



IDA14

**IDA14 Mid-Term Review
Implementation Report**

**International Development Association
Resource Mobilization (FRM)**

November 2006

Abbreviations and Acronym

AAA	Analytic and advisory activities	IEG	Independent Evaluation Group
AfDB	African Development Bank	IFAD	International Fund for Agricultural Development
AFR	Africa Region	IFC	International Finance Corporation
AIDS	Acquired Immune Deficiency Syndrome	IMF	International Monetary Fund
ARPP	Annual Report on Portfolio Performance	JSA	Joint Staff Assessment
AsDB	Asian Development Bank	KPI	Key Performance Indicator
BP	Bank Procedure	LCR	Latin America and Caribbean Region
CAS	Country Assistance Strategy	MNA	Middle East and North Africa Region
CEA	Country Environmental Analysis	LICUS	Low-Income Country Under Stress
CEM	Country Economic Memorandum	MDB	Multilateral Development Bank
CFAA	Country Financial Accountability Assessment	MDRI	Multilateral Debt Relief Initiative
COMPAS	Common Performance Assessment System	MIGA	Multilateral Investment Guarantee Agency
CPAR	Country Procurement Assessment Report	MSME	Micro, Small and Medium Enterprises
CPIA	Country Policy and Institutional Assessment	MTR	Mid-Term Review
CY	Calendar Year	NEPAD	New Partnership for Africa's Development
DAC	Development Assistance Committee	OBA	Output-Based Aid
DB	Doing Business	OECD	Organisation for Economic Co-operation and Development
DPO	Development Policy Operation	OED	Operations Evaluation Department (now IEG)
DSF	Debt Sustainability Framework	OP	Operational Policy
EAP	East Asia and Pacific Region	OPCS	Operations Policy and Country Services
EC	European Commission	PARIS21	Partnership in Statistics for Development in the 21st Century
ECA	Europe and Central Asia Region	PBA	Performance-Based Allocation
ES	Enterprise Survey	PER	Public Expenditure Review
ESW	Economic and sector work	PFM	Public financial management
EU	European Union	PRS	Poverty Reduction Strategy
FY	Fiscal year	PRSP	Poverty Reduction Strategy Paper
GDP	Gross Domestic Product	PSD	Private Sector Development
GEF	Global Environment Facility	PSIA	Poverty and Social Impact Analysis
HIPC	Heavily Indebted Poor Countries	QAG	Quality Assurance Group
HIV	Human Immunodeficiency Virus	RMDB	Regional Multilateral Development Bank
IAD	Internal Audit Department	RMS	Results Measurement System
IADB	Inter-American Development Bank	SAR	South Asia Region
IBRD	International Bank for Reconstruction and Development	SDR	Special Drawing Right
IC	Investment Climate	SOPE	Status of Projects in Execution
ICA	Investment Climate Assessment	SWAp	Sector-Wide Approach
ICR	Implementation Completion Report	UN	United Nations
IDA	International Development Association	UNDP	United Nations Development Programme

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IDA14 Mid-Term Review Implementation Report

I. Introduction

1. During IDA14 negotiations, Deputies agreed to hold an IDA14 Mid-Term Review (MTR) meeting to review progress on implementing IDA14 undertakings. To set the backdrop for the MTR discussions, this report provides an overview of implementation during the first year of the IDA14 period, with reference to the twelve papers requested by Deputies for the MTR meeting.¹ The report also includes a matrix that lists all of the IDA14 agreement's recommendations, and the actions taken thus far to implement them.

2. As this report highlights, significant progress has been made almost halfway into the IDA14 period (FY06-08), while several challenges have arisen as well. Record commitment and near-record disbursement levels in FY06 underscore the growing demand in low income countries for financing for development and IDA's ability to meet this demand. A snapshot of the financial performance during FY06 is provided in Section II. Section III examines progress on the "special themes" that Deputies identified for the IDA14 period: growth; private sector development; debt sustainability and grants; results measurement; and working together at the country level. Section IV examines other issues of interest, and Section V provides an update on IDA14 financing and the implementation of the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). Section VI concludes with the outlook for IDA going forward in IDA14 and beyond, in light of experience to date.

II. FY06 Commitments and Disbursements

3. The first year of IDA14 was characterized by strong performance on commitments and disbursements.

- **Commitments** reached US\$9.5 billion in FY06, the highest level ever achieved in IDA's history. The increase in commitments reflects strong demand from IDA countries for resources, backed by the large envelope of resources available for IDA14. Commitments are projected to reach approximately US\$11.1 billion in FY07,² and IDA is on track to commit all US\$33 billion of available IDA14 resources by the end of IDA14. Of the US\$9.5 billion committed in FY06, US\$7.1 billion was for investment operations and US\$2.4 billion was for development policy operations (DPOs). DPOs thus accounted for 26 percent of total commitments, slightly up from the average share of 23 percent during the IDA13 period (FY03-05).³

¹ See Annex 2 for a list of papers provided for the IDA14 MTR.

² Based on Regions' estimates as reported in Business Warehouse.

³ See the paper "A Framework to Assess Country Readiness for Making Productive Use of Development Policy Operations," prepared for the IDA14 MTR, which lays out a broad framework that can be used in different country circumstances.

- **Disbursements** were also at a near record level of US\$8.9 billion in FY06—up from an annual average of US\$7.6 billion during IDA13 (FY03-05)—due to both a strong rise in commitment volumes in recent years and a higher disbursement ratio.
- **Regional distribution.** One of IDA14’s objectives is to direct half of IDA’s assistance to Africa, provided that the performance of individual countries warrants it. IDA met that objective during FY06: at US\$4.7 billion in commitments, the highest level ever, Africa received 50 percent of total FY06 commitments. This compares well with the 47 percent average recorded during the IDA13 period. South Asia and East Asia and the Pacific followed with 27 percent and 11 percent, respectively (See Chart 1). Among IDA countries, Pakistan was the single largest recipient of IDA resources in FY06, followed by Tanzania, Vietnam, Ethiopia, and India (See Table 1).

Chart 1: FY06 IDA Commitments by Region

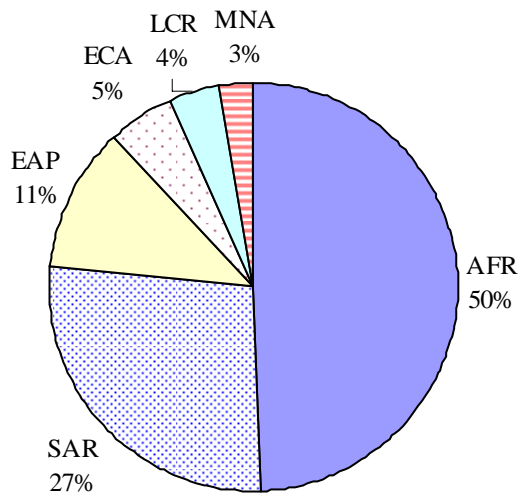


Table 1: FY06 Largest IDA Recipients (Commitments)
(Including regional projects)

	<u>US\$ million</u>
Pakistan	1,183
Tanzania	788
Vietnam	768
Ethiopia	505
India	500
Bangladesh	462
Nigeria	422
Ghana	400
Congo, Democratic Republic of	365
Uganda	276

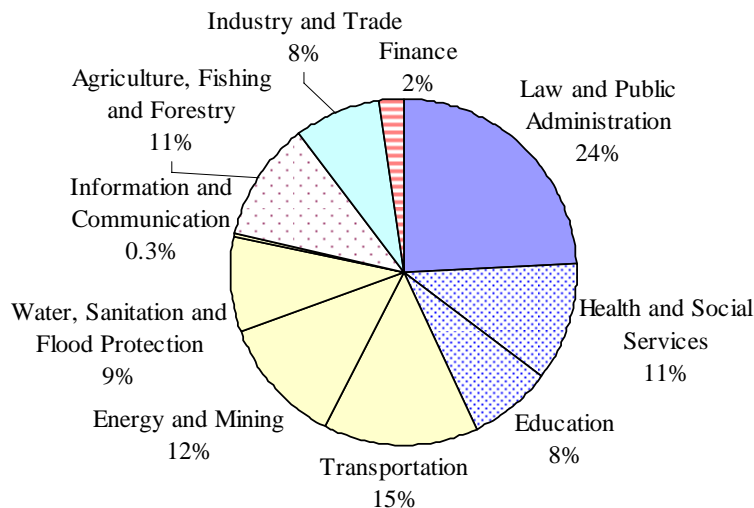
In terms of disbursements, IDA assistance to Africa also reached the highest level ever, US\$4 billion, in FY06. The region accounts for 45 percent of total IDA disbursements, followed by South Asia and East Asia and the Pacific with 36 percent and 8 percent, respectively. The three largest recipients of IDA disbursements were India, Pakistan, and Bangladesh.

- Sectoral distribution.** The steady increase in commitments for infrastructure⁴ continued during FY06, reaching 29 percent of total commitments, and 36 percent of total commitments for investment operations. Law and Public Administration is also receiving significantly greater attention, reflecting IDA's increasing role in promoting good governance to strengthen the effective use of IDA resources and country programs; commitments for Law and Public Administration⁵ accounted for 29 percent of total IDA commitments. In terms of investment operations, 24 percent of total commitments were for Law and Public Administration, compared to an average of 18 percent during IDA13. FY06 commitments in the social sectors continued to account for about 20 percent of total commitments for investment operations, but were slightly lower than the average level during IDA13; this reflects in part the increased availability of grant funding from vertical funds, including the Global Fund for AIDS, Tuberculosis, and Malaria. In addition, agriculture, fishing and forestry accounted for 10 percent of total commitments and 11 percent of total commitments for investment operations.

⁴ Includes four sectors: (i) transportation, (ii) information and communication, (iii) energy and mining and (iv) water, sanitation and flood protection.

⁵ Includes six sub-sectors: (i) central government administration, (ii) compulsory pension and unemployment insurance, (iii) law and justice, (iv) sub-national government administration, (v) compulsory health finance, and (vi) general public administration.

