

A STRATEGY FOR INCREASING IDA'S EFFECTIVENESS IN AFRICA

December 14, 2000

AFRICA REGION

## ACRONYMS

AAA	Analytical and Advisory Activities
AfDB	African Development Bank
APL	Adaptable Program Loan
CAP	Community Action Program
CAS	Country Assistance Strategy
CDD	Community Driven Development
CDF	Comprehensive Development Framework
EAP	East Asia and Pacific Region
ECA	Economic Commission for Africa
EMSP	Economic Management & Social Policy Group
ENV	Environment Department
ESW	Economic and Sector Work
G7	Group of 7 (industrialized countries)
HD	Human Development
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IDF	Industrial Development Fund
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
LIL	Learning and Innovation Loan
MAP	Multi-Country HIV/AIDS Program for Africa
OAU	Organization of African Unity
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSIVP	Private Sector Development and Infrastructure Vice Presidency
QAG	Quality Assurance Group
SAR	South Asia Region
SIP	Sector Investment Project
SDV	Social Development Department
PACT	Partnership for Capacity Building in Africa

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## A STRATEGY FOR INCREASING IDA'S EFFECTIVENESS IN AFRICA

1. Africa faces the beginning of the 21<sup>st</sup> Century with enormous development challenges – it is the only continent in the world where poverty has increased. But in the last decade, there has been renewed hope and opportunity. A new study completed by the Bank, in partnership with several African institutions, looks at the potential for accelerating Africa's development in the 21<sup>st</sup> Century and proposes strategies for launching processes of economic, political and social development.<sup>1</sup> It underlines the fact that African countries will continue to need significant international aid if they are to achieve the poverty and social goals endorsed by the international community. To attain 7% growth rates – the rates needed on average to halve poverty by 2015 - Africa will require investment equivalent to 30% of GDP. With savings rates at just 13% of GDP and private inflows limited to a sustainable 5% of GDP, there remains a large savings gap. The need for concessional resources – through bilateral flows, the HIPC initiative and especially IDA - is thus critical for Africa.

2. The IDA12 agreement projected 50% of IDA resources going to Africa. Yet IDA commitments to Africa have plateaued in recent years. In response to requests from the IDA Deputies and Bank senior management, the Africa Region has focused on delivery of IDA resources to Africa and has outlined a strategy to achieve this. This paper summarizes that strategy, which the Africa Region is already implementing, and which is in line with IDA's approach of linking lending to country performance. Part I provides the strategic context through an overview of Africa's development challenges. Part II reviews IDA's role and performance in supporting Africa's development, and the special issues we face. Part III outlines a strategy to accelerate IDA flows and enhance IDA's impact in Africa.

### Part I: Africa's Development Challenges

3. Africa is a diverse region, facing enormous development challenges. Africa entered the 20<sup>th</sup> Century a poor, mostly colonized region. As it enters the 21<sup>st</sup> Century, much has changed: education has spread, life expectancy has increased, and political participation has expanded. Many countries are making headway with steady growth, rising investment, increasing exports, and growing private activity. But some countries are also affected by poor governance, crises and conflicts – or are recovering from conflicts that have set back development prospects by a generation. Still others are only beginning to grapple with basic reforms. Successful and sustained development in Africa depends on overcoming the challenges outlined below.

4. The first is **poverty**. Africa is poor, and incomes have, on average, grown little in the last 30 years. Despite gains in the second half of the 1990s, Africa now has many of the world's poorest countries. When South Africa is excluded, the region's average income is the lowest in the world – just \$315 per capita. Africa's total income is just over that of Belgium – but is divided among 48 countries with median GDP of barely \$2 billion. Unlike other developing

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<sup>1</sup> *Can Africa Claim the 21<sup>st</sup> Century*, published by the World Bank in collaboration with the African Development Bank, African Economic Research Consortium, Global Coalition for Africa, and United Nations Economic Commission for Africa. (Washington, D.C., The World Bank, 2000).

regions, Africa's average output per capita (in constant prices) had changed little by the end of the 1990s from 30 years before – and in some countries had fallen more than half. The region's savings rate – 13% of GDP – is the lowest in the world. Moreover, Africa's poor are the poorest of the poor. Almost half of its 600 million people live on just \$0.65 per day (in purchasing power parity terms (see Annex 1)). This number has grown relentlessly, causing Africa's share of the world's absolute poor to jump from 25% to 30% in the 1990s.

