



IDA15

**The Demand for IDA15 Resources and
The Strategy for their Effective Use**

**International Development Association
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Acronyms and Abbreviations

AAP	Africa Action Plan
AIDS	Acquired Immune-Deficiency Syndrome
AFR	Africa Region
AfDB	African Development Bank
CAS	Country Assistance Strategy
CEIF	Clean Energy Investment Framework
CGAP	Consultative Group to Assist the Poorest
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DFID	Department for International Development
DPOs	Development Project Operations
EAP	East Asia and Pacific Region
EC	European Community
ECA	Europe and Central Asia Region
EU	European Union
FY	Fiscal Year
GEF	Global Environment Facility
GNI	Gross National Income
HIV	Human Immunodeficiency Virus
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technologies
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
KDP	Kecamatan Development Program
LCR	Latin America and the Caribbean Region
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
NaCSA	National Commission for Social Action
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PBA	Performance-Based Allocation System
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RWSSI	Rural Water Supply and Sanitation Initiative
SAR	South Asia Region
SFD	Social Fund for Development
SDR	Special Drawing Right
SWAp	Sector Wide Approach
TB	Tuberculosis
UN	United Nations
UNDP	United Nations Development Program
WBG	World Bank Group
WSS	Water Supply and Sanitation Sector

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EXECUTIVE SUMMARY

1. The IDA15 period (FY09-11) will be a critical time for the donor community to scale up assistance to developing countries in their efforts towards achieving the Millennium Development Goals (MDGs) by 2015. In this context, sound domestic policies and significantly scaled-up Official Development Assistance (ODA) flows will be required.
2. In light of its pivotal role in the aid architecture, IDA is well positioned to assist client countries and development partners in these efforts. Through its country-driven approach, IDA provides financing and knowledge services to client countries in support of their priorities, as identified in their Poverty Reduction Strategies. IDA supports a platform for the broader delivery of aid, thus addressing the challenges associated with an increasingly fragmented aid architecture. IDA's country-driven approach also underpins its role in addressing regional and global issues that ultimately need to be tackled at the national level.
3. IDA has a strong track record in enhancing development outcomes. First, in line with its Performance Based Allocation system, it allocates a greater share of its resources to countries that achieved better development outcomes. Second, IDA focuses on results as evidenced in the quality of its portfolio and its two-tiered results monitoring system, which tracks outcomes at the country and project level. Finally, IDA has been able to successfully scale up projects and programs as demonstrated by the substantial increase in annual commitments, averaging SDR 10.5 billion thus far in IDA14, up from SDR 6.4 billion in IDA12.
4. Management seeks an IDA15 replenishment of SDR 26.3 billion, 20 percent higher than the original IDA14 envelope. This proposed replenishment level would support a diverse set of country strategies in all IDA operational regions, which reflect individual country needs, priorities, and capacity to absorb scaled-up assistance. Under this proposal, Africa would receive over 50 percent of resources in IDA15. Furthermore, over 95 percent of the proposed increase would be allocated to Africa (SDR 2.5 billion) and South Asia (SDR 1.4 billion) – the regions farthest from attaining the Millennium Development Goals.
5. The proposed replenishment would enable IDA to begin addressing identified investment gaps and emerging needs at the country level, including for infrastructure and climate change. It would also allow IDA to extend the phase-out period for post-conflict countries, provide arrears clearance for four countries (without reducing funds for other IDA recipients) and increase the allocation for regional projects, which remain in high demand. Finally, this level of funding would allow IDA to maintain the necessary “critical mass” to remain a strong development partner and continue providing a platform for development assistance.

The Demand for IDA15 Resources and the Strategy for their Effective Use

INTRODUCTION

1. The IDA15 period (FY09-11) will be a critical time during which the donor community will need to provide scaled-up assistance to developing countries, particularly in Sub-Saharan Africa, as they make a final effort in closing the gap to the Millennium Development Goals (MDGs) by 2015. Official Development Assistance (ODA) from DAC members is projected to increase by over 30 percent between 2007 and 2010¹ potentially leading to a significant scaling-up of assistance. Simultaneously, the increasing focus of the donor community to improve aid effectiveness (by implementing the actions in the Paris Declaration) would improve the development outcomes from this increased assistance.

2. IDA plays a pivotal role in contributing to the achievement of development outcomes as well as in supporting greater aid effectiveness. IDA's unique contribution arises from its country-driven business model which responds to countries' needs and priorities and enhances their ability to make effective use of aid resources. IDA directly provides financing and knowledge services to client countries in support of their priorities and needs. Further, it supports a platform for the delivery of aid that provides a key service to donor and recipient countries alike by counterbalancing the adverse effects of fragmentation, proliferation and verticalization of aid. Finally, IDA's country-driven model also underpins the role that IDA plays at regional and global levels, since regional and global issues ultimately need to be addressed at the country level. IDA's regional and global role will increase as such issues (e.g., associated with climate change) become more urgent. IDA can, however, continue to play an effective, integrating role only if its funding reaches a "critical mass" since the volume of financial assistance by IDA enhances its ability to effectively deploy its strengths at the country level.²

3. Within the above context, this paper proposes an IDA15 replenishment that would provide IDA resources commensurate with the role that IDA plays in the aid architecture and sufficient to allow IDA to assist in emerging development challenges. This paper is structured as follows. Section 1 highlights IDA's track record under past IDA replenishments. Section 2 presents the strategic framework for supporting IDA countries, IDA's role as a platform and implications for the next replenishment. Section 3 presents the proposed IDA15 replenishment with the detailed analysis that underpins the proposed increase. Annex 1 presents the detailed perspective of the six operational Regions in the World Bank. Annex 2 presents the notional projection of IDA15 allocations for all IDA eligible countries, assuming unchanged country performance and grant eligibility. Annex 3 provides further information on country strategies for several of the largest IDA clients. Annex 4 provides further information on sectoral strategies whose implementation would potentially impact IDA15 resource requirements.

¹ OECD Development Assistance Committee (DAC) Secretariat simulations of DAC member's net ODA volumes for 2006-2010 (Table 4 of Final ODA Data for 2005).

² The role of IDA in a changing aid architecture has been extensively examined in a companion paper. See IDA (2007). *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model*. June.

I. IDA'S TRACK RECORD IN ENHANCING DEVELOPMENT OUTCOMES

4. *Performance-Based Allocations.* IDA has a long track record of ensuring that scarce IDA resources are allocated to countries in a manner that will ensure better development outcomes from the use of these resources. Given the scarcity of IDA resources, IDA funds are allocated to countries based on its Performance-Based Allocation (PBA) system which takes into account both performance and needs. As a rule-based system that has evolved over the last 30 years, the PBA system uses peer-reviewed performance indicators gathered annually in the context of IDA's Country Policy and Institutional Assessment (CPIA) exercise and indicators assessing the performance of the IDA portfolio. Recent research has demonstrated that over the last two decades, the PBA has allocated more funds to countries that have achieved better development outcomes.³

5. *Results Focus.* The quality of the IDA portfolio also continues to remain solid: the Annual Review of Portfolio Performance estimates that the share of completed IDA projects with satisfactory outcomes reached 77 percent in FY06.⁴ Measures of quality at entry and quality of supervision also remain very strong. IDA has also adopted a greater focus on monitoring results in recent years through the use of a two-tiered Results Measurement System (RMS) to track: (i) trends in 'big picture' outcomes at the country level; and (ii) IDA's focus on results. The first tier monitors aggregate progress on fourteen selected country outcome indicators in growth and poverty reduction, public financial management, investment climate, infrastructure and human development. The second tier monitors IDA's contribution to country outcomes using indicators for country programs, projects and aggregate outputs. IDA has also committed to and is implementing results frameworks for all IDA Country Assistance Strategies, programs and projects.

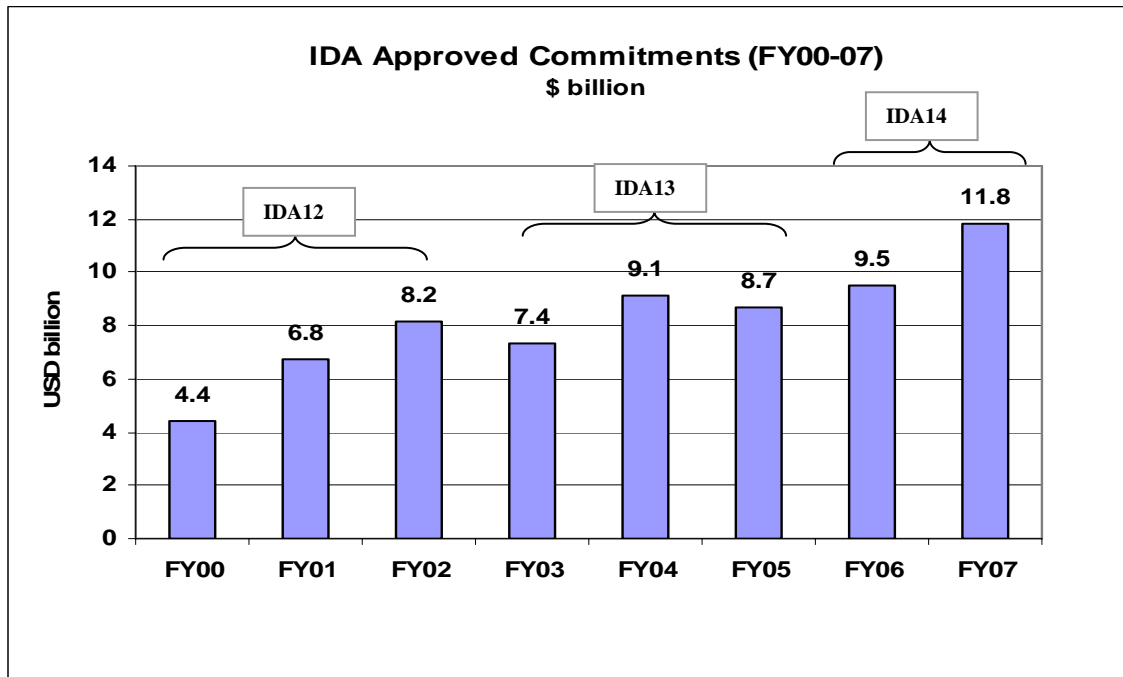
6. *Financing Scale-up.* IDA has been able to scale up successful projects and programs, as demonstrated by the fact that annual commitments have increased from an average of US\$6.4 billion in IDA12 to an average of US\$10.5 billion for the first two years of IDA14, with a projected record level of US\$11.8 billion in FY07 (see Figure 1).⁵ Disbursements also reflect this upward trend increasing from US\$5.6 billion during IDA12 to US\$7.8 billion in IDA13 to US\$8.9 billion during the first year of IDA14.

³ IDA (2007). *Selectivity and Performance: IDA's Country Assessment and Development Effectiveness*, IDA, Development Economics, Office of the Chief Economist, February.

⁴ See World Bank (2007). *2006 Annual Review of Portfolio Performance*, Quality Assurance Group.

⁵ Estimated commitments include the use of IDA13 resources resulting from the unforeseen postponement of an operation in end-June 2005.

Figure 1: IDA Commitments (FY00-07)



II. IDA'S STRATEGIC APPROACH AND CHALLENGES GOING FORWARD

A. A FRAMEWORK FOR IDA'S ACTIVITIES: SUPPORTING THE COUNTRY DRIVEN MODEL

7. IDA's overall mission is to assist its client countries in reducing poverty. Recognizing that each country has unique circumstances and given IDA's country-driven development model, a Country Assistance Strategy (CAS) is prepared periodically – every 3-4 years – for each of the 82 IDA eligible countries. Each CAS assesses country priorities and needs and, in collaboration with each government and other donors operating in the country, determines the level and composition of financing⁶ and non-lending activities for various sectors and themes. This results in a wide diversity of strategies based on the country circumstances. The six Regional Vice-Presidencies in the World Bank have translated these country level strategies into Regional Strategies or Action Plans (e.g., the Africa Action Plan) to provide strategic guidance to their staff for IDA (and IBRD) client countries.

8. There is significant diversity in the actual activities undertaken in each country and region. However, the strategic thrust of IDA's support to the country-based model can be summarized around two broad pillars: building the climate for investment, jobs, and sustainable growth; and empowering poor people to participate in development and investing in them.⁷ Key themes (e.g., improved governance and gender) and sectors (e.g., infrastructure, social sectors) support both pillars and in addition, there may be specific focus areas in different regions as discussed below.

⁶ Levels of financing are determined primarily through country allocations made under the PBA system.

⁷ World Bank (2001). World Bank Group Strategic Framework. January 24.

- In the Sub-Saharan Africa Region, the Africa Action Plan encompasses an outcome-oriented framework to guide the Region’s work in four pillars: (i) accelerating shared growth; (ii) building capable states; (iii) sharpening the focus on results; and (iv) strengthening the development partnership.
- In the South Asia Region, the strategy is based on three pillars of: (i) accelerating and sustaining growth; (ii) accelerating human development; and (iii) making development more inclusive (“equity”). All three pillars are supported by the cross-cutting theme of improving governance. See [Box 1](#) for the case of Afghanistan.
- In the East Asia and Pacific (EAP) Region, though poverty rates are at low levels, IDA’s programmatic focus continues to focus on supporting broad-based economic growth, increased levels of trade and other forms of integration, and improved governance.
- In the Latin America and Caribbean (LAC) Region, IDA’s strategy focuses on generating growth and resources needed to reduce high overall poverty (e.g., in Haiti and Guyana) or increasing the progressiveness of and targeting of public expenditures where poverty is more concentrated (e.g., in Nicaragua and Bolivia).
- In the Europe and Central Asia (ECA) Region, transition has been a specific issue. IDA has worked with client countries from the earliest phases of transition to improve living standards, promote economic growth, and ensure that future generations benefit from sound environmental practices and social development. See [Box 2](#) on Armenia.
- In the two IDA countries in the Middle East and North Africa Region, growth is an important part of the overall strategy with a particular emphasis on economic diversification. Similarly, human development and governance issues are important.

Box 1: IDA’s Assistance in Post-Conflict Afghanistan

Afghanistan faces the major development challenges of establishing political stability and dealing with a resurgent Taliban, countering a pervasive and destructive opium industry, establishing institutions and capacity where none existed, and fostering social and economic opportunity. Over the last five years, IDA has supported efforts on the socio-economic development side, committing US\$1.8 billion on behalf of 27 donors, through the Afghanistan Reconstruction Trust Fund (ARTF). These investments have already started to have significant impact, including:

- Under the National Solidarity Program, about 26,000 Community Development Councils have been elected, 13,600 of which have completed development plans and received grants totaling over US\$200 million to fund more than 20,000 community projects. Nearly 9,000 of these projects are complete, improving the lives of 13 million rural people in all 34 provinces.
- Almost 6 million people in rural areas now have access to primary health care and infant mortality has fallen from 163 to 135 per 1000. 123,000 women are getting prenatal care (up from 8,000 5 years ago).
- More than 1 million Afghans along roads in several provinces have been connected to the country’s main transport network, enjoying better distribution for agricultural products, humanitarian flows, access to social services and administrative centers. Transport time from Kunduz to Kabul has fallen from 48 to 6 hours and traffic has increased from 1,200 to 12,000 vehicles per day.
- Many poor Afghans have been able to access financial services for the first time through the micro credit project. Half a million loans totaling US\$120 million have been disbursed in 22 provinces with a 98 percent on time repayment record. Three-quarters of the clients have been women.
- The number of telephones in Afghanistan has increased from 57,000 in 2002 to 2.16 million in 2006, and costs have fallen from US\$2 to US\$0.10 per minute.
- Enrollment of Afghan children in Grades 1-12 increased from 3.1 million to over 5 million (of which 1.75 million are girls). Tertiary enrollments increased from 23,000 to 40,000 (including 8,000 women).

Box 2: Easing Armenia's Transition to a Market Economy

After independence in 1991, Armenia suffered a severe economic contraction, with GDP dropping more than 50 percent between 1990 and 1993, leading to hyperinflation, a budget deficit that reached a high of 55 percent, factory closures, little electricity supply, and large-scale emigration. Since 1995, IDA has provided US\$382 million for 10 policy focused operations to support Armenia's economic reform program, with a view to restoring and maintaining macroeconomic stability, creating conditions for economic growth, and improving living conditions. These operations provided sustained financial and technical support to the government and generating a critical mass of reforms that helped to raise living standards. In addition to critical deficit financing, the projects also provided external expertise. Technical assistance came from IDA and bilateral donors, with significant support from the Japanese Policy and Human Resources Development (PHRD) fund, the Netherlands, the EU, DFID, GTZ, UNDP and USAID.

