis of interactions between the country team and the government, other local stakeholders and donors – propose a program for World Bank’s activities. Country Directors face a hard budget constraint, which is set at the Regional level on an annual basis. Similarly, Country Directors have to prioritize among a set of competing demands proposed by their clients and the country team. Countries tend to propose a large number of actions across a wide range of areas. However, administrative capacities of low-income governments are limited, and an assessment of where they should be focused is essential. Governments cannot effectively push ahead on all areas at once. The “*top-down*” allocations described in a) and b) above also provide some constraints and are then reconciled with the priorities reflected in the circumstances of each borrower assessed on a “*bottom-up*” approach through the CAS.

13. To ensure strong client focus, accountability for performance, and flexibility in approach, the actual choices are initiated by the responsible managers in a decentralized fashion then reviewed by Regional and Bank Management and discussed with the Board. Management review are informed and guided (through specific incentives in exceptional cases) by the Bank’s institutional priorities as managed by network anchors and other specialized units.

³ The IDA Report *Additions to IDA Resources: Thirteenth Replenishment – Supporting Poverty Reduction Strategies* (IDA/R2002-0136), date July 12, 2002 was approved by the Executive Directors on July 25, 2002, and IDA’s Thirteenth Replenishment resolution was approved by the Board of Governors on September 29, 2002.

14. In addition, Bank Management uses a combination of constraints, criteria, and processes to help implement this selectivity framework to achieve the appropriate degree of selectivity.

- (a) Hard budget constraints and staff constraints, at both the unit and country level as well as for the World Bank as a whole, help to force choices. Such constraints are complimented by approval processes for the World Bank's aggregate budget - as well as for unit budgets, CASs, SSPs, the Development Grant Facility (DGF), and new GPPs – and emphasize the need for selectivity by requiring that choices be justified on the basis of development impact.
- (b) High standards for product quality and increasing emphasis on monitoring development impact help to ensure that resources are not spread across too many issues and instruments, but focused where they can meet quality standards and still have the greatest potential impact. The Quality Assurance Group (QAG) continues its active program of assessing Quality at Entry, of Economic and Sector Work (ESW) and of supervision with the objective to increase operational selectivity

II. EXERCISING SELECTIVITY

A. INTRODUCTION

15. This section describes recent progress in three areas of selectivity and partnerships; i) across countries; ii) within countries and iii) across global programs. In each area, it first describes the issue, including what forces are at work and how selectivity in this area can affect the Bank's development effectiveness. It then describes progress/changes in World Bank policy, including recent actions taken at the institutional level to improve selectivity in that area. Finally, this note presents what evidence is available on the nature and degree of selectivity at each level.

B. ACROSS COUNTRIES

1) Introduction

16. As discussed in Section I of this paper, financial assistance can be more effective in achieving development goals if it is focused on countries with good governance and commitment to poverty reduction. Based on these findings, the concept of selectivity across countries, in which aid is focused on a select group of countries with good policies and institutions, has gained increasing support in different aid programs in recent years. In particular, it has long been the practice of IDA to allocate its resources to eligible countries on the basis of performance as well as need. This section describes recent improvements in the allocation of IDA's assistance and in the allocation of the Bank's administrative resources.

2) Allocation of IDA Resources

17. The principles for the allocation of lending and budget resources are key elements for maximizing the World Bank's overall development impact. While most IDA countries have tremendous poverty burdens, and are facing sizable financing gaps in achieving the MDGs, ensuring appropriate selectivity across countries based on performance and need contributes to better utilization of IDA credits and grants. Within this framework, the Bank has progressively implemented changes in the allocation of IDA resources to give good governance greater importance and to consider social and institutional criteria in assessing the quality of each borrower's policy performance. The current approach for implementing the system for making allocation decisions is briefly reviewed in this section in terms of the PBA and the linkage between the criteria and the allocation of lending commitments.

18. Following extensive discussions in the context of IDA replenishments, IDA funds are predominantly allocated according to policy performance. Effectively and fairly assessing country performance to guide the allocation of IDA funds is an ongoing challenge. The PBA system relies on the annual Bank-wide exercise of Country Policy and Institutional Assessment (CPIA) which reflects a broad view of performance, linked to the objective of poverty reduction. Poverty, as measured by GNI per capita, and portfolio performance are also instrumental in determining countries' allocations, as is population since allocations are made on a per capita basis

19. The PBA system for IDA will play an important role as the development community focuses on increasing aid effectiveness in recipient countries. Over time, the dynamic feedback between results and policy inputs will further strengthen the capacity of IDA's performance allocation system to assess the likelihood of development effectiveness.

20. The Bank's rating criteria and evaluation methodology have changed over the years and have become more refined and complex. In addition, work is under way within the Bank to upgrade the CPIA methodology and to help promote convergence through a common platform of indicators that agencies

can choose.⁴ Within this context, Multilateral Development Banks (MDBs) are discussing how to establish close collaboration on the analysis of performance in the case of low-income countries and now employ similar criteria for allocating concessional resources.⁵

21. Management annually carries out a planning exercise to allocate IDA funds for the following three years. The IDA allocation exercise for FY04-06 was completed in January 2003. For this period, countries in the top performance quintile were allocated five times as much on average as countries in the bottom performance quintile. IDA allocations provide lending/grant envelopes for new CASs (base case scenario); actual lending can deviate from the performance-based allocations to reflect changes in performance in between annual assessments and/or exceptional country circumstances.

3) Allocation of Administrative Resources

22. Similarly to the allocation of IDA resources, the key criteria guiding the World Bank's allocation of budgetary resources across countries are poverty, population, and performance. This ensures that more resources are targeted at countries with more pressing needs for poverty reduction and/or with better demonstrated track records for designing and implementing poverty alleviation strategies and policies. In particular, this helps the Bank to focus its *lending activities* on countries where the overall policy environment favors aid effectiveness and where the World Bank's financial assistance can generate a high and sustainable impact.

23. However, there are potential benefits to the Bank's maintaining a dialogue and some kind of involvement with countries that lack strong policies and institutions, and where lending opportunities are very limited. In recognition of the particular needs of LICUS countries, the Bank is increasingly focusing its attention on how best to intervene in these countries, including a focus on knowledge transfer and technical assistance (TA), an increasing focus on socio-political and governance analysis to identify points of entry for reform, an exploration of alternative challenges for delivering vital services to the poor in the short-term, and addressing internal constraints in the Bank (e.g., in human resources).

24. A useful tool for guiding across-country selectivity in administrative resource allocation is the Country Benchmarks. These benchmarks provide a reference point linked to a few measurable country characteristics, mainly population, poverty, and performance taking also into account the needs of small countries and LICUS countries. These benchmarks are referential and serve as an input in the budget allocation process, together with the business planning and reporting tool (BPRT) and the actual expenditure trends. Given the diversity of the Bank's clientele and the nature of its business, the Bank's decision-making process must allow for flexibility to respond to strategic imperatives and/or unforeseen circumstances and for judgment on relative shifts from year to year and among countries. Such circumstances include special requirements arising from external economic shocks, natural disasters, as well as windows of exceptional opportunity created by responsiveness to Bank advice among others.