Chart 2: FY06 IDA Commitments for Investment Operations by Sector



- **Commitments to post-conflict countries.** IDA continued to provide eligible post-conflict countries with exceptional IDA access, to help ensure that they get the resources they need to stabilize fragile situations and restart social and economic development. These countries receive exceptional access over a 4-year period, plus a 3-year transition period to return to the regular PBA norms. In FY06, nine countries were in post-conflict status, with one of them in the final year of the transition phase and two of them entering the transition phase.⁶ FY06 IDA commitments to post-conflict countries totaled US\$687 million, down from US\$766 million in FY05. This decline is explained by the fact that three countries were in the transition phase, and that there were no operations in FY06 for Angola, Republic of Congo, and Eritrea due to country-specific circumstances.
- **Commitments under the Regional Pilot Program.** Commitments under this pilot program, which are financed with one third coming from each participating country's IDA allocation, and two thirds from a special provision for regional projects, reached US\$523 million for FY06, which was the highest ever annual commitment under the Pilot. The portfolio under this pilot now stands at 14 projects with total commitments of US\$958 million. Given the considerable—and increasing—demand and potential benefits from regional integration in Africa in particular, the Pilot has been heavily geared towards the Africa region, which

⁶ Sierra Leone was in the final year of the transition phase, and Republic of Congo and Eritrea entered the transition phase. The other post-conflict countries were Afghanistan, Angola, Burundi, Democratic Republic of Congo, Cote d'Ivoire, and Timor-Leste.

currently accounts for 90 percent of the portfolio. More than 70 percent of commitments are supporting regional infrastructure. Extensive partnerships—both with IFC and MIGA in the Bank Group, and with Multilateral Development Banks (MDBs), the EC, UN agencies, and numerous bilaterals—have been hallmarks of the program.⁷

III. Progress on IDA14 Special Themes

4. Deputies identified five “special themes” as areas that needed additional policy guidance for the IDA14 period: (i) growth in IDA countries; (ii) private sector development; (iii) debt sustainability and grant allocation; (iv) results measurement; and (v) working together at the country level. This section provides an update on developments during FY06, drawing mainly on the papers prepared for discussion at the Mid-Term Review, but also including other issues of interest.

A. Growth in IDA Countries

5. GDP growth improved in IDA countries in recent years, with all regions recording progress. In the Africa region, the latest figures show that the growth trend going back to the mid-1990s has continued, though with differing performances among individual countries.⁸ This growth trend is attributed to a mix of several factors, including more countries making progress in political reform and stability, favorable commodity prices, and a decline in world interest rates. Despite this accelerated growth, the pace of poverty reduction in IDA countries fell short of the progress needed to halve the proportion of poor people by 2015; and in two-fifths of the IDA countries, extreme poverty rates have not fallen.

6. IDA’s analytical work is key in assisting countries to continue to make progress on their growth and poverty reduction objectives. Given the centrality of economic growth for poverty reduction, IDA is increasing attention paid to growth studies, in order to raise analytical rigor and quality, deepen understanding of the inter-play between growth and poverty reduction and the related challenges facing individual countries, and ensure the prominence of growth issues in the country-led Poverty Reduction Strategy (PRS) and the Country Assistance Strategy (CAS). Coverage of core diagnostics Economic and Sector Work (ESW) has expanded during IDA14; progress has been particularly strong in the area of fiduciary diagnostics where 85 percent coverage was

⁷ See “IDA14 Mid-Term Review of the IDA Pilot Program for Regional Projects,” prepared for the IDA14 MTR.

⁸ Source: World Bank Development Prospects Group (2006). Among 35 Sub-Saharan Africa countries for which data are available, average GDP growth accelerated from 3.6 percent during 2000-2002 to 4.7 percent during 2003-2005. Countries covered are Angola, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo Republic, Cote d’Ivoire, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Sudan, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

achieved in FY06, compared to 46 percent in FY03.⁹ Preparation of ESW jointly with country authorities and development partners also increased to enable access to consistent analysis of policy issues and raise effectiveness of aid for all donors.

7. IDA has also placed strong and increasing emphasis on investments in infrastructure, to strengthen the basis for complementary private investments and growth. The share of infrastructure in IDA's investment operations has steadily increased over the last decade, from a low of 28 percent in FY95 to 36 percent in FY06. The largest share of infrastructure investments—38 percent—was directed to transportation, continuing the trend from IDA13. Energy and mining received the next largest share with 35 percent, and water, sanitation and flood protection received 24 percent. Regionally, Africa received 52 percent of total IDA assistance to infrastructure in FY06.

B. Private Sector Development (PSD)

8. IDA has renewed its focus on creating the conditions for strong, broad-based growth in IDA countries through increased support for private sector development. Commitments for private sector development totaled 18 percent in FY06 compared to 15 percent during IDA13, and IDA's PSD-related analytic and diagnostic work has also increased. Enterprise Survey and Doing Business indicators are increasingly used in results-based CASs and in IDA project monitoring and, to date, 22 reforms in IDA countries can be directly attributed to Doing Business. Reformers simplified business regulations, strengthened property rights, eased tax burdens, increased access to credit and reduced the cost of exporting and importing. Three of the top ten reformers in 2005/06 in terms of the number and impact of reforms—Georgia, Ghana, and Tanzania—were IDA countries, Georgia being the top reformer. Furthermore, Africa, which lagged behind all other regions in the pace of reform in 2003 and 2004, ranked third in 2005/06, behind only Eastern Europe and Central Asia and the OECD high-income countries.¹⁰

9. Implementation of the IDA-IFC pilot to provide an assistance package to address issues of capacity, access to finance and the investment climate for Micro, Small and Medium Enterprises (MSME) has led to IDA commitments of US\$320 million to the pilot Program, more than double the volume of commitments initially envisaged,¹¹ despite some delays. The Bank has also been piloting Output-Based Aid (OBA) approaches in IDA countries to increase accountability and efficiency and allow stronger involvement of the private sector. While it is too early to draw definitive conclusions, preliminary findings are encouraging and show that OBA projects have the potential to deliver infrastructure and social services to the poor in an innovative manner.¹²

⁹ See "Economic and Sector Work (ESW) Progress Report," prepared for the IDA14 MTR.

¹⁰ See World Bank (2006). *Doing Business 2007*.

¹¹ See "A Review of the Joint IDA-IFC Micro, Small and Medium Enterprise Pilot Program for Africa," prepared for the IDA14 MTR.

¹² See "Review of the Use of Output-Based Aid Approaches," prepared for the IDA14 MTR.

10. In addition, at the time of the IDA14 discussions, Management had committed to exploring the possibility of lending directly to the private sector without a sovereign counter guarantee. Analysis of the available options indicates that the most promising way for IDA to do so would be through OBA approaches that allow explicit targeting of subsidies to the poor. At present, OBA approaches are still being piloted and selectively scaled up as lessons are being learned. In view of this, and since other options for lending without a sovereign counter guarantee pose significant financial risks to IDA, may weaken the participation of the government which needs to play a key role in implementing OBA, and would amount to a major departure for IDA policies, Management will revisit the issue of whether it should engage with the private sector directly using OBA approaches in 2-3 years.

C. Debt Sustainability and Grants in IDA14

11. IDA14 introduced a new grant eligibility and allocation framework for IDA that is based on countries' risk of debt distress. This risk is assessed on the basis of the methodology set out in the joint IMF-World Bank debt sustainability framework (DSF) for low-income countries.¹³ FY06 was the first year in which this new framework was implemented.¹⁴ The actual grant share in FY06 was 19.2 percent; for the first two years of IDA14 (FY06-07), the average annual grant share is estimated at about 22 percent of the total IDA envelope. Seventy percent of total IDA grant allocations are expected to go to the Africa Region and to countries with per capita incomes of less than US\$360 (these countries received 73 percent of all FY06 grant commitments). Emerging empirical results also indicate that the new system has not unduly weakened the incentive system embedded in the PBA. In fact, the correlation between per capita resource transfers to IDA countries and these countries' performance remains strongly positive.

12. Going forward, the operationalization of the forward-looking aspects of the DSF—for which a proposal was requested by the Deputies for discussions at the IDA14 MTR—will enable IDA to play a more proactive role regarding low-income countries' debt sustainability prospects by tailoring its financing terms appropriately, well before countries' debt ratios get overly close to the thresholds.^{15 16}

13. However, to avoid cross-subsidization from IDA to non-concessional lenders, it is critical that *all* creditors and donors take into account countries' debt sustainability prospects in their decisions on lending volumes and terms. This is particularly relevant for countries where HIPC and MDRI debt relief and the provision of grants by IDA and

¹³ IMF and IDA (2004). "Debt Sustainability in Low-Income Countries – Proposal for an Operational Framework and Policy Implications." February, 2004.

¹⁴ See "Assessing Implementation of the IDA14 Grants Framework," prepared for the IDA14 MTR, for details of the experience of implementing the new framework.

¹⁵ See "Debt Dynamics and Financing Terms: A Forward-Looking Approach to IDA Grant Eligibility," prepared for the IDA14 MTR.

¹⁶ See also the IDA14 MTR paper "IDA Countries and Exogenous Shocks." This paper explores the feasibility of strengthening countries' responses to shocks in order to further support countries' debt sustainability.

other multilaterals have considerably increased borrowing space. In fact, while increased concessionality provides no guarantee that debt dynamics will be favorable, it is clear that unwarranted non-concessional borrowing lowers countries' debt sustainability prospects. To help protect low-income countries from contracting non-concessional loans that would worsen their debt dynamics, IDA has, as requested by the Deputies, adopted a "free riding" policy¹⁷ that aims to prevent potential cross-subsidizing by IDA donors of non-concessional creditors. The new policy has a two-pronged strategy for lending to low-income countries: (i) enhancing creditor coordination around the DSF with an agreed framework to establish the appropriate level of concessionality of assistance and an added emphasis on the importance of sharing data on new borrowing; and (ii) discouraging unwarranted non-concessional borrowing through disincentives aimed at borrowing countries combined with further strengthening of country debt management capacity.

14. Furthermore, to be sustainable, the new IDA grants framework must be appropriately financed. The agreed financing arrangements for IDA14 grants comprise two elements: (i) forgone principal reflows due to IDA14 grants will be financed through additional donor contributions in future replenishments (starting in IDA17), on a pay-as-you-go basis; and (ii) forgone charge income on IDA14 grants will be financed through the charges-related volume discount on grants of 9 percent, representing the present value of forgone charges. The primary financial risk from IDA14 grant financing relates to future donor compensation of forgone principal reflows, especially to ensure additionality of such financing over regular donor contributions in future IDA replenishments. This is a risk that needs to be collectively addressed by the donor community.