Over this 12-year period, Armenia has achieved spectacular income growth – by about 10 percent on average per year, rising to 13-14 percent in 2005 and 2006 – and poverty reduction – from 56 percent in 1998 to 30 percent in 2005. Other key achievements include a doubling of budget allocations for health and education from 2002 to 2006; improved budget management and customs and tax administration; and a decrease in inflation to 0.6 percent in 2005 from 176 percent prior to the adjustment program. To continue these achievements, IDA expects to provide additional PRSCs that focus on supporting the government to strengthen corporate and public governance, including tax and customs, competition policy and human development.

9. ***Supporting Private Sector Led Growth by Improving the Investment Climate.*** Policies for sustained, broad-based economic growth are a central ingredient for a sound poverty reduction strategy. Economic growth helps to reduce poverty by raising income levels and creating employment opportunities. In turn, growth can only be sustained in the long run if it is underpinned by a vigorous, thriving private sector. A healthy investment climate is a crucial element in any strategy focusing on promoting sustained growth and poverty reduction. Government policies and behaviors play a key role in fostering a sound investment climate, as they can decisively influence the security of property rights, approaches to regulation and taxation (both at and within the border), the provision of infrastructure, the functioning of finance and labor markets, and broader governance issues such as corruption. Improving government policies and behaviors that shape the investment climate drives growth and reduces poverty.⁸ Given recent efforts to improve the investment climate, more than a third of Africans live in countries that have grown at more than 4 percent per year for 10 years. Similarly, South Asia's GDP has grown at nearly 6 percent a year for the past decade which has resulted in an impressive reduction in poverty which could potentially end mass poverty in a generation. Accelerating and sustaining this high level of growth will require addressing the region's vast infrastructure deficit that arose from a lack of both resources and effective policy frameworks.

10. IDA is involved in a broad range of activities to support improvements in investment climate including: improving land registries; strengthening tax and customs administrations; reforming the financial sector; and investing in infrastructure. IDA's increasing focus on governance and anti-corruption is also central to investment climate reforms. IDA's work on private sector development is complemented and enhanced by other parts of the Bank Group

⁸ World Bank (2004). *World Development Report 2005. A Better Investment Climate for Everyone*. September, p. 1.

particularly through IFC's and MIGA's private sector investment activities. For example, in the Africa Region, for high-growth countries, IDA plans to give special attention to private sector development (PSD), energy access, or skills in order to address constraints to growth. Similarly, in the EAP Region, broad-based economic growth has been supported through a focus on the provision of rural energy infrastructure (see [Box 3](#)).

Box 3: Reliable Electricity Sparks Change in Rural Vietnam

IDA provided US\$150 million in financing from 2000-2006 to the US\$216 million Rural Energy Project in Vietnam, where energy demand grew 30 percent faster than GDP in the second half of the 1990s. The project aimed to extend the electricity grid to 690 communes located in 32 provinces; build government capacity to maintain a viable power sector in the long-term; and apply alternative energy sources in areas not reached by the national grid. IDA had a long-term involvement in the sector, undertook ongoing dialogue on needed reforms and assisted the government to set up technical standards for rural networks. IDA helped design a 10-year Master Plan for Rural Electrification that brought government, user and donor resources into one program.

The Government's broader rural electrification program, supported by this project, increased access to reliable electricity from 50.7 percent of rural households in 1996 to 90.7 percent in 2005. Over 30 percent of men and 29.8 percent of women in recently electrified rural households are reporting higher incomes. Beneficiaries also report improved health clinic conditions, better quality of education, less time spent on housework and more business development opportunities.

Building on these successes, IDA is now financing the Second Rural Energy Project (US\$220 million) to improve service standards and the institutional framework for delivering rural electricity. A planned Third Rural Energy Project (starting in 2010) would complete coverage to isolated or scattered households and communities in mountainous areas and on islands.

11. ***Investing in and Empowering Poor People to Participate in Development.*** The key challenge is in ensuring that those services that have the most direct link with human development (e.g., education, health, water, sanitation and electricity) are made to work for poor people.⁹ However, service delivery has often been limited, affordable access to services has been low and there has been a wide range of failures in quality. These challenges need to be addressed both by tackling broader issues (adequate levels of public funding, better public expenditure management and strengthened public sector institutions) as well as by ensuring technical improvements (decentralization and other appropriate incentives for better service delivery arrangements and accountability to clients). In Africa, while primary education enrolments are generally improving, health outcomes are improving more unevenly (for an example of a country making progress on health outcomes see [Box 4](#)).

⁹ World Bank (2003). *World Development Report 2004: Making Services Work for Poor People*, September, p.1.

Box 4: Pooled Donors Efforts Yield Faster and Deeper Improvements in Tanzanians' Health

Achieving the health MDGs remains a major challenge for Tanzania, with more than 70 percent of life years lost in Tanzania due to preventable causes, notably malaria, diarrhea, pneumonia, HIV/AIDS, prenatal and maternal conditions. In 1999, the government of Tanzania developed a long-term, three-phased Health Sector Development Program aimed to improve efficiency and effectiveness in use and allocation of resources for better access and quality of health services – particularly for poor people, women and children. Since the beginning of the program, Tanzania's infant mortality rate declined to 68 deaths per 1,000 live births in 2004/5, from 99/1,000 in 1999. The under-five child mortality rate has gone down to 112 deaths/1,000 live births, from 146.6/1,000. Tanzania's health budget per capita increased to US\$9.92 in FY06, from US\$6.6 in 2003. And the National Health Insurance Fund is now available to all public sector employees, and is expanding to cover the private sector. The program is playing an important part in Tanzania's progress toward achieving the MDGs.

The Health Sector Development Program provides a common framework through which IDA and a number of other partners coordinate their support. IDA contributed US\$86 million (2000-07) in support of the US\$1.6 billion multi-donor program. It provided technical support for health care financing – specifically health insurance options and budget strengthening – for addressing human resource constraints, and for strengthening procurement systems. It supported the harmonized donors' framework as the "Lead Donor" and chair of the Development Partner Group for Health which includes 22 multilateral and bilateral development agencies.

12. IDA is substantially involved in the social sectors directly through financing and non-lending support in service delivery in health, education, water supply and sanitation and electricity. It is also substantially involved in public sector reform (particularly in strengthening governance and accountability systems), budgetary and public expenditure management and improving national and sectoral monitoring and evaluation systems. Hence, for example, in the Africa Region, IDA's support to achieve under-five mortality reductions would combine activities in water, skills, and health systems. In the South Asia Region, there is recognition that public expenditures are skewed in favor of the non-poor, resources leak before reaching frontline providers and teacher and doctor absenteeism undermines service quality. The focus has therefore shifted to stimulating demand for services; using programmatic instruments to bring innovations to scale; increasing accountability of service providers to local communities and policymakers and making impact evaluation a part of the process (for an example of a program that achieves these goals see [Box 5](#)).

Box 5: Stipends Help Girls' Access to School in Bangladesh

The Bangladesh Female Secondary School Assistance Program (1993-2007), financed by US\$185 million in IDA resources, supported a government program to improve access to secondary education for girls by providing tuition stipends. IDA established implementation arrangements and helped build and strengthen a program management unit within the Ministry of Education that manages and oversees the stipend program. A key innovation was the direct funding mechanism featuring the transfer of stipends directly from banks to individual girls' bank accounts.

Since the beginning of the program, girls' enrollment in secondary education jumped to 3.9 million in 2005, from 1.1 million in 1991, including an increasing number of girls from disadvantaged or remote areas. This has enabled Bangladesh to achieve one of its MDGs ahead of time – gender parity in education. Secondary School Certificate pass rates for girls in the project area increased from 39 percent in 2001 to 58 percent in 2006. Indirect benefits included delays in the age of marriage and reduced fertility rates, better nutrition, and more females employed with higher incomes.

The program has proven ground-breaking in addressing girls' access to education, is recognized worldwide as a pioneering undertaking and has been expanded nationwide. A number of other countries have implemented similar stipend or conditional cash transfer programs with IDA support. Going forward, having achieved gender parity at the country level, the government of Bangladesh is now focusing more on how to reach economically and geographically disadvantaged girls – as well as poor boys. The Ministry of Education is also undertaking reforms aimed at improving education quality through better governance and accountability. IDA is supporting this through a series of education sector development credits.

B. CHALLENGES GOING FORWARD

13. As noted in Section II.A above, the implementation of country strategies has resulted in IDA's involvement in a range of different sectors. With the evolution of the overall international aid architecture, two particular challenges need to be addressed: to ensure appropriate balance in sectoral funding to support activities under both pillars in order to reduce poverty; and to strengthen complementarity with vertical approaches to aid in order to maximize development effectiveness.¹⁰

14. *Ensuring Appropriate Balance in Sectoral Funding.* The share of social sectors¹¹ in total sector allocable ODA to low-income countries increased from less than 30 percent in the early 90s to more than 52 percent in 2000-2004. In the case of Sub-Saharan Africa, the social sector share reached 60 percent in 2000-2004, up from about 33 percent in the first half of the 90s. In parallel, the share of infrastructure in total sector allocable ODA declined from 33 percent to 26 percent over the same period in low-income countries. For Sub-Saharan Africa, the relative decline in infrastructure was even more marked: from 29 percent in 1990-1994 to 19 percent in 2000-2004. While the sectoral composition of IDA assistance is decided in the context of CASs, it is important that the design of the assistance take into account overall ODA flows to each sector.

15. Large financing needs are evident in infrastructure, in light of the relative decline of its share in total sector allocable ODA and the considerable gaps remaining in access to infrastructure services. In the developing world, it is estimated that 1.1 billion people are without safe water, 1.6 billion are without electricity, 2.4 billion without sanitation, and more than 1 billion without access to an all-weather road or telephone services. The access gap reflects at least in part a huge infrastructure investment shortfall of around US\$50 billion per annum. IDA remains the largest multilateral source and the second largest donor for physical infrastructure financing with about US\$3.4 billion in commitments for physical infrastructure during 2004-2005 – around 20 percent of the total for IDA-eligible countries. IDA assistance for infrastructure – in transport, water and sanitation services; water resource management; energy; information communication and technology; and natural disaster risk management – therefore remains critical. Infrastructure-related financing needs will also be compounded by the need to address the challenges associated with climate change which is expected to have a more severe impact for developing countries and therefore on the achievement of the MDGs. IDA's approach in various infrastructure sectors is discussed in detail in Annex 4.

16. Social sector-related needs in IDA countries remain huge and further scaling-up will be required to meet the MDGs, despite the sector's increased share of ODA. IDA is the largest source of education financing for low-income countries, having channeled more than US\$8 billion in education assistance over the last ten years to 71 countries. Most of this (about US\$5 billion) has focused on primary education, in view of the Millennium Development Goal of achieving universal primary completion by 2015. On the other hand, the case of the health sector provides specific challenges, which are discussed in the next paragraph and in Annex 4.

¹⁰ This section draws on the companion paper: IDA (2007). *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model.* *Op. cit.*

¹¹ Social sectors, in the OECD/DAC classification, include education; health and population; water and sanitation; government and civil society; and conflict, peace and security. Most of the recent growth in ODA for the social sectors is due to increased aid for health and population as well as for government and civil society.

17. *Strengthening Complementarity with Vertical Approaches to Aid.* A renewed emphasis has been placed on the need for balance and complementarity between vertical and country-based aid. Evidence shows that this challenge is the greatest in the health sector (with the creation of over 70 Global Health Partnerships (GHPs) to address global health issues in the last decade). Similar issues arise in the context of global programs focusing on education and environmental issues. The proliferation in the number of these health funds – some with overlapping mandates – has contributed to alignment and harmonization challenges at the country level. IDA’s “glue” role can support the integration of horizontal and vertical aid by establishing a platform upon which the vertical funds can operate effectively. The long-term achievement of the objectives of vertical funds depend on fiscal sustainability, a supportive policy environment – including policy measures in related sectors – and broader capacity building measures. Similarly, IDA’s financing focus will increasingly shift to ensure support for much-needed health system strengthening (for which dedicated international financing is scarce).

III. IDA15 FINANCING REQUIREMENTS

18. IDA14 resources, originally estimated at SDR 21.9 billion¹² of new commitments, were provided to the 82 IDA eligible countries which typically had a per capita income below the IDA threshold of US\$1,025 per capita annual income.¹³

- Two-thirds of IDA resources (62 percent) were allocated by directly applying the PBA system. In addition, another 22 percent of resources were distributed to countries based on the PBA system but with funds being capped below PBA levels given that these countries had access to IBRD resources. As a result *84 percent of the IDA14 allocations did not exceed the levels indicated by the PBA system.*
- The remaining 16 percent of PBA resources were allocated on criteria other than those utilized by the PBA system: 9 percent for post-conflict and re-engaging countries, 3 percent for the regional pilot program, and 4 percent for arrears clearance and other purposes.

A. THE PROPOSED REPLENISHMENT

19. *Management seeks an IDA15 replenishment of SDR 26.3 billion, or 20 percent above the original IDA14 level of SDR 21.9 billion.* This proposal is based on assumptions on country eligibility; adjustments within the PBA envelope; and estimates for additional needs outside the PBA envelope. This takes into account the cumulative SDR inflation rate of 7.3 percent for the 2004-2006 period. The main components of the proposal are presented in Table 1 followed by the corresponding explanations for the various items listed.

¹² Actual commitments are projected to be \$22.2 billion. The difference reflects higher than expected contributions of SDR 305 million from IBRD and IFC net income.

¹³ This threshold will increase to \$1065 as of July 1, 2007

Table 1: The Proposed IDA15 Replenishment

	% increase over IDA14	SDR mln
Original IDA14 envelope		21,916 ^{1/}
Adjustments to the IDA15 PBA Envelope:		
(i) Adjustment for inflation	7.3%	1,595
(ii) Adjustment for real IDA scale-up	5.6%	1,219
(iii) Allocation reduction due to graduations ^{2/}	-3.6%	-796
(iv) Compensation to IDA15 PBA envelope for arrears clearance during IDA14 (Liberia, Cote d'Ivoire)	2.3%	500
Total	11.5%	2,518
Additional Needs outside the IDA15 PBA Envelope:		
(i) Arrears clearance IDA15 (Togo, and Sudan or Zimbabwe)	1.9%	425
(ii) Allocations to reactivating countries ^{3/}	2.5%	540
(iii) Extension of post-conflict phase-out and re-engagement ^{4/}	2.1%	450
(iv) Scale up of regional projects top-up	2.1%	450
Total	8.5%	1,865
Increase over Original IDA14 envelope	20.0%	4,383
Total IDA15 financing needs		26,299
^{1/} of which regional top-up of SDR 650 mln and estimated SDR 1,900 mln for post conflict exceptional allocations ^{2/} Indonesia, Albania, Serbia, Montenegro ^{3/} This comprises expected reactivations in post conflict countries (Liberia, Cote d'Ivoire, Sudan) and re-engagement countries (Togo, Zimbabwe), in accordance with the proposals made in the fragile states paper. ^{4/} This comprises expected extensions in post conflict phase out countries and in re-engagement countries, in accordance with the proposals made in the fragile states paper.		

The Table above shows a total increase of SDR 4,383 million, or 20 percent: the sum of 11.5 percent for the four adjustments to the IDA15 PBA envelope, and 8.5 percent for the four additional needs outside the PBA envelope. Accordingly the proposed replenishment would increase the PBA share of the overall IDA envelope.