25. The country benchmarks provide a total country budget envelope that is composed of three components: supervision, lending and non-lending services. Lending and non-lending services are governed by separate formulas. Supervision allocations are set at 2/3 of the average effort per project (US\$ 140k). Lending allocations are linked to performance. One major change made in FY03 was to de-link the indicative allocations for non-lending services from the country performance indicators to allow the Bank's continuing engagement with poor-performing clients through providing adequate and timely analytical and advisory services.

⁴ *Global Monitoring Policies and Actions for Achieving the MDGs and Related Outcomes – Implementation Report*. September 15, 2003.

⁵ *Recent Progress in Cooperating Among Multilateral Development Banks* (SecM20030160), April 8, 2003.

26. Recent changes in the approach to country benchmarking reflect the importance of Analytical Advisory Activities (AAA) and other development services in countries where performance limits lending and the need to engage more actively in LICUS countries. The result is an increase in the relative budget shares allocated to low income countries.

C. WITHIN COUNTRIES

1) Introduction

27. Within IDA countries, the development strategy for the country is laid out in the PRSPs, with the CDF as a guide for the contributions of the country's development partners. Increasingly, the CAS represents the Bank's business plan of activities in a country. CASs are drawing on country-owned policy frameworks – articulated through a PRSP to provide the context within which the Bank prioritizes its program support.

28. A recent CAS Retrospective Review evaluated how well the CAS explains the choices and prioritization process in a country. In this context, the 2003 CAS Retrospective reviewed 52 CASs and CAS Progress Reports of which 29 were for IDA countries. The Retrospective determined that there has been an improvement in the CAS treatment of selectivity, with CASs rated satisfactory or better improving from about 50 percent to more than 70 percent. The next CAS Retrospective is planned for FY05.⁶

29. To supplement that perspective, this section discusses *how* the Bank's country programs exercise selectivity among sectors and themes, by canvassing 15 more recent CASs (see annex 1 for the list of countries) through this particular angle. These CASs were discussed by the Board in FY03 and the first quarter of FY04 and cover the period for FY03-05. While they are a small fraction of the total number of IDA countries, the sum of their FY03 IDA allocation is about 25% of the total IDA commitments, and they represent all six Regions.

2) Exercising Selectivity

30. ***Evolving priorities in countries have emphasized the key role of selectivity.*** Selectivity involves systematically examining the trade-offs among possible Bank's activities, assessing their relative impact, and establishing priorities while taking resource constraints into account within a country. However, it is not a simple task to choose among an increasingly diverse set of issues. The CASs consistently show that selectivity is at the core of CAS and apply the following *common set of objectives* to ensure within-country selectivity:

- (a) ***Focus on activities which promise to have the largest pay-off with regard to the country's development goals as articulated in the PRSP.*** The Bank focuses its assistance on areas that represent the most pressing development challenges in the country. This implies that the Bank does not have to operate in all the sectors and themes. Lately CASs are applying selectivity by supporting some, but not all, of the PRSP's pillars; by focusing on certain sub-sectors or priorities based on the World Bank's comparative advantage; and by limiting the number of operations in the program. For example, the Yemen CAS proposes fewer operations than the previous CAS, to enable greater focus on key PRSP sectors based on the World Bank's comparative advantage and in what other development partners do in the country.⁷ The Benin CAS exercises selectivity by centering World Bank assistance on three of the four PRSP pillars and on

⁶ *Country Assistance Strategies: Retrospective and Future Directions.* (CODE2003-0010). March 14, 2003.

⁷ *Yemen: Country Assistance Strategy* (IDA/R2002-0153; IFC/R2002-0175), August 14, 2002.

only a sub-set of activities under them.⁸ However, where PRSPs are not well prioritized, there are implications for CAS prioritization and selectivity.⁹

- (b) ***Ensure synergy and avoid duplication between World Bank programs and other donor activities.*** The Malawi CAS specifically notes that a significant burden is imposed on the country's capacity by major partners each pursuing individual programs, and discusses a concerted effort to coordinate more effectively in both program implementation and division of labor.¹⁰ Many CASs provide an extensive description of activities of other major development agencies and bilaterals in their respective countries, including Sri Lanka, Yemen, Senegal, and Vietnam. In addition to the above, the Azerbaijan CAS also makes an explicit point about shaping the World Bank's strategy with an eye to its working relationships and dialogue with relevant partners.¹¹ This has led, for instance, to the decision to support education and pension reform and delay support for the health sector "where experience ... [is] more limited and "not yet as encouraging." Vietnam's CAS also notes that selective engagement in which development partners and international agencies allocate tasks based upon a commonly agreed framework and comparative advantage, is allowing increased impact and focus within each sector. In education, for example, while the Bank focuses on primary and tertiary education, the Asian Development Bank (ADB) takes the lead in secondary education and vocational training.¹²
- (c) **Alignment with Country Development Program and Priorities.** All 15 CASs state that the principles and priorities expressed in the PRSPs, which generally evolve from a participatory process involving government, private sector, civil society and other development partners, serve as the basis for building the World Bank's business plan for the CAS period. In fact, since July 2002, CAS in IDA-only eligible borrowers have been presented only after the country has prepared its first full PRSP and explicit demonstration of full government commitment to it. For example, the Nicaragua CAS awaited the preparation of a PRSP, and subsequently the presidential elections, to ensure the new administration's full commitment to that PRSP.¹³ Similarly, the Vietnam CAS was held back for the completion of the PRSP in order to better enable alignment of the World Bank program to the country's poverty reduction strategy.¹⁴

D. ACROSS GLOBAL PROGRAMS AND PARTNERSHIPS

31. The World Bank participates in GPPs because they can create high value for its client countries. Successful GPPs include a number of programs focused on disease prevention and control, including combating the ravages of river blindness, HIV/AIDS, malaria, and tuberculosis; the Consultative Group on International Agricultural Research (CGIAR) which has produced widely acclaimed advances in agricultural research; and the Consultative Group to Assist the Poorest (CGAP), which has spread best practices in reaching the poor through micro-finance. These GPPs can address multi-country issues which

⁸ *Benin: Country Assistance Strategy* (IDA/R2003-0147/1), July 15, 2003.

⁹ *Poverty Reduction Strategy Papers: Progress in Implementation and Detailed Analysis of Progress in Implementation* (IDA/SecM200300468). September, 2003.

¹⁰ *Malawi: Country Assistance Strategy* (IDA/R2003-0095), May 14, 2003.

¹¹ *Azerbaijan: Country Assistance Strategy* (R2003-0076; IDA/R2003-0081; IFC/R2003-0076), May 05, 2003.

¹² *Vietnam: Joint IDA/IFC Country Assistance Strategy – Final CAS* (IDA/R2002-015/2; IFC/R2002-0174/2), September 16, 2002.

¹³ *Nicaragua: Country Assistance Strategy* (IDA/R2003-0003; IFC/R2003-0003), December 18, 2002.

¹⁴ Since July 2002, CASs in IDA-only eligible borrowers have been presented only after the country has prepared its first full PRSP.

cannot be adequately supported through our regular country assistance operations and also complement and reinforce action by the Bank and other development partners at the country level. As with country programs, global programs are relevant only insofar as they have impact on the ground.