5. Africa's **place in the world economy** has eroded since the mid-20<sup>th</sup> Century. Despite recent gains, Africa accounts for less than 2% of world trade. Three decades ago, African countries specialized in primary products and were highly trade dependent. Terms of trade have deteriorated sharply for non-oil exporters. The erosion in Africa's world trade share between 1970 and 1993 represents a staggering *annual* income loss of \$68 billion, or one-fifth of the region's GDP. Africa was not able to diversify into new lines of business, due to poor policies, geographic limitations to economic diversification and low investment, especially in infrastructure. Shortcomings in governance deterred private investment and Africa saw massive capital flight and loss of skills to other regions. By 1990 almost 40% of private wealth had left the region (compared with 10% in Latin America and 6% in East Asia).

6. Many countries in Africa are **heavily indebted**. The sharp increase in aid transfers after 1970 was mostly offset by terms of trade losses; the rest was more than offset by increases in debt. Net transfers from foreign assistance average 9% of GDP for a typical country (equivalent to almost half of public spending). By the end of 1997, foreign debt accounted for more than 80% of GDP in net present value terms. Thus, implementation of the HIPC initiative is a vitally important part of financing Africa's development.

7. Africa's incomes, assets and essential services are distributed unequally and **investment in people** is low. Income disparities are as high as in Latin America and social exclusion is profound. Many Africans are trapped in a dynastic form of poverty, progressively less able to escape because children lack the basic capabilities to acquire the skills to participate in a productive economy. Development problems which used to be global are now largely African. Health and life expectancy indicators are low, even taking into account low incomes. In many countries, one child in five dies before the age of 5. Almost one of every two Africans lacks access to safe water. Less than one rural girl in four attends primary school. Low investment in people is especially troubling because, with rapid population growth, Africa's abundant natural resources – the mainstay of its economies – are being rapidly depleted relative to its population.

8. **HIV/AIDS** in particular poses the paramount threat to development in Africa. The epidemic has erased many of the development gains of the past generation (for example, life expectancy has been cut by 10 years in some countries) and now threatens to undermine the rest. Twelve million African children have been orphaned. Nearly 25 million Africans are living with HIV/AIDS – far more than in other regions (Table 1) - and the vast majority of them are adults in the prime of their working and parenting lives. Another 14 million have already died from AIDS, with devastating social and economic consequences. AIDS is costing the region close to 1% of economic growth each year, while imposing an unsustainable and mounting burden on households, firms and the public sector. Yet despite heightened awareness in recent years, the epidemic continues to gain speed. Last year, four million Africans were newly infected, the highest number to date. The tragedy of the epidemic is compounded by the fact that it is

preventable. But unless far more aggressive action is taken across the continent, HIV/AIDS will continue its rapid advance and progressively choke off other development efforts.

