

V. CHALLENGES GOING FORWARD

109. **As noted in Section II, rising trends in donor proliferation, aid fragmentation, as well as “verticalization” and earmarking are increasing the complexity of the aid landscape.** At the same time, ODA flows have tended to favor the social sectors at the expense of infrastructure, possibly reflecting some disconnect between global priorities and recipient demand at the country level.

110. **At the same time that development assistance is becoming more complex, new global challenges are emerging.** Over the past decades, concerns have intensified over a growing list of global problems requiring collective action. 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 renewed impetus and urgency is climate change. This calls for a new agenda for increased investment in clean energy as well as adaptation to climate change in poorest countries, both of which will in turn require increased investment across many sectors.

111. **These emerging challenges make IDA’s support to the country-based framework even more vital. IDA would be able to respond to these challenges by *intensifying efforts in four focus areas:*** (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing global challenges with an increased priority given to the challenge of climate change; and (iv) enhancing alignment, harmonization and IDA’s operational effectiveness. These four areas are discussed in subsections A-D below. Subsection E briefly covers ongoing reform and modernization efforts with respect to IDA’s operational policies, which will help IDA effectively meet the challenges outlined in this Section.

A. STRENGTHENING COMPLEMENTARITY WITH VERTICAL APPROACHES TO AID DELIVERY

112. **A renewed emphasis has been placed on the need for balance and complementarity between vertical and horizontal aid.** In the last decade, in health sector alone, over 70 Global Health Partnerships (GHPs) have been created to address global health issues.⁹⁶ GHPs now are the dominant model of organization in health. Similarly, several vertical funds have been created in environment, and more recently in education. A conservative estimate puts the share of global funds in total ODA at just above 3 percent, yet they have become sufficiently large to dominate public investment programs in their respective sectors in several low income countries. In addition, the proliferation in the number of these funds – some with overlapping mandates – has contributed to alignment and harmonization challenges at the country level.

113. **Emerging evidence shows that the challenge of complementarity and balance is the greatest in the health sector.** GHPs have brought much-needed attention to and funding for their focus areas. However, they have also brought a number of challenges: (i) recipient countries’ ability to absorb GHP resources; (ii) insufficient intra- and inter-sectoral coordination at the country level; (iii) the establishment of separate mechanisms for financing, particularly

⁹⁶ See WHO/World Bank, *High-Level Forum on the Health Millennium Development Goals: Selected Papers 2003-05*, 2006.

when country systems are weak; and (iv) medium-term fiscal sustainability concerns. While similar issues arise in the context of global programs focusing on education and environmental issues, they seem as yet to be less pronounced than in the health sector. For example, the Education-For-All/Fast Track Initiative (EFA/FTI), the main global initiative focusing on education, founded in 2002 with active IDA engagement, is widely recognized as providing a framework for harmonized donor support to the education sector.

114. Recipient countries and aid agencies thus face new challenges in better integrating the vertical global funds into countries' own strategies and priorities, budget management, and delivery systems. In recognition of these challenges, and in the context of the Paris Declaration and follow up activities, the Bank and the OECD/DAC co-sponsored a policy workshop (Paris, December 5, 2006) to focus attention on improving the alignment of global programs at the country level. This has led to a draft Good Practice Guidance on aligned implementation of global programs at the country level, which extends the Paris Declaration principles to global programs to improve alignment of global programs. This draft is currently under discussion.

115. Ultimately, the long-term effectiveness and sustainability of vertical approaches depend critically on complementary sectoral and macro-level policies which IDA can support. IDA's "glue" role can support the integration of horizontal and vertical aid by establishing a 'horizontal platform' upon which the vertical funds can operate effectively. Long-term achievement of their objectives depends on fiscal sustainability, a supportive policy environment – including policy measures in related sectors – and broader capacity building measures. IDA can focus more on identifying and supporting such policies, which include:

- **Growth-promoting policies.** The sustainability of the gains through vertical funds can be put in jeopardy without a growing economy. A robust growth rate would both make it easier for the government to fund complementary investments, and for households to increase their incentives to sustain demand for global programs directly. Growth, therefore, helps underpin the sustainability of financing of the activities spawned by vertical funds.
- **Complementary policies aimed at achieving sectoral fiscal and institutional sustainability.** A recent study⁹⁷ demonstrates that, in addition to increased aid, a combination of complementary domestic policy policies and reforms – such as increasing the share of government budget spent on health, increasing economic growth, and increasing revenue – are vital to achieving fiscal sustainability.
- **Complementary pricing and regulatory reforms, which are needed for some global vertical funds to succeed.** This may be particularly important in the case of the Consultative Group on International Agricultural Research (CGIAR). In some African countries, for example, there are still monopolies in the marketing and distribution of seeds, specific crops and fertilizers – inhibiting the incentives for adoption of new technologies by farmers, often further exacerbated by restrictions on international trade.