32. While most GPPs tend to be focused on a particular sector or theme, it is critical to their success that they be coordinated with country-based programs and incorporate effectively the voice of the program's ultimate client in the program's design and execution. Box 2 contains some successful example of country level impact.

Box 2: Global Programs Support Country Objectives

In recent years, especially as the DGF process has taken root within the Networks, GPP proposals are more clearly aligned with sector strategies, have better governance arrangements, are more closely connected to country programs, and are more reflective of the needs of our clients. On the links to country operations, for example, two components of the **Forest Partnership Program** are coordinating with Bank project teams in Nicaragua to help indigenous communities overcome obstacles for forest certification (e.g., by developing organizational models and standard contract language designed to meet modern standards while also meeting traditional needs in a participatory process). As another example, "links to lending" is a primary approval criterion within **Cities Alliance**, resulting in concrete impacts on Bank assisted projects in more than 20 countries. On local engagement, while more improvement is needed, many GPPs are increasingly engaged on the local level with positive results on program effectiveness. For example, the **Global Water Partnership** is helping local stakeholders to develop the capacity to articulate their need for water services by establishing regional partnerships open to all entities in the region with an interest in water resource management. This combination of grassroots involvement and its link to the international body gives the regional partnership some authority and allows it to serve as an engine for articulating principles and spreading good practices. As another example, the **Critical Ecosystem Partnership Fund** provides direct financial support and technical expertise to ensure that civil society and local shareholders can be a driving force behind finding lasting, workable solutions to regional biodiversity threats.

33. Selectivity in the context of GPPs entails focusing our efforts on areas where the Bank can make the greatest impact, determined primarily on the basis of need and comparative advantage. In this context, the Bank's comparative advantage is not only choosing the highest priority sectors, but also in creating partnerships that capitalize on the strengths of other organizations combined with the Bank's strengths in country specific operations and sectoral expertise. Given that there are often significant transaction costs in launching and maintaining GPPs, selectivity across global programs is essential, even when external donors are providing the majority of the financial resources.

34. The process for the Bank's involvement in GPPs has evolved in the past three years to promote both greater selectivity in the approval of new GPPs and stronger institutional support for ongoing GPPs. Approval of new GPPs – including global trust fund programs – requires review and agreement by the relevant Vice President and ultimately by a Managing Director. In the case of grants provided by the Bank's DGF, final allocation decisions are proposed by a cross-Bank DGF Council and recommended by the President for approval by the Executive Board. There is also an opportunity for annual managerial review of the Bank's overall participation in GPPs in the context of management (and Board) approval of Unit Business Plans, which include specific Units' participation in GPPs. In addition, a number of Bank-wide functions and processes have begun to incorporate GPPs more explicitly, including SSPs and Operations Evaluation Department (OED) evaluations.

35. More recently, the Bank management has taken several steps to further strengthen the framework for GPPs and to improve their management and oversight. In FY03, a Management review group was

established to review the current approach and recommend procedures and policies to strengthen the oversight of global programs, including addressing the many issues identified in OED's phase 1 report, *The World Bank's Approach to Global Programs: An Independent Evaluation*, released in August 2002. A number of steps are underway which are relevant to improving the Bank's selectivity in this area.¹⁵

- (a) As of FY04, the Bank has established a Global Programs and Partnerships Council. The Council is jointly led by the Managing Directors responsible for finance and operations and includes representation by the Regions to ensure ownership, subsidiarity to country operations, and integration of global programs with country and regional activities. The Council is supported by a Global Programs and Partnerships Group,¹⁶ which also provides support services and advice to task managers and units managing GPPs to ensure quality at entry in terms of the governance structure and partnering modalities. Going forward, GPPs will be encouraged to emphasize more clearly the importance of ensuring developing country voice in their formation and management as well as appropriate coordination with programs managed by country teams.
- (b) Standard models are being developed that embody best practice from public and private sector experience to assist task managers to develop stronger and more effective partnerships and help management to ensure that best practice is followed with respect to oversight and risk management.
- (c) Planning and budgeting systems are being modified to more fully integrate global programs in Unit Business Plans and to facilitate monitoring of activity levels and resource use in these programs.

E. ACTIVITIES ACROSS SECTORS AND THEMES

36. Based on the lessons of development experience, an SFP was prepared by the World Bank in 2001.¹⁷ The SFP sets out a medium term strategic framework for the World Bank. In the implementation of this framework, the Bank is leveraging its knowledge and financial resources to play a catalytic role in development concentrating on two pillars – building the climate for investment, jobs and sustainable growth, and investing in and empowering poor people to participate in development – as critical elements to achieving sustainable poverty reduction, growth, and helping clients meet the MDGs.

37. The first pillar is the creation of a good investment climate – one that encourages small, medium and large firms, to invest, create jobs, and increase productivity. The second pillar, empowerment, fosters social inclusion and participation in growth. Both are mutually reinforcing in their effects on growth and poverty reduction and help guide Bank activity at the country level.

1) Sector and Themes Concentration

38. A primary source of policy guidance for IDA specifically has been through the replenishment process. Over the last three IDA replenishment periods, the number of policy priority areas has been constantly increasing, with limited or no deselection of previously established priorities.¹⁸ Figure 1 shows how the list of issues that IDA is expected to address has increased after each replenishment. IDA has

¹⁵ More detail can be found in the Technical Review entitled *Update on Management of Global Programs and Partnerships*, (SecM2003-0095) March 3, 2003.

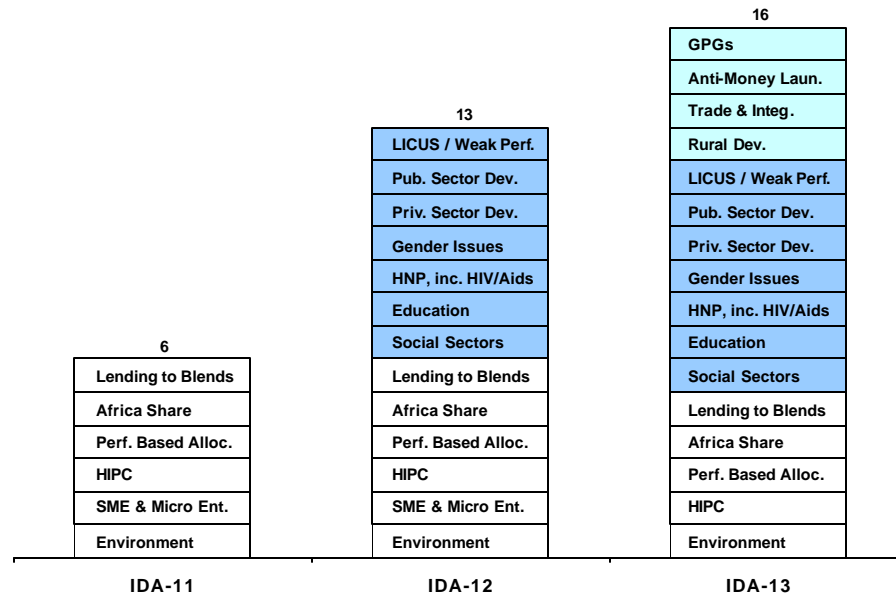
¹⁶ The GPP Group is based in the Concessional Finance and Global Partnerships Vice Presidency (CFP).

