

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

I. INTRODUCTION

1. **This paper responds to IDA Deputies' request to discuss the role of IDA in supporting the country-based model at the national, regional, and global levels.** It follows up on discussions held in Paris, on March 5-6, 2007, on the rapidly changing landscape of the global aid architecture.
2. **Official Development Assistance (ODA) flows continue to be a chief source of financing for low-income countries (LICs), and IDA continues to be their main source of multilateral ODA.** While private financial flows have become the dominant form of resource transfers for the more prosperous among developing countries, they are still dwarfed by ODA in most IDA-recipient countries, particularly in Africa. Furthermore, Foreign Direct Investment (FDI) inflows to LICs have been concentrated in a relatively small group of countries, such as those rich in natural resources. On the other hand, IDA is the largest provider of multilateral ODA to IDA-eligible countries, with cumulative gross disbursements in the order of US\$80 billion during 1994-2005.
3. **IDA has long supported low-income countries within the context of a country-based framework.** In fact, IDA's support has traditionally been grounded in detailed analysis of the recipient countries' development needs. Country analytic work has not only provided the basis for the design of Bank support, but also for policy design by the recipient countries themselves and assistance programs of other development partners. In recent years, IDA's support to the country-based model has been framed around the Bank's *Strategic Framework*¹ – currently under review as the Bank is in the process of designing a new long-term strategy – with its two inter-related pillars: (i) building the climate for investment, jobs, and sustainable growth; and (ii) empowering poor people to participate in development and investing in them.
4. **Recent trends in ODA and in the global aid architecture pose additional challenges to aid effectiveness and the achievement of the MDGs.** These trends include: (i) overall ODA flows have trended upwards, but ODA for core development programs² has not grown as fast; (ii) a rising share of social sectors in total sector allocable ODA has been accompanied by a declining share of infrastructure; and (iii) the global aid architecture has become markedly more complex, with a proliferation of donor channels, fragmentation of ODA and a significant degree of aid earmarking.³
5. **IDA's role in supporting the country-based model has become even more important in light of the growing complexity of the global aid architecture.** By drawing on its strengths, which allow it to provide large financing volumes while focusing on achieving clear development outcomes, IDA can in many instances act as a sound “horizontal” institutional

¹ World Bank (2001). *World Bank Group Strategic Framework*. January 24.

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

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

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

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