⁹⁷ Williams, G. (2006). "Fiscal Space and Sustainability from the Perspective of the Health Sector", *High Level Forum on the Health Millennium Development Goals*, World Health Organization.

116. Complementary public investments are also critical for the success of vertical approaches, and IDA can play a key role in both design and finance of such investments.

For example, it has been shown that primary school enrollment for poor students depends heavily on the availability of school feeding programs (also highly important for school performance). At the same time, an expansion of primary education will require investments in expanding secondary education. In a similar vein, major investments in irrigation and in land management influence the rate of adoption of new agriculture technologies and the returns of global programs such as the CGIAR.

117. Going forward, CASs, sectoral strategies and country analytical work such as PERs would need to pay more attention to the interplay between vertical funds and the country-based model.

In particular, new country or sector strategies as well as ESW should take into account more explicitly the need for complementarity. New CASs should elaborate more explicitly how global issues will be reconciled with country-level priorities. In addition, major global programs and Trust Funds could be mainstreamed as integral parts of country and sector assistance strategies when appropriate. The recently-issued Mozambique CAS has made progress in that direction. Public Expenditure Reviews would also need to take into account more explicitly the complementarity or interplay between vertical funds and the country-based model, particularly as NGOs and independent agencies benefit directly from financial assistance from the vertical funds. But there is no one-size-fits-all approach to deal with these issues: Different solutions will emerge depending on the country, sector, and vertical fund concerned. The recently-approved Bank strategy for the Health, Nutrition and Population shows how the Bank has approached the complementarity issue in a sector where the presence of vertical funds is particularly large.

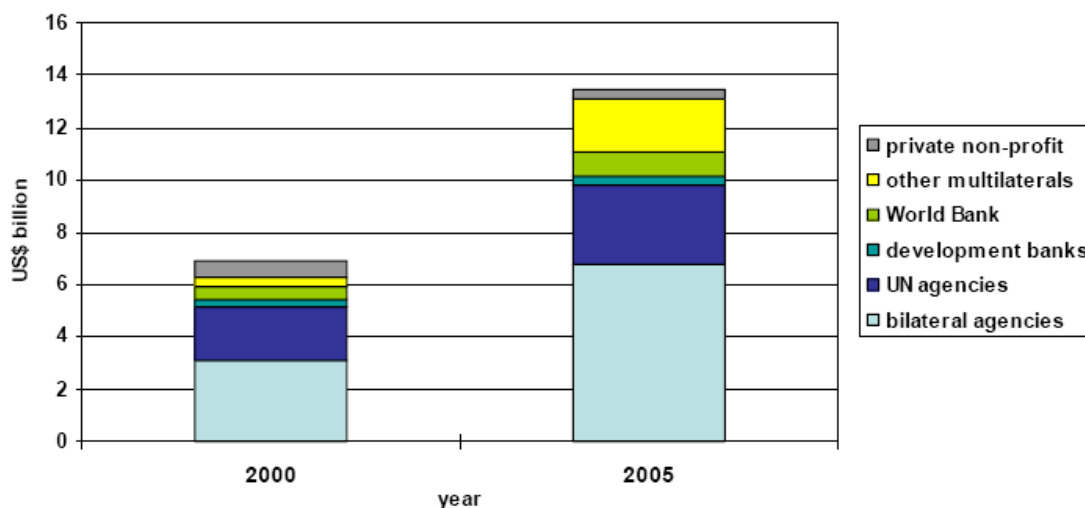
118. The new strategy for Health, Nutrition and Population (HNP) sets the stage for revitalized Bank's – and IDA's – support in view of changes in the architecture for development assistance for health.⁹⁸

The new HNP strategy starts from the recognition that over the last decade, the Bank was surpassed as the main single HNP financier, and an increasingly prominent role is being played by other aid providers, such as global funds, the Bill and Melinda Gates Foundation, and bilateral donors. This is clearly illustrated in Figure 13 below. The new HNP strategy also notes that “much of this new funding is earmarked for combating priority diseases such as HIV/AIDS, malaria, tuberculosis, and some vaccine-preventable diseases; less for health system strengthening at country level, for maternal and child health, for nutrition, and for population priorities.”⁹⁹

⁹⁸ World Bank (2007c). *Healthy Development. The World Bank Strategy for Health, Nutrition, and Population Results*. Approved by the Board on May 1, 2007.

⁹⁹ *Ibid.*, p. 11.