D. Results Measurement in IDA14

15. An increased focus on results is an important aspect of improving development effectiveness across all of IDA's work. In this vein, IDA was the first International Financial Institution to introduce a results measurement system (RMS) that systematically tracks key country outcomes as well as IDA's contributions to those outcomes. Building on lessons learned from the IDA13 RMS, a two-tiered approach was introduced in IDA14: Tier 1 monitors aggregate progress on fourteen selected country outcome indicators in growth and poverty reduction, public financial management, investment climate, infrastructure, and human development. Tier 2 monitors IDA's contribution to country outcomes – using indicators for country programs, projects, and aggregate outputs. Both tiers are showing good progress, although progress in Tier 2 has naturally been slower because these involve changes in the Bank's organizational culture.

16. There is clear evidence of improvement in the Tier 1 indicators of the RMS—showing aggregate progress on fourteen country outcomes in growth and poverty reduction, public financial management, investment climate, infrastructure and human development. Overall, the IDA countries are achieving improved outcomes, though this progress varies by indicator, and is uneven across countries. For instance, between 2002

¹⁷ IDA (2006). *IDA Countries and Non-Concessional Debt: Dealing with the "Free Rider" Problem in IDA14 Grant-Recipient and Post-MDRI Countries*. IDA/R2006-0137, June, 2006.

and 2005, the growth in real GDP per capita in IDA countries was more than double the growth rate between 1990 and 2002. Importantly, there was considerable growth in Sub-Saharan Africa. However, at the big picture level, while IDA countries are making measurable progress on many indicators, most of the countries will fall short on some of the MDGs, particularly in human development (see also Para 5).

17. There has also been good progress on several of the Tier 2 indicators, measuring IDA's contribution to country outcomes. This includes the highest level to date for 'quality-at-entry' (91 percent) in the FY04 and FY05 cohort of IDA projects. Quality-at-entry is considered an important early indicator of the likely success of a project in achieving its development objectives, which suggests very good prospects for the future in terms of achieving development outcomes with the projects that entered the IDA portfolio in FY04 and FY05. IDA is also exceeding the targets set in the RMS for developing country strategies using a "results based" approach. However in both of these areas and others, there will need to be continued vigilance to ensure that the quality gains are maintained.

18. With respect to project outputs, only a partial snapshot of IDA projects closing in the past five to six years shows that: IDA transport operations constructed over 6,250 km and rehabilitated or maintained more than 56,700 km of roads; IDA health operations trained more than 78,000 health professionals; IDA education operations trained 298,000 teachers; and IDA water and sanitation operations supported 100,000 new water connections and 111,000 new sanitation facilities. Given that IDA's interventions are tailored to country needs, the outputs of IDA projects can be quite different from country to country, making full aggregation impossible.

19. Further improvements will be needed to measure and report on both the outputs and longer term outcomes that comprise development results. This includes greater attention to ensuring timely availability of baseline data for all projects, and rigorous monitoring and evaluation systems at the country level that report changes from the baselines. The relatively weak statistical capacity of IDA countries remains a considerable constraint. Management has proposed several actions to accelerate bank-wide efforts in these areas as well as deepen the 'culture of results' across the Bank.¹⁸

E. Working Together at the Country Level

20. **Harmonization and Alignment.** The Bank has continued to play a leadership role in implementing the harmonization and alignment agenda to increase the efficiency and impact of aid. A report on the implementation of harmonization and alignment actions globally and by the World Bank in light of commitments it made in the Rome and Paris Declarations to improve aid effectiveness was discussed by the Bank's Executive Directors on November 14, 2006.¹⁹ This report indicates that ongoing efforts by the Bank, partner countries, and donors toward meeting the Paris commitments yield

¹⁸ See "IDA14 Results Measurement System: Mid-Term Review Report," prepared for the IDA14 MTR.

¹⁹ See "Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments" (R2006-0193), November 2, 2006.

preliminary evidence of good results: a number of partner country officials have reported that aid transaction costs are declining for them and that alignment of aid with country development strategies and priorities is improving. With respect to the Bank's own performance, the report shows that in FY06, 43 percent of all Bank disbursements (IDA and IBRD) were for operations using the program-based approaches called for in the Paris Declaration (i.e., sector-wide approaches, development policy operations, and other collaborative operations with joint financing), and 20 percent of analytic work in IDA countries was prepared jointly with others (with the highest percentage of joint analytic work being in the Africa Region, at 29 percent).

21. The report also sets out the Bank's framework for monitoring its Paris Declaration commitments, which is harmonized with the international framework for monitoring the Paris Declaration, and describes progress in the Bank's implementation on harmonization and alignment against the actions required under the IDA14 replenishment arrangements. On these actions, which form part of the triggers for additional contingent contributions to IDA, the Executive Directors found that satisfactory progress has been made.

22. Nevertheless, the report makes it clear that more efforts are needed to broaden and deepen these actions and address issues such as aid predictability, donor selectivity, heavy reliance on parallel project implementation units, and assistance in strengthening and using country systems to a greater extent. Countries and donors, including the Bank, need to continue focusing on this agenda and make further changes within their respective institutions of practices, processes, and procedures if the intended development impact is to be achieved. Bank Management will therefore: ensure that the importance of progress on harmonization at the country level is appreciated Bank-wide; and continue to give close attention to providing leadership, internal processes, staff capacity, and incentives for furthering implementation of the Paris Declaration. Lastly, Bank Management will report back to the Board on progress.

23. **Collaboration in Post-conflict Assistance.** The Bank and the UN have made special efforts to deepen partnerships and collaboration with other donors in assisting post-conflict countries, recognizing the importance of preventing conflict and assisting countries emerging from conflict in order to promote economic and social progress and regional stability. At the global policy level, the Bank has successful partnerships with the UN Development Programme (UNDP) and UN Development Group Office, in addition to collaboration with the UN Department of Peacekeeping Operations on a joint staff training program. At the country level, various instruments and programs—especially post-conflict needs assessments, country re-engagement notes and partnership strategies, transition matrices and joint activities in disarmament, demobilization and reintegration—have enabled a collaborative approach to post-conflict assistance. While these partnerships have benefited from synergy generated by harnessing the capacity and strengths of each institution, they have also faced challenges arising from different institutional cultures and procedures, which will need to be addressed as the partnership continues to deepen.²⁰

²⁰ See IDA14 MTR paper; "Progress on Strengthening Collaboration with United Nations Partners in Post-Conflict Countries".

IV. Other Issues

24. In addition to the special themes, there has also been important progress in other areas of interest, particularly with regard to the allocation of IDA resources and IDA's internal controls.

25. **Allocation of Resources.** IDA's performance based allocation system was substantially modified for IDA14, with the introduction of the grant allocation system, and subsequently with the new "discount" rule introduced under MDRI. The new grant allocation system has been satisfactorily implemented for FY06 and FY07, while the MDRI discount was first effected for the FY07 allocation round. While these modifications reflect two important priorities of IDA donors, they also have the effect of making the system more complex, which complicates the process of allocating IDA resources, as well as efforts to make sure that the underlying performance-based principles of the allocation system are well understood by staff and by recipients of IDA resources. In light of this, and at a time when IDA is taking steps to increase its own transparency and accountability through public disclosure of all the components of the Performance-Based Allocation (PBA) system (Country Policy and Institutional Assessment—CPIA—ratings and their components as well as the IDA country performance ratings and their components have been made publicly available since June 2006), it may be necessary to review the PBA system with a view to simplify it.

26. **IDA Internal Controls.** The IDA14 agreement calls for an independent comprehensive assessment of IDA's control framework, including internal controls over IDA operations and compliance with its charter and policies. The first stage (Part 1A) of this review is now completed with detailed process mapping and assessment of the design effectiveness of controls. The next stage (Part 1B), to be completed in early 2007, will be to test how effectively these controls operate in practice, compared to their design. The final stage (Part 2), to be completed by early 2008, will be to look at issues of operational efficiency and effectiveness, including an examination of entity-level controls. Per agreement with the Board, Bank management is undertaking the initial assessments in each stage, followed by a review by the Internal Audit Department (IAD). These two assessments are then evaluated by the Independent Evaluation Group (IEG).

27. While this review has proven to be a highly complex and resource intensive exercise, it is already yielding valuable findings that will help Bank management to strengthen IDA's controls framework. In particular, the review has found that there is a need to improve the Bank's document retention policy, as well as to update and streamline the Bank's compendium of operational policies.

V. IDA Financing and HIPC/MDRI Implementation

28. Experience thus far shows that commitments and disbursements in IDA14 to date signal a growing demand for IDA's assistance, and significant progress has been made to strengthen the development effectiveness of the operations financed by IDA. At the same

time, IDA's future ability to serve the needs of poor countries faces new challenges as its funding framework has become more complex and IDA's reliance on future donor contributions has increased.

A. IDA14 Funding Framework

29. The agreed funding framework for IDA14 provides SDR 22.4 billion of resources, including SDR 21.9 billion of commitment authority and SDR 0.5 billion of donor financing of forgone charges on IDA13 grants. Of this total amount, some 55 percent (SDR 12.3 billion) comes from donors. This excludes the structural donor financing gap in IDA14 of SDR 1.8 billion (equivalent to about 13 percent of total donor contributions).

30. Subsequent to the conclusion of the IDA14 discussions, two main developments affected the IDA14 funding framework:

- First, in Spring 2006, donors and shareholders approved IDA's participation in the MDRI, which provides 100 percent cancellation of eligible debt owed to IDA, AfDF, and IMF by countries that reach the HIPC completion point. Starting in FY07, over the 40-year period of the MDRI, IDA will forgo an estimated SDR 24.4 billion (about US\$36 billion) of credit reflows from 40 HIPC countries, based on eligible debt outstanding and disbursed at end-December 2003. Under the financing package for the MDRI, donors have committed to compensate IDA's MDRI costs on a 'dollar-for-dollar' basis. Over the remainder of the IDA14 period (FY07-08), the MDRI reduces IDA's available internal resources by about SDR 0.5 billion and increases required donor financing for IDA14 by the same amount.
- Second, at the September 2006 Annual Meetings, IBRD's Board of Governors authorized a transfer of an additional US\$0.3 billion (SDR 0.2 billion) from surplus to IDA, and IFC's Board of Governors authorized a designation of US\$0.15 billion (SDR 0.1 billion) from retained earnings for grants to IDA. These additional resources increase total IDA14 commitment authority from the original SDR 21.9 billion to SDR 22.2 billion (about US\$33 billion). Table 2 shows the revised IDA14 commitment authority framework.