A.1 Country Eligibility under IDA15

20. The IDA15 financing requirements considered the financial implications of countries graduating and re-engaging with IDA. Specifically,

- *Reactivations.* These countries are all in the Africa Region, with between two and five countries expected to reactivate. In view of the consolidated peace processes in Liberia and Cote d'Ivoire, these countries are assumed to reactivate during FY08, i.e.,

before the start of IDA15. During IDA15 Togo is expected to reactivate, while the reactivations of Sudan and Zimbabwe are given a 50 percent probability.¹⁴

- *Graduations.* Three countries are certain to graduate before IDA15 with a fourth remaining a possibility. In the East Asia and Pacific Region, Indonesia will graduate at the end of FY08 and thus not be eligible for funding in IDA15. In ECA, Serbia and Montenegro are expected to graduate at the end of FY07 and Albania is expected to graduate at the end of FY08. Over the course of the IDA15 period, two other ECA countries (Armenia and Azerbaijan) are candidates at this time. It is less certain if Georgia, and Bosnia and Herzegovina, which do not presently qualify for IBRD lending, will be ready for full graduation from IDA by end FY11.
- *Blends.* Current practice is to provide blend countries with their full IDA performance-based allocation (except for the capped blends) and, hence, changes in blend status do not change the amounts of IDA financing provided though they do affect the IDA lending terms for those countries. Further, a discussion of blend countries may provide a preview of potential IDA graduates in the period beyond IDA15. At this time eight countries are expected to enter the IDA15 period as active blends: Armenia, Azerbaijan, India, Pakistan, Dominica, Grenada, St Lucia, and St Vincent and the Grenadines. On the other hand, six IDA-only countries could graduate to blend status, depending on the outcome of IBRD creditworthiness analyses: Sri Lanka, Cape Verde, Georgia, Angola, Honduras, and Vietnam.¹⁵ Bosnia and Herzegovina and Bolivia may become active blends in the course of IDA15, while Papua New Guinea, Uzbekistan, and Zimbabwe - blends which have not been able to access IBRD in recent years - may fall back to IDA-only status. It is assumed that Kosovo will continue to receive IDA funding during IDA15 as long as its current status remains unchanged.

A.2 Adjustments within the PBA Envelope

21. The proposed replenishment includes a modest overall increase in the PBA envelope of about 5 percent relative to the original IDA14 envelope. This modest real increase would allow IDA to increase support to client countries in meeting the MDGs and in addressing new challenges, such as managing the impact of climate change (including through implementation of the World Bank's Clean Energy Investment Framework), by addressing such additional financing needs from within the PBA envelope. The Clean Energy Investment Framework (CEIF)¹⁶ would improve access to energy in Sub-Saharan Africa, support the transition to a low carbon development trajectory and allow countries to adapt to the impacts of climate change.

¹⁴ This reactivation projection, based on the latest information from the IDA country teams, is somewhat more conservative than the current HIPC decision point projections (the presumption is that arrears clearance precedes the date by which a country reaches its decision point by six months).

¹⁵ Although Vietnam's per capita GNI is still well below the IDA operational cutoff.

¹⁶ In September 2005, the Development Committee requested the World Bank to develop an *Investment Framework for Clean Energy and Development*, which was issued in July 2005. The Bank then presented in April 2006 *Clean Energy and Development: Towards an Investment Framework*, which outlines key elements of the framework. In September 2006, the Bank presented a progress report to the Development Committee in a document titled *An Investment Framework for Clean Energy and Development: A Progress Report*. In March 2007, the Bank developed an action plan, titled *Clean Energy for Development Investment Framework: The World Bank Group Action Plan*, which was discussed by the Board of Directors.

The complementarity with dedicated funds is clear and client countries are looking to IDA to play a major role in leveraging other important sources of finance for climate change, particularly adaptation, like IFC, GEF and carbon finance as well as other sources that may emerge as a result of the ongoing climate change discussions.

A.3 Additional Needs outside the PBA Envelope

22. The proposed replenishment also includes the costs of proposals made by Management regarding: (i) increasing the size of the regional programs pilot and (ii) post-conflict and re-engaging countries including for arrears clearance.

23. *Scaling Up Regional Projects.* Over the last four years, IDA has developed a significant track record of success in catalyzing regional projects.¹⁷ IDA's pilot program involved providing extra allocations to facilitate promising regional initiatives that involved at least three countries: one-third of the cost is funded through contributions from the participating countries' PBA envelope, while two-thirds is funded through the regional projects' envelope. IDA's commitments for regional projects have increased significantly over time, rising from US\$155 million during 1995-2000 to US\$993 million during 2001-2006.¹⁸ During 2001-2006 about 89 percent went to Africa, and about 9 percent to Europe and Central Asia.

24. In IDA14, demand for regional programs has grown rapidly, particularly in Africa, where the availability of regional funds constrains the ability of strong regional projects to be financed. Total project commitments supported by the Regional Pilot Program stood at about US\$480 million in FY06, and again in FY07, while the pipeline for FY08 is substantially larger than the funding currently available under the Regional Pilot Program. Based on these strong trends, Africa's demand for regional financing within IDA is projected at over US\$700 million per year during the IDA15 period. Other regions with interest in such projects include ECA, and, more recently East Asia (regional power trading and water resource management for the Greater Mekong Sub-region) and the Caribbean countries (the CARICOM-wide catastrophic risk insurance initiative). Accordingly Management sees a 60 percent increase in the regional projects top-up envelope – from SDR 250 million to SDR 400 million per annum – as one of the key components of the proposed IDA15 replenishment, allowing it to support a range of critical regional infrastructure projects (energy, transport, water and sanitation), as well as investment in the management of river basins, and other natural resources.

25. *Arrears Clearance.* The financing needs in connection with arrears clearance fall into two categories: (i) the arrears clearance in the cases of Liberia and Cote d'Ivoire that are seen to be on track to materialize in FY08, i.e., before the start of the IDA15 period; and (ii) the cases of Togo, and possibly Sudan or Zimbabwe (where prospects for reactivation are especially uncertain), where arrears clearance is assumed to take place during IDA15.¹⁹ Since the costs

¹⁷ See Independent Evaluation Group (2007). *The Development Potential of Regional Programs: An Evaluation of World Bank Support to Multi-country Operations*, Washington, D.C; and *The Role of IDA in the Global Aid Architecture*, *op. cit.*, June.

¹⁸ These figures refer to not only the two-thirds contribution from the regional programs pilot but the full cost of the projects.

¹⁹ The reactivation of Sudan and Zimbabwe are assumed to have a 50 percent probability of occurrence. In addition it is conservatively assumed that Somalia and Myanmar will remain inactive during IDA15. The IMF and HIPC estimates project a possible reactivation during IDA15.

involved in the Liberia and Cote d'Ivoire cases – some SDR 500 million - constitute a *de facto* IDA14 allocation tax on the PBA envelope of the other IDA recipient countries, these costs should be added to the replenishment so that they would become available for performance-based allocation during IDA15.

26. The timing of arrears clearances in the cases of Togo, Sudan and Zimbabwe is uncertain. Assuming Togo's to occur in FY09, and Sudan's in FY10 *or* Zimbabwe's in FY11, the cost is estimated at about SDR 425 million. The latter figure is affected by uncertainties about: the timing of arrears clearance, differences in country circumstances including capacity to pay, and what other preferred creditors may require. In view of these uncertainties, Management has proposed to adopt the HIPC cost methodology in which a cost estimate, based on the likely costs to be incurred during the IDA15 period, is used as the basis for the amount requested from donors. After the end of the IDA15 period, actual costs are compared with prior estimates. If all or part of the amount received is not used during IDA15, it will be carried forward into IDA16. Given the conservative nature of this estimate, this is seen as an unlikely occurrence. If the amount proves to be insufficient, then the shortfall will be added to the amount requested for arrears clearance from donors in IDA16. Thus these funds would remain outside of the PBA envelope until the respective clearance operation occurs.

27. *Lengthening the Post-Conflict Phase-Out and Re-Engagement Periods.* In the discussion of IDA's treatment of fragile states it has become clear that the current arrangement for eligible post-conflict countries – with a phase-out period of three years (after four years of full post-conflict allocation eligibility) – results in a sizable drop in allocations during the phase-out period. Accordingly, a companion paper has proposed²⁰ that this phase-out period be doubled, to up to six years, bringing the total period of post-conflict allocation to a maximum of ten years. Likewise, the period during which other re-engagement countries can receive extra funding is proposed to be extended from three to five years. The cost of the extension of these exceptional allocations is estimated at SDR 450 million.

28. In analyzing the financing requirements in IDA15, the Bank's Regional Vice Presidencies also identified country level and regional opportunities to effectively scale up poverty reduction during IDA15 under a scenario of improved country performance which would allow for higher levels of per capita allocations through the PBA system. The real increase in the PBA envelope estimated under this scenario was 14 percent but still well within the range of recent increases in IDA. Such an increase in the PBA envelope would enable IDA to begin addressing identified investment gaps and emerging needs at the country level, including for infrastructure and to address climate change. This replenishment increase would also include a larger scale-up of the regional projects pilot than under the proposed replenishment. *Under this higher scale-up, it was estimated that IDA could potentially deliver SDR 28 billion, about 30 percent above the IDA14 envelope.* The implications of this higher scale up are discussed in the section below.

²⁰ See IDA (2007). *Operational Approaches and Financing for Fragile States*, June 7.

B. TRADEOFFS

29. The tradeoffs that will be faced in case of a different replenishment level – additional financing opportunities in case of a larger increase, and financing constraints in case of a smaller one – are described in Table 2 below.

Table 2: Tradeoffs in the Proposed IDA15 Replenishment

	% increase over IDA14	SDR mln	% increase over IDA14	SDR mln	% increase over IDA14	SDR mln
Original IDA14 envelope		21,916 ^{1/}		21,916 ^{1/}		21,916 ^{1/}
Adjustments to the IDA15 PBA Envelope:						
(i) Allocation reduction due to graduations ^{2/}	-3.6%	-796	-3.6%	-796	-3.6%	-796
(ii) Compensation to IDA15 PBA envelope for arrears clearance during IDA14 (Liberia, Cote d'Ivoire)	2.3%	500	2.3%	500	2.3%	500
(iii) Adjustment for inflation	7.3%	1,601	7.3%	1,595	7.3%	1,595
(iv) Adjustment for real IDA scale-up		0	5.6%	1,219	14.2%	3,110
Total	6.0%	1,305	11.5%	2,518	20.1%	4,410
Additional Needs outside the IDA15 PBA Envelope:						
(i) Arrears clearance IDA15 (Togo, and Sudan or Zimbabwe)	1.9%	425	1.9%	425	1.9%	425
(ii) Allocations to reactivating countries ^{3/}	2.5%	540	2.5%	540	2.5%	540
(iii) Extension of post-conflict phase-out and re-engagement ^{4/}		0	2.1%	450	2.1%	450
(iv) Scale up of regional projects top-up		0	2.1%	450	3.4%	750
Total	4.4%	965	8.5%	1,865	9.9%	2,165
Increase over Original IDA14 envelope	10.4%	2,270	20.0%	4,383	30.0%	6,575
Total IDA15 financing needs		24,186		26,299		28,491
^{1/} of which regional top-up SDR 750 mln, based on annual top-up of SDR 250 mln adopted at the time of IDA14 Mid-Term Review ^{2/} Indonesia, Albania, Serbia, Montenegro ^{3/} This comprises expected reactivations in post conflict countries (Liberia, Cote d'Ivoire, Sudan) and re-engagement countries (Togo, Zimbabwe), in accordance with the proposals made in the fragile states paper. ^{4/} This comprises expected extensions in post conflict phase out countries and in re-engagement countries, in accordance with the proposals made in the fragile states paper.						

30. **Smaller increase.** If the replenishment were to end up at only 10 percent over the IDA14 level, this would only allow: (i) the 7.3 percent inflation adjustment; (ii) the reimbursement to the IDA15 PBA pool for the IDA14 Liberia and Cote d'Ivoire's arrears clearance; (iii) the provision for projected arrears clearances during IDA15 in Togo, and Sudan or Zimbabwe; and (iv) the provision for allocations to reactivating countries. Thus, there would be no real increase in the envelope nor would there be any room for implementing the expansion of the regional projects pilot or the recommended extension of the post-conflict phase out period. In addition, as a result of the MDRI netting out mechanism, new IDA commitments for a number of countries (such as Chad, Guinea, Mauritania, Senegal and Zambia) will be significantly curtailed over the coming years. Under this scenario, IDA would be hampered in helping client countries in making an extra push towards the MDGs as well as in playing its role as a platform in the changing international aid architecture.

31. **A 30 percent increase would provide greater potential in two important respects.** First, it would provide IDA with a *real PBA envelope increase of close to 14 percent to undertake a more significant scale up (e.g., the Clean Energy Investment Framework)*. This could also serve as a cushion in the envelope to shield countries' PBA allocation in case of a major natural disaster. Historically, when natural disasters have struck, emergency operations have been funded from the country's PBA allocation. During IDA14, when major natural disasters

occurred, including the December 2004 Indian Ocean tsunami and the 2005 Pakistan earthquake, IBRD's net income had to be tapped so as to avoid a "tax" on all other IDA countries. Based on the average level of emergency financing over the past decade, an additional SDR 600 million per annum or US\$1.0 billion would be required.²¹ Second, the increase would permit an enhanced regional projects scale up to SDR 750 million, compared to SDR 450 million under the proposed replenishment.

C. REGIONAL DISTRIBUTION

32. Table 3 shows the regional breakdown of the proposed IDA15 replenishment and compares it with historical trends in the last IDA replenishments. There are several noteworthy points about the proposed increase. First, a substantial proportion (over 95 percent) of the proposed increase of SDR 4.1 billion goes to the two regions with the highest poverty rates and the greatest deficits from the Millennium Development Goals – i.e., Africa (SDR 2.8 billion) and South Asia (SDR 1.2 billion). Second, assuming suitable performance, Africa's share of IDA15 resources would increase to SDR 13.4 billion, or 51 percent of total IDA15 resources. Third, the decline in EAP region's share from 12 percent to 10 percent results from Indonesia's renewed graduation (after returning from IBRD-only to blend status in FY99) at the end of FY08. Fourth, the regional share of the MNA region is projected to fall back to 1 percent during IDA15 from 3 percent in IDA14 (which resulted from the one-time eligibility of Iraq for US\$500 million of IDA funding).

²¹ Actual figures have varied from a low of US\$150 million in 2004 to a high of US\$1,950 million in 1999.

Table 3: IDA’s Regional Distribution ²²

(SDR million)									
	IDA12 (FY00-02)		IDA13 (FY03-05)		IDA14 (FY06-08)		IDA15 (FY09-11)		Change over IDA 14
					Estimated Total		Proposed Replenishment		
	Actual	%	Actual	%	Total	%	Projections	%	Total
Africa	7,193	48%	8,366	47%	10,565	48%	13,367	51%	2,801
South Asia	3,947	26%	5,571	32%	6,913	31%	8,073	31%	1,160
East Asia	1,768	12%	1,788	10%	2,708	12%	2,700	10%	-9
ECA	1,085	7%	1,133	6%	960	4%	1,054	4%	94
LAC	650	4%	509	3%	486	2%	554	2%	68
MNA	318	2%	305	2%	590	3%	312	1%	-278
Non-AFR Regional Projects							240	1%	240
Total	14,961	100%	17,673	100%	22,223	100%	26,299	100%	4,076

Note: Regional shares will finally depend on individual country performance during IDA15.

D. CONCLUSION

33. Overall ODA is expected to grow at 30 percent over the next few years. If IDA’s envelope were to increase at roughly the same rate, IDA would be able to play its platform or “glue” role effectively and deliver its integrated packages of finance and knowledge in a predictable and sustained manner in IDA15. This is particularly relevant for those countries which have benefited from the Multilateral Debt Relief Initiative, and which would otherwise have seen a sharper drop in new IDA commitments due to MDRI’s netting out mechanism. The proposed replenishment would go some way in maintaining IDA’s relative importance in total new ODA commitments for IDA-eligible countries.

34. Well designed IDA assistance at the country level generates many benefits. On the financing side, these include: an appropriate sectoral balance across donor development assistance programs; the ability to scale up successful poverty reduction efforts through large-scale operations; and more extensive use of instruments which capitalize on donor harmonization efforts at the country level such as Poverty Reduction Support Credits and Sector Wide Approaches. In addition, IDA’s knowledge base – a public good for all development partners – can be enhanced through learning that comes with greater scope for launching new lending operations, across multiple sectors. By working with a broader range of stakeholders, a wider

²² IDA 14 projected commitments are based on actual commitments during FY06, the projected figures for FY07 (actual through the end of May, plus the commitments scheduled for Board decision in June), and the estimated commitments for FY08. As compared with IDA14 projected commitments (instead of the original IDA14 commitments), the proposed increase is slightly lower at 18 percent. The difference is due to transfers from IBRD and IFC which exceeded the original projections.

variety of issues can be addressed by expanding the scope for policy dialogue, capacity building and convening power. The volume of IDA's financial assistance enhances its ability to effectively deploy its strengths at the country level. IDA's funding must reach a "critical mass" for it to continue playing an effective, integrating role in addressing the needs of the poorest countries.

ANNEX 1. REGIONAL STRATEGIES

1. In line with the country-driven business model, the strategy for allocating IDA financial resources is determined in each of the client countries. Each of the operational regions in the Bank has, for management purposes, consolidated patterns in individual country strategies. These regional strategies are described in the sections below.