Figure 13. Development Assistance for Health by Source, 2000 and 2005¹⁰⁰



Source: C. M. Michaud 2007.

Note: "Other multilateral" includes the European Union, Global Alliance for Vaccines and Immunization (GAVI), and Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM).

"World Bank" total includes only IDA lending.

119. **The HNP strategy emphasizes the Bank's core sectoral comparative advantage in health system strengthening, which is by definition a multi-sector endeavor.** In practice, health system strengthening means "putting together the right chain of events (financing, regulatory framework for private-public collaboration, governance, insurance, logistics, provider payment and incentive mechanisms, information, well-trained personnel, basic infrastructure, and supplies) to ensure equitable access to effective HNP interventions and a continuum of care to save and improve people's lives."¹⁰¹ The multi-sector nature of health system strengthening can be clearly seen in the various elements involved in such systemic approach: public sector reforms; development of health financing mechanisms; strengthened fiduciary mechanisms; and improved governance at the country and sectoral level.¹⁰² For example, through the Health System Reform Project, IDA is supporting system-wide reform in Honduras' health sector, with the aim of extending the coverage and raising the quality of health care, particularly for the poor. Although the project is still ongoing, access to health care has increased, especially among women and children.

120. **In an environment of increasingly earmarked aid for health, policy and technical dialogue – in addition to financing – become central vehicles for IDA's contribution to achieve HNP results at the country level.** Policy dialogue, technical assistance and capacity building, as well as support to health system strengthening, help establish an enabling environment that increases the effectiveness of vertical approaches to health issues.

¹⁰⁰ Figure A1 in Annex A of HNP Strategy, *op. cit.*, p. 82.

¹⁰¹ *Ibid.*, p. 14.

¹⁰² *Ibid.*, p. 47.

B. ENSURING APPROPRIATE SECTORAL FUNDING

121. **Consistent with the country-based model, the sectoral composition of IDA assistance is decided in the context of CASs. At the same time, it is important that decisions on the sectoral composition of assistance in the CAS design process also take into account overall – not just IDA – ODA flows going to each sector.** This is particularly important in view of the recent trends in sectoral ODA, and in order to ensure an appropriate sectoral balance in development assistance programs. This subsection briefly looks at broader issues of financing needs for two critical sector groupings of which ODA trends were discussed in Section II: Social sectors and infrastructure.

B.1. Social Sectors

122. **Social sector-related needs in IDA countries remain huge and further scaling-up will be required to meet the MDGs, despite the sector’s increased share of ODA.**¹⁰³ While overall ODA for the social sectors has gone up, a significant part of this increase – particularly for health – is associated with greater verticalization. Therefore, there is room for enhanced involvement by IDA in the social sectors in ways that *both* provide additional volumes *and* reinforce complementarity and balance.

123. **Again, the health sector illustrates the point that appropriate financing levels remain an essential ingredient in IDA’s engagement with clients in this sector.** As noted in the HNP strategy, “it is important to highlight that, although the share of Bank financing in total development assistance for health has decreased, Bank lending, particularly through the *International Development Association (IDA)*, is *strategically crucial to ensure much-needed health system strengthening (for which dedicated international financing is scarce), and it is essential to set the enabling environment for effective disease-specific financing to achieve results.* This was stated again and again by client countries during preparation of this new strategy.”¹⁰⁴

124. **In contrast with the health sector, the Bank is the world’s largest external financier of education, and IDA is the largest source of education financing for low-income countries.** IDA has channeled more than US\$8 billion in education assistance over the last ten years to 71 countries. Most of this (about US\$5 billion) has focused on primary education, in view of the Millennium Development Goal of achieving universal primary completion by 2015. IDA is the main source of external financing for primary education in many countries, including India, where IDA provides US\$ 500 million in support of the sector-wide Sarva Shiksha Abhiyan program.¹⁰⁵

125. **Nonetheless, despite considerable progress, more remains to be done, and the education sector will need to continue to rely on sustainable, predictable ODA.** While the

¹⁰³ With respect to the health sector, Gottret and Schieber note: “Although health aid increased to more than \$10 billion in 2003 from \$2.6 billion in 1990, estimates indicate that between three and seven times that much would be needed to reach the Millennium Development Goals for Health.” In Gottret, P. and G. Schieber (2006). *Health Financing Revisited*. Washington, DC: The World Bank, p. 124.

¹⁰⁴ Ibid., p. 15. Emphasis in original.