¹⁷ *World Bank Group Strategic Framework* (OM2001-0007), January 24, 2001.

¹⁸ The paper *Selectivity and Accountability in IDA's Replenishments* is being prepared for the Mid-Term Review of IDA 13. The paper offers recommendation for making the Replenishment process more selective.

attempted to enhance its focus through selectivity at the country level, while ensuring attention to overall policy priorities.

Figure 1: Priority Areas in IDA11, IDA12 and IDA13 (Number of Areas)



Source: Team analysis based on review of IDA-11, IDA-12 and IDA-13 documents.

39. An analysis of specific areas in which IDA has provided assistance since FY94 indicates that overall, IDA has become more focused. The five sectors to which IDA provided the most resources in recent years were: Health & Social Services; Law & Public Administration, Transportation, Education and Energy and Mining.¹⁹ From the thematic perspective, IDA operations show an increased emphasis on governance and public sector reform, finance and private sector development, human development, rural development and social development, gender and inclusion. (See Table 1 and Annex 2 for a list of themes and sectors.) Thus, IDA has increased its focus and IDA lending has been targeted at improving investment climate and empowering and investing in poor people.

¹⁹ Agriculture was one of the top 5 sector to receive funds between FY94 to FY99. Energy and mining became one of the top 5 sectors to receive funds beginning FY00.

Table 1: Top Five Sectors and Themes FY94-FY02

Top 5 Sectors (% lending)	FY 94-96	FY 97-99	FY 00-02
1.	Law , Justice & Public Administration	Law , Justice & Public Administration	Law , Justice & Public Administration
2.	Health & Other Social Services	Health & Other Social Services	Health & Other Social Services
3.	Agriculture, Fishing & Forestry	Transportation	Transportation
4.	Industry & Trade	Agriculture, Fishing & Forestry	Energy & Mining
5.	Transportation	Education	Education
CR(5)	68%	66%	71%
Top 5 Themes (% lending)	FY 94-96	FY 97-99	FY 00-02
1.	Financial & Private Sector Development	Financial & Private Sector Development	Financial & Private Sector Development.
2.	Rural Development.	Rural Development.	Public Sector Governance
3.	Human Development.	Human Development	Rural Development
4.	Environment & Natural Resources Management	Social Development, Gender and Inclusion	Social Development, Gender and Inclusion
5.	Social Development, Gender and Inclusion	Urban Development	Human Development
CR(5)	69%	66%	73%

2) **Aligning Priorities and Lending/Administrative Resources for IDA Countries**

40. A look at approved commitments across major sectors and themes confirms that priority areas, highlighted under IDA's policy framework for poverty reduction, are strongly reflected in the Bank's lending activity (See Annex 3):

- (a) There has been a significant shift of lending focus towards **Education** since FY94, reaffirming IDA's considerations of the sector as being key to productivity increases and living standards improvements.
- (b) The increased emphasis on **Health, Nutrition and Population** (HNP) that highlighted the importance of countering challenges such as HIV/AIDS and other communicable diseases, is mirrored by analogous increases in the Health and Other Social Services sector and the Human Development (HD) theme.

- (c) The importance of good **Governance** to the effectiveness of development assistance, is confirmed by a sustained focus in governance-related sector/thematic lending activity.
- (d) IDA's continued emphasis on the importance of **Private Sector Development** for sustainable poverty reduction, is partly reflected in the considerable lending concentration around the **Financial and Private Sector Development** theme. Shares allocated to this theme are consistently among the largest throughout the period of the analysis.

41. Similarly, the World Bank's budget allocation for IDA eligible countries (including blend countries) across themes and sectors shows that IDA's administrative budget is aligned with its program priorities. Budget plans for activities in the areas of human development, public sector administration, financial/private sector development and public sector governance are also increasing, reflecting the focus on supporting IDA countries in their efforts to establish the efficient and accountable public sector institutions, the improvement of the investment climate, and investing in people.

III. CONCLUSIONS AND KEY CHALLENGES

42. The analysis presented in this paper illustrates that the exercise of selectivity in the World Bank work is a challenging but recognized way of achieving maximum development impact. Selectivity is increasingly exercised across countries, within countries, and at the global level and through top-down and bottom-up processes for resource allocation (financial aid resources and administrative budget resources).

43. Specifically, the World Bank has recently made significant progress in selectivity:

- Refinements to IDA's performance-based allocation system have resulted in increased selectivity in the allocation of resources at the country level, based on assessments of the soundness of countries' policies and institutional arrangements. The Country Benchmark tool has also guided the allocation of budget resources based on poverty, population, and performance.
- Most recent CASs are more selective through their support of some, but not all, of the PRSP pillars, while paying more attention to leveraging opportunities and partnerships.
- Procedures and criteria for approval of new *global programs and partnerships* that have been tightened and management of existing partnerships being strengthened.

44. The issue in assessing aid effectiveness is not whether aid works, but how and whether the IBRD and IDA can make the different kinds of interventions work better in varying country circumstances, including how to allocate aid via non-traditional channels, what is the appropriate combination of instruments within any particular country and, how to sequence World Bank and donor interventions. Exercising selectivity is key to achieving maximum development impact out of the available resources – and, thus, at the core of the Bank's "results agenda". The complex environment in which IDA operates makes selectivity a challenge that requires resolving tensions as discussed in Sections I and II above including between country-driven priorities and the thematic priorities of IDA donors. The IDA Replenishment process, including through participation of recipient country representatives can thus play a key role in enhancing selectivity. In parallel, further work and research on aid effectiveness will need to continue.

Annex 1: List of IDA Country CASs Reviewed

Region	Countries	FY03 IDA Commitments (US \$ million)
AFR	Benin (July, 2003)	10.0
	Ethiopia (March, 2003)	404.0
	Gambia (February, 2003)	0
	Guinea (June, 2003)	25.3
	Niger (January, 2003)	60.0
	Madagascar (October, 2002)	162.0
	Malawi (May, 2003)	136.9
	Mali (July, 2003)	0
	Rwanda (November, 2002)	115.5
	Senegal (March, 2003)	46.0
EAP	Vietnam (September, 2002)	293.1
ECA	Azerbaijan (April, 2003)	65.9
LAC	Nicaragua (December 2002)	27
MNA	Yemen (August, 2002)	177.4
SAR	Sri Lanka (March, 2003)	232.7
TOTAL		1755.8

Annex 2: List of Sectors and Themes

Thematic Codes

Economic Management
Public Sector Governance
Rule of Law
Financial and Private Sector Development
Trade and Integration
Social Protection and Risk Management
Social Development, Gender and Inclusion
Human Development
Urban Development
Rural Development
Environment and Natural Resources Management

Sector Codes

Agriculture, Fishing and Forestry
Law and Justice and Public Administration
Information and Communications
Education
Finance
Health and Other Social Services
Industry and Trade
Energy and Mining
Transportation
Water, Sanitation and Flood Protection

Annex 3: Priority Areas for IDA and Overall Sector/Thematic Focus

Introduction

- A historical analysis of IDA's lending and AAA activities is undertaken in order to measure and evaluate over time IDA's overall degree of focus.
- With respect to lending, approved commitments to major sectors and themes are analyzed over a 10-year period (FY94-FY03). Three-year moving averages are utilized to avoid cyclicalities (e.g. infrastructure lending), and influential observations (e.g. big-project/program effects, portfolio implications of underperformance).
- Due to data unavailability, a sectoral and thematic segmentation on AAA products (number of deliverables) is feasible only for FY02 and FY03. Sector and theme coding of AAA activities has only been applied since FY02. AAA examples are used in this context more as a complement to lending findings, rather than present a complete analysis.
- The Herfindahl-Hirschman²⁰ index (HHI), is used for the measurement of IDA's overall sector/thematic lending concentration. In the context of this analysis the HHI index is constructed as follows:

$$HHI = \sum_{i=1}^m x_i^2$$

where:

x_i = Share of approved IDA commitments to a major sector or theme, relative to total approved IDA commitments.