Africa Region

2. IDA provides support to 38 Sub-Saharan African countries and during IDA15 is projecting commitments of SDR 13.1 billion (close to US\$20 billion) to support the improvement of development outcomes in Africa. IDA's sustained support for policy and institutional reforms in Africa, along with its assistance to vulnerable populations in periods of political uncertainty, drought and even conflict, has been critical to the economic performance of a number of countries. Six of the 10 largest borrowers are in the Africa Region and details of their country development outcomes and future strategies are contained in Annex 3.

3. More than a third of Africans live in countries that have grown at more than 4 percent per year for 10 years, although country growth performance varies throughout the Sub-Saharan continent. Human development outcomes are improving across the region, especially in primary education, where enrollments are moving toward internationally acceptable levels. Health outcomes are more varied, but are also improving in many countries.

4. The Africa Action Plan (AAP) is the Bank Group Africa Region's strategy, working in partnership with others, to use IDA resources to help every Sub Saharan African country achieve as many of the MDGs as possible. Launched in late 2005, the AAP encompasses an outcome-oriented framework to guide the Region's work in four pillars: (i) accelerating shared growth; (ii) building capable states; (iii) sharpening the focus on results; and (iv) strengthening the development partnership. The country-based model that guides IDA partnership efforts and country strategies will be further strengthened.

5. Countries and their nationally owned PRSs remain at the heart of the AAP. This has resulted in differing approaches to supporting countries based on their differing circumstances. For example, a series of policy loans to Burkina Faso in the 1990s helped this land-locked West African country make a successful transition from a centrally controlled economic model to a more market-oriented economy that is delivering greater opportunities to the population, one of the poorest in Africa. In Ghana, IDA has been a partner throughout a long, and sometimes uneven, reform program that is bearing fruit today as the country maps plans for attaining middle-income status. Analytical and advisory work has provided the underpinning for several policy initiatives including petroleum pricing reforms, financial sector liberalization and health insurance. In Madagascar and Sierra Leone, IDA maintained a presence during major political upheavals and, in the latter, supported demobilization efforts that were crucial to locking in the agreement that ended the brutal conflict of the late 1990s (see Box 6).

Box 6: Restoring Normal Life in Post-Conflict Sierra Leone

IDA provided US\$23.6 million to the Community Reintegration and Rehabilitation Project (2000-2003), which was also co-financed by the AfDB and local communities. The project supported the Government's priority rehabilitation, reconstruction and reintegration activities, financing both training and employment initiatives for ex-combatants and sub-projects to rebuild destroyed villages. The investments made under the project helped restore social stability and rekindle economic activities for over 1 million Sierra Leoneans by reinvigorating local agriculture, restarting local government, and rebuilding schools and health posts, creating the conditions for residents to return and take up their lives again. In particular, the project disarmed 72,000 fighters, re-trained 50,000 ex-combatants in civil activities, brought 84 schools and 28 health centers back into operation, provided 200,000 people with access to potable water, and brought 9,000 hectares of land back under cultivation and close to a million hectares of agricultural land under improved production.

By helping to establish functional and sustainable institutions in post-war Sierra Leone, the project has leveraged support for rehabilitation activities beyond the project life. In 2002, leveraging on the technical capacity, management skills, assets and community approaches created by the project, the Government established the National Commission for Social Action (NaCSA). NaCSA is implementing the National Social Action Project financed by IDA under a separate credit of US\$35 million and other donor funded projects.

6. An assessment of the AAP found that overall, implementation progress was broadly satisfactory, and the country-based model, built on nationally owned poverty reduction and growth strategies, remains at the heart of the AAP. It also found that the Bank Group can strengthen its support for a country-led process in three important areas: targeting opportunities for accelerated economic growth (see Box 7); increasing support for good governance and capacity development in resource-rich and slowly growing countries; and using innovative instruments to mobilize development finance and to help integrate vertical programs and new partners into sustainable country-based institutions.

Box 7: Microfinance in Madagascar Boosts Small Clients, Women's Savings

In an effort to improve the rural poor's access to financing, an IDA pilot project established networks of saving and loans associations in two provinces in 1993-97. The Microfinance Project, approved in 1999, scaled-up this effort with US\$16.4 million in IDA resources, increasing the existing networks from 47 branches to 102, expanding to two additional provinces, and increasing their outreach and sustainability. It is part of a 15-year program to build a viable and sustainable microfinance industry to address the lack of financial services for lower-income populations, through sustained and long-term support for reform and institution building. In addition, the project has a sub-component with innovative programs designed to ensure women's participation.

IDA's role has been particularly important in building the legal, regulatory and supervisory framework for delivering financial services to the poor in rural areas and provided the basis for harmonizing donor approaches in microfinance and for a major scaling up of investments in microfinance. The new microfinance industry is expected to serve about 72,000 low-income families (or 362,500 beneficiaries) engaged in farming, fishing, commerce and handicraft production activities. In six years since the beginning of the project, access to financial services by low-income populations grew by 400 percent, the number of financial cooperatives increased from 47 in 1999 to 150 in 2006, and membership in microfinance networks increased from 30,000 to 159,430 clients. An impact study showed that more than half of the microfinance clients attributed their income increase and better ability to deal with shocks with access to microfinance services.

7. To accelerate progress the Africa Region will focus on three key strategic elements over the next three years.

- First, it will concentrate on areas that promise strong results and reflect IDA's evolving role in the development partnership. While maintaining commitment to the country- and performance-based model, Management attention will focus on eight

flagship business lines²³ supported by three cross-cutting themes²⁴ in building more capable and accountable governments, strengthening environmental management, and enhancing development partnerships;

- Second, the Africa Region will reinforce the country- and performance-based model by using country characteristics, based on economic and social performance and institutional capacity, to guide its strategy for implementation and analytical work. Further, regional integration will feature prominently in the strategy via a demand-driven model. In each flagship area, the Bank will help countries put together a menu of country- (and region-) specific financing options – including “syndications” – to attract additional resources and support accelerated progress toward outcomes;²⁵
- Third, the region intends to continue to play a leading role in implementing the Paris harmonization, and alignment agenda, and will increase the leverage of IDA by using the Bank Group’s analytic skills and operational and country knowledge to identify opportunities where an infusion of sequenced and predictable financing can be directed at results-oriented national programs.

8. **Regional Projects.** As noted in paragraph 23, IDA’s commitments for regional projects have increased significantly over time with about 89 percent going to Africa during 2001-2006. The bulk of IDA’s support has gone to infrastructure and health. Within infrastructure, in the energy sector, the West Africa Power Pool, the Southern Africa Power Market and the West African Gas Pipeline are examples of projects that have interconnected the electricity grids of neighboring countries, and helped to develop regional energy markets. In transport, projects including Africa Trade Facilitation, which covered several countries of Southern and Eastern Africa, and the West and Central Africa Air Transport Safety project have facilitated transport connectivity and created conditions for improved trade between neighboring countries.²⁶ The health sector projects focused mainly on preventing the spread of HIV/AIDS across borders, and covered West Africa and the Great Lakes. The financial sector projects focused on regional payment systems and capital market development in West Africa. The water and environment projects supported trans-border development issues such as river-basin management (e.g., the Senegal River). Investments in regional communication infrastructure were undertaken through

²³ The flagships focus on: (a) strengthening the African private sector; (b) increasing the economic empowerment of women; (c) building skills for increased competitiveness; (d) raising agricultural productivity; (e) improving access to and the reliability of clean energy; (f) expanding and upgrading road networks and transit corridors; (g) increasing access to safe water and sanitation; and (h) strengthening health systems to prevent and treat malaria and HIV/AIDS.

²⁴ The three cross-cutting areas are: building more capable and accountable governments, improving environmental management, and strengthening the development partnership through outcome-based strategies and results measurement.

²⁵ For example, in countries experiencing rapid growth, the Bank Group would give special attention to particular flagships – such as private sector development (PSD), energy access, or skills – that address constraints to growth. Similarly, where PRSs focus on multi-sectoral outcomes such as the MDGs, elements of various flagships would be combined (e.g., to achieve reductions in under-five mortality elements of the water, skills, and health systems flagships would be combined). Operations to support regional integration will feature prominently in the strategy via a demand-driven model. In each flagship area, the Bank will help countries put together a menu of country- (and region-) specific financing options – including “syndications” – to attract additional resources and support accelerated progress toward outcomes.

²⁶ The countries covered are: Rwanda, Burundi, Uganda, Kenya, Malawi, Tanzania, and Zambia.

ICT projects. A strong demand for regional projects is expected to continue during the IDA15 period.

9. ***Countries Re-engaging with IDA and Arrears Clearance.*** In addition to countries with ongoing programs, some African countries could potentially receive exceptional allocations for post-conflict countries (as defined under the IDA13 replenishment) or re-engagement (as defined under the IDA14 replenishment) as well as benefit from arrears clearance operations. These include Liberia and Cote d'Ivoire that are seen to be on track to occur in FY08, i.e., before the start of the IDA15 period; and Togo, and possibly Sudan or Zimbabwe (where prospects for reactivation are especially uncertain), where this is assumed to take place during IDA15.

10. The Region is also making good progress in changing its business processes to implement the AAP. In the past two years AFR has speeded up decentralizing staff and operations (the share of staff in country offices increased from 46 percent in FY00 to 57 percent in FY07); shifted its administrative budget toward the flagships; and emphasized work by multi-sectoral teams.

South Asia Region

11. IDA provides support to 8 South Asian countries and during IDA15, SDR 8.3 billion or US\$12.5 billion of commitments are projected to be made for supporting development outcomes in these countries. It should be noted that, as in the IDA14 replenishment, IDA commitments to India and Pakistan would continue to be capped at 11 percent and 7 percent, respectively, of the overall IDA15 envelope (minus the provision for IDA15 arrears clearance)²⁷. Three of the 10 largest borrowers in the South Asia Region and details of their country development outcomes and future strategies are contained in Annex 3.

12. South Asia's rapid economic growth and progress in human development raises the possibility that the region that has the world's largest concentration of poor people could end mass poverty in a generation. Thanks to domestic reforms and external assistance, South Asia's GDP has grown at nearly 6 percent a year for the past decade which has resulted in an impressive reduction in poverty. But the scale of the remaining challenge is still daunting. Accelerating or even sustaining growth will require addressing the vast "infrastructure deficits" and improving the investment climate. Despite economic growth, and some progress in health and education, South Asia still has some of the worst levels of human deprivation on the planet. India has levels of child malnutrition nearly double those of Sub-Saharan Africa. One in ten Pakistani children die before their fifth birthday and only 34 percent complete primary school. Further, making development more inclusive will require reversing the recent trend of rising inequality in South Asia. Looming over these challenges is perhaps South Asia's most fundamental challenge, namely, governance.

13. IDA's strategy will continue to be based on: (i) supporting country-driven strategies, addressing complex multi-sectoral issues with flexible resources over a long period; (ii) a strong record in South Asia of innovating with new ways of doing business, catalyzing the support of other players and scaling up innovations from other partners; and (iii) combining its global

²⁷ IDA15 arrears clearance amounts are expected to be carried forward if not fully utilized and it is, hence, not appropriate to include these in the distribution of the PBA amounts. For the discussion on arrears clearance, refer paragraph 26.

knowledge base and financial strength with local presence to help its clients adapt internationally recognized practices to local conditions.

14. A number of lessons learned will be reflected in IDA's strategy in the Region. First, as the countries increasingly grapple with second-generation reforms, such as decentralization and rural health delivery, development partners are challenged to address the longer term institutional reforms that fundamentally change how policymakers and service providers are held accountable, but which may take time to yield results in terms of outcomes. A constant effort needs to be made to align IDA resources in ways that support and sustain institutional reform so the benefits of IDA extend beyond specific projects. Second, IDA's analytic work needs to present options for reform, and allow clients to choose the option that will work for them. Third, stronger engagement with civil society and, in appropriate cases, with parliaments could facilitate better governance and government accountability for service delivery.

15. The strategy for effective use of IDA funds to reach the MDGs in the South Asia Region will be based on the three pillars of: (i) accelerating and sustaining growth; (ii) accelerating human development; and (iii) making development more inclusive ("equity"). All three pillars are supported by the cross-cutting theme of improving governance. Progress on all four will require both new ideas and new money.

16. Accelerating and sustaining growth. Accelerating and sustaining growth will require addressing the region's vast infrastructure needs – needs that have arisen from a lack of both resources and effective policy frameworks. IDA15 resources would be used to increase lending (complemented with IBRD in the case of India and Pakistan) and knowledge assistance to help remove the key bottlenecks to building and maintaining infrastructure assets. Sustained growth will also require further reforms in the investment climate of South Asia – to reduce the cost of doing business. IDA15 resources will support legislative reform as well as strengthening and deepening of the financial system.

17. Accelerating human development. The deep-seated human development problems in South Asia stem from a vicious cycle of poor service delivery and poverty. Although it is responsible for basic services, the public sector in South Asia too often fails poor people. Public expenditures are skewed in favor of the non-poor, resources leak before reaching frontline providers, and teacher and doctor absenteeism undermines service quality. IDA15 resources would: (i) help South Asian countries break out of this vicious cycle by improving the delivery of basic services and stimulating demand for these services; (ii) be used in a programmatic way to bring these innovations to scale; (iii) support decentralization as a means to make service providers accountable to local policymakers or communities; and (iv) make impact evaluations part of a dynamic learning process that helps to improve outcomes.

18. Making development more inclusive. Rising inequality reflects deeper distortions in access to markets and basic services in health, education, and infrastructure. Poverty in South Asia is increasingly becoming concentrated in lagging regions (e.g., some Indian states, and rural areas more generally) and lagging sectors (such as agriculture) and among informal-sector workers, disadvantaged gender, ethnic and caste groups, and vulnerable populations. Interventions are needed to generate economic and employment growth in lagging regions and sectors, improve service delivery for poor people in health, education, and infrastructure, and

protect the vulnerable. An increasing share of IDA15 resources would be targeted to support lagging regions, sectors or groups.

19. IDA15 resources would also help address at least four significant risks to accelerating and sustaining growth that are a threat even if South Asia could close its infrastructure deficit and improve the climate for investment: (i) severe water scarcity in Pakistan and Northern India; (ii) need for strengthening environmental management; (iii) climate change-triggered flooding and sea level rise; (iv) the increase of HIV/AIDS from still relatively low levels.

20. Within this framework, IDA15 resources would find different uses in SAR:

- In blend countries (India and Pakistan), where IDA resources are capped, the focus would be on growth and competitiveness (especially in lagging states and provinces), improving government effectiveness and service delivery, improving lives and protecting the vulnerable (see Annex 3).
- In countries in political transition (Bangladesh, Nepal and Sri Lanka), IDA resources would be best put to use in building infrastructure, particularly in power and roads, as well as for strengthening health, education and rural infrastructure, and for improving services by strengthening communities (see Annex 3 for discussion on Bangladesh).
- In a conflict affected country like Afghanistan IDA15 resources would be most appropriately used in the areas of strengthening state capacity, rural economic development and livelihoods, and private sector development (see Annex 3).

East Asia & Pacific Region

21. In the East Asia & Pacific Region (EAP), IDA has been a key vehicle for countries in their achievement of middle-income country status. Korea (1974), Thailand (1980), and the Philippines (1994) have graduated from IDA, and China left IDA in 1999. With the graduation of Indonesia (blend) to IBRD, the region is home to 10 million poor people and 11 IDA-eligible countries: Vietnam, which is growing towards middle income status; four small countries with still low development management capacity – Cambodia, Lao PDR, Mongolia, and Papua New Guinea (blend); and six smaller (Kiribati and Samoa) and fragile states (Solomon Islands, Timor-Leste, Tonga, and Vanuatu).²⁸ During IDA15, SDR 2.7 billion or US\$4.0 billion of commitments are projected to be made for supporting development outcomes in these countries.

22. IDA's programmatic focus in EAP is on supporting broad-based economic growth, increased levels of trade and other forms of integration, and improved governance. IDA has been effective in helping the poorer countries of the region accelerate their development because of its unique strengths, as identified by client surveys and independent evaluations. These strengths include:

- *Sustained engagement* with countries based on generally stable and, therefore, predictable financial flows. For example, in Vietnam, the predictability of financing under a series of IDA-funded PRSCs over the past 5 years has been a factor in the success of core national reforms; primary education enrollment increased from 86

²⁸ In addition, there is Myanmar, which remains inactive at this time.

percent in 1993 to 95 percent in 2002; and the share of rural households accessing electricity has increased from 50.7 percent in 1996 to 90.7 percent in 2005, of which 550,000 households were direct beneficiaries of IDA-funded intervention (see Annex 3 for discussion on Vietnam).