**Table 1: Sub-Saharan Africa: Social Indicators  
(weighted averages)**

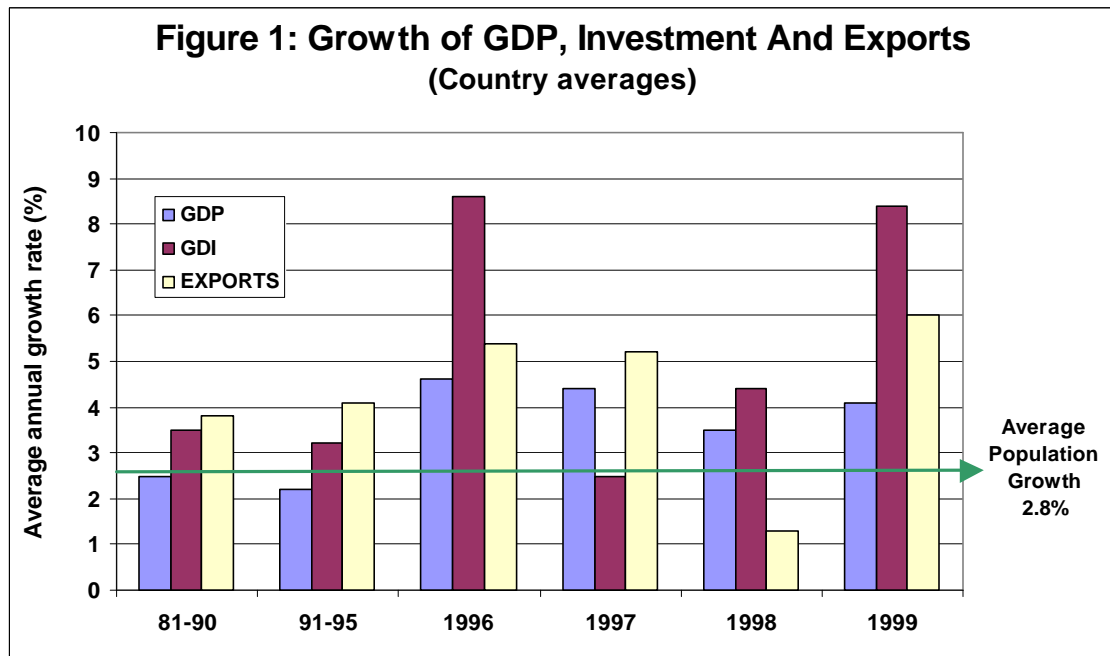
Indicator		Sub-Saharan Africa **	South Asia	East Asia	Latin America
Adult illiteracy rate (% , aged 15+)	Total	41	47	16	12
	Female	49	59	22	13
Primary Gross school enrollment ratio (% , ages 6-11)	Total	78	100	119	113
	Female	70	90	118	..
Secondary Gross school enrollment ratio (% , ages 12-17)	Total	27	49	69	60
	Female	24	39	66	..
Life expectancy at birth (years)	Total	50	62	69	70
	Female	52	63	71	73
Infant mortality rate (per 1000 live births)		92	75	35	31
Physicians per 1,000 People, 1990-98 a/		0.1	0.4	1.5	1.5
Percent of population with access to safe water, 1990-96 a/		43	77	84	75
Adults and children living with HIV/AIDS, 1998	mill.	22.5	6.7	0.6	1.4
Percent of adults (15 to 49 years of age) living with HIV/AIDS in 1998		8.00	0.69	0.07	0.57

*\*\* 1995-98 Data*  
*a/ Data for the most recent year available.*

9. Africa has seen more than its share of **conflict**. One African in five lives in a country at war or severely disrupted by conflict. Poverty, unemployment and low education feed into conflict and are a more important cause of it than ethnic diversity. Conflict has imposed large costs on African countries – costs that can hardly be afforded – both in human and in economic terms. Recent estimates suggest that conflict could reduce African growth by as much as 1.5% of GDP per year.

## Turning the Corner

10. In the last decade, many African countries have begun to turn the corner. Many countries have made important economic reforms, improving macroeconomic management, liberalizing markets and trade, and widening the space for private sector activity. Where reforms have been sustained and underpinned by civil peace, they have raised incomes and growth, and reduced poverty. Political participation has increased sharply, paving the way for more accountable governments. The end of the Cold War has changed the focus of assistance policies to performance. Globalization and new technology offer potential for Africa. The result has been an encouraging improvement in performance.



11. Sustaining this growth upturn will be essential to reducing poverty. Simply preventing an increase in the number of Africa's absolute poor over the next 15 years will require annual growth of more than 5% - nearly twice the level achieved since 1973. Achieving the International Development Goal of halving severe poverty by 2015 will require annual growth of more than 7%, as well as a more equitable distribution of income. Low incomes, high inequality and rapid population growth (Africa's population growth rate of 2.8% is the highest in the world) mean that Africa needs a higher growth rate than other regions. Hurdles to achieving these growth rates include an enormous savings gap, flagging investment rates, and the decapitalization of Africa's economies. If Africa's economies are going to grow rapidly and raise consumption at the same time, an extended period of concessional financing will be needed.