¹⁰⁵ See *IDA at Work* note “Education: An Impressive Expansion”, March 2007.

estimated number of primary school-aged children out of school declined to 77 million today from 100 million in 2000, universal access is far from been achieved. Only 25 of 81 IDA-eligible countries in 2006 had achieved or were on track to achieve universal primary completion (the second MDG) by 2015.¹⁰⁶ In addition, even though aid to education has expanded significantly, there remains a need for *more and better aid*: “aid is not sufficiently predictable or flexible to enable countries to make confident medium-term plans such as for teacher training; it is insufficiently coordinated, making transaction costs quite high for the recipient country; and many of the countries that need aid the most have quite low absorptive capacity.”¹⁰⁷ Progress has been made under the Education For All – Fast Track Initiative (EFA/FTI), and IDA has played and will continue to play a pivotal role in advancing the EFA/FTI agenda.

B.2. Infrastructure

126. Financing needs are even more evident in infrastructure¹⁰⁸, in light of the relative decline of its share in total sector allocable ODA, as discussed in Section II. In fact, considerable gaps remain in access to infrastructure services. In the developing world, it is estimated that 1.1 billion people are without safe water, 1.6 billion are without electricity, 2.4 billion without sanitation, and more than 1 billion without access to an all-weather road or telephone services. The access gap reflects at least in part a huge infrastructure investment shortfall. The gap has been estimated at more than US\$100 billion/year¹⁰⁹ is needed for new infrastructure investments as well as for the maintenance of the existing infrastructure stock in low-income countries. Presently, only about half of these needs are met.

127. Closing the infrastructure access and investment gaps is a necessary step to achieve meaningful development results and to meet the MDGs. Infrastructure services have been shown to contribute to poverty reduction and economic growth in several ways: (i) improved health outcomes can result from better infrastructure services; (ii) access to infrastructure services – particularly electricity, water, and transport – can help improve educational outcomes; and (iii) infrastructure services also contribute to improved productivity of business, households and government services; and (iv) more and better infrastructure services lowers costs and expands market opportunities for businesses, thereby increasing productivity, improving the business environment, and promoting economic growth.

128. IDA remains the largest multilateral source of physical infrastructure financing, under the DAC sector classification system.¹¹⁰ With about US\$3.4 billion in commitments for

¹⁰⁶ *Op. cit.*

¹⁰⁷ Kagia, R. (2006). “Securing the Future Through Education: A Tide to Lift All Boats”. In Bhargava, V. (ed.). *Global Issues for Global Citizens. An Introduction to Key Development Challenges*. Washington, D.C.: The World Bank, p. 196.

¹⁰⁸ The discussion of infrastructure is based on the background note “Role of IDA in Infrastructure”, April 2007, prepared by the Sustainable Development Network of the World Bank. Infrastructure is an umbrella term that comprises a wide number of individual sectors, including but not limited to transport, energy, water supply and sanitation, and information, communications and technology. IDA is also active in natural disaster risk management.

¹⁰⁹ Fay, M. and T. Yeppes (2003). “Investing in Infrastructure – What is Needed from 2000 to 2010?” *World Bank Policy Research Working Paper* No. 3102, July.

¹¹⁰ See IDA (2007), *op. cit.* Physical infrastructure is used here to refer to three sectors under DAC’s classification for economic infrastructure: (i) transport and storage; (ii) energy; and (iii) communications.

physical infrastructure during 2004-2005 – 20 percent of the total for IDA-eligible countries – IDA is only surpassed by Japan in terms of physical infrastructure support. During the 2004-2005 period, 58 percent of IDA’s physical infrastructure commitments were classified as transport and storage; 36 percent as energy; and 6 percent as communications.

129. **However, in view of the immense financing needs described above, there is a strong case for scaling up IDA’s support to infrastructure going forward.** A heightened level of IDA support to infrastructure would be critical to help close the infrastructure investment gap. Selectivity would continue to be a central consideration: “IDA can play an important role by directing a large share of assistance to those countries that are taking concrete action to improve the efficiency of their sectoral agencies and service providers and to put in place programs that effectively reach the underserved poor.”¹¹¹ Scaled-up support to infrastructure should not be limited to ODA – or IDA – alone: IDA will also continue to play a critical role in helping leverage increased funding for infrastructure from other sources, including private and domestic public resources. Ultimately, policy dialogue, institutional capacity building, and concessionary financing would help “crowd in” as much private sector financing as possible to ensure a sustainable, private-sector-led growth in IDA countries.