- As a *platform for the delivery of aid*, IDA combines deep sectoral expertise with reform advice and coordinated lending operations with several donors. For example, in Cambodia, the Education Quality Improvement Project served as a platform to establish partnerships with the World Food Program, DFID, and Voluntary Service Overseas.
- IDA is also often the *first mover* in post-conflict, reconstruction and recovery environments, sometimes *undertaking riskier operations* to catalyze broader support. In Lao PDR, IDA's engagement since 2001 in the complex Nam Theun 2 Project aimed to persuade major global players to support the country's development efforts and the project itself, and has triggered a qualitative change in the relationship between the country, the World Bank, and other partners.
- IDA has the *ability to adapt to changing circumstances and recalibrate approaches* to respond to country needs. For example, as EAP countries move to middle-income status, IDA's strategy is adjusting to new challenges. During such transitions (e.g., Indonesia, Vietnam), mobilizing investment resources increasingly requires a vibrant capital market, stronger frameworks for private participation in infrastructure, and more economic space for private firms.
- Given the strength of regional cooperation and integration in EAP, IDA is for example, building on the Greater Mekong Sub-region (GMS) forum established in the early 1990s under the leadership of the Asian Development Bank, by supporting enhanced regional exchanges, in power, water, transport and trade facilitation, and telecom/ICT.

23. Highlights of the country specific strategies in East Asia include:

- To help *Vietnam* make its transition to middle income status, IDA will focus on: (i) addressing the additional costs of structural reforms; (ii) supporting infrastructure development; and (iii) keeping growth inclusive (see Annex 3).
- *In Cambodia*, the IDA strategy – developed in coordination with ADB, DFID, and the UN Development System - aims to help implement improvements in: (i) economic governance to reduce the cost of doing business; (ii) governance of natural resources and land to benefit the rural poor from sustainable natural resources management; (iii) public financial management for improved service delivery; and (iv) accountability for service delivery. The CAS also supports the preparation of the new National Strategic Development Plan and provides analytic and financing services where there are gaps in critical infrastructure and human development sub-sectors.
- *Lao PDR*. Given the significance of ODA to Lao PDR and its limited capacity for dealing with multiple donors effectively, multilateral channels such as IDA provide a useful vehicle for delivering assistance. IDA resources would be focused on: (i) maintaining momentum of structural reforms and building capacity; (ii) improving the policy framework for private investment in natural resource projects; (iii)

strengthening public financial management to improve governance, particularly in the context of decentralization; (iv) improving social policies and management of the environment; (v) raising government capacity to deliver basic human services; (vi) supporting economic integration programs to better link Lao PDR with the GMS; and (vii) facilitating private investment in agriculture and industry.

- In *Papua New Guinea*, IDA will play a catalytic role in support of the major bilateral donor, Australia, bringing global experience to the management of the country's mineral and forest resource endowment, and helping provide a strong focus on improving access and opportunities to the rural poor.
- In *Timor-Leste* IDA's role will focus on helping the Government and donor partners craft a flexible and targeted response to continuing fragility, focusing on sustained good governance in the extractive industries, coherent budget execution, basic service health and education delivery, and employment and reintegration for the country's alienated youth.
- For the *Pacific Island* economies, EAP is committed to an enhanced focus on regional initiatives to adapt to climate change, ensure the provision of high-quality education and health services and encourage well-managed seasonal migration to the more advanced nearby labor-deficit economies. Country-based efforts will emphasize improved expenditure management, internal governance and the integration of youth. These initiatives are costly as they require a more intensive IDA staff presence. IDA's role is once again catalytic in nature, working closely with other key donors, and using IDA's global knowledge and convening power to help harmonize the overall donor effort.

Europe and Central Asia Region

24. There are currently 12 IDA14 recipients in Europe and Central Asia (ECA). Three of these – Albania, Serbia, and Montenegro – are in the process of graduating and will not require IDA15 funding. The remaining nine ECA recipients expected to receive IDA15 funding fall into two main groups: (i) four recipients are or will likely be “gap” countries²⁹ during IDA15 – Armenia, Azerbaijan, Georgia and Bosnia & Herzegovina; and (ii) five recipients will remain fully reliant on IDA during the IDA15 period – Kyrgyz Republic, Uzbekistan, Tajikistan, Moldova and Kosovo. During IDA15, SDR 1.1 billion or US\$1.7 billion of commitments are projected to be made for supporting development outcomes in ECA countries.

25. IDA is currently playing a leadership role, with the EU, in coordinating post-conflict assistance in both Bosnia & Herzegovina and Kosovo. IDA also chairs or co-chairs periodic consultative groups in the Kyrgyz Republic, Tajikistan and Moldova. IDA financial resources are channeled towards priority areas where its involvement complements the efforts of other partners. In most countries, IDA is extensively involved in sectors that directly support

²⁹ A “gap” country is one which has been above the IDA GNI/Capita operational cutoff for more than two years but which is not yet fully creditworthy for IBRD. Temporary access to IDA is maintained on an exceptional basis for such countries so Bank engagement may be maintained during the transition period while the country makes adjustments so as to achieve full creditworthiness. These countries receive “hardened” IDA terms (i.e. the maturity of the loan is reduced from 40 to 20 years leading to a lower grant element). Of these ECA countries, only Azerbaijan has started to borrow from the IBRD.

achievement of MDGs including: (i) Education and Health, (ii) Water Supply, (iii) Rural Development and Irrigation, (iv) Energy Access and (v) Transportation. Judicial Reform is also an area of growing IDA engagement.

26. **The Four “Gap” Countries.** These countries are performing well and will likely be completing the transition to IBRD during IDA15. But for each, IDA has a critical role to play during the transition in helping these countries improve their creditworthiness so that they can draw on IBRD resources and to ensure that this transition is a smooth one.

- In *Armenia*, IDA’s steady policy support over a 10 year period is paying off as it is the top performing country in IDA (see Box 2). IDA will: provide development policy support for second generation reforms; work with the government to raise the standards of national education and health systems; continue to strengthen the rural sector; deepen decentralization; and reform the judicial system.
- In *Georgia*, the new group of young reformers elected in 2004 following the “Rose Revolution” is determined to enact rapid economic reform. IDA is helping the Government implement these rapid reforms through development policy support, and also through social and physical infrastructure projects.
- Over the next few years, *Azerbaijan* will need to use its increasing oil and gas resources. It is already borrowing from IBRD for infrastructure, but IDA support would be needed to maintain momentum on the social and institutional agenda, including in the areas of reforming social protection for the poor, assistance to internally displaced peoples (IDPs), education reform, and accounting reform.
- In *Bosnia and Herzegovina*, IDA was a leader in the reconstruction program crucial in consolidating a fragile new state and helping the country repair its war-shattered infrastructure. Together with the EU and other donors, IDA still has an important role to play in strengthening social and physical infrastructure, deepening regional integration and supporting the country’s transition towards EU accession.

27. **The IDA-only Countries.** These countries’ financing needs to reach the MDGs and basic infrastructure rehabilitation far outstrips their current IDA14 allocation. Many of them are affected by political or policy uncertainty, weak institutions, ethnic or regional tensions. Nevertheless, their capacity for utilizing IDA is improving.

- In *Tajikistan*, efforts to consolidate the state following the civil war have given way to more regular developmental goals. IDA is set to begin development policy operations that will help strengthen public expenditures and management. Investment operations will focus on rural development, water supply, and the social sectors.
- In *the Kyrgyz Republic*, IDA has provided critical support during a volatile political period. Its support for rural development (land titling, irrigation, environment, and village investment), social sectors (education, health) and infrastructure (energy, transportation, water) are helping to promote economic stability and reliability.
- In *Uzbekistan*, the most populated Central Asian country and with immense needs, the dialogue between IDA and the authorities has been mixed, but engagement has been intense. IDA, together with other donors, is supporting the development of the

- Welfare Improvement Strategy, the completion of which will hopefully lead to the formulation of a new CAS, potentially focusing on social services and infrastructure.
- *Kosovo's* final legal status is still being discussed and the territory remains under UN administration. As such, Kosovo is eligible for IDA grants but is currently unable to borrow. Peace in Kosovo remains fragile and IDA's extensive involvement is seen as a key component in maintaining social cohesion. Together with the EU and other donors, IDA has played a leadership role in stabilizing the economy and beginning an extensive effort to build state capacity.
 - *Moldova* has recently quickened the pace of reform and, consequently, up to half of IDA15 resources is expected to be through policy based operations. This policy support will assist Moldova in macro-economic policy, public administration reform and improving the treasury and budget processes, as well as advice in agriculture, business environment and the social sectors. Investments will be focused on the financial sector, roads, public administration, and the social sectors.

28. *Regional Issues.* Most IDA funding to ECA is country-based. Nevertheless, IDA can provide critical targeted support for regional integration in the Balkans, Central Asia, and possibly the South Caucasus if the frozen conflicts are resolved.

Latin America and the Caribbean Region

29. The region has a diverse group of nine IDA clients: Bolivia (blend), Guyana, Haiti, Honduras (hardened terms), Nicaragua and four small island economies, Dominica, Grenada, St Lucia and St Vincent and The Grenadines. IDA's approach and strategy are specific to each of these countries, and its comparative advantage vis-à-vis other partners varies accordingly. During IDA15, SDR 0.6 billion or US\$0.9 billion of commitments are projected to be made for supporting development outcomes in these countries.

30. IDA's regional strategy is anchored in country-owned PRSPs, and therefore addresses country-specific needs. For instance, in Haiti and Guyana, the main emphasis is on generating growth and resources needed to reduce high overall poverty. In other countries, such as Nicaragua and Bolivia, poverty is more concentrated, so the emphasis is on improving progressiveness of public expenditures and targeting of expenditures through innovative schemes such as Conditional Cash Transfers (e.g., in Bolivia). The blend of instruments – ranging from policy-based lending to investment, technical assistance and analytic work – is tailored to each country's priorities, institutional capacity and macroeconomic situation. Strengthening governance has been among the key cross-cutting themes of IDA's work in the Region, where IDA has provided both lending and advice (see Box 8). Together with other donors, this work has included helping to strengthen and rely on country systems, building inclusive institutions, achieving efficiency and targeting of public spending, improving accountability for service delivery, reducing corruption, and monitoring and evaluating results.

31. The *Honduras* CAS is aligned to the PRS, which aims to accelerate growth and reduce poverty by improving governance, targeting public expenditures, relying on decentralized health and education delivery, improving the performance of economic services (such as energy and transport) that are holding back growth, and building systems to manage natural disaster risk. IDA focuses on building local capacity through cross-cutting measures that address weak

governance institutions, while directing resources to institutions and mechanisms with track records in helping the poor. To ensure remaining policy constraints are addressed and to help Government stay focused on concrete outcomes, financing is being delivered through a blend of investment and development policy operations. For example, a PRSC supported steps to improve the Government's integrated financial management system, reign in excessive civil service wage increases and lay the basis for professionalization of the civil service. In education and health, actions were taken to improve statistical databases to increase efficiency and transparency.

32. Nicaragua's PRS, developed through a broad participatory process, identifies better governance, broad-based growth, and improved health and education as main focus areas for the country's development. The Bank has closely tailored the design of a series of PRSCs to this agenda. This process has already resulted in improved public resource management, growth in pro-poor spending (from 10 percent of GDP in 2002 to 13.6 percent in 2006), and new investments in infrastructure and human capital. For example, a PRSC and Competitiveness Learning and Innovation Loan (LIL) assisted private sector development by dramatically simplifying business regulations and strengthening institutions and halved the days and procedures required to start a business in Nicaragua were halved.

Box 8: Nicaragua – Promoting Better Governance

IDA's financial assistance and advice were instrumental to Nicaragua's dramatic economic turnaround. A key element was poverty-linked debt relief, which in turn was predicated on improved governance and fiscal discipline. With IDA's support, Nicaragua was able to comply with conditions for debt relief under the HIPC initiative. Over US\$3 billion of public debt was written off in early 2004 – the largest debt relief under the HIPC initiative, of which IDA provided US\$382.6 million. This allowed Nicaragua to regain its position among the fastest growing countries in Latin America, and to increase its poverty-targeted spending. Examples of IDA's support to promoting better governance in Nicaragua include: supporting a financial administration law and the development and implementation of a modernized, comprehensive public financial management system. By 2005, almost all public resources were being channeled through this new system, allowing Nicaragua's president to track budget execution on his laptop. An IDA-backed civil service law helped map 4,300 government employees within a standardized professional classification system, generating efficiency gains and cost savings.

Tracking targets tied to IDA budget support helped monitor poverty expenditures with spending to reduce poverty rising from 10 percent of GDP in 2002 to 13.6 percent in 2006. IDA has also supported a law which will increase accountability by giving the public access to government information.

33. Basing IDA's assistance on country needs encourages cross-sectoral thinking. It enables IDA to play a lead role among the development partners for providing the structure for coordinated support based on objective analysis. It also allows IDA to help design and implement successful operations bridging several development challenges. In LCR, IDA has a track record of drawing on the Bank's global knowledge base to promote innovative approaches, finding solutions that work in specific circumstances and sometimes utilizing unconventional ideas. The fact that IDA is part of the World Bank Group and can draw on IBRD's experience is particularly attractive, as many of the lower-income countries look to their middle-income neighbors for examples to emulate.

34. In *Haiti*, establishing a functioning and transparent state is a vital priority for long term stability and economic growth, as well as for a more efficient allocation of public resources to reduce poverty. Improvements in macroeconomic stability and economic governance are also needed to provide donors with the framework for renewed assistance to Haiti. For these reasons

the Economic Governance Reform Operations (EGRO) was the main component of IDA's program of re-engagement in Haiti. The EGRO series supports the Government's efforts to improve the allocation, efficiency and effectiveness of public expenditure; transparency and accountability of the public sector; and the country's absorptive capacity for external resources. This is expected to have a positive impact on public service provision and the environment for private sector led employment creation, and poverty reduction.

Middle East and North Africa Region

35. IDA15 eligibility in the Middle East and North Africa (MNA) region will be limited to Yemen and Djibouti with the bulk of IDA's funding provided to Yemen. The Yemeni government has embarked on the implementation of reforms since July 2005, with a substantial domestic price increase for fuel and, more importantly, since early 2006 with the adoption of the National Agenda for Reform. This agenda, focused on governance and anti-corruption, would need to be further deepened and widened to include the improvement of the investment climate to promote private sector development – a key engine of non-oil growth and thus poverty reduction. Recently Yemen joined the Extractive Industries Transparency Initiative in support of effective use of the countries' oil and gas revenues and negotiated a policy-based operation with IDA addressing critical issues of governance and private sector development. IDA envisages supporting the country's plan to scale up the institutions and programs that have been performing exceptionally well, such as the Social Fund for Development (see Box 9), the adoption of sector-wide approaches such as in education and water. Given the steady improvement in its performance, and the continuing challenge of meeting the MDG targets, there is significant potential for scaling up IDA assistance to Yemen.

Box 9: Reaching Out to Yemen's Poorest, Most Remote Communities

The Yemen Social Fund for Development (SFD), established in 1998, financed sub-projects designed to extend basic education, health and environment services to Yemen's most vulnerable population, to provide temporary employment, and to lay down the basis for improved social and economic development. Branch offices were established to reach out to remote communities, provide technical assistance and receive project requests. Recognized as a successful tool for poverty reduction and capacity building, the SFD was expanded in 2000 and funded again on a larger scale in 2005. IDA has provided US\$165 million for the three phases of the project, which is now supported by 15 donor agencies. In addition, IDA has shared its global expertise in the establishment and operation of social funds, and supported the government's efforts to draft the law establishing the Social Fund, develop SFD's operational manual, design mechanisms that target the poor, and evaluate impact.

Since 1998, the Fund has helped remote communities to improve basic social and economic services, directly benefiting about 10 million people. The SFD has contributed to: (i) the improvement of water supply and quality; (ii) the construction and rehabilitation of classrooms, contributing to an increase in basic education enrollment rates from 62.9 percent to 67.6 percent; (iii) the training of health care workers; (iv) the creation and maintenance of improved rural roads; and (v) the strengthening of institutions and associations working with marginalized and disabled groups. The SFD has also supported decentralization, helping to establish the roles of the governorate and district councils, and has improved education and infrastructure programs implemented by line ministries through technical assistance. For example, technical support from the SFD helped the Ministry of Education establish Parent Teacher Associations, allowing parents to become involved for the first time in the management and maintenance of rural schools. The SFD also drafted the first manual for rural roads in Yemen which is used by the Ministry of Civil Works as well.