31. As per the requirements set forth in the IDA14 report for contingent donor contributions, IDA's Executive Directors determined in February 2006 that Management had taken the necessary actions regarding harmonization, CAS guidelines and conditionality. This determination triggered additional contributions from the UK in the equivalent amount of US\$62 million. On November 14, 2006, the Executive Directors reviewed the monitoring framework and baselines established for this purpose and determined that the Bank had made satisfactory progress, as called for by the IDA14 agreement. Progress on the other set of required actions, on conditionality, will be reviewed by the Executive Directors during November 2006.

Table 2: IDA14 Commitment Authority Framework, SDR billions (as of September 30, 2006)

<u>Sources</u>	Total Framework		
	<u>Original</u>	<u>Revised</u>	<u>Difference</u>
Donor contributions			
Regular & supplemental contributions	10.7	10.7	0.0
HIPC contributions - IDA14 period	<u>1.1</u>	<u>1.1</u>	<u>0.0</u>
Subtotal	11.8	11.8	0.0
MDRI contributions - IDA14 period			
Unqualified commitments	0.0	0.4	0.4
Qualified commitments a/	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>
Total donor contributions to be made available	<u>11.8</u>	<u>12.3</u>	<u>0.5</u>
Internal resources			
Original framework	8.7	8.7	0.0
Less: MDRI forgone reflows in IDA14	<u>0.0</u>	<u>0.5</u>	<u>0.5</u>
Subtotal	<u>8.7</u>	<u>8.2</u>	<u>-0.5</u>
IBRD transfers	1.1	1.3	0.2
IFC designation from retained earnings	0.0	0.1	0.1
Carry-over items	<u>0.3</u>	<u>0.3</u>	<u>0.0</u>
Total commitment authority	21.9	22.2	0.3
Donor contributions to cover forgone charges on IDA13 grants	<u>0.5</u>	<u>0.5</u>	<u>0.0</u>
Total IDA14 resources	22.4	22.7	0.3
Note: Details may not add up due to rounding.			
a/ Includes financing gap of SDR 4 million.			

B. HIPC/MDRI Implementation

32. During the IDA14 negotiations, Deputies placed emphasis on ensuring that IDA's financial support to poor countries is conducive to debt sustainability. After concluding the IDA14 negotiations, the MDRI was introduced to further support this objective. IDA's debt cancellation under the MDRI was approved by IDA's Executive Directors on March 28, 2006. The financing arrangements to cover MDRI-related costs through the new MDRI replenishment of IDA were adopted by IDA's Board of Governors on April 21, 2006. Subsequently, IDA's Executive Directors approved that IDA start implementing its MDRI debt cancellation as of July 1, 2006, the beginning of FY07. The MDRI replenishment of IDA became effective as of August 4, 2006. MDRI debt relief is provided by IDA in addition to debt relief under the Enhanced HIPC Initiative.

33. **Debt Cancellation by IDA.** On July 1, 2006, IDA wrote off an amount equivalent to US\$30.1 billion in credit principal of MDRI-eligible debt stocks of 19 HIPC completion-point countries. On August 31, 2006, Malawi reached its HIPC completion point, making the country eligible for MDRI debt cancellation by October 1, 2006.²¹ As of October 1, 2006, IDA has provided a total of about US\$36 billion of

²¹ HIPC countries become eligible for MDRI debt relief on the first day of the calendar quarter immediately following the date at which they reach the HIPC completion point.

irrevocable debt relief (including credit principal and forgone credit charges) to 20 HIPC completion point countries. Of this amount, an estimated US\$27.8 billion has been provided under the MDRI and the balance of US\$8.2 billion under the HIPC Initiative.²²

34. Over the 40-year implementation period of the MDRI (FY07-44), IDA is currently estimated to provide a total of US\$49.7 billion in debt relief, including US\$36.0 billion under the MDRI and US\$13.7 billion under the HIPC Initiative.²³ Donors have committed to finance these amounts over time as reflow losses occur. In addition, prior to July 1, 2006, IDA has already provided about US\$4.0 billion of HIPC debt relief, the bulk of which has been financed through IBRD net income transfers to the HIPC Trust Fund, complemented by bilateral donor financing. Since the inception of the HIPC Initiative in 1996, total debt relief to be provided by IDA under HIPC and MDRI combined is currently estimated at about US\$54 billion.²⁴

35. **HIPC Financing.** IDA14 was the first replenishment for donors to finance IDA's forgone credit reflows due to the HIPC Initiative. Donor financing of HIPC costs occurs on a pay-as-you-go basis, over the 3-year commitment period of each IDA replenishment. Over the 3-year commitment period of IDA14, IDA forgoes an estimated US\$1.86 billion of credit reflows due to the HIPC Initiative. After using remaining resources from prior IBRD transfers to the HIPC Trust Fund, a balance of about US\$1.5 billion of HIPC costs during FY06-08 will be financed by donor commitments received under IDA14.

36. **MDRI Financing.** To finance IDA's forgone credit reflows under the MDRI, donors established a separate MDRI replenishment, spanning four decades (FY07-44). To preserve IDA's advance commitment capacity - under which IDA uses its stream of available future credit reflows to back newly approved credits and grants—donors acknowledged the need to provide unqualified, firm MDRI financing commitments over a rolling decade, thereby matching the disbursement period of each future IDA replenishment. The long-term nature of MDRI financing commitments may present a challenge for some donors who cannot make firm commitments over such a long time period due to legislative or budgetary constraints.

37. As of September 30, 2006, donors provided unqualified, firm financing commitments representing 55 percent of projected MDRI costs over the 10-year

²² The MDRI cancels the portion of IDA credits remaining after applying HIPC debt relief. The bulk of IDA credits cancelled are denominated in SDR, while HIPC debt relief is denominated in US\$ terms. As a result, the US\$ equivalent volume of debt relief provided under the MDRI will vary with foreign exchange rates. Current cost estimates are based on the foreign exchange reference rate of US\$/SDR 1.47738 agreed under the MDRI replenishment of IDA.

²³ Current estimates for IDA's HIPC and MDRI costs are based on a list of 40 HIPC countries, including 11 pre-decision point HIPCs that meet the income and indebtedness criteria based on end-2004 figures and that might wish to be considered for HIPC debt relief. Prior cost estimates for IDA's MDRI costs included 42 potential HIPC countries. Following a meeting of the IDA Board on the HIPC Sunset Clause on September 7, 2006, two countries originally included in list of 42 HIPCs have been excluded from this list: Myanmar, due to insufficient data to assess debt ratios against the HIPC thresholds; and Lao PDR, which had expressed its desire not to participate in the HIPC Initiative.

²⁴ This amount includes US\$0.7 billion of credit arrears of pre-decision point HIPCs.

disbursement horizon of IDA14 (FY07-16). Another 31 percent of forgone credit reflows over that horizon are covered by qualified financing commitments, bringing total donor financing commitments to 86 percent of MDRI costs over the 10-year disbursement horizon of IDA14. Over the 40-year period of the MDRI, aggregate donor financing received is currently equivalent to 67 percent of total estimated MDRI costs of IDA; this includes firm financing commitments covering 10 percent of total MDRI costs over 40 years. Table 3 illustrates these figures. Donors agreed to review the status of MDRI financing at the beginning of the IDA15 discussions.

Table 3: Status of MDRI Financing (as of September 30, 2006)

Financing received from IDA donors	Remaining IDA14 Period (FY07-08)		First Decade (FY07-16)		Subsequent 3 Decades (FY17-44)		Total MDRI Costs (FY07-44)	
	SDRm	in %	SDRm	in %	SDRm	in %	SDRm	in %
Unqualified Financing	413	79.4%	2,467	54.9%	61	0.3%	2,528	10.4%
Qualified Financing	105	20.2%	1,386	30.9%	12,523	63.0%	13,909	57.1%
Subtotal	518	99.6%	3,853	85.8%	12,584	63.3%	16,437	67.5%
To be committed	2	0.4%	639	14.2%	7,289	36.7%	7,928	32.5%
Total	520	100.0%	4,492	100.0%	19,873	100.0%	24,365	100.0%

38. **Outlook for IDA15.** As a result of forgone credit reflows due to HIPC and MDRI debt relief, IDA has become more dependent on donor funding to maintain its future financial capacity to assist poor countries. In the MDRI financing framework, donors agreed to maintain the value of their regular IDA contributions at least at the volume of IDA14 in real SDR terms, equivalent to an increase of 2% per annum, or 6.1% from IDA14 to IDA15.²⁵ In addition to this baseline, donors have committed to provide compensatory financing of forgone credit reflows due to debt relief. By IDA16, further and additional donor contributions would be needed to replace forgone principal reflows due to grants extended in IDA13.

VI. Conclusion

39. As this report highlights, IDA has been effectively delivering financing and results in IDA14 to date, although some challenges have arisen. IDA has witnessed an increasing demand for its resources, as evidenced by strong performance with respect to both commitments and disbursements. IDA has made significant efforts—met with both progress and challenges—in promoting good governance to support growth in IDA countries; mobilizing private sector development and infrastructure to further support growth; promoting debt sustainability; measuring results; and improving aid effectiveness through harmonization and alignment actions with development partners. Meanwhile, HIPC, the use of grants, and the onset of the MDRI have introduced significant changes

²⁵ The increase in regular donor contributions could exceed 2% per annum if actual SDR-based inflation over the IDA14 period was higher.

to IDA's financial structure, with IDA—and, in turn, poor countries—now more dependent on donors for resources.