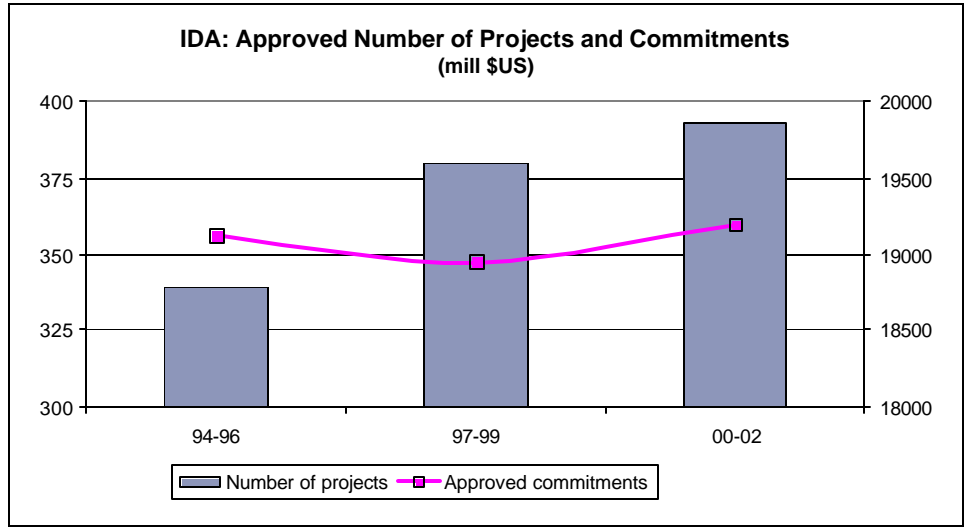
m = number of IBRD/IDA major sectors, themes.

Overall Sector/Thematic Focus: A Historical Perspective

- In terms of lending output (number of projects approved), there has been a steady increase since FY94. Approved commitments seem to be relatively stable over consecutive replenishment periods. IDA, on average, tends to undertake smaller lending projects over time. (See Figure 1)

²⁰ The Herfindahl-Hirschman index (HHI) is a widely accepted measure of market concentration. It is used by the U.S. Department of Justice for purposes of antitrust enforcement. In this context, the value of the index is calculated as the sum of the squares of all IDA's major sector/theme shares relative to IDA's total approved commitments.

Figure 1: IDA: Approved Number of Projects and Commitments (mill \$US)

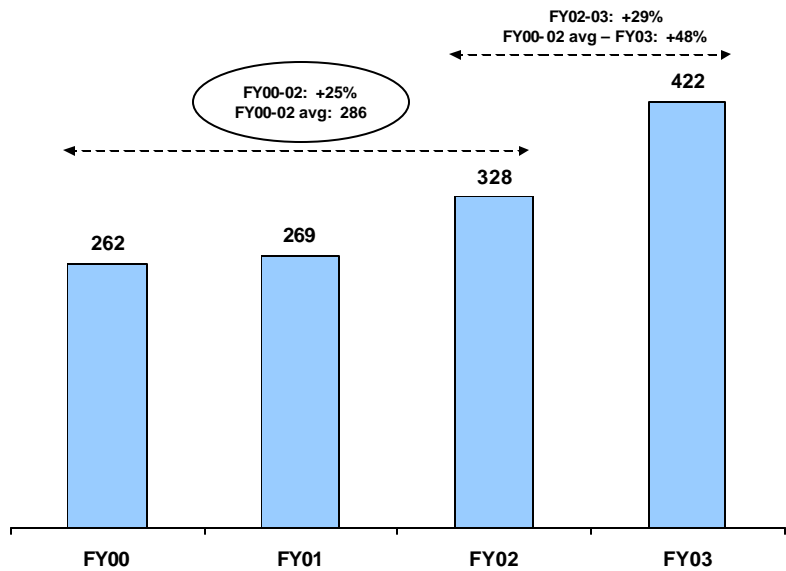


Source: Business Warehouse

Note: Three-year moving averages were used to smooth out year-to-year fluctuations.

- In FY03, the number of AAA outputs (deliverables) for IDA countries has substantially increased from 328 in FY02 to 422; a 29% increase over FY02 and a 48% increase over the FY00-02 period. (See Figure 2)

**Figure 2: Growth in Total IDA Country AAA Deliverables, FY00-03
(Number and % Change)**



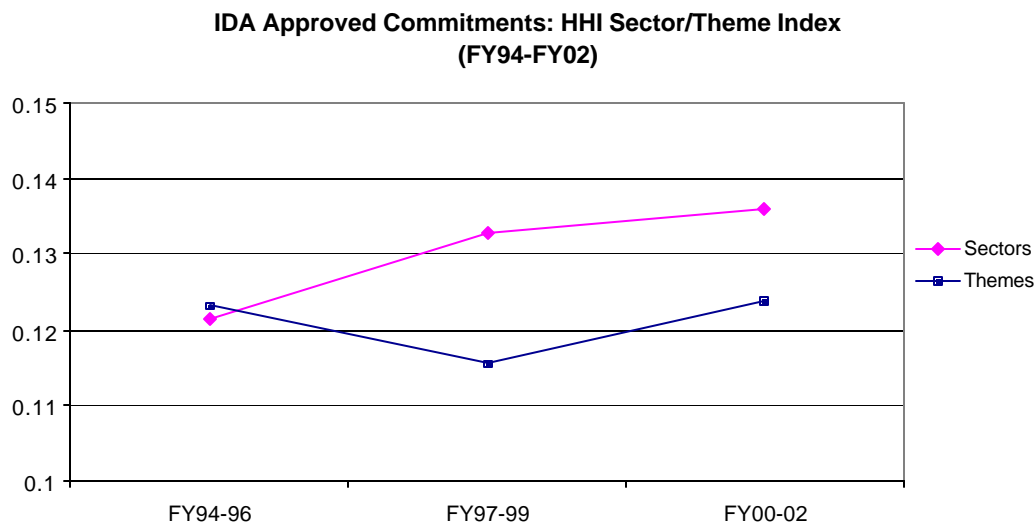
Note: AAA includes ESW and nonlending TA deliverables.