Going forward, to ensure the sustainability of this process of channeling resources to the poor, the institutional capacity of other line ministries needs to be addressed. In addition, adequate resources are needed to support the linkages with partner organizations and structures that have been set up at the community level in order not to lose the momentum triggered by IDA.

ANNEX 2: IDA15 ASSISTANCE PROJECTION NEEDS
(in millions of SDR)

	IDA12 (FY00-02)		IDA13 (FY03-05)		IDA14 (FY06-08) c/ e/		IDA15 (FY09-11) e/ g/	
					Estimated Total		Proposed Replenishment	
	Actual	%	Actual	%	Total	%	Projections	
Africa								
Africa Regional	4		407		626			960
Angola	25		124		159			133
Benin	67		106		165			219
Burkina Faso	220		294		298			394
Burundi	101		157		166			142
Cameroon	78		91		207			274
Cape Verde	25		34		20			26
Central African Republic	34		0		73	d/		24
Chad	163		151		36			48
Comoros	14		9		5			7
Congo, DR	400		965		808			660
Congo, Republic of	72		77		63			59
Cote d'Ivoire	190		0		217			247
Eritrea	182		94		37			35
Ethiopia	689		831		1153			1525
Gambia, The	36		3		17			22
Ghana	402		521		534			707
Guinea	129		57		41			54
Guinea-Bissau	39		10		16			21
Kenya	279		340		622			823
Lesotho	31		28		33			44
Liberia	0		0		60			71
Madagascar	322		414		334			442
Malawi	79		214		204			270
Mali	249		140		261			346
Mauritania	174		94		31			41
Mozambique	346		344		331			437
Niger	167		150		143			189
Nigeria	535		618		999			1322
Rwanda	157		175		151			200
Sao Tome and Principe	8		8		5			6
Senegal	351		141		226			299
Sierra Leone	102		164		77			101
Somalia	0		0		0			0
Sudan	0		0		0			123
Tanzania	621		735		1166			1542
Togo	0		0		0			82
Uganda	613		675		660			873
Zambia	285		194		118			155
Zimbabwe	4		0		0			18
Arrears Clearance					501			425
Subtotal	7,193	48%	8,366	47%	10,565	48%		13,367

ANNEX 2: IDA15 ASSISTANCE PROJECTION NEEDS

(IN MILLIONS OF SDR)

	IDA12 (FY00-02)		IDA13 (FY03-05)		IDA14 (FY06-08) c/ e/		IDA15 (FY09-11) e/ g/	
					Estimated Total		Proposed Replenishment	
	Actual	%	Actual	%	Total	%	Projections	
East Asia								
East Asia Regional								tbd
Cambodia	104		119		97			128
Indonesia	311		297		657			0
Kiribati	NA		NA		4			6
Lao PDR	68		93		47			63
Mongolia	97		30		50			66
Myanmar	NA		NA		0			0
Papua New Guinea	0		0		58			77
Samoa	4		15		7			10
Solomon Islands	3		0		6			8
Timor-Leste	0		6		22			16
Tonga	5		9		3			5
Vanuatu	3		0		5			7
Vietnam	1175		1219		1749			2314
Subtotal	1,768	12%	1,788	10%	2,708	12%		2,700
South Asia								
Afghanistan	80		554		554			555
Bangladesh	648		1168		1465	f/		1938
Bhutan	16		31		32			42
India	2079		1996		2593	b/		2846
Maldives	13		20		18			24
Nepal	58		294		260	f/		343
Pakistan	930		1081		1604	b/		1811
Sri Lanka	122		427		388			513
Subtotal	3,947	26%	5,571	32%	6,913	31%		8,073
ECA								
ECA Regional					19			tbd
Albania	136		113		56			0
Armenia	123		115		129			170
Azerbaijan	127		101		164	b/		217
Bosnia-Herzegovina	207		121		67			89
Georgia	107		107		103			136
Kosovo	0		21		14			18
Kyrgyz Republic	92		68		64			84
Moldova	44		71		77			102
Serbia & Montenegro	137		330		88			0
Tajikistan	95		41		77			102
Uzbekistan	16		46		103	f/		136
Subtotal	1,085	7%	1,133	6%	960	4%		1,054

ANNEX 2: IDA15 ASSISTANCE PROJECTION NEEDS
(IN MILLIONS OF SDR)

	IDA12 (FY00-02)		IDA13 (FY03-05)		IDA14 (FY06-08) c/ e/		IDA15 (FY09-11) e/ g/
					Estimated Total		Proposed Replenishment
	Actual	%	Actual	%	Total	%	Projections
LAC							
Bolivia	149		125		77	f/	103
Dominica	2		2		3		4
Grenada	6		9		4		6
Guyana	4		19		15		19
Haiti	0		50		91	d/	44
Honduras	217		183		160		212
Nicaragua	258		107		113		149
St. Lucia	11		8		7		9
St. Vincent & the Grenadines	4		5		5		6
OECS Countries	0		1		9		9
Subtotal	650	4%	509	3%	486	2%	554
MNA							
Djibouti	39		21		15		20
Iraq	0		0		355		0
Yemen, Republic of	279		284		221		292
Subtotal	318	2%	305	2%	590	3%	312
Regional Set Aside non-AFR							240
Total a/	14,961	100%	17,673	100%	22,223	100%	26,299

Notes:

a/ Total commitments in IDA14 are estimated to be higher because of the use of IDA13 allocation resulting from the unforeseen postponement of an operation in end-June 2005.

b/ Includes estimated hard term lending amounts

c/ FY08 estimates are based on FY07 country indicators

d/ Includes arrears clearance amounts

e/ All amounts are net of grant discounts starting IDA14. In addition, allocations beginning FY07 are net of debt service due (MDRI). For IDA15, allocations assume same debt service levels due as in IDA14.

f/ Amounts reflect lower lending volumes owing to country specific situations

g/ IDA15 projections assume a 20 percent increase in commitment authority and the same country indicators as in FY07. In addition, it takes into account the anticipated graduations of countries from IDA, the proposals made in accompanying papers on fragile states and arrears clearance, and the proposed scale up of regional projects

ANNEX 3: SELECTED COUNTRY CASES

Tanzania

Country Indicators	1994	2005
GDP per capita (US\$)	157	336
Average inflation (%)	37.1	4.4
Total public debt (% of GDP)	93.7	24.6 (2006)*
Fiscal balance (% of GDP)	-2.3	-1.9
F.D.I. net inflows (US\$ millions)	151 (1995)	325
Poverty incidence (%)	39 (1991)	35 (2001)
Rural poverty incidence (%)	41 in 1991	39 (2001)
Urban poverty incidence (%)	28 in 1991	23 (2001)
Gross primary school enrollment rate (%)	68 (1991)	112.7 (2006)
Under-five child mortality (per 1,000)	147 (1996)	112 (2004)
Maternal mortality (per 100,000 live births)	529 (1996)	578 (2005)
Population (millions)	26.7	38.3

*Following Multilateral Debt Relief Initiative.

Sources: World Bank *World Development Indicators 2006*; IMF *World Economic Outlook 2006*; Annual Economic Survey by Ministry of Planning, Economy and Empowerment; *Poverty and Human Development Report 2005*.

Tanzania has established a strong track record of macroeconomic stability for almost a decade and pursued an ambitious reform agenda focused on higher growth and poverty reduction. As a result, the country is expected to achieve the first MDG – to halve poverty by 2015 – and the population’s well-being has improved measurably. Tanzania needs robust and broad based growth, particularly in rural areas, to ensure sustained progress on this front. In addition, there is a considerable degree of regional and rural-urban inequality. Working to lessen regional disparities in terms of access to basic services will determine opportunities for the next generation of Tanzanians.

Tanzania’s National Strategy for Growth and Reduction of Poverty (MKUKUTA in its Kiswahili acronym – June 2005) provides a coherent strategy for accelerating growth and reducing poverty, and also encompasses the MDGs. Current projections show total development assistance for Tanzania of about US\$1.8 billion per year. Based on 2006 costing exercises, fully implementing the strategy and achieving MKUKUTA objectives and the MDGs will require an average of an additional US\$1.6 billion per year (FY07-10), declining to average of US\$1.0 billion per year (FY11-14).

As with all Development Partners in Tanzania, IDA has aligned its support to the MKUKUTA. In support of MKUKUTA’s objective of Growth of the Economy and Reduction of Income Poverty, IDA will strive to further improve prospects for growth, especially through improved investment climate, and programs in agriculture, forestry, environment, and mining; reduced infrastructure bottlenecks; improved labor force skills; deeper reforms in the financial sector and an enabling environment for private sector activities; and increased regional integration. In Improvement of Quality of Life and Social Well-being, IDA will focus on

strengthening health financing and human resources, and technical, tertiary and secondary education; improving capacity at local government level to deliver services, together with improving monitoring and reporting; and supporting social protection. In Governance and Accountability, the WBG strategy will help improve governance at national, district and village levels; and promote greater use of country systems, and more effective use and strengthening of domestic capacity and accountability.

The Bank is increasingly providing its support through harmonized aid modalities, such as development policy lending, basket funds, and joint analytical and advisory services. Stand alone investment financing will continue to complement sector and general budget support. Overall lending during IDA15 is projected at SDR 1.5 billion.

Ethiopia

Country Indicators	1991	2005
GDP per capita (US\$)	108	141
Inflation (% change in consumer prices)	36	12
External debt (% of GDP)	97	16 (2006)
Poverty incidence (%)	46 (1996)	39 (2006)
Gross primary school enrollment rate (%)	30	79
Under-five child mortality (per 1,000)	204 (1990)	123
Access to clean water (% of population)	19 (1990)	36 (2004)
Road network (km)	23,442 (2005)	37,018
Population (millions)	53	71

Sources: Government of Ethiopia, Plan for Accelerated and Sustained Development to End Poverty (PASDEP); World Bank, *World Development Indicators*.

Since the end of a long civil war in 1991, Ethiopia has registered strong economic growth, along with significant gains in key human development indicators. Notwithstanding this progress, Ethiopia is still a long way from achieving its MDGs by 2015, given: (i) the country's very low starting point, (ii) ongoing governance challenges, and (iii) the toll imposed by war and persistent and recurring droughts. Today the challenge for Ethiopia is to continue to improve the livelihoods of its citizens and reduce their vulnerability to hunger. This means not only continuing to improve public services, but also accelerating private-sector-led economic growth and improving governance at all levels – with greater transparency, accountability and public participation.

Sectoral and policy priorities in Ethiopia include growth (infrastructure, private sector development, financial sector, agricultural productivity and marketization, growth corridors, regional linkages), services (decentralization, human development, urban, local accountability), and vulnerability (safety nets and food security, nutrition, pastoralists). In addition, using aid effectively will require Ethiopia to improve governance, empower local authorities, and become more accountable to its citizens. As such, the Bank is taking a lead role in interventions to help strengthen key areas of economic governance – such as building institutional capacity for decentralization, supporting private sector growth, and improving transparency and accountability.

Building upon the governance steps included in Ethiopia's poverty reduction strategy, IDA and other members of the Development Assistance Group are developing a mutual accountability framework whereby measurable progress on governance will be met with higher development assistance. Overall lending during IDA15 is projected at SDR 1.5 billion.

Nigeria

Country Indicators	1990	2005
GNI per capita (current US\$)	280	560
Net primary school enrollment rate (%)	57.8 (1991)	90.9
Under-five child mortality (per 1,000)	230	194
Population (millions)	90.6	131.5

Source: World Bank, *World Development Indicators*.

The average total cost of investment needed for Nigeria to meet the MDGs has been estimated at US\$12.5 billion per annum or about US\$80 per person³⁰. Notwithstanding Nigeria's strong economic growth, high oil prices and good policies in recent years, the country would need substantial concessional lending to fill the existing financing gap to meet the MDGs.

In support of Nigeria's progress toward the MDGs, sectoral and policy priorities for IDA's engagement are in the three broad areas of human development, non-oil growth and governance, as identified in the Country Partnership Strategy (June 2005), a joint strategy developed with DFID that was aligned with the priorities of the government's home-grown National Economic Empowerment and Development Strategy. Going forward, the World Bank will undertake a mid-term review of the CPS implementation and, based on this review and new strategic goals of the new Government of Nigeria, adjustments will be made. Preliminary sectoral priorities for the next 2-3 years are in the areas of infrastructure, health and poverty reduction. IDA is projected to provide overall lending during IDA15 of SDR 1.3 billion.

³⁰ "Nigeria's Opportunity of a Generation: Meeting the MDGs, Reducing Indebtedness", World Bank Report, 2005.

Uganda

Country Indicators	1992	2006
GDP growth (%)	3.4	5.6 (2005)
GDP per capita (US\$)	177	267 (2005)
Inflation (consumer prices, %)	42	6.6
Gross domestic savings (% of GDP)	0.6	12.4
Exports of goods and services (% of GDP)	7.2	13.8
External debt (% of GDP)	106	43 (2005)
Private sector investment (% of GDP)	6.5	19.6
Poverty incidence (% below national poverty line)	56	31
Net primary school enrollment (%)	68 (1995)	91.7
Under-five child mortality (per 1,000)	160 (1990)	138 (2004)
Population (millions)	22 (1996)	29 (2005)

Sources: *World Development Indicators* and IMF databases (November 2006) and National Household Survey (poverty data for 2006 is preliminary data).

Uganda has already met two of the eight MDGs, i.e., gender equality in primary school enrollment and reversing the spread of HIV/AIDS. With current policies, institutions and external resources, the country is likely to meet another four targets – reducing by half the proportion of people living in extreme poverty and hunger since 1992, ensuring primary school enrolment of all eligible children, environmental sustainability and strengthening global partnerships. However, achievement of the remaining targets, most notably targets on health (infant and maternal mortality), will be difficult, without a combination of additional resources, strengthening of policy and institutional capacities, sustained good governance, and efficient and effective management of resources.

IDA's program continues to support Uganda's home-grown poverty reduction strategy – PEAP. IDA assists Uganda to achieve PEAP and MDG outcomes in non-income dimensions of poverty, such as health, education, and water and sanitation. It also supports the reduction of income poverty and inequity; and promotes growth, through support for infrastructure, energy, regional initiatives and the creation of capacity in the public sector. Overall lending during IDA15 is projected at SDR 0.8 billion, of which two-thirds would be for investment operations and one-third for development policy operations.

Kenya

Country Indicators	1995	2005
GNI per capita (current US\$)	270	540
Under-five child mortality (per 1,000)	111	120
Access to improved water source (% of population)	45 (1990)	61 (2004)
Population (millions)	27.2	34.3

Source: World Bank, *World Development Indicators*.

Evidence arising from a 2005 needs assessment³¹ indicates that Kenya has considerable potential to meet the MDGs, but it will require an estimated US\$6.1 billion in expenditures per year. The Government's 2003 Free Primary Education program has increased primary school net enrollment rate from 80 percent in 2003 to 83 percent in a couple of years and Kenya has already halved the prevalence of HIV/AIDS, but it is not likely to meet the child mortality and maternal health MDGs at the current rate of sectoral financing. Economic management has improved, with growth rates nearing 5-6 percent over the past three years, but the pace and breath of reforms have been mixed across sectors. Inequality and poor governance also remain major concerns, despite some notable efforts.

Reaching the MDGs will require accelerating the country's ongoing policy realignment, including: (i) consistently implementing governance reforms; (ii) improving infrastructure services more quickly; (iii) continuing the prudent monetary and fiscal management; (iv) improving competitiveness and the business climate, including accelerating financial sector reforms; and (v) improving the efficiency of resource allocation and service delivery. The *Kenya Vision 2030*, launched by the authorities in October 2006, targets an average annual growth of 10 percent over the period in order to raise living standards to middle-income status by 2030.

During IDA15, the Bank proposes a four-part approach to lending: (i) proceeding with investment operations, with safeguards, where risks are manageable; (ii) undertaking additional safeguards and other technical work in areas where corruption risks are high before proceeding with investment operations; (iii) enhance IDA-IFC partnerships on equity and governance; and (iv) completing due diligence analytic work before proceeding with DPOs. The Bank will complete analytic work and continue with policy dialogue concerning ongoing structural reforms and implementation of the Governance Action Plan in preparation for possible future DPOs. Overall lending during IDA15 is projected at SDR 0.7 billion.