130. **Scaled-up IDA assistance for infrastructure will be used to meet a number of more specific sectoral priorities.** At the country level, decisions on how these priorities will be converted into specific actions will continue to be made as part of the CAS process. The main infrastructure priorities going forward include:¹¹²

- *Transport.* Focus will be on: (i) improving transport accessibility for poor rural communities; (ii) removing physical and institution transport bottlenecks to trade; and (iii) strengthening IDA engagement in urban transport issues.
- *Water.* Main priorities include: (i) improving provision of urban water supply and sanitation services; and (ii) expanding assistance for water resource management.
- *Energy.* IDA’s engagement on energy issues will concentrate on: (i) promoting energy access for enterprises and households (see also subsection C); (ii) connecting public facilities such as schools and clinics; and (iii) meeting the basic energy needs for cooking and lighting.
- *Information, Communications and Technology.* Focus will be on expanding access, particularly to broadband connectivity and telephony. IDA will also explore innovative approaches to sector regulatory frameworks, and invest to complement the private sector.
- *Natural Disaster Risk Management.* IDA’s approach will continue to focus on reducing disaster losses and mainstreaming hazard risk reduction into development plans. But IDA will also confront the challenges associated with the increased risk of natural disasters brought about by global warming. This will be the topic of the next subsection.

¹¹¹ See background note “Role of IDA in Infrastructure”, *op. cit.*, p. 28.

¹¹² *Op. cit.*, pp. 28-30.

C. ADDRESSING THE CHALLENGE OF CLIMATE CHANGE

131. **IDA's response to the challenge of climate change has been developed as part of the Bank's Clean Energy Investment Framework (CEIF).¹¹³ The main elements of the response proposed in the CEIF are:**

- *Improving Access to Energy.* IDA is expected to play a major role in financing country-level investments necessary to expand energy access. Improving access to clean energy is also one of the flagships of the *Africa Action Plan*. As part of these efforts, and closely linked to the broader infrastructure strategy as well, "IDA will focus on mobilizing finance for sector-wide approaches for energy, including raising donor and private financing through sector syndications in pilot countries by FY10."¹¹⁴ IDA will work closely with other parts of the World Bank Group to meet these challenges.
- *Supporting the Transition to a Low Carbon Development Trajectory.* The CEIF aims to support the transition to a low-carbon economy through scaling up of both financing and knowledge activities. The CEIF Action Plan includes measures aimed at: (i) further developing and implementing sectoral strategies focused on energy efficiency, renewable energy, and transportation; and (ii) implementing IDA-funded low carbon projects that contribute to growth and poverty reduction, while reducing greenhouse gas emissions and local pollution. IDA funding can leverage other important sources of finance like IFC, GEF, Carbon Finance,¹¹⁵ as well as other sources that may emerge as a result of the ongoing climate change discussions.
- *Supporting Adaptation to Climate Change.* Climate change will impact water availability, agriculture, health, the durability of major infrastructure, and the sustainable use of natural resources. In South Asia, for example, global warming is expected to cause flooding and rising sea levels that could have a major impact on Bangladesh and Maldives. In addition, the Himalayan water flows could be disrupted. In Sub-Saharan Africa, rainfall variability is projected to increase, leading to both more droughts and floods. This will put particular stress on the high proportion of rural communities as well as on the infrastructure and services of rapidly growing cities.

¹¹³ In September 2005, the Development Committee requested the World Bank to develop an *Investment Framework for Clean Energy and Development*, which was issued in July 2005. The Bank then presented in April 2006 "*Clean Energy and Development: Towards an Investment Framework*", which outlines key elements of the framework. In September 2006, the Bank presented a progress report to the Development Committee in a document titled "*An Investment Framework for Clean Energy and Development: A Progress Report*". In March 2007, the Bank developed an action plan, titled "*Clean Energy for Development Investment Framework: The World Bank Group Action Plan*", which was discussed by the Board of Directors.

¹¹⁴ See background note "Role of IDA in Infrastructure", op. cit., p. 31.

¹¹⁵ See *IDA at Work* note "Environment: Managing Resources for Sustainable Development", March 2007, p. 6: "carbon finance is the general term applied to resources provided to a project to purchase greenhouse gas emission reductions." The Bank established two carbon funds, the BioCarbon Fund and the Community Development Carbon Fund.

132. **As a result of these challenges, IDA itself will need to strengthen its capability to respond to climate change.** While IDA will continue to operate within the framework of its country-driven business model, its long-term approach towards country assistance, project selection and design decisions will all be affected by changing climate circumstances peculiar to each country.