- An aggregate view of IDA's lending commitments suggests a trend of an *increasing sectoral focus* in aid allocation. Overall lending concentration is tightening over time, as Bank commitments are increasingly directed in priority areas, and are being more closely aligned with institutional objectives and goals.
 - More analytically, the HHI index of concentration exhibits an increased sectoral lending focus, moving from approximately 0.12 during FY94-96 period to 0.136 in FY00-02. See **Figure 3**. Based on just a year's worth of observations under IDA 13, the FY03 index value seems to support a continuation of the trend set under the three previous replenishment periods.
 - Approved commitments to the three largest sectors accounted for more than half (51%) of total IDA commitments during the FY00-02 period; an increase of 13% compared to the FY94-96 average. Data for FY03 seem to support a continuation of this trend. (See Figure 4)

- During the period analyzed IDA has widened its global development agenda and hence its thematic reach. Despite policy priority additions over the last three replenishment periods, IDA's lending commitments exhibit a *sustained thematic focus*, continuing to address closely policy directions set out in recent replenishment reports.
 - The HHI index of concentration exhibits a slight increase in thematic lending focus, moving from 0.115 in FY97-99 to 0.124 during the period covering FY00-02. (See Figure 3). This moderately increasing trend is supported during the FY03 too, confirming a strengthening of the Bank's efforts towards improved selectivity choices.
 - Lending shares of the three, four, and five largest themes accounted for approximately 48%, 61%, and 73% of total IDA commitments in FY00-02, exhibiting stability/slight increases over time, a pattern that continued to be supported by thematic commitment allocations in FY03. (See Table 1)

- Observed differences in the absolute levels and growth of IDA's overall lending concentration across sectors and themes, reflect the fact that thematic allocations portray the rather broad spectrum of the Bank's development objectives, whereas sectors represent more the implementing vehicle for applying policy priorities and strategic selections in client countries.

Figure 3: IDA Approved Commitments: HHI Sector/Theme Index (FY94-FY02)



Notes: Three-year moving averages were used to smooth out year-to-year fluctuations.

Source: *Business Warehouse*, author calculations.

Table 1: Top 5 Sectors and Themes FY94-FY02

Top 5 Sectors	FY 94-96	% of Lending	Cumulative %	FY 00-02	% of Lending	Cumulative %
1.	Law, Justice & Public Administration	17%		Law, Justice & Public Administration	24%	
2.	Health & Other Social Services	15%	33%	Health & Other Social Services	16%	40%
3.	Agriculture, Fishing & Forestry	13%	45%	Transportation	11%	51%
4.	Industry & Trade	11%	56%	Energy & Mining	11%	62%
5.	Transportation	11%	68%	Education	9%	71%
Top 5 Themes	FY 94-96			FY 00-02		
1.	Financial & Private Sector Development	20%		Financial & Private Sector Development	19%	
2.	Rural Development	16%	36%	Public Sector Governance	16%	35%
3.	Human Development	13%	49%	Rural Development	13%	48%
4.	Environment & Natural Resources Management	11%	60%	Social Development,, Gender & Inclusion	13%	61%
5.	Social Development, Gender & Inclusion	9%	69%	Human Development	11%	73%

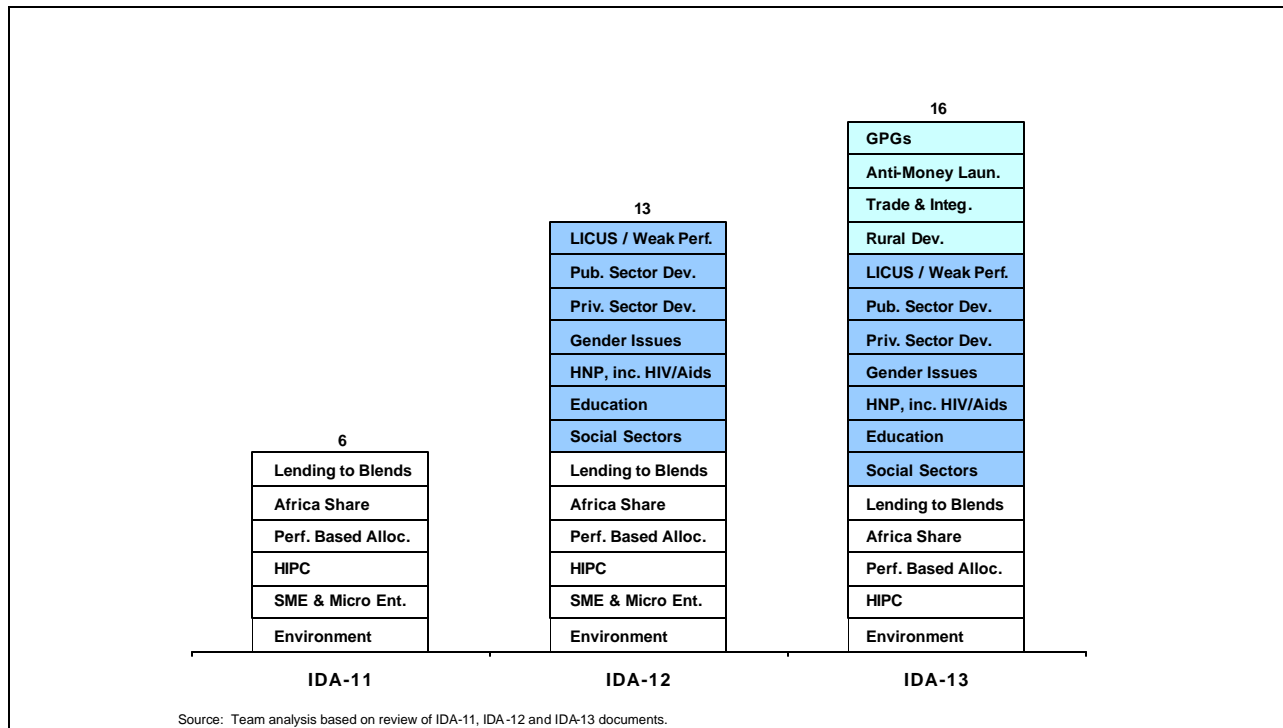
Notes: Three-year moving averages were used to smooth out year-to-year fluctuations. Numbers may not fully add-up due to rounding.

Source: *Business Warehouse*, author calculations

Priority Areas under IDA 13

Over the last three IDA replenishment periods, the number of priority areas for poverty reduction has been constantly increasing, with limited or no-deselection of previously established priorities. This makes selectivity more difficult to balance. IDA has attempted to enhance its focus through selectivity at the country level, while ensuring attention to overall policy priorities. (See Figure 4)

**Figure 4: Priority Areas in IDA-11, IDA-12 and IDA-13
(Number of Areas)**



- Despite the widening of priority areas since FY97, policy-driven focus continues to be strongly supported by both lending and analytical and advisory activities. Selective trade-offs may be necessary under a scarce resources environment. A look at approved commitments across major sectors and themes confirms that priority areas, highlighted under IDA's policy framework for poverty reduction, are strongly reflected in the Bank's lending activity. (See Figures 5, 6, 7 and 8)

More specifically:

- There has been a significant shift of lending focus towards **Education** since IDA 12, reaffirming IDA's considerations of the sector as being key to productivity increases and living standards improvements. Commitments to Education accounted for 14% of total IDA commitments in FY03; an increase of 79% since FY02 and 62% over average education commitments in the period FY00-02.