³¹ *Millennium Development Goals in Kenya: Needs and Costs*. Government of Kenya, 2005.

Ghana

Country Indicators	1983	2001	2005 ^a
GDP per capita (US\$)	181	270	400
CPI (% change)	123	21.3	14.8
External debt (% of GDP)	—	117	48
Poverty headcount index (%)	52 (1992)	42 (1997)	35 (2003)
Gross primary school enrollment rate (%)	—	81 (2002)	92
Under-five child mortality rate (per 1,000)	143 (1985)	100 (2000)	95 (2003)
Population (millions)	12.5	20.4	21.0

Sources: Ghana Statistical Service (GSS), International Monetary Fund and World Bank.

a. Estimate.

Achieving accelerated, sustained and shared growth is the centerpiece of Ghana's strategy to accelerate progress toward the MDGs and advance toward middle-income status. According to new statistics (Ghana Living Standard Survey), Ghana is set to achieve the poverty MDG already in 2008, first among its peers in Africa, halving poverty from 51.7 percent in 1991 to 26 percent. An agenda for enhanced shared growth has been pursued by the government, including deepening of reforms and expansion of key investments. However, the health MDGs are lagging behind, inequalities may be on the increase, and further concerted efforts are needed to enhance employment generation.

Over the decades, IDA has supported a comprehensive program in Ghana and will support a wide-ranging portfolio, including: (i) greater access by the private sector to capital markets; agricultural development, including diversification into high-value exports, community-based rural development and natural resource management; infrastructure, in particular energy (planning, regulation and financial underpinnings, transmission, distribution and access to electricity), transport and ICT; (ii) water supply and sanitation in rural and urban areas; basic and post-basic education, health, with targeted support to child survival, maternal health, health insurance, HIV/AIDS and malaria; and (iii) reform and capacity building in the public sector, in particular the strengthening of public financial management and evidence-based public policy choice.

Partners are basing their engagement in Ghana on the Annual Partnership Review of the Consultative Group, mapping all partner contributions to a prioritized PRSP-based government results matrix. A joint assistance strategy ensures commitment by 16 partners (95 percent of annual disbursements) to a harmonization agenda. A rapid increase in disbursement has backed Ghana's improved outcomes. IDA's contribution has grown, with improving portfolio quality,

higher disbursements and more strategic engagement, as evidenced by both analytical work and operational progress. Ghana faces significant challenges in energy, public sector reform, and other areas, but the overall partnership has significantly deepened. Ensuring value for money in public expenditure and public-private partnerships is possibly the top priority. Ghana seeks to benefit from accelerated progress and scale-up development investments. On the back of its new perspective of debt sustainability, the Government has expressed interest in seeking access to capital markets. The World Bank Group will need to use all its instruments, including IDA financing, to make sure that Ghana's current progress is sustained. Overall lending during IDA15 is projected at SDR 0.7 billion.

Democratic Republic of the Congo (DRC)

Country Indicators	1990	2005
GNI per capita (current US\$)	220	120
Under-five child mortality (per 1,000)	205	205
Access to improved water source (% of population)	43	46 (2004)
Population (millions)	37.8	57.5

Source: World Bank, *World Development Indicators*.

Peace and recovery in DRC is taking place within the context of acute social crisis. DRC is likely to miss most of the MDGs by 2015, and available indicators suggest that the conflict has caused “development in reverse” in the social sectors. Seventy-five percent of the population lives with less than one dollar a day, an estimated 16 million people have “critical” food needs, life expectancy stands at 43 years, and DRC’s Human Development Index declined by more than 10 percent in the last ten years and now ranks 167 out of 177 countries. Since 2001, DRC has received a growing inflow of external economic aid with annual disbursements in 2004 and 2005 each at US\$800 million (excluding peacekeeping costs, humanitarian assistance, and support for the recently held elections). However, given the scale of challenges that DRC faces, the government estimates that about US\$14 billion would be necessary to address the country’s needs, as will be continued reliance on non-Governmental partners for service delivery. This represents about US\$47 per capita per year, three times the current level of aid.

A number of donors are providing assistance to DRC within the Country Assistance Framework, a common strategic approach being developed by several donors for economic assistance to the country in the post-elections period (2007-2010). The new CAS is being prepared jointly with 14 other donors, and will support the PRSP through critical reforms – including in the governance area – and continued support in areas of current Bank support such as emergency rehabilitation and reconstruction; disarmament, demobilization and reintegration; emergency urban development; health; education; private sector development; water; agriculture; mining; forestry; and infrastructure.

IDA’s support is expected to include a mix of investment lending and development policy lending. Although risky, budget support has proven key to supporting critical reforms – including in the governance area, especially for reforms that require taking on powerful constituencies (e.g., legal review of forestry concessions) – and will therefore be used provided that special measures can be put in place to mitigate fiduciary risks. In addition, sectoral investment projects in key sectors will incorporate strong reform components. In line with IDA post-conflict guidelines, IDA special post-conflict allocations to DRC will be gradually phased out starting FY07. Overall lending during IDA15 is projected at SDR 0.7 billion.

India

Country Indicators	1995	2005
GNI per capita (US\$)	380	720
Average inflation (percent)	8.0	4.4
General government fiscal deficit (percent of GDP)	10.8 (1998/99) ^a	6.3 (2006/07) ^b
General government total debt (percent of GDP)	71.9	81.6
Foreign direct investment (US\$ million)	2,057	5,733
Poverty incidence (poverty headcount index, percent) ^d	36.0 (1993/94)	27.8
Gross primary school enrollment rate (percent)	100 (1998)	116 (2004)
Under-five child mortality (per 1,000 live births)	104	85 (2004)
Maternal mortality (per 100,000 live births)/c	580 (1982–86)	440 (1992–2003)
Population (millions)	932	1,095

Sources: Central Statistical Organization; Reserve Bank of India; Planning Commission, WDI, UNICEF; WHO.

Notes: a. Peak; b. estimated; c. Bhat et al.; d. Another set of estimates, also provided by India's Planning Commission, suggests that poverty rates have declined to 22 percent of the population in 2004/05 from 26 percent in 1999/2000. These estimates are based on a different methodology which cannot be compared to earlier estimates.

Reaping the benefits of gradual but sustained reforms, annual growth in India increased to over 8 percent in the last four years and poverty rates have fallen from about 36 percent to 28 percent between 1993 and 2004. However, 300 million people in India continue to live below the poverty line, and increasingly sharp too is the picture of “two India’s.” One India is on a rapid development trajectory. The other is caught in a low-level development trap, progressing much more slowly. In response to this concern, India has declared its intent to achieve much greater inclusive growth in the next five years under the announced Eleventh Five Year Plan (2007-2012) that will largely coincide with the IDA15 period. The Bank is discussing with the Government of India a revised program of the allocation and targeting of IDA resources under IDA15 that would be even more closely aligned to meeting the MDG goals in the next five years, by targeting IDA resources at direct poverty reduction, empowerment, and programs where IDA financing can leverage substantial further resources and hence IDA impact (see Box 7 for an example of such work).

Subject to these criteria, India’s broader investment needs in meeting MDG goals lie in five core areas. These are also areas where IDA assistance will be important, especially to leverage domestic spending and its greater effectiveness in priority sectors and regions, thereby meeting the MDG goals in India: (i) in the poorest lagging states, supporting policy reform and budget support, and leveraging central government assistance and schemes, to help accelerate growth and poverty reduction; (ii) supporting complementary investments, and leveraging government resources and schemes, to meet the human capital needs of the poor in primary health, education, and nutrition; (iii) addressing critical investment needs and leveraging central

and state spending in rural development, agriculture and rural livelihoods, where the gap is growing and diverging from the other India of the upwardly mobile urban middle-classes; (iv) building and extending the effectiveness of social safety nets for the poorest and addressing social exclusion (in terms of excluded poor, castes, tribes, and households affected by disease burdens or disabilities); and (v) meeting India's urgent physical infrastructure demands, especially to address directly poverty in urban settings and investments in power, transport, and water targeted at those needs. IDA and IBRD resources would be used in a complementary manner in the infrastructure sector.

Within the country lending strategy, much of the overall lending is envisaged in investment lending, with development policy operations playing a relatively small role, except in the poorest lagging states. India's allocation will be capped at 11 per cent of the IDA15 envelope (excl. IDA15 arrears clearance), which under the proposed replenishment scenario amount to SDR 2,846 million. Of this approximately 15 percent will be used for development policy operations.

Pakistan

Country Indicators	1999	2006
GDP per capita (US\$)	467	812
GDP growth (three-year average, %)	3.5	7.2
Average inflation (%)	5.7	7.0
Total public debt (% of GDP)	98.5	54.7
Fiscal deficit (% of GDP)	5.5	4.2*
FDI net inflows (US\$ million)	472	3451
Population (millions)	135	159
Poverty incidence (%)	34.3 (2000/01)	29.2 (2004/05)
Gross primary school enrollment (%)	72 (2000/01)	86 (2004/05)
Under-five child mortality (per 1,000 live births)	111 (1992–96)	103 (2000/01)

Note * Fiscal deficit in 2005 includes extraordinary expenditure to deal with the aftermath of the October 2005 earthquake.

Sources: World Bank and Government of Pakistan.

Beginning in 1999, Pakistan launched a wide ranging reform program that has succeeded in stabilizing and jump-starting the economy while creating fiscal space to increase public expenditures on education, health, and public investment. Nevertheless, Pakistan's own resources are insufficient to sustain the higher levels of public spending needed to meet its growth and poverty reduction goals. Recent ODA flows have averaged around US\$1.5 billion per year; however, the response to the October 2005 earthquake has diverted resources (including IDA) from MDG-related activities to relief and reconstruction. The Government of Pakistan estimates that additional concessional financing of US\$1.4 billion per annum is required to meet the MDGs.

In support of the Government's objectives, priorities for IDA engagement are set forth in the CAS which focuses on: (i) sustaining growth and improving competitiveness; (ii) improving government effectiveness and service delivery; and (iii) improving lives and protecting the vulnerable. In particular, financing is needed to address the costs of structural reforms to sustain macroeconomic stability and improve the investment climate as well as to finance increased investments in education and health, which are critical to raise labor productivity and improve living standards. Another key priority is to strengthen governance. Reforms in public expenditure and financial management, public procurement, and tax administration have been launched, but will need to be sustained.

Pakistan's allocation will be capped at 7 per cent of the IDA15 envelope (excl. IDA15 arrears clearance), which under the proposed replenishment scenario would amount to SDR 1,811 million. About half of planned IDA investment would take the form of development

policy operations, which are well-suited to supporting the Government's poverty reduction strategy, emphasizing second generation policy and institutional reforms. As a blend country, Pakistan will also borrow IBRD resources, primarily to accelerate its investments in the infrastructure sectors.

Bangladesh

Country indicators	1996	2005
GDP per capita (US\$)	342	423
Average inflation (%)	6.7	6.5
Total public debt (% of GDP)	49.3	49.1
Fiscal deficit (% of GDP)	4.5	3.8
FDI net inflows (US\$ million)	7	800
Poverty incidence (%)	48.9 (2000–01)	40 (2004–05)
Fertility rate	6.1 (1972)	3.0 (2003–04)
Life expectancy at birth	45 (1972)	63 (2002–03)
Gross primary school enrollment (%)	71 (1998–99)	98 (2001)
Under-five child mortality (per 1,000 live births)	120 (1995)	77 (2004)
Population (millions)	119	142

Source: Bangladesh Bureau of Statistics and World Bank staff estimates.

Despite poor initial conditions and a persistence of natural disasters, economic and social performance in Bangladesh has been impressive. At the same time, Bangladesh has increased its focus on strengthening fiduciary oversight and institutions, to address the country's weak implementation capacity and governance concerns, and help strengthen the basis for transforming resources into strong development outcomes. With continued strong performance and financial support, it is likely to be one of the few countries to achieve most of the MDGs by 2015.

As outlined in the CAS, IDA's engagement will focus on empowering the poor and improving the investment climate. The poor will be empowered through better education, health, nutrition, access to safe water – and through social inclusion and good governance. IDA will continue to support health and education through programmatic instruments (SWAPs or DPOs) focusing on strengthening Bangladesh's health and education systems, and introducing service delivery innovations that will improve outcomes, building on past successes such as the contracting of NGOs and the use of the secondary girls stipend program (see Box 8). For example, in health, IDA has financed nine operations totaling more than US\$1 billion since 1975. Population growth and total fertility rates have been reduced by 50 percent and infant mortality has declined from 153/1000 to just 62/1000. Likewise, under-five mortality rates have declined by two-thirds in the past thirty years.

The investment climate will be addressed by maintaining macroeconomic stability, but also by improving governance and efficiency in infrastructure, reducing trade restrictions and strengthening sectors critical to pro-poor growth such as agriculture, and water resources. IDA's support to the banking sector has had high impacts, with three banks being corporatized and one being privatized. This has improved economic governance and reduced fiscal losses. The share

of state owned banks has dropped from 54 percent in 1998 to just 40 percent in 2004, while non-performing loans decreased from 27 percent to 18 percent.

IDA will finance these development priorities with a mix of investment and development policy lending. An initial PRSC is likely to be developed in FY08 or FY09. IDA will continue to support education and health through development policy loans, while investment lending is likely to increase significantly in infrastructure. These operations will be accompanied by advisory support from IDA and Government policy reform. Overall lending in IDA15 is projected at SDR 2.1 billion.

Afghanistan

Country Indicators	2002	2006
Children enrolled in grades 1–12 (millions)	3.1	5
Infant mortality (per 1,000 births)	165 (2001)	135
Coverage of prenatal care (%)	5.0 (2003)	71
GDP excluding opium (billions US\$)	4.1	7.3
GDP per capita (US\$)	182	300
Tax revenue/GDP (%)	3.2	5.5
Fixed line and mobile telephones (per 1,000 people)	1.3 (2001)	11.8 (2003)
Population (millions)	22.4	24.3

Sources: World Bank, International Monetary Fund, government and project data.

Success in improving social indicators and meeting Afghanistan's MDGs during its fragile transition depends on the implementation of commitments elaborated under the Afghanistan Compact (signed in January 2006) across the areas of security, governance and economic development – reflecting the peculiarly intertwined factors of the illicit economy, rising insecurity, corruption and weak institutions that characterize the Afghan challenge. The Government estimates that external financing of US\$4 billion a year through 2010 will be necessary to meet the Compact targets, which are in line with the “Afghanized” 2020 MDGs.

Based on the lessons learned to date, IDA's engagement will continue to follow the Interim Strategy Note's three thematic areas, where IDA has helped build a platform for effective scale:

- Capacity of the state:* Continued engagement in this area by IDA will be critical to consolidate the gains made in supporting a lean and effective state that delivers services accountably to citizens. Priorities include continued attention to public administration reform, public financial management and fiscal sustainability including customs reform through a mixture of investment and development policy operations as well as continuing to provide leading policy advice through analytic work. Critically, IDA must continue to support the capacity to deliver basic services including education and health. In healthcare, the model of the ministry partnering with NGOs to deliver services has ensured access of around 90 percent of the population to an increasingly quality provision of basic healthcare services. Further support is necessary to scale up this effort. Under new leadership, the education sector has renewed focus and a new sector strategy. This is vitally important – despite the progress made since 2001, overall literacy is estimated at 33 percent with a very large gender disparity and a significant urban/rural divide.
- Rural programs:* Rural programs have had considerable success by building on existing capacity in local traditional systems and existing capacity in the NGO and private sectors. Activities under this pillar will build on the ongoing and successful

interventions that deliver community infrastructure, increased rural access, and irrigation to support employment in agriculture and off-farm. Scale and increased sustainability are now the main challenges. Efforts are already underway to examine how community level decision-making bodies can play a role in the development of rural governance.

- *Private sector development:* Support to power, infrastructure maintenance, urban development, and urban water supply is expected to continue. Power remains the constraint to investment most commonly noted by (potential) investors in Afghanistan. Direct support to enhancing the private sector will be through industrial estates development, investment guarantees, natural resources (mining) and, in particular, microfinance. Since March 2006, the microfinance sector has been adding 10,000 active clients per month and loan disbursements have averaged US\$7 million per month. At this pace, by March 2007, it is expected that the sector will have more than 320,000 active clients and cumulative loan disbursements by microfinance institutions will have surpassed US\$170 million.