133. **IDA's adjustment to the climate change challenge will also have financial implications.** Currently, IDA leverages its support for clean energy through the GEF and carbon fund facilities. Given the large investment needs, funding to scale up the mitigation and adaptation work will need to be integrated in country and sector programs. IDA is well positioned to promote this. Funding from IDA will allow it to deliver a transformed mitigation and adaptation package, and leverage other sources of funds, like GEF, Carbon Finance, and others that may emerge. Under this approach, IDA could provide the core financing for energy and adaptation solutions at a scale that can make a real difference, while providing additional financial enhancements to bring in the private sector, and accelerate technology transfer. In the short term, GEF resources for adaptation – amounting to a commitment of about US\$110 million out of total of US\$230 million of available funds to date¹¹⁶ – will be critically important. In the longer term, the scaling up of financial assistance for adaptation will have to be mainstreamed into IBRD lending and IDA credits/grants and similar sources of international finance, which support otherwise conventional sectoral projects, but which are designed and implemented taking into account adjustments necessary to adapt to climate change.¹¹⁷

134. **A strong replenishment of IDA15, coupled with other additional concessional financing and partnerships, will be essential for the CEIF to succeed.**¹¹⁸ The level of financing that will be available in IDA15 will be an important determinant of scaling up the clean energy initiatives. Scaling up of the program also relies on both the international and domestic private sectors, with an important role for IFC to play.

D. ENHANCING ALIGNMENT AND HARMONIZATION

135. **To successfully address development challenges, new and old, IDA needs to continue to enhance its country-level effectiveness and sharpen its results focus.** IDA will continue to take a leadership role in the implementation of the Paris Declaration on Aid Effectiveness and

¹¹⁶ Made up of \$50m in the Special Priority for Adaptation (SPA) from the main GEF Trust Fund; \$60m in the Special Climate Change Fund (SCCF), and about \$120m in the Least Developed Countries Fund (LDCF).

¹¹⁷ Since the Global Environment Facility (GEF) is set up to provide grant funding to furnish the incremental financing needed to tap a cleaner energy source or to use a cleaner technology, the scaled up IDA funding is envisaged to focus mostly, but not exclusively, on baseline financing. Baseline financing refers to the costs of the energy project that would have been incurred if the country would have gone with the energy option that does not provide global environmental benefits. Incremental financing refers to the resources needed to cover the extra costs incurred by going with the cleaner option, while producing the same amount of energy. In this way, when both IDA and GEF resources are available, the scaled-up IDA funding can play a complementary role, by helping to provide the national sustainable development benefits, while the GEF grants would fund the global environmental benefits, i.e., a mitigation of greenhouse gas emissions. When scarce GEF resources are not available, IDA can provide both baseline and incremental financing.

¹¹⁸ As noted in the CEIF, “scaling up of the program relies on both the international and domestic private sectors to be effective and sustainable, and increased private public partnerships. A strong replenishment of IDA15, accompanied by additional donor concessional financing will be essential”. Ibid., p. 23.

support the strengthening of governance in recipient countries. This subsection briefly looks into alignment and harmonization, which are among the main preconditions for effectiveness of aid at the country level. More detailed discussions on harmonization and country-level effectiveness will be found in papers to be presented at the third IDA15 replenishment meeting.

136. Alignment with national development strategies has been a cornerstone of IDA's support to the country-based model. Grounding IDA's results-based Country Assistance Strategies on countries' poverty reduction strategies, as well as increasing the use of programmatic approaches and country systems, are key elements of IDA's efforts to ensure alignment of its support with countries' strategies. In addition, IDA's "glue" role helps advance alignment of all development partners with IDA countries' needs and priorities. This includes analytic and advisory activities which assist countries in the development of poverty reduction strategies as well as support to the improvements of country systems, especially for financial management, procurement, and safeguards.

137. An important aspect of the alignment agenda is the increased use of country systems by all development partners where it is appropriate. IDA is seeking to strengthen countries' ability to make effective use of scaled-up ODA, particularly program-based approaches. In this context, IDA also will continue its leadership role in assisting countries in strengthening their financial management and procurement systems and in providing effective support for good governance. This includes work on strengthening budgeting, expenditure frameworks, treasury operations, audit and procurement functions. As noted previously, the Bank is working closely with other development partners on the implementation of the PEFA framework, which monitors progress on 28 public expenditure management and financial accountability indicators in client countries.