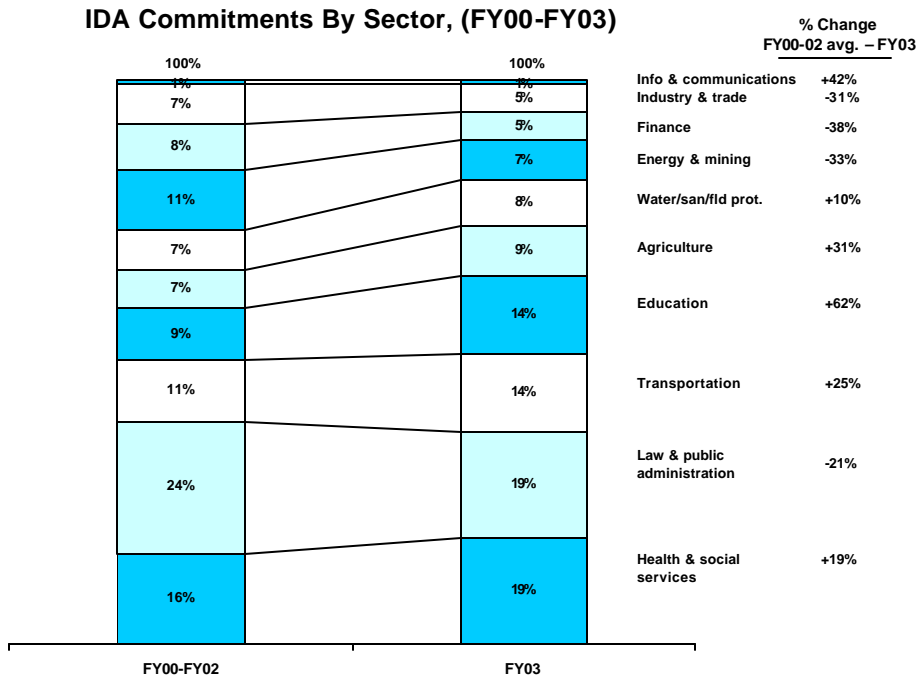
- The increased emphasis by the Deputies on HNP that highlighted the importance of countering challenges such as HIV/AIDS and other communicable diseases, begins to shape into action through changes in sector and thematic lending allocations in FY03.
 - FY03 commitments to the Health and Other Social Services sector accounted for a fifth of total sector commitments (19%-the highest sector share), rising significantly over FY02 and over Health and Other Social Services average commitments in the period FY00-02.
 - In terms of themes, an analogous increase in lending focus is exhibited in the HD area. The share of HD projects to total approved commitments rose by 82% during FY03 relative to FY02 HD figures, and 91% over the FY00-02 period, moving from 11% to 21%.
- The continued emphasis under both IDA 12 and 13 on **Social Protection and Risk**, as being a critical policy area for poverty reduction, can be observed through steady increases over time in the theme's relative lending shares. The share of commitments allocated to Social Protection and Risk Management grew from 6% in FY94-96 to 7% during the FY00-02 period. In FY03 there is evidence suggesting a sharpened social protection focus, as the theme's share relative to total IDA commitments jumps to 13%.
- Under both IDA 12 and 13, Deputies noted that creating an enabling environment for achieving **Gender Equality** should be at the forefront of development efforts. The analysis of IDA's thematic commitments confirms the continued Bank efforts towards mainstreaming gender into issues of productivity, economic growth, and poverty reduction. Gender-related projects grew steadily from 9% in FY94-96, to 13% of total commitments during the FY00-02 period. In FY03, the theme's share accounted for 10% of total lending activity.
- The importance of good **Governance** to the effectiveness of development assistance, set out in the IDA 12 replenishment report and reaffirmed during IDA 13, is verified by a sustained focus in governance-related sector/thematic lending activity.
 - With respect to sectors, there has been a continued attention to **Law, Justice and Public Administration** throughout the period of the analysis. The share of the sector commitments relative to total IDA commitments has been consistently the highest since FY94, growing from the 18% average of the FY94-96 period to 24% in FY00-02. A strong emphasis in the sector is also seen in FY03 (19% of total commitments). This doesn't take into account the stepped-up analytical and advisory efforts (AAA work) targeting country institutional development and capacity building needs.
 - In terms of themes, increases in the lending shares of **Public Sector Governance** and **Rule of Law**, confirm the continued focus in

Governance. There has been a significant increase in the share of public sector governance lending; commitments allocated to the theme during FY94-96 accounted for 8% of total commitments, reaching 16% in FY00-02. As the Bank scales up to strengthen its governance focus, and as governance-related work is increasingly reflected in analytical and advisory products (Public Sector Governance and Rule of Law related AAA deliverables consist 24% of total analytical output in FY03), a small drop in public sector governance/rule of law lending activity is observed during FY03.

- The continued emphasis on the importance of **Private Sector Development** for sustainable poverty reduction, is partly reflected in the considerable lending concentration around the **Financial and Private Sector Development** theme. Shares allocated to theme are consistently among the largest throughout the period of the analysis, ranging from 12% to 23%. Based only on one year data (FY03), the share of this theme has diminished. The recent emphasis and scaling-up of analytical work on investment climate assessments, in line with the World Bank Group's recently endorsed private sector development strategy, shows a focus toward analytical and advisory products. On the AAA side, Financial & Private Sector Development represents one of the largest themes with respect to total AAA output (26%), exhibiting a 75% increase in deliverables over FY02. As synergies with other members of the World Bank Group (WBG), aiming primarily at innovation (and in particular within the context of SMEs) are exploited, lending activity is bound to pick up.
- As the new **Rural Development** strategy focusing on defining pro-poor, sustainable investments in rural areas is being finalized, lending activity directed to the rural development theme is in the process of being translated into lending increases. The share of rural development commitments during FY00-02 and FY03 exhibits a stable pattern, accounting for 13% of total commitments. In FY03 the number of rural development-focused AAA products increased by 81% over FY02. With respect to sectors, agriculture, maintains its share (7% average for the FY00–02 period).
- **Environmental sustainability** is re-emphasized as key to lasting poverty alleviation under the thirteenth IDA replenishment report. IDA's activities are slowly shaping into action as work is underway on establishing a timetable for improving analytical work, and loans to the **Environment and Natural Resources Management** theme rise marginally to reflect a renewed focus since IDA 12. The share of commitments allocated to the environment and natural resources theme increases slightly from 5% during the FY00-02 period to 7% in FY03. Given a low starting base in FY02, Environment-related AAA work increases by 24%, a little less than the Bank's average.
- **Trade and Regional Integration** has been introduced in the thirteenth IDA replenishment report as one of the key policy priorities for growth and poverty

reduction. As the Bank progresses in the implementation of the Integrated Trade Framework for the Least Developed Countries, an increase in trade-related focus is evidenced in IDA’s product mix, primarily through stepped-up efforts in analytical and technical assistance activities. Trade and Integration lending shares exhibit a stable pattern over time, accounting for approximately 2.8% of total thematic IDA commitments since FY94. However, AAA trade-related output has significantly increase over FY02 figures.