12. In particular, boosting growth and ensuring that development is sustained, will require progress on four fronts:

- **Improving Governance and Resolving Conflict.** Countries with better economic management and performance have made the greatest gains in civil and political participation. Participation encourages accountability and transparency. Decentralized service delivery can strengthen political participation and support good governance. At the other end of the spectrum, resolving and preventing conflict can promote stability and development.
- **Investing in People.** Africa's productive base is rapidly shifting from natural resources to people, and human capacity is becoming ever more important in a world economy driven by knowledge and technology. Investing in people is crucial for sustained growth. Endemic diseases, most importantly HIV/AIDS, but also malaria and tuberculosis, are serious threats to Africa's human capital base. Africa's savings are too low to raise income and consumption at rates needed to reduce poverty substantially, even with better-allocated assistance. But savings are unlikely to rise without growth incomes and without lowering dependency ratios. Demographic variables in turn respond to growing incomes, and better health and social services.
- **Increasing Competitiveness and Diversifying Economies.** Africa needs to create jobs, through encouraging investment, developing efficient business services (including infrastructure, financial and information services) and eliminating corruption. Agriculture will also need to increase productivity, recapitalize and revitalize rural communities. Producers need to diversify exports, and markets need to expand – hence the importance of greater regional integration as well as access to global markets.
- **Reducing Aid Dependence and Debt, and Strengthening Partnerships.** Foreign savings are essential for higher investment to increase growth, and higher consumption to reduce poverty. There is wide agreement, though, that past aid programs have been disappointing. Resolving the dilemma posed by continued aid dependence requires a radical rethinking of the relationships among Africa's civil society, governments and donors, to create effective partnerships for development. In particular, aid needs to focus on poverty; to bring delivery closer to recipients; to broaden beyond national boundaries to fund and encourage cross-border goods; and to address the lingering debt burden. More holistic, country-driven programs – such as the Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers – are incorporating these elements and forging new partnerships.

13. **Capacity**, particularly in government, will be essential for tackling these priorities. For many reasons, many African governments lack capacity. Technical factors include inadequate expertise, poor professional development, weak evaluation and other systems, and disorderly and ineffective planning, budgeting, and programming. Several initiatives have been launched to address these shortcomings, including the African Capacity Building Foundation (ACBF), the

Partnership for Capacity Building, training and technical assistance programs, and civil service reform programs. But a lot more of the large pool of technical assistance funding must be reallocated for Africa to develop, repatriate, and retain its own capacity. In addition, moves to decentralize service delivery and increase transparency in government help create a constituency for more effective and transparent management, while building additional capacity at local levels. Here, partnership and increased support by donor agencies will be essential, both to build capacity within Africa as well as to save capacity through improving aid partnerships, coordination, and reporting arrangements.

14. Clearly the agenda facing Africa is large and complex. And the primary responsibility for carrying it out will rest with the African countries themselves. Good governance – encompassing sound leadership, improved state capacity and institutions, empowered citizens, the rule of law, and increased transparency – will be essential to provide the enabling framework to carry through on human and economic development, as well as forging new relationships with donors. Political instability and conflict can destroy progress in building capacity and institutions and can arrest development efforts. Weak governmental capacity can lead to inadequate policy frameworks, poor use and impact of development resources, and slower development. Fortunately, Africa and its leaders are now seized by these issues and several initiatives are underway to formulate plans and programs to address them.<sup>2</sup>

15. While Africa must take the prime responsibility and leadership for its own development, Africa's partners must support this process, through providing funds, through providing analytical support and dialogue, through assisting in capacity building, and through championing the search for solutions to tough issues, such as debt relief, conflict resolution, and improved access for African countries to European and North American markets.