Annex 1: Monitorable Actions for IDA14

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
ALLOCATING IDA RESOURCES			
<ul style="list-style-type: none"> • Allocate IDA resources in accordance with PBA system, as set out in Annex 1. • Maintain the present strength of the governance factor in the PBA. Reduce governance factor volatility by using a three year moving average for the procurement flag component. Prepare paper on experience with the governance factor for Mid-Term Review. • Direct half of IDA's assistance to Africa, if warranted by performance, and support the efforts of these countries to use these resources effectively. • Implement the system for exceptional allocations to eligible post-conflict countries, as modified at the IDA13 Mid-Term Review. • Fully disclose the numerical CPIA and IDA Country Performance Ratings. • Encourage other partners to align their resources with performance, and work with Regional Multilateral Development Banks (RMDBs) toward greater harmonization of PBA systems. 	<ul style="list-style-type: none"> • CPIA Exercise • Review of experience with the governance factor • IDA Lending Report • CPIA Exercise • CPIA Exercise • Consultations ongoing with RMDBs 	<ul style="list-style-type: none"> Ongoing Mid-Term Review Annual Ongoing Annual starting with FY06 ratings exercise Ongoing 	<p>FY06 and FY07 allocations were made in accordance with the agreed rules of the PBA system, and were completed in early 2005 and 2006, respectively.</p> <p>To date there has been no change in the governance factor formula or in its use in the PBA system. The volatility of the governance factor has been mitigated somewhat in the annual allocation exercise in early 2005 and early 2006, by the use of the 3-year moving average for the procurement rating in the governance factor. A paper reviewing the experience with the governance factor has been prepared for the MTR.</p> <p>FY06 commitments to Sub-Saharan Africa amounted to 50%</p> <p>In the FY06 and FY07 allocation exercises, post-conflict countries have received exceptional allocations according to the modifications agreed upon at the IDA13 MTR. The CPIA and IDA country performance ratings were disclosed for the first time in June 2006. The ratings are now available on IDA's external website.</p> <p>Ongoing consultations have resulted in increasing harmonization of the PBA systems, in particular between AfDB, AsDB and IDA. This includes meetings in: Manila, January 2005; Tunis, March 2006; and (planned) Washington, DC, January 2007. Harmonization steps are also under consideration at other MDBs and facilities such as IADB, IFAD, GEF.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
STRENGTHENING TRANSPARENCY AND ACCOUNTABILITY			
<ul style="list-style-type: none"> • Financial flows: Predicate IDA financial assistance to a project with a significant impact on revenues on governments ensuring a functioning system for accounting for revenues and their use, and for the independent auditing of such accounts and the public dissemination of the results. Closely monitor the implementation of these systems and take appropriate (and timely) corrective actions as needed. • Disclosure: Demonstrate leadership among the multilateral development institutions on transparency in its own deliberations and the accountability of its operations and explore the scope for further enhancing public access to information on Board proceedings, including the disclosure of Board minutes. • Carry out an independent comprehensive assessment of IDA's control framework including internal controls over IDA operations and compliance with its charter and policies, and make such assessment publicly available after disclosure has been approved by IDA's Executive Directors. 	<ul style="list-style-type: none"> • Project documentation • Report on Status of Projects in Execution • World Bank Disclosure Policy: Additional Issues, Follow-up Consolidated Report • Progress Report on Implementation of Disclosure Policy • OED Assessment 	<p>Ongoing</p> <p>Annual</p> <p>Early 2005</p> <p>June 2006</p> <p>CY05</p>	<p>Systems for accounting for revenues and their use are included in all projects receiving IDA assistance. Regular reporting on experience with these systems takes place in a range of fora, including in the context of the Extractive Industries Transparency Initiative (additional information on fiduciary safeguards is provided under "Financial Assistance" under Section A: Growth in IDA Countries below).</p> <p>In March 2005, the Executive Directors approved several important changes to the Bank's disclosure policy, including the disclosure of the minutes of Board meetings. Consistent with this policy, from April 2005, the Bank has been disclosing the minutes of Board meetings (except those of Executive Sessions of the Board) on the Bank's external website.</p> <p>Progress in the implementation of each project and program receiving financial support from IDA is published in the annual report entitled <i>Status of Projects in Execution</i>--known as the SOPE report. Since 2002, the SOPE report has been made available to the public on the Bank's external website. SOPE for FY06 provides information on all projects that were active as of June 30, 2006.</p> <p>The assessment is well underway, though because of its size and complexity it has not been possible to meet the original deadline. The Bank's Audit Committee discussed the first part of the assessment completed by IEG (formerly OED) in October 2006. A second installment is expected early CY07, and the final report in early CY08.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Safeguards: Establish procedures and mechanisms that ensure that new approaches to safeguards provide equivalent protection to the environment and vulnerable social groups in project design and implementation. 			<p>As highlighted in the Development Policy Lending Retrospective, the Bank systematically reviews DPOs to ensure compliance with OP 8.60 in terms of their likely significant effects on the environment and likely and significant social aspects. Efforts are also made to reinforce positive environmental and social outcomes. Further emphasis is currently being placed on upstream analytic work (such as Country Environmental Analysis, Strategic Environmental Assessment, Country Social Analysis, and Poverty and Social Impact Assessment) and capacity building to support DPOs. The Social Participation and Poverty and Social Impact Analysis in Development Policy Lending: A Preliminary Stocktaking” (August 2006), reviewing Bank experience in this area.</p> <p>Implementation of the pilot program for the Use of Country Systems is governed by OP/BP 4.00 that mandates the conduct of a safeguards diagnostic review to ensure equivalence and acceptability of specific country systems with the objectives and operational principles of the safeguard policies.</p> <p>Multilateral Financial Institutions Working Group on Environment, which supports harmonization efforts, issued, “A Common Framework for Environmental Assessment: A Good Practice Note” at the High Level Forum on Development Effectiveness (March 2005) that provides guidance on addressing safeguard issues in project design and implementation.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> Strengthen documentation of stakeholder feedback from consultations required under the Bank's safeguard policies. 	<ul style="list-style-type: none"> Project documentation 	Ongoing	Bank safeguard policies mandate use of consultations to obtain stakeholder feedback, especially for environmental assessment, involuntary resettlement and Indigenous Peoples. Planning and conduct of consultations and documentation and use of stakeholder feedback has also been a key element of Bank-supported safeguards training. Bank safeguard specialists have worked with Task Teams and Borrowers to improve documentation and make more effective use of stakeholder feedback. The revised Indigenous Peoples Policy (May 2005) provides for use of "free, prior and informed consultation" with affected groups which is to be documented.
SPECIAL THEMES FOR IDA14			
A. GROWTH IN IDA COUNTRIES			
<u>Key Bank Instruments and Priorities For Growth Promotion</u>			
<ul style="list-style-type: none"> Increase efforts to identify remaining constraints to growth in specific country contexts, including work on growth, equity, poverty, and governance. Ensure that IDA support to countries preparing PRSs and CASs places appropriate weight on the importance of economic growth for poverty reduction in IDA countries, and on private sector development as a critical means for promoting stronger growth. 	<ul style="list-style-type: none"> World Development Report 2006: Equity and Development Country Economic Memoranda (CEMs), other country-focused ESW PRSs, CASs Review of CASs 	<p>September 2005</p> <p>Ongoing</p> <p>Ongoing End-IDA14</p>	<p><i>World Development Report 2006</i> was launched September 20, 2005. It examined how inequities start at birth and ultimately hamper a country's development.</p> <p>Ongoing.</p> <p>Ongoing. Preparation being initiated during FY07.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> Strengthen CASs, and review results-based CAS pilots launched in seven countries in FY03, to inform the design and mainstreaming of the results-based CAS in all IDA countries during IDA14. 	<ul style="list-style-type: none"> Results-based CAS mainstreaming Stock Taking Report of Results-Based CAS Pilot 	<p>Ongoing</p> <p>FY05</p>	<p>All CASs with an upstream corporate review to have results-based methodology after January 1, 2005. 19 IDA countries (including 2 blend countries) have done results-based CAS during FY03-06. FY03: Sri Lanka. FY04: Armenia, Cameroon, Mozambique, Zambia. FY05: Burkina Faso, Cambodia, Nigeria, and Philippines. FY06: Albania, Bangladesh, Bhutan, Georgia, Lesotho, Organisation of Eastern Caribbean States, Pakistan, Tajikistan, Uganda, Yemen. Completed July 2005.</p>
<p><u>Strengthening IDA's Analytical Work</u></p> <ul style="list-style-type: none"> Increase efforts to provide high-quality ESW which is timely and directly usable by policy-makers. <ul style="list-style-type: none"> ➤ Increase emphasis on reports that stress integrating macroeconomic, sector and structural reform issues for growth. ➤ Increase client participation in ESW preparation to help build capacity, ownership and consensus for reform efforts, and monitor and report on progress. ➤ Assess coverage of existing ESW gaps, and overall progress made in improving ESW quality (including collaboration with partners), implementing the ESW results framework, and disclosing ESW. 	<ul style="list-style-type: none"> ESW ESW Progress Report Sector Strategy Implementation Update 	<p>Ongoing</p> <p>Mid-Term Review Annual</p>	<p><i>Quality of Country AAA: A QAG Assessment</i> completed November 2005. Assessment finds the Bank has maintained ESW quality while expanding coverage. Of 105 tasks reviewed in a sample of 16 IDA-eligible countries, 90% were rated satisfactory or better.</p> <p>Completed October 2006.</p> <p>First draft SSIU completed October 2006. According to key performance indicator data in FY06, 20% of ESW was done jointly compared to 14% in FY05 in IDA-eligible countries. For example, poverty assessments for Malawi and Cambodia and CEM for Moldova were done with government participation. At end-FY06, 54 active IDA-eligible countries were covered with up-to-date (full set) core diagnostic products (13% at end-FY03). Coverage for fiduciary reports [Performance Expenditure Reviews (PERs), Country Procurement Assessment Reports (CPARs), Country Financial Accountability Assessments (CFAAs)] was 85% in 2006 (46% at end-FY03). Plans have been made to address remaining gaps (due to poor data and conflict) during FY07-08, taking into account country development priorities.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • For countries that do not have large lending programs – e.g., small, vulnerable and non-post-conflict Low-Income Countries Under Stress (LICUS) with prolonged political crisis or deteriorating governance: <ul style="list-style-type: none"> ➢ carefully tailor IDA’s ESW to address issues of particularly high priority in the country context ➢ increase donor collaboration to cover ESW gaps ➢ develop alternative, innovative and more effective means of engagement • Monitor and report on the Bank’s support to fragile states through the LICUS Initiative, including country level strategies and results, institutional reform and partnerships. 	<ul style="list-style-type: none"> • CAS Completion Reports for small states • WBG Progress Report on Small States Work Program for Small States Forum • LICUS Implementation Progress Report • OED evaluation of WB support to LICUS 	<p>Ongoing</p> <p>September 2008</p> <p>Annual</p> <p>June 2006</p>	<p>Ongoing.</p> <p>Report <i>Small States Forum: Towards an Outward-Oriented Development Strategy for Small States: Issues, Opportunities and Resilience Building</i> was completed August 2006.</p> <p>Done December 2005.</p> <p><i>Engaging with Fragile States: World Bank Support to Low-Income Countries Under Stress 2003-2005. An IEG Review</i> completed June 2006.</p>
<p>Financial Assistance</p> <ul style="list-style-type: none"> • Assure adequate fiduciary safeguards underpinning DPOs. 	<ul style="list-style-type: none"> • Individual operations/project documentation 	<p>Annual</p>	<p>As mentioned in the 2006 Development Policy Lending Retrospective, all countries receiving DPOs have benefited from at least one prior fiduciary assessment by the Bank. All but two IDA countries could draw on a completed CFAA or integrated fiduciary work; the other two rely on other fiduciary assessments in a post-conflict environment. 68% of IDA/IBRD program documents also reference the CPAR, and more than 20% of operations were underpinned by integrated studies such as the country integrated fiduciary assessment, which combines public expenditure management, financial management, and procurement aspects in a single report. CFAAs and CPARs also include a review of PFM systems for indications of lack of transparency and accountability, such as failure to respect internal controls or lack of procedures for reporting bribes and other measures to curb corruption. More than 50% of IDA/IBRD operations were informed by findings of at least 3 PFM-related analytic underpinnings, indicating that operations are benefiting from multiple sources on country PFM systems, not only from the Bank but also other partners.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Monitor annually the share of DPOs. If it is projected that the share could exceed 30 percent, report that projection to the Executive Directors for review and guidance. • Prepare proposal for a framework assessing the readiness of recipient countries to make productive use of DPOs, based on a systematic review of experience, for consideration and endorsement by Deputies at the Mid-Term Review. • Maintain IDA's strong performance as a lender to the social sectors. <ul style="list-style-type: none"> • Submit to Deputies a report on the implementation of the recommendations contained in the 2005 Review of World Bank Conditionality. <ul style="list-style-type: none"> • Substantially increase commitments in infrastructure based on country strategies, while maintaining strong environmental and social safeguards. 	<ul style="list-style-type: none"> • IDA Lending Report/Board paper as necessary • IDA Paper <ul style="list-style-type: none"> • Progress Report on implementation of conditionality review recommendations <ul style="list-style-type: none"> • Individual operations • IDA Lending Report 	<p>Annual</p> <p>Mid-Term Review</p> <p>Mid-Term Review</p> <p>Ongoing</p> <p>Annual</p>	<p>The Board has received two annual reports on the outlook for the share of development policy lending in Bank operations (SecM2005-128, SecM2006-140) indicating that IDA's share of DPOs is not expected to exceed 30 percent. In the future, this report will be annexed annually to the Medium-term Strategy and Finance paper.</p> <p>A report assessing readiness of recipient countries to make productive use of DPOs has been prepared and will be discussed at the time of the IDA14 MTR.</p> <p>Social sectors continued to account for around 20 percent of total FY06 commitments for investment operations.</p> <p>The use of the good practice principles were reviewed by the Bank's Board in July 2006 in the Development Policy Lending Retrospective (SecM2006-319). In response to requests for additional information, and to come to a definitive conclusion on the implementation of the recommendations of the 2005 Review of World Bank Conditionality, a second paper "Good Practice Principles for the Application of Conditionality: A Progress Report (R2006-0201, IDA/R2006-210)" is scheduled for Board discussion in November 21, 2006.</p> <p>Infrastructure has accounted for 35 percent of total IDA commitments for investment operations since FY02 and 36 percent in FY06 alone.</p>