138. Strengthening, rather than bypassing country systems is one of the guiding principles of the Bank's recently endorsed Governance and Anti-Corruption (GAC) Strategy, the implementation of which is a priority for IDA.¹¹⁹ Following a very wide-ranging consultation process in over 40 countries, the Governance and Anti-Corruption strategy was unanimously endorsed by the Development Committee in April 2007. This is now accepted as an agenda that flows from the Bank's mandate to reduce poverty, and the challenge in the coming IDA period is to work with clients, partners and a wide range of other stakeholders to implement the strategy. On the use of country systems, the GAC strategy points out that the Bank "can rely on self-standing 'ring-fenced' projects as a straightforward way of addressing fiduciary risks, but the developmental advantages of using country systems—where circumstances are appropriate—are large and sustainable. The use of country systems can reduce costs for the government and the Bank, enhance capacity, increase country ownership and project sustainability, and facilitate harmonization."¹²⁰

139. IDA is also committed to implementing a range of measures that will allow it to make significant progress in fostering harmonization as set out in the Paris Declaration. The data from the 2006 baseline survey on the Paris Declaration show that IDA's performance on most indicators is well above average. In addition, further efforts are being taken to reach the

¹¹⁹ World Bank (2007). *Strengthening World Bank Group Engagement on Governance and Anti-Corruption*. March.

¹²⁰ *Op. cit.*, p. 24.

targets set for 2010, including changes to IDA's internal staff incentive systems and policies and procedures.

140. **IDA is playing an important role in advancing the harmonization agenda among all development partners.** This includes work at the international level to promote harmonization, including the World Bank's participation in the OECD-DAC Working Party on Aid Effectiveness and Donor Practices. At the country level, IDA is advancing donor harmonization through a range of activities, such as taking a lead role in donor coordination and supporting coordination efforts substantively through IDA's deep country and sector knowledge in most countries.

141. **IDA does not always play a lead role in partnerships.** IDA works under the leadership of bilateral donors with the mandate and the skills sets to engage more directly on political issues. In other cases, other multilaterals take the lead: in Bangladesh, for example, while the Bank takes the lead on support to secondary education, the primary education program is led by the Asian Development Bank.

142. **More recently, the coordination work has been taken one step further through joint programming and Joint Assistance Strategies (JASs).** Recent examples of JASs include those prepared for Ghana, Tanzania and Uganda. Another important area for advancing harmonization at the country level is by leading or contributing substantively to the preparation of program-based approaches, including SWAps, and budget support operations. An important strategy for greater harmonization is to eventually align donors' process, fiduciary requirements, and safeguards with those used by recipient countries. To move towards that goal, IDA's fiduciary analytic work – which is generally being undertaken jointly with other development partners – provides the basis for fiduciary reforms in many countries. Issues related to country-level effectiveness will be dealt with by subsequent IDA15 Replenishment documents.

143. **Support to the Resources and Results (R&R) processes is also aimed at facilitating the effective scaling up of aid.** R&R processes are “country-specific coordination mechanisms, to consistently focus on results, the link to overall development finance, and mutual accountability.”¹²¹ Through R&R processes, countries present strategies that identify funding gaps and demonstrate how additional resources will deliver results, a mix of financing options, taking into account debt sustainability issues as well as complementary roles for development partners, including the private sector. In addition to the participation by OECD/DAC members, IDA also tries to ensure the inclusion of emerging new donors such as China and the private sector, as important partners into financing national strategies. The Africa Action Plan points out that “in countries with well-developed national strategies and clearly defined financing needs, the Bank Group will continue to use R&R processes to provide more comprehensive coverage of development financing needs”.¹²² The first Resources and Results Roundtable was held in Ghana in June 2006.

¹²¹ World Bank (2007). “Opportunities to Scale Up: Delivering on Commitments”. PREM Poverty Reduction Group, Number 1, January, p.3.

¹²² *Africa Action Plan, op.cit.*, p. 26.

E. MEETING THE CHALLENGES: ONGOING REFORMS TO IDA'S OPERATIONAL POLICIES

144. **IDA is currently in the midst of an important process of reforming and modernizing its operational policies, designed to improve its operational effectiveness.** Key reforms adopted in the past few years include:

- The new policy on Additional Financing, adopted in May 2005, which permits IDA to (i) scale up successful operations with greater speed and efficiency to enhance the results on the ground, and (ii) provide additional financing in response to intervening emergencies.
- The new policy on Rapid Response to Crises and Emergencies, adopted in February 2007, which permits it to respond more quickly to crises and emergencies.
- As part of implementation of the new Rapid Response policy and of IDA's overall effort to improve the effectiveness of its response to fragile states generally, IDA also adopted organizational and staffing changes relating to its work in fragile states, designed to enhance IDA's local presence and help attract qualified staff to working on fragile states.

145. **Management has also commenced an important reform of consolidating and modernizing policies governing investment lending, so as to improve effectiveness, efficiency and responsiveness of this key lending instrument.** This reform effort is based on the important work and findings of the IEG evaluation of Internal Controls over IDA Operations. It is aimed at creating a single principles-based umbrella policy for investment lending that would: (i) rationalize the applicable procedures governing investment lending by embedding a risk-based model of internal controls; (ii) rebalance attention and resources between preparation/approval and supervision/implementation, with greater focus on results on the ground; (iii) appropriately reflect different client countries' and projects' needs and risks ; and (iv) align investment lending policy with IDA's current development and business model, client countries' needs and strategic objectives. The revised policy will also better reflect the principles of harmonization and collaboration with development partners and the focus on results, thus enhancing IDA's alignment and harmonization efforts.