The Government's strategy is to use the budget as the main instrument for donor coordination, thereby also enhancing leadership by the Government. IDA's Programmatic Support to Institutional Development has proved particularly effective. As Afghanistan's post-conflict allocation is being phased out starting FY08, its overall lending for IDA15 is projected as somewhat less than SDR 0.6 billion, of which about 25 percent would be for developing policy operations.

Vietnam

Country Indicators	1993	2005
GNI per capita (Atlas method, US\$)	170	620
Inflation (CPI, annual rate, %)	8.4	8.4
External debt (% of GNI)	191	33
Poverty incidence (% of population with consumption below basic needs level)	58	20 (2004)
Net primary school enrollment rate (%)	77 (1990)	94(2004)
Under-five child mortality rate (per 1,000)	53 (1990)	23 (2004)
Maternal mortality rate (per 100,000 live births)	200	80
Population (millions)	70.3	83
Population growth rate (% per year)	2	1

Source: Vietnam, General Statistics Office; World Bank, Development Data Group.

As one of the best-performing developing economies in the world, Vietnam has the potential to be one of the great success stories in development. Support from IDA since 1993, which has totaled US\$6 billion, has contributed to the country's remarkable poverty-fighting effort through finance for agriculture, infrastructure, health programs and schools, among other things. Poverty fell from 59 percent in 1993 to less than 20 percent in 2004.

But, after a lengthy period of growth, the country faces new challenges as it aims for middle-income status by 2010. The key questions are whether, at the end of the next five years, Vietnam will have laid the institutional foundations of a middle-income country and whether these will be strong enough to keep growth sustainable and inclusive. At the same time, poverty continues to be widespread and remains overwhelmingly rural (rural poverty stands at 25 percent compared to 4 percent in urban areas). Poverty also remains entrenched for the country's ethnic minorities, and still, pockets of severe poverty remain within cities, especially for migrants.

As outlined in the new Country Partnership Strategy, support from IDA will be vital over the next five years to build the stronger institutions necessary to facilitate and safeguard a more complex and diverse economy. Overall lending during IDA15 is projected at SDR 2.3 billion. To help Vietnam make its transition to middle income status, these IDA resources will be used to:

- *Address the additional costs of structural reforms:* Financial resources and technical support are needed to deepen structural reform programs, including recapitalizing state-owned commercial banks; and divesting and reforming large state-owned enterprises. These are likely to result in significant labor redundancies and require an effective but costly social safety net program. Additional IDA15 resources could help address the social safety net issues through expanded PRSC operations, while working towards achieving sustainability of social safety net programs over time.

- *Support infrastructure development:* Investment in transport, energy, water and sanitation needs to be expanded rapidly if the country is to avoid development bottlenecks and attain key MDGs. Additional IDA resources could be used to further improve household access to water and sanitation, expand power generation capacity and address the transport, logistics and trade bottlenecks (see Box 9 for an example of IDA's support for energy in Vietnam).
- *Keep growth inclusive:* IDA resources could be used to enhance the government's Targeted Poverty Reduction Program and National Urban (slum) Upgrading Plan. Vietnam is also trying to build universal programs for health and social insurance. Additional IDA resources could be used to support the universal health program and skill enhancement of health care workers.

ANNEX 4: RECENT DEVELOPMENTS IN SECTOR STRATEGIES AND IMPLICATIONS FOR RESOURCE USE

1. Countries' priorities and needs determine the mix of funding and instruments provided by IDA for various sectors and themes. In this Annex, recent developments in major sectors are discussed together with the potential implications for IDA15.

Infrastructure

2. As was highlighted in the Aid Architecture paper, ODA for infrastructure declined from more than US\$8 billion/year during the IDA11 period to about US\$6 billion/year in the subsequent period.³² It is estimated that low-income countries as a group currently spend about 3-3.5 percent of GDP on the maintenance of and investments in their infrastructure. This contrasts starkly with the roughly 6.5-7.5 percent of GDP that is estimated to be required to adequately maintain these assets, expand access through new investments, and enable economic activity to support projected levels of economic growth over the next decade. This translates roughly to more than US\$100 billion/year for investment and maintenance, of which it is estimated that presently only about half is met.³³

3. While IDA's commitments to support infrastructure investment have been steady over the years, this has not stopped the overall downward trend in ODA infrastructure financing. IDA now stands ready to make a major contribution towards meeting the low-income countries unmet infrastructure investment needs. Based on the business plans of the six regions, IDA estimates that during the IDA15 period it could deliver *some US\$5.3 billion/year of infrastructure investment in all regions taken together*. Of this the lion's share – US\$3.0 billion – would be in Africa, with most of the remainder in South and East Asia. Such a figure would be in line with present assistance projections for FY07, which could reach US\$5.5 billion. It would still represent less than 5 percent of the infrastructure investment needs of low income countries, and therefore would not imply excessive reliance on IDA as a source of funding. Two types of infrastructure investment that are in particular need of scale up at this time are clean energy and water and sanitation.

4. The challenges of providing clean energy have been discussed in para. 21 of the main paper. It should be noted that to meet the access targets stated in that section, *annual investments for energy in Sub-Saharan Africa need to increase from US\$2 billion to US\$4 billion*. Scaling up of the program relies on both the international and domestic private sectors to be effective and sustainable, and increased private-public partnerships. A strong replenishment of IDA15, accompanied by additional donor concessional financing, will be essential for such a scale-up to become a reality.

5. **Water and sanitation.** Over the past five years, IDA has become the single largest source of financial assistance to the water supply and sanitation sector (WSS). Having increased lending from 5 percent to 18 percent of total official development assistance for WSS by 2004, IDA concessional financing has supported policy reform and institutional development of the

³² Based on OECD-DAC CRS data.

³³ Source: *Investing in Infrastructure – What is Needed from 2000 to 2010?* (July 2003) by Marianne Fay and Tito Yeppe. In: World Bank Policy research Working paper No. 3102.

WSS sector, while directly providing at least 25 million people with access to improved water supply sources and/or sanitation between 2000 and 2006. A recent meta-analysis³⁴ shows the positive link between improvements in hygiene, water and sanitation, and a reduction in the incidence of diarrheal diseases – an important cause of child morbidity and mortality.

6. The provision of urban water supply will remain important, fuelled by the rapid urbanization in many IDA countries. However, in IDA15 there will also be an increased focus on improving WSS governance, another aspect of improving the enabling environment in which WSS public or private infrastructure investments can be sustainably operated and maintained in the long-run. In Africa, the World Bank and the African Development Bank (AfDB) are committed to working together to support national programs for rural and urban WSS in order to minimize transaction costs and maximize the funds that government and donors can contribute to the sector. The Rural Water Supply and Sanitation Initiative (RWSSI) led by the AfDB is an important element of this strategy. The partnership with AfDB and other donors enables the Bank to leverage its IDA funds significantly, and to balance investments between rural, town and urban WSS.

7. National WSS programs initiated by IDA in Burkina Faso, Ethiopia, Ghana, Malawi, Mozambique, Rwanda, Senegal, Tanzania, and Uganda, amongst others, testify to the success of this approach. Similarly, the new Africa Agriculture Water Investment Partnership of the World Bank with NEPAD, AfDB, FAO, IFAD and the International Water Management Institute (IWMI) is designed to scale up donor support of NEPAD's efforts to boost Africa's irrigated areas above their current level of less than 4 percent of cropped area, the lowest of any inhabited continent. This is critical to both increasing agricultural productivity and adapting to climate change that produces significant decreases in rainfall. In India, the current rural WSS approach is expected to be replicated in a number of states.

8. **Transport.** Scaled up assistance for transport will focus on three areas: (i) improvements in transport accessibility for poor rural communities through improvements in the management and maintenance of the rural roads network (within this program more attention will be given not only to infrastructure but to the performance, affordability and inclusiveness of transport services that use road infrastructure and to its use by non-motorized forms of transport); (ii) overcoming physical and institutional transport bottlenecks to regional and international trade in goods and services (more diversified support will be given for development and institutional reforms in freight logistics infrastructure such as railways, ports and inland waterways as well as roads), which will be particularly important for land-locked nations and small island nations; and (iii) to increase engagement in the urban transport sub-sector to reflect the development challenge posed by the combined effects of population growth, urbanization and motorization. This includes increasing investment in and efficiency of urban transport in general, with special emphasis on urban public transport. An expanded program of analytic and advisory work and country dialogue will be directed at capacity building in urban transport administration.

Agriculture

³⁴ Fewtrell, L., and J.M. Colford, Jr. 2004. "Water, Sanitation and Hygiene: Interventions and Diarrhoea – A Systematic Review and Meta-analysis." Washington, D.C.: World Bank.

9. Globalization and economic integration bring both great opportunities and severe threats to the livelihoods of the rural poor that are especially numerous in IDA countries. Opportunities arise from new urban demand patterns for food and market possibilities propelled by continuing dietary diversification in the rapidly expanding cities of developing countries and soaring new export markets for fish, meat, fruits, vegetables, and ornamental plants or cut flowers. Threats arise from the complications for small-scale producers in meeting new food safety, biosafety, and intellectual property right requirements, emerging disease such as avian influenza, and the sanitary, quality, and reliability standards necessary to compete in the fast growing segments of developing country markets. The public role here continues to shift to facilitation of participation of the poor, decreasing threats to their assets and livelihoods, regulation and certification as opposed to direct implementation of production, marketing, and investment activities. During the last eight years the IDA allocation to agriculture fluctuated between a low of US\$305 million in FY00 to a high of US\$1,144 million in FY06; indicative of both high annual variability and the upward trend in agricultural lending over the period in Sub-Saharan Africa and South Asia.

10. The *World Development Report 2008: Agriculture for Development* concludes that increasing agricultural productivity is a necessary precondition for achieving the MDGs associated with poverty alleviation and growth in those countries with a large share of the poor in rural areas and where agriculture represents a large share of total output. The latter characteristics are in fact applicable to most IDA countries, especially in Africa and the poor parts of South Asia. Only increases in agricultural productivity can provide the widespread boost to the currently very low levels of domestic purchasing power in these countries in a way that will sustainably diversify their economies into services, light manufactures and other forms of non-agricultural rural and urban development.

Health

11. Development assistance for health has changed dramatically in the last five years. More than a hundred major organizations are involved in the health sector, often off-budget: a much higher degree of proliferation than in any other sector. Insufficient clarity of mandates and roles for the various donor organizations makes it difficult to reconcile with the development of a holistic approach to health systems and sustainable financing at the country level. In addition, new global health initiatives, organizations and private financing sources have significantly increased the total volume of aid, creating an enormous opportunity for the Bank and global partners to improve health conditions in low-income countries. Most of the initiatives and new funding have been for specific diseases such as: The Global Fund to Fight AIDS, TB and Malaria, the United States President's Emergency Plan for AIDS Relief, and others. Much less is available for strengthening health systems, which is now seen as the key constraint to improving the effectiveness of disease-specific, "vertical" assistance. IDA has a crucial role to play in strengthening health systems in a manner coherent with other public sector reforms. IDA is equipped to supply the sustained, long-term, system financing – combined with technical assistance – which is needed to build stronger health delivery systems in developing countries.

12. The new strategy for Health, Nutrition and Population (HNP) sets the stage for revitalized Bank's – and IDA's – support in view of changes in the architecture for development assistance for health. The new HNP strategy starts from the recognition that over the last decade, the Bank was surpassed as the main single HNP financier, and an increasingly prominent role is being

played by other aid providers, such as global funds, the Bill and Melinda Gates Foundation, and bilateral donors. The HNP strategy emphasizes the Bank's core sectoral comparative advantage in health system strengthening, which is by definition a multi-sector endeavor. In practice, health system strengthening means "putting together the right chain of events (financing, regulatory framework for private-public collaboration, governance, insurance, logistics, provider payment and incentive mechanisms, information, well-trained personnel, basic infrastructure, and supplies) to ensure equitable access to effective HNP interventions and a continuum of care to save and improve people's lives." The multi-sector nature of health system strengthening can be clearly seen in the various elements involved in such systemic approach: public sector reforms; development of health financing mechanisms; strengthened fiduciary mechanisms; and improved governance at the country and sectoral level.

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

Education

14. The Bank is the world's largest external financier of education, and IDA is the largest source of education financing for low-income countries. IDA has channeled more than US\$8 billion in education assistance over the last ten years to 71 countries. Most of this (about US\$5 billion) has focused on primary education, in view of the Millennium Development Goal of achieving universal primary completion by 2015. IDA is the main source of external financing for primary education in many countries, including India, where IDA provides US\$ 500 million in support of the sector-wide Sarva Shiksha Abhiyan program.³⁵

15. Nonetheless, despite considerable progress, more remains to be done, and the education sector will need to continue to rely on sustainable, predictable ODA. While the estimated number of primary school-aged children out of school declined to 77 million today from 100 million in 2000, universal access is far from been achieved. Only 25 of 81 IDA-eligible countries in 2006 had achieved or were on track to achieve universal primary completion (the second MDG) by 2015. In addition, even though aid to education has expanded significantly, there remains a need for *more and better aid*: "aid is not sufficiently predictable or flexible to enable countries to make confident medium-term plans such as for teacher training; it is insufficiently coordinated, making transaction costs quite high for the recipient country; and many of the countries that need aid the most have quite low absorptive capacity."³⁶ Progress has been made under the Education For All – Fast Track Initiative (EFA/FTI), and IDA has played and will continue to play a pivotal role in advancing the EFA/FTI agenda.

Gender

³⁵ See *IDA at Work* note "Education: An Impressive Expansion", March 2007.

³⁶ Kagia, R. (2006). "Securing the Future Through Education: A Tide to Lift All Boats". In Bhargava, V. (ed.). *Global Issues for Global Citizens. An Introduction to Key Development Challenges*. Washington, D.C.: The World Bank, p. 196.

16. In 2001, in response to a request from IDA donors, the World Bank adopted a gender mainstreaming strategy, setting the stage for integrating gender concerns into all IDA operations. Since then, IDA resources have helped many countries integrate gender issues in development policies and projects, with 85 percent of IDA credits in FY04-05 including attention to at least some gender issues in project design. Recent activities conducted to reduce the gender gaps in primary and secondary education – such as the Bangladesh Female Secondary School Assistance Project, which provided incentives to keep girls in school – have made a major contribution to reaching the third MDG (gender equality). The Multi-country HIV/AIDS Program in Africa has focused particular attention on addressing the gender dynamics in its response to the pandemic, with operations in a series of countries. Gender issues are also increasingly integrated into Country Assistance Strategies (CAS), poverty assessments and other analytic work: the Pakistan CAS proposes gender-responsive operations to increase girls' school enrollment, reduce maternal mortality, and reduce the spread of HIV infections among sex workers; and the Cambodia Poverty Assessment analyzes poverty-related gender issues in education, health, decision-making, household work and labor market participation, and highlights the country's widespread domestic violence.

17. Much more remains to be done though. In particular, improvement in project design from a gender perspective has been greater in health and education than in agriculture, infrastructure, private sector and finance. In FY03-05, over 85 percent of all World Bank health and education projects integrated gender design, compared to 69 percent of projects in these other sectors. This discrepancy mirrors overall progress in development indicators for women, for whom social indicators have improved faster than economic ones. For instance, IDA countries have succeeded in reducing the gap between girls' and boys' school enrollment from 16 percentage points in 1999 down to 10 percent in 2004, and average life expectancy for women has also increased by 17 years since 1960. However, women's formal labor force participation has fallen to 49 percent in 2005 (from 53 percent in 1980), while the figure for men continued at around 86 percent. Women also continue to trail men in terms of access to credit, entrepreneurship rates, income levels, inheritance and ownership rights, and number of seats in parliament.

18. In an effort to better integrate gender concerns in the lagging sectors, a new World Bank Group Gender Action Plan – Gender Equality as Smart Economics – was launched during the Annual Meetings in September 2006. It will guide the Bank's Gender Equality work in the coming four years, with most of the operations under the plan expected to occur in IDA countries. In Tanzania, where women have very poor access to financial services, a line of credit for women at a commercial bank will be established, women will receive training to help increase their "bankability," and regulatory and legal reforms will be supported to give women better credit access. To transition from subsistence agriculture and help raise rural income levels in the Zambezi valley, Mozambique, smallholder farmer groups, women producer's organizations and other supply-chain participants will receive direct support in marketing, credit, and agribusiness development. A Community Investment Fund will also be set up to provide resources for infrastructure to increase agricultural productivity. To meet women's energy needs in Bangladesh, a pilot Technical Assistance Project is being prepared to test an improved stove program, test credit schemes for their purchase, and evaluate health benefits from reduced exposures to toxins.