<p><u>Governance and Public Institutions</u></p> <ul style="list-style-type: none"> • Mainstream governance reforms in operational activities by focusing diagnostic work directly on public resource management, particularly, budgeting, expenditure reporting; auditing and enforcing financial accountability rules; and ensuring procurement processes that are timely and transparent. 	<ul style="list-style-type: none"> • PERs, CFAAs, CPARs, and integrative fiduciary assessments 	<p>Ongoing</p>	<p>The number of ESW relating to governance and underpinning CASs has increased in recent years. Coverage for fiduciary reports (PER, CPARs and CFAAs) was 85% in 2006 (13% at the end of FY03). Plans have been made to address remaining gaps (due to poor data and conflict) during FY07-08, taking into account country development priorities. Additionally, there is a growing trend towards using recommendations from these diagnostic studies to inform CASs.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<p>Trade, Growth and Poverty Reduction</p> <ul style="list-style-type: none"> • Continue analytical and policy work on the relationship between the trading environment and development, provide advisory services to help countries expand and diversify exports, and help borrowers improve trade negotiation capacity. • Continue work of the Integrated Framework program to identify constraints to trade and the potential to expand and diversify the exports of IDA countries. • Support countries integrating with the global economy, including through cost and impact analysis, and development of mitigation policies where necessary. 	<ul style="list-style-type: none"> • Trade Progress Report • Trade Progress Report • Trade Progress Report 	<ul style="list-style-type: none"> Semi-Annual Semi-Annual Semi-Annual 	<ul style="list-style-type: none"> Report <i>Doha Development Agenda and Aid for Trade</i>, (SecM2006-0362) completed (August 15, 2006). Report <i>Doha Development Agenda and Aid for Trade</i>, (SecM2006-0362) completed (August 15, 2006). Report <i>Doha Development Agenda and Aid for Trade</i>, (SecM2006-0362) completed (August 15, 2006).
<p>B. PRIVATE SECTOR DEVELOPMENT</p>			
<ul style="list-style-type: none"> • Strengthen IDA's PSD-related analytic/diagnostic work, non-lending technical assistance, knowledge management, and training activities. • Increase coverage of investment climate surveys and diagnostics. • Reflect findings of diagnostic studies in CASs and IDA projects and programs, and shift toward monitoring key indicators, in partnership with other stakeholders, as better baselines of information on countries' investment climate are established. • Adapt accumulated investment climate knowledge to local environments, and shift diagnostic efforts toward monitoring key indicators over time in partnership with other stakeholders. 	<ul style="list-style-type: none"> • ESW/AAA • 5-10 IC surveys per year • 5-10 ICA country diagnostics per year • Doing Business Project • CASs, Individual operations 	<ul style="list-style-type: none"> Ongoing Annual Annual Annual Ongoing 	<p>FY06: 17 Enterprise Surveys (which inform broader IC work) conducted for IDA/Blend countries. FY07: 15 Enterprise Surveys planned for IDA/Blend countries. FY06: 13 ICAs delivered in IDA/Blend countries. FY07: 10 ICAs planned in IDA/Blend countries.</p> <p>Doing Business (DB) 2007 added 20 new countries, 11 of which are IDA/Blend countries.</p> <p>There is increasing use of Enterprise Survey/Doing Business indicators in results-based CASs – all 9 IDA/Blend CASs delivered in FY06 used at least 2 DB indicators, as does the one IDA/Blend CAS so far delivered in FY07. Use of these indicators is also increasing in IDA project monitoring – around half of Implementation Status and Results Reports for relevant IDA projects approved/restructured since CY04 use such indicators. In addition, to date, 22 reforms in IDA countries can be directly attributed to Doing Business.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<p>Support MSMEs through market-based approaches, document successes and lessons for adoption by other countries, and report on IDA-IFC collaboration on MSMEs in Africa at the MTR.</p> <ul style="list-style-type: none"> • Review Output-Based Aid (OBA) pilot projects to draw lessons learned from pilot experiences in IDA countries. • Increase joint IFC/IDA CASs. 	<ul style="list-style-type: none"> • IDA-IFC Africa MSME Review • OBA project review • 5-10 joint CASs per year 	<p>Mid-Term Review</p> <p>Mid-Term Review</p> <p>Ongoing</p>	<p>Program for standardizing Enterprise Surveys (ES) began in FY05, facilitating cross-country and time-wise comparisons.</p> <p>FY06: 6 of 17 IDA/Blend ES were updates FY07: 9 of 15 planned IDA/Blend ES are updates</p> <p>A paper assessing the Program has been prepared for discussion at the IDA14 MTR.</p> <p>A paper evaluating projects using OBA approaches has been prepared and will be discussed at the IDA14 MTR.</p> <p>FY05: 4 joint CASs for IDA/Blend countries were produced in FY05, and 8 in FY06. 9 are planned for FY07, of which one has been delivered so far.</p>
<p>C. DEBT SUSTAINABILITY AND GRANTS</p>			
<ul style="list-style-type: none"> • Implement grant allocation framework using countries' risk of debt distress as primary grant eligibility criterion. • Present proposal to address the "free rider" issue to IDA's Executive Directors. • Provide detailed guidelines for implementation of the IDA14 grant allocation framework for Board review. 	<ul style="list-style-type: none"> • Board paper • Board paper 	<p>June FY05</p> <p>June FY05</p>	<p>Grant allocations in FY06 and FY07 are based on countries' risk of debt distress, except for Kosovo and Timor-Leste, as per IDA14 agreement.</p> <p>IDA/SecM2006-0053 "IDA Countries and Non-Concessional Debt: Dealing with the 'Free Rider' Problem in the Context of IDA Grants" discussed at an informal meeting of Executive Directors March 21, 2006. Board paper IDA R/2006-0137 "IDA Countries and Non-Concessional Debt: Dealing with the "Free-Rider" Problem in IDA14 Grant-Recipient and Post-MDRI Countries" approved by the Board on July 11, 2006.</p> <p>Guidelines submitted to Board for information on 10/18/2005.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> Establish a hard term window for creditworthy blends. Make rapid progress in the design and implementation of the forward-looking aspects of the joint Bank-Fund DSF. Assess implementation of grant allocation framework, closely monitor the grant level and devise action plan as necessary. Prepare paper on the feasibility of strengthening countries' response to shocks. 	<ul style="list-style-type: none"> IDA Paper IDA Paper IDA Paper 	<ul style="list-style-type: none"> Mid-Term Review Mid-Term Review Mid-Term Review 	<p>In FY06, IDA14 resources totaling SDR 165 million were allocated for the new hard-term lending window. The interest rate for hard-term credits was set at 3.0%, equivalent to a discount of 200 basis points below the 40-year fixed-rate equivalent of the IBRD lending rate. Eligible countries for hard term credits and their FY06 allocations included: Azerbaijan (SDR 6 million); India (SDR 97 million) and Pakistan (SDR 62 million). For FY07, resources for the hard term lending window amount to SDR 118 million, allocated to India (SDR 72 million) and Pakistan (SDR 46 million). The interest rate on hard term credits for FY07 has been set at 4.0%.</p> <p>MTR paper setting the stage for the operationalization of the forward-looking aspects of DSF prepared.</p> <p>MTR paper assessing implementation of grant allocation framework prepared.</p> <p>Paper "IDA Countries and Exogenous Shocks" [Pending] prepared for IDA Deputies for discussion at MTR.</p>
<p>D. RESULTS MEASUREMENT IN IDA14</p>			
<p><u>Monitor Country Outcomes</u></p> <ul style="list-style-type: none"> Monitor and report on aggregate progress on 14 key country outcome indicators. Report on IDA's contribution to country outcomes, including strengthened country capacity to ensure adequate monitoring of key sector outcomes for all new health, education, water supply, rural road transport operations. Report on progress in implementing IDA's results-related mandates. 	<ul style="list-style-type: none"> IDA14 Results Measurement Progress Report Report for Mid-Term Review 	<ul style="list-style-type: none"> Mid-Term Review and FY08 Mid-Term Review 	<p>IDA14 RMS website launched publicly in September 2005, to facilitate continuous monitoring of outcome indicators; Indicators also reported to the Deputies in the IDA14 RMS Progress Report of November 2006.</p> <p>Reported to the Deputies in IDA14 RMS Progress Report of November 2006.</p> <p>Reported to the Deputies in IDA14 RMS Progress Report of November 2006</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> Design IDA-funded projects to support country monitoring of core outcomes. 	<ul style="list-style-type: none"> Individual operations Project documents 	<p>Ongoing</p> <p>Ongoing</p>	<p>Reported to the Deputies in IDA14 RMS Progress Report of November 2006. As noted in this report, progress in this area has been slower than anticipated, and steps are underway to ensure full compliance going forward.</p>
<p>Monitor IDA's Contribution to Country Outcomes</p> <ul style="list-style-type: none"> Ensure that all CASs initiated after January 2005 are results-based. Monitor cumulative introduction of results-based CASs. Following full implementation of the new results-based CASs, add an additional indicator based on reporting on results-based CAS outcomes. Monitor and target quality-at-entry of IDA operations, and track and target share of IDA operations that successfully achieve their development outcomes. Improve quality-at-entry of IDA projects beyond the current level of 85 percent. Monitor the extent to which results frameworks are incorporated into the design of IDA-financed projects by explicitly assessing the results framework underpinning project design in quality-at-entry assessments. Implement a results framework for IDA projects and programs that includes indicators connected to a timeline with baseline data and periodic assessments of project and program performance against defined expectations. Work to ensure that 100 percent of IDA investment projects initiated after July 1, 2004, and DPOs for which Concept Review takes place on or after September 1, 2004, include such frameworks. 	<ul style="list-style-type: none"> Results Based CASs: a total of 16 completed by end FY05; a total of 30 completed by FY06; a total of 45 completed by FY07 Quality Assurance Group (QAG) Quality At Entry Assessment QAG Quality At Entry Assessment 	<p>Ongoing</p> <p>Annual</p> <p>Annual</p>	<p>Results-based approach is now mandated for all IDA as well as IBRD CASs, and original targets are being met: FY05: 17 FY06: 32.</p> <p>Management proposes that the RMS now start to monitor the ratings in CAS Completion Reports.</p> <p>As noted in the IDA14 Mid-Term Review paper, the quality-at-entry of IDA projects has continued to improve, and is above the target. Quality-at-entry in the FY04 and FY05 cohort of IDA projects was the highest level to date (91%).</p> <p>Results frameworks are required for all IDA investment and development policy operations, and a review of results frameworks and baseline at entry and are part of the overall review of quality-at-entry made by QAG. Management has recently conducted a review of the quality of results frameworks in IDA operations, and found considerable room for improvement – with next steps identified in the IDA14 MTR paper on the RMS.</p> <p>Results frameworks are included in 100% of operations, but their quality, including the timely availability of baseline data, needs improvement. In FY06, availability of baseline data was improved from under 50% to above 70% through intensive review and actions by Management and staff.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Monitor and target the quality at entry of IDA operations and the share of IDA operations that successfully achieve their development outcomes; work to improve the share of project ICRs with average satisfactory outcome ratings and satisfactory data on project outcomes; work to decrease the number of multi-year problem projects; foster a ‘culture of results’ at both the country-level and among IDA management and staff; and monitor progress on selected aggregate project outputs in four sectors: health, education, transport and water. • Complement these data with summary data on disbursement lags by sector and themes, and distinguish between IDA grants and loans in all reports on these indicators. 	<ul style="list-style-type: none"> • ICRs • OED reviews of ICRs • Up front specification of Results Agreements in staff performance review system • Organizational Effectiveness and Internal Budget Process Reform Reviews 	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>	<p>As per the IDA14 MTR paper on Implementation of the RMS, there has been a lot of progress in most areas. Quality-at-entry for IDA projects is currently at its highest level to date, though somewhat lower than IBRD projects. The challenge going forward will be maintaining this relatively high level. The same is true for ratings at exit, as measured by IEG. IEG reviews 100% of self-assessments in ICRs. More needs to be done to improve reporting on project outputs in particular in ICRs, and fostering a culture of results. Management has taken a major step in that direction by making results agreements an integral part of staff annual performance review system. Portfolio oversight is now a required performance evaluation item for managers</p> <p>In 2004, the Bank introduced changes in its business planning and budgeting process to provide a framework for results at the Vice-Presidential Unit level. Originally designed to address concerns about the budgeting systems, these reforms have evolved into a broader goal of improving the Bank’s development effectiveness through achieving results and demonstrating accountability. "Strategy and Performance Management – Budget Committee Update" was presented to the Board's Budget Committee on October 31, 2006 which reaffirmed its support for the Strategy and Performance Management process.