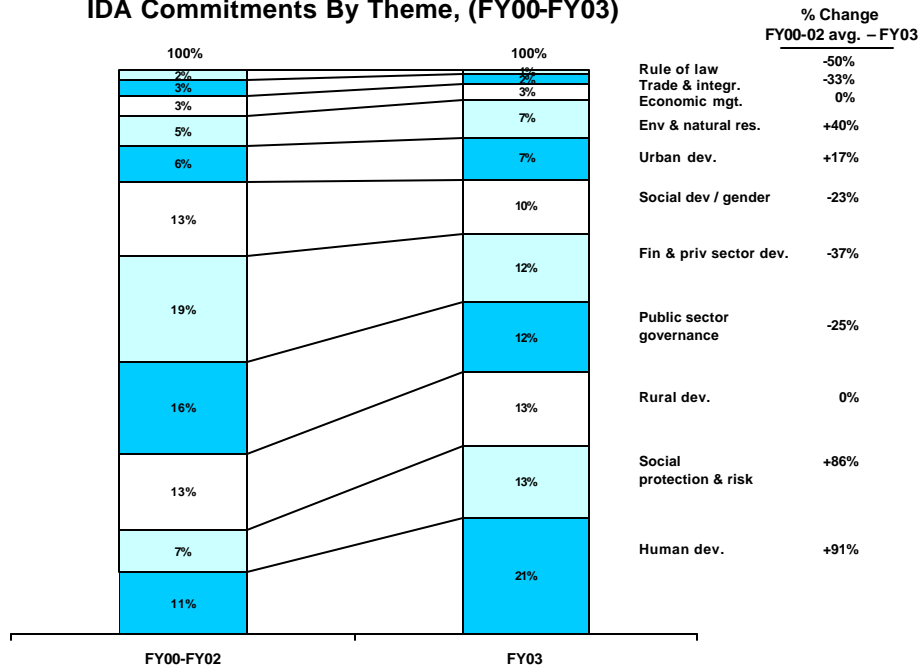
Figure 5: IDA Commitments by Sector (FY00 – FY03)



Notes: A three-year moving average was used to smooth out year-to-year commitment fluctuations. FY03 figures are based on just a year’s worth of observations. Source: *Business Warehouse*.

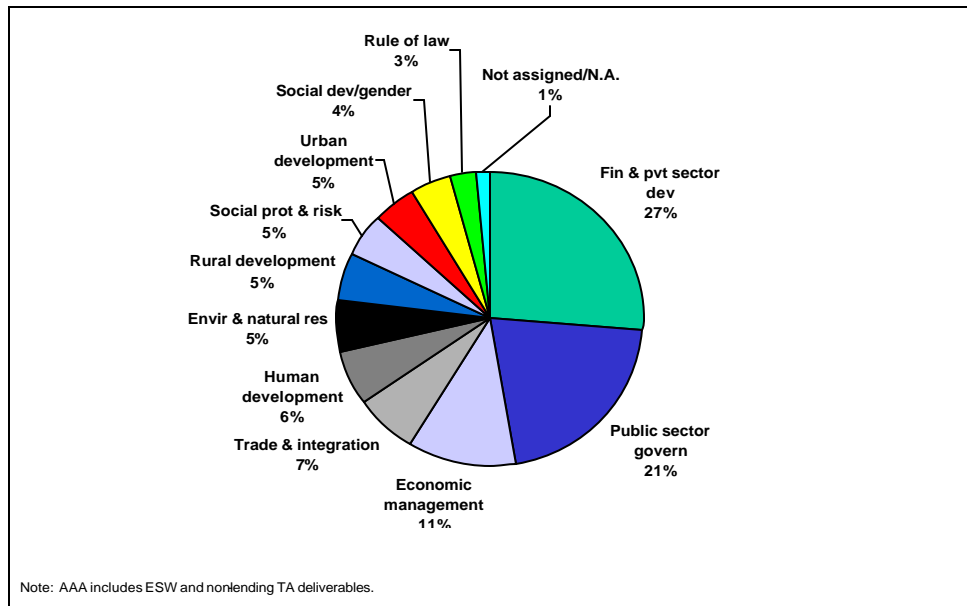
Figure 6: IDA Commitments by Theme, (FY00- FY03)

IDA Commitments By Theme, (FY00-FY03)



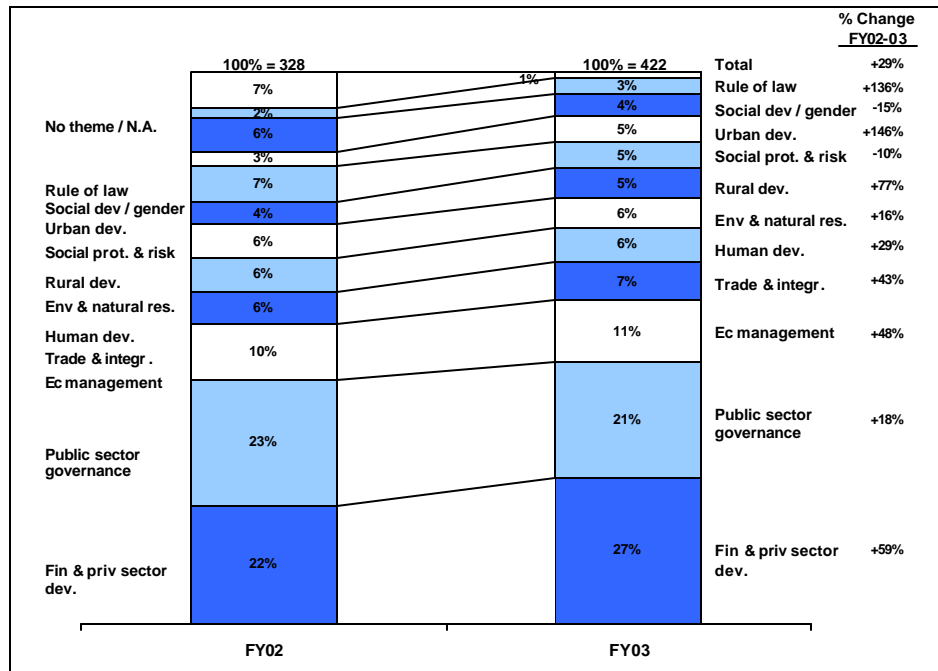
Notes: A three-year moving average were used to smooth out year-to-year commitment fluctuations. FY03 figures are based on just a year's worth of observations under IDA 13. Source: *Business Warehouse*.

Figure 7: IDA AAA by Theme, FY 03 (% of total; 100% = 422)



Note: The sectoral/thematic distribution of AAA is subject to change due to the validation of FY02-03 non-lending TA activities by the Regions and OPCS.

Figure 8: IDA AAA Deliverables by Theme, FY02-03



Note: The sectoral/thematic distribution of AAA is subject to change due to the validation of FY02-03 non-lending TA activities by the Regions and OPCS.

- There seems to be a degree of complementarity in the thematic allocation of AAA and lending activities during FY03. Areas with relatively low lending shares seem to receive more focus in terms of AAA deliverables and vice versa. This might be the case of AAA being a leading indicator, a natural predecessor of lending activity. For example:
 - The AAA shares of Private Sector Development, Public Sector Development, Economic Management and Trade & Integration themes were higher than their corresponding shares in lending during FY03. (See Figure 9)