VI. CONCLUSIONS AND ISSUES FOR DISCUSSION

146. **This paper re-examined the role of IDA in a changing aid architecture landscape.** IDA's role is grounded on its country-driven business model, designed to respond to countries' needs, priorities, and ability to make effective use of aid resources. IDA's core strengths – financial resources, a wide and deep knowledge base, multi-sectoral perspective, global reach with local presence – come together to produce a platform upon which other development partners can operate effectively. These strengths also allow IDA to play a pivotal role at the regional and global levels, since addressing regional and global issues ultimately needs to be addressed at the country level.

147. **This re-examination is taking place at a time when development assistance is becoming a more complex business, and new global challenges are emerging.** The potential

enormity of the challenge associated with climate change further underlines the need for development assistance to become more agile, coordinated, effective, and responsive to changing needs and priorities in developing countries. At the same time, however, recent trends in developing assistance suggest a movement in the opposite direction: more fragmentation, more proliferation, more earmarking.

148. **In such a context, a platform for development assistance is needed more than ever before, making IDA's role in supporting the country-based model even more critical.** The risks and costs associated with donor proliferation, aid fragmentation as well as verticalization and earmarking reinforce the importance of firmly anchoring aid modalities in a strong country development model. Therefore, IDA's "glue" role could provide a key service to donor and recipient countries' alike by counterbalancing the adverse effects of fragmentation, proliferation and verticalization of aid.

149. **These emerging challenges require that IDA intensifies its efforts in four main areas:** (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate funding; (iii) addressing the challenge of climate change; and (iv) enhancing alignment and harmonization. This cannot be done through "off-the-shelf" or one-size-fits-all approaches, but rather by taking into account country- and sector-specific circumstances as well as in close collaboration with other development partners. While IDA's *modus operandi* remains based on a country-based model, the *environment* in which IDA operates is changing dramatically, and this needs to be factored in the policy dialogue with client countries, in the formulation of CASs and sector strategies, and in the design of lending operations. In particular, going forward, new CASs should pay more attention to regional and global issues which have a country-level impact, and major global programs and trust funds could be mainstreamed as integral parts of country and sector assistance strategies when appropriate. 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.

150. **The fact that IDA has the ability to address a wide range of challenges does not mean that IDA would be present in every sector for every country, or that IDA would systematically play a leading role among donors.** For each country, the focus areas for IDA assistance will continue to be determined through the CAS process and within the parameters of the performance-based allocation system. Furthermore, while in many cases IDA can play coordination and leadership roles, in others IDA would play a supportive role as a development partner.

151. **IDA can continue to play an effective, integrating role only if its funding reaches a "critical mass".** The key point is that *the volume of financial assistance by IDA enhances its ability to effectively deploy its strengths at the country level.* A declining level of IDA funding at country level would undermine IDA's capacity to be a strong partner to both the government and to the other development partners operating in-country. And, if IDA is not strong at the country level, it will likely not be able to deliver effectively at the regional and global levels either. Conversely, with appropriate financing, IDA's assistance programs can produce many benefits: (i) an appropriate sectoral balance across donor development assistance programs can be achieved; (ii) successful poverty reduction efforts can be scaled up through large-scale operations; (iii) instruments for coordinated funding such as PRSCs and SWAPs can be used more extensively, capitalizing on donor harmonization efforts at the country level; (iv) IDA's

knowledge base – a public good for all development partners – can be enhanced through learning that comes with greater scope for launching new lending operations, across multiple sectors; and (v) a wider variety of issues can be addressed by working with a broader range of stakeholders, thereby expanding the scope for policy dialogue, capacity building and convening power. Appropriate financing would also allow IDA to provide a platform for other development partners to operate and help achieve strategic coherence in development assistance programs.

152. Deputies may wish to consider the following issues for discussion:

- Do Deputies agree with the analysis of recent trends in ODA flows, changes in the international aid architecture, and emerging global issues such as climate change? Have the implications of such developments for the country-based model been adequately distilled?
- Do Deputies feel that the paper appropriately captured IDA’s strengths in supporting the country-based model, as well as IDA’s comparative advantages at the regional and global levels?
- Do Deputies agree that IDA will need to intensify its efforts in the following four focus areas: (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing the challenge of climate change; and (iv) enhancing alignment and harmonization?