</p> <p>Data on disbursement lags in now available publicly in the SOPE report. Additional work is required to report some indicators separately for loans and grants.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Play a leadership role in the global partnership for statistical capacity-building. Continue support for the Partnership in Statistics for Development in the 21st Century (PARIS21) consortium, intensify support within CASs and projects for national statistical capacity-building, and work in partnership to implement the global action plan to strengthen statistical systems, including household surveys. • Strengthen the results focus of CASs and IDA operations to increase support to countries for building capacity to manage for results and to help ensure that core development outcomes are regularly monitored. • Work together with other development partners to continue to harmonize results reporting requirements around national monitoring and evaluation systems for implementation of poverty reduction strategies. 	<ul style="list-style-type: none"> • PARIS21 • CASs • International Household Survey Network forum • Board report • International Household Survey Network forum • Trust Fund for STATCAP • PARIS21 • 2nd High Level Forum on Harmonization and Alignment of Aid Effectiveness (co-sponsored and organized by World Bank) 	<p>Ongoing</p> <p>Annual Ongoing</p> <p>March 2005</p>	<p>IDA, through the Development Economics Data Group, has played a leading role in assessing statistical capacity in IDA countries, and supporting PARIS21. The Marrakech Action Plan for Statistics is being implemented with support from the Development Grant Facility. Through this partnership, PARIS21 has improved guidance material for countries, and the UN is supporting countries to participate in the 2010 population census round. The International Household Survey Network has been formed and is helping countries provide better access to data by policy makers. A new program, the Accelerated Data Program, is also helping IDA countries improve their household survey programs. As per May 2006 Board report "<i>Statistical Capacity Improvement in IDA countries</i>", and the IDA14 MTR paper on the RMS, there is still a need to raise the profile of statistical capacity building efforts in CASs for IDA countries, and in IDA-financed projects.</p> <p>In the Bank, coordinated budget support, sector-wide approaches, and other collaborative projects are increasingly incorporating performance assessment frameworks that use national monitoring and evaluation systems to assess progress toward expected results identified in poverty reduction strategies.</p> <p>The Multilateral Development Banks (MDBs) have developed a Common Performance Assessment System (COMPAS) that provides a common source of information on the results orientation of MDBs.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
E. WORKING TOGETHER AT THE COUNTRY LEVEL			
<p><u>Align and Harmonize Donor Assistance</u></p> <ul style="list-style-type: none"> • Work with OECD-DAC and non-DAC donors and development partners to build a better harmonized development assistance system with lower transaction costs, based on a common framework of results, alignment of donor efforts, and stronger and more transparent financial management and capacity in IDA countries. 	<ul style="list-style-type: none"> • 2nd High Level Forum on Harmonization and Alignment of Aid Effectiveness (co-sponsored and organized by World Bank) • Coherence, Coordination and Cooperation Report Update 	<p>March 2005</p> <p>March 2005</p>	<p>The Bank co-sponsored the High-Level Forum in Paris in March of 2005, at which the Paris Declaration on Aid Effectiveness was adopted. Several Board papers on harmonization and alignment have since been prepared; the latest was discussed on November 14, 2006. This paper provides an update on implementation of the Paris Declaration, and sets out the Bank’s framework for monitoring its progress, as well as progress to date.</p> <p>“Update on Cooperation Among Multilateral Development Banks” (SecM2005-0197) completed April 2005. In addition, Memoranda of Understanding between IDA and each RMDB, combined with regular VP and Director level consultations, encourage a coherent approach to operational partnerships. Joint or coordinated CASs and the corresponding RMDB strategy are on the increase. Examples include Honduras, Cambodia, Timor-Leste, Bangladesh, Tanzania, Uganda, Ethiopia and Malawi, with more in the pipeline. The MDBs play a leading role in taking forward several operational aspects of the alignment and harmonization agenda, including managing for results and approaches to governance and corruption. RMDBs are important co-financing partners to IDA; examples include HIV/AIDS operations with the respective RMDB in Democratic Republic of Congo, Mali and Malawi; financial sector in Mozambique; agriculture and roads in Zambia; water and sanitation in Ethiopia; poverty reduction support in Vietnam, education in Honduras, etc. There is also cooperation on analytical work (sometimes in a broader partnership), such as CFAAs in Benin and Chad, joint CEM in Tanzania, business environment studies and joint participation in budget support groups in several countries, joint portfolio reviews in Bangladesh and Nepal, and poverty assessments in Guyana.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Submit to the Executive Directors of the Association (i) a monitoring framework for harmonization, including a series of key indicators drawing on the DAC High Level Forum and (ii) baselines established by the Association for such indicators. • Submit to Executive Directors and Deputies a status report on the implementation of the above framework in monitoring the appropriate indicators, based on the baselines established by the Association for these indicators. • Adopt CAS guidelines providing that the CAS should include: <ul style="list-style-type: none"> ➤ a discussion of the role of development partners, donor coordination mechanisms, and enabling measures to improve country-level harmonization of donor procedures ➤ information on the role of each donor and the sectors or thematic areas in which each is active ➤ indicators for progress on harmonization during the CAS period 	<ul style="list-style-type: none"> • Board report • Board report • Harmonization Indicators Report for IDA countries • CAS Guidelines document 	<ul style="list-style-type: none"> Mid-Term Review Mid-Term Review July 2006 July 2005 	<p>These three actions were reported on in one paper for the Board: “<i>Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank’s Commitments</i>” (SecMR2006-0193), November 2nd, 2006. The paper was discussed on November 14th, 2006. For the purposes of actions required for additional contingent contributions to IDA, the Executive Directors of IDA determined that satisfactory progress had been made.</p> <p>CAS Guidelines were updated as required. The updated guidelines can be found on OPCS’s website: http://opcs.worldbank.org/. See in particular the bullet on “Partners’ Role and Participatory Process” on page 6, and the “Donor Harmonization Annex”. For the purposes of contingent contributions to IDA, see Board paper entitled “Additional Contributions to IDA14: Achievement of Required Actions” (IDA/R2006-0026), March 2, 2006.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • Work with donors to strengthen the PRS, and increase countries' ability to take charge of the implementation and evaluation of these strategies, by strengthening public financial management (PFM) systems and promoting a stronger link of the PRS to national decision-making and budgetary processes. <ul style="list-style-type: none"> ➢ Strengthen the realism and country ownership of PRSPs by linking them more closely to countries' budget processes, and encouraging consideration of Poverty Reduction Strategy Papers (PRSPs) by national legislative bodies. ➢ Undertake more upstream analytical work and follow-up advice, particularly in the area of public finance. ➢ Encourage the consideration of PRSPs by national legislative bodies to further strengthen country ownership. ➢ Carry out more work jointly with the recipient government and other donors, share the results of this work as widely as possible, increase use of analysis produced by other agencies, and report on progress. 	<ul style="list-style-type: none"> • PRSPs • Joint Staff Assessments (JSAs) of PRSPs • ESW, Annual Report on Portfolio Performance (ARPP), CAS • ESW Progress Report 	<p>Ongoing</p> <p>Ongoing</p> <p>Mid-Term Review</p>	<p>This work is proceeding on several tracks. ESW on public expenditure management and budget reforms is increasingly included in PRSPs as indicated in the <i>2005 Review of Poverty Reduction Strategy Approach</i>, August 2005. This report also documents the Bank's experience in encouraging legislatures to consider PRSPs. Additional information can be found in <i>The Role of Legislature in Poverty Reduction: Experience and Future Directions</i> (World Bank Institute Working Paper, 2006), which demonstrates that (i) one third of PRSPs highlight the role which parliament is expected to play in PRS oversight; (ii) parliament, civil society, and community-based organizations are beginning to build coalitions with one another to bolster opportunities for influencing policy decisions; and (iii) there is some evidence that parliaments' involvement in PRS oversight is beginning to reinforce the integrity of the PRS process and create a bridge between constituency needs and policy imperatives. See also the ESW Progress Report prepared for the MTR, which shows that planned ESW is increasingly discussed with country authorities and development partners through common platforms, such as CAS and Interim Strategic Notes. In FY06 20% of ESW were prepared with such participation compared to 14% in FY05. See also <i>Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments</i> (SecMR2006-0193) which describes the Bank's efforts to implement the Paris Declaration Aid Effectiveness. The Bank is also undertaking analytical work in partnership with other donors aimed at better understanding the constraints to linking the PRS and budget processes and the implications for sequencing interventions to alleviate those constraints.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> • When the reforms supported by development policy operations provided by IDA are expected to have significant distributional impacts, assess these impacts through poverty and social impact analysis (PSIA) or other analytical studies. Base these assessments on analysis undertaken by the borrowing country, other development agencies, civil society organizations, or the Bank's own work. Where the Bank undertakes these assessments, invite the borrower and other donors active in the country to participate as fully engaged partners. • Adopt regional Key Performance Indicators (KPIs) measuring progress on harmonization: <ul style="list-style-type: none"> ➢ Number and percentage of country analytical work undertaken jointly with one or more donors ➢ Percentage of annual Sector Wide Approaches (SWAs) and development policy operations using a policy framework coordinated with other donors • Modify these indicators over time, following recommendations from the High Level Forum 	<ul style="list-style-type: none"> • Joint PSIAs, CEAs, CFAAs, CPARs, PERs • ESW Progress Report • Review of incentives for collaboration • Analytical studies including poverty and social impact analyses • New KPI Scheme 	<p>Ongoing</p> <p>Mid-Term Review Ongoing</p> <p>July 2005</p>	<p>PSIA is being used increasingly in all Regions to assess the distributional impact of reforms on different groups in the national economy. Operational Policy (OP) 8.60 requires that all development policy operations identify likely and significant poverty and social impacts. The Development Policy Lending Retrospective noted that most operation explicitly review poverty and social impacts, but that progress could be made in early disclosure of analytic work, upstream identification of PSIAs and integration of existing analytic work into operations.</p> <p>ESW Progress Report was prepared for the Mid-Term Review.</p> <p>The KPIs have been adopted for each region. For the purposes of contingent contributions to IDA, this was certified in a Board paper entitled “Additional Contributions to IDA14: Achievement of Required Actions” (IDA/R2006-0026), March 2, 2006.</p> <p>In process. The Bank is making internal systems modifications to strengthen data collection and align with definitions used for the international monitoring framework.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<p><u>LICUS, Small and Vulnerable States</u></p> <ul style="list-style-type: none"> • Develop creative approaches to, and increase provision of analytical support to small and fragile states, which generally do not have a PRSP or a substantial lending program. • Provide analytical support to respond to the needs of small or fragile countries that do not have full or formal PRSPs. • Modify IDA allocation formula to increase base amount available to all IDA countries to SDR3.3 million. • Discuss with UNDP on strengthening collaboration in post-conflict countries. 	<ul style="list-style-type: none"> • ESW • Senior Level Forum: Development Effectiveness In Fragile States • LICUS Implementation Progress Report • Report on status of discussions 	<p>Ongoing</p> <p>January 13-14 2005</p> <p>Annual</p> <p>Mid-Term Review</p>	<p>Ongoing</p> <p>Meeting reached agreement to develop principles for good international engagement in fragile states for pilot in 10 countries.</p> <p><i>Low Income Countries Under Stress: Update</i> completed December 2005.</p> <p>FY06 and FY07 allocations were made in accordance with the PBA exercise and completed in early 2005 and 2006, including SDR1.1 million per annum for each IDA country.</p> <p>Done October 2006 <i>Progress on Strengthening Collaboration with United Nations Partners in Fragile and Conflict-Affected States.</i></p>
<p><u>Regional Programs</u></p> <ul style="list-style-type: none"> • Continue to provide analytical and financial support to regional programs, in particular regional infrastructure, with due regard for country ownership. 	<ul style="list-style-type: none"> • PRSP, ESW, individual operations 	<p>Ongoing</p>	<p>Analytical support to regional integration is being strengthened through the regional analytic program in Africa in particular (see MTR paper on the Pilot Program for Regional Projects). On financing, there has been robust demand and increasing project approvals for the IDA resources provided by the Regional Projects Pilot. More than 70% of total commitments to date are for regional infrastructure, and the future pipeline is also heavily focused on infrastructure.</p>

