

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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