Objectives and Recommendations/Actions	Product	Target Date	Actions Taken/Remarks
<ul style="list-style-type: none"> Support initiatives aimed at facilitating deeper regional economic integration, such as the New Partnership for Africa's Development (NEPAD) initiative. Consult with the RMDBs to enhance cooperation, to avoid overlap and to ensure that each institution's programs are based on its comparative advantage. Support programs at the national and regional levels that increase harmonization and donor coordination, and help build implementation capacity. Review experience under the pilot program of regional integration projects. 	<ul style="list-style-type: none"> MDB Progress Report MDB Working Groups RMDB Consultations (VP-level) Review of regional projects 	<p>Mar. '05; Annual Ongoing</p> <p>Annual</p> <p>Mid-Term Review</p>	<p>The Africa Regional Projects Portfolio Review found that the projects financed to date under the IDA Pilot Program for Regional Projects have been well-aligned with, and supportive of, the Africa Action Plan and strategies of the regional economic commissions charged with implementing NEPAD.</p> <p><i>"Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments"</i> (SecMR2006-0193) also responds to these required actions and was discussed by the Executive Directors on November, 14 2006.</p> <p>Reported in "IDA14 Mid-Term Review of the IDA Pilot Program for Regional Projects" paper in November 2006.</p>
HIPC INITIATIVE			
<ul style="list-style-type: none"> Closely link HIPC debt relief with countries' poverty reduction efforts. Report periodically to donors on the status of their contributions to the HIPC Trust Fund. 	<ul style="list-style-type: none"> PRSP and CAS processes 	<p>Ongoing</p>	<p>Poverty-reducing expenditures at end-2005 amounted to US\$14.8 billion and are expected to increase further in 2006 as a result of MDRI. The authorities of most post-MDRI countries have indicated that they plan to expand poverty-reducing expenditure by about the equivalent of MDRI debt service savings in 2006, which amounts to around half a percentage point of GDP, on average. In these countries, the resources made available by debt relief are intended to support sectors that are largely consistent with the priority areas highlighted in PRSPs.</p> <p>In IDA14, most donors have elected to contribute their HIPC financing contributions directly to IDA, rather than through the HIPC Trust Fund. With the start of IDA's implementation of the MDRI on July 1, 2006, donor contributions for IDA's debt relief costs under both the HIPC Initiative and the MDRI will be reported as part of IDA's financial statements. In addition, there will an annual update on IDA's debt relief costs and donor financing under the HIPC Initiative and the MDRI. Donor contributions to the MDRI were reported to IDA's Executive Directors on August 8, 2006.</p>

Annex 2: Papers Provided for the IDA14 Mid-Term Review Meeting

Discussion Papers:

1. Harmonization and Alignment for Greater Aid Effectiveness: An Update on Global Implementation and the Bank's Commitments
2. A Framework to Assess Country Readiness for Making Productive Use of Development Policy Operations
3. IDA14 Results Measurement System: Mid-Term Review Report
4. A Review of the Joint IDA-IFC Micro, Small and Medium Enterprise Pilot Program for Africa
5. Review of the Use of Output-Based Aid Approaches
6. Assessing Implementation of the IDA14 Grants Framework
7. Debt Dynamics and Financing Terms: A Forward-looking Approach to IDA Grant Eligibility
8. IDA's Performance-Based Allocation System: A Review of the Governance Factor
9. IDA14 Mid-Term Review of the Pilot Program for Regional Projects
10. IDA Countries and Exogenous Shocks

Background Papers:

11. IDA14 Mid-Term Review Implementation Report
12. Progress on Strengthening Collaboration with United Nations Partners in Post-Conflict Countries
13. Economic and Sector Work (ESW) Progress Report