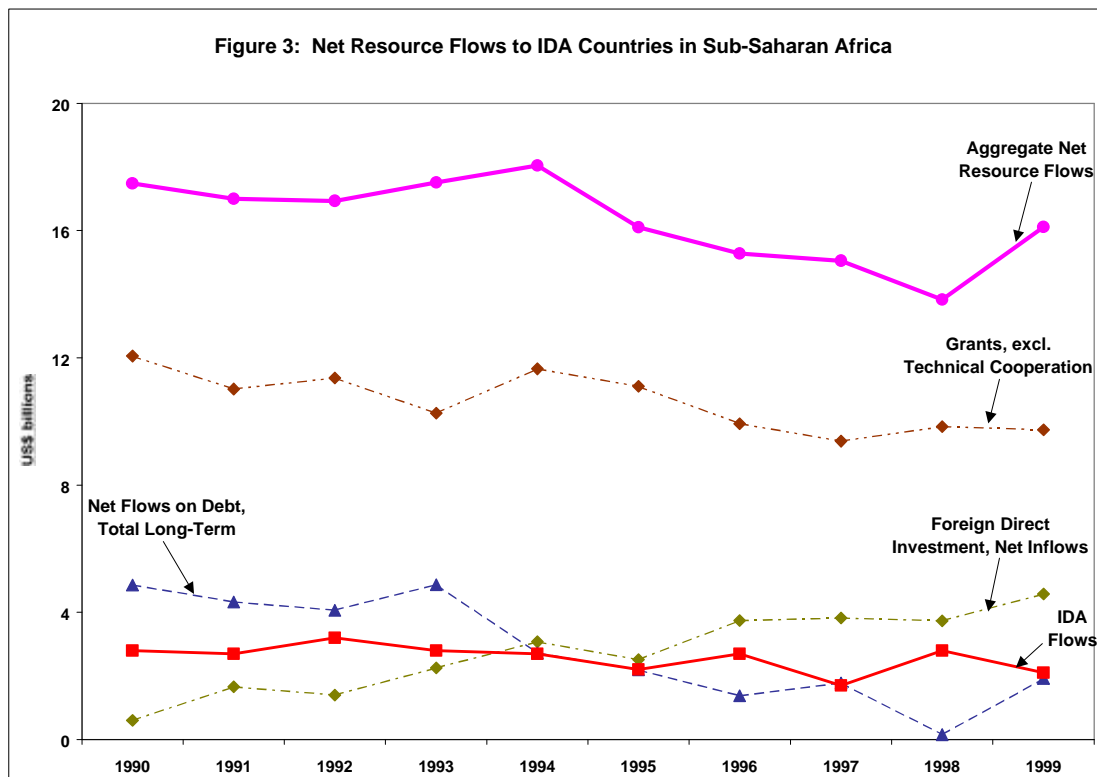
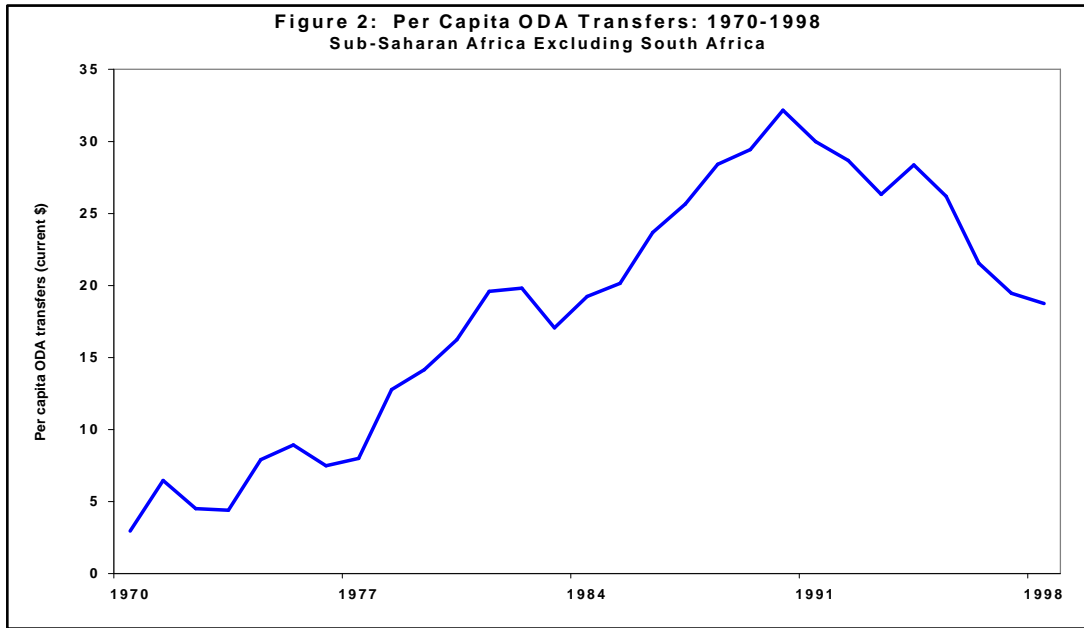
## **Part II: IDA's Role in Supporting Africa's Development**

### **Continuing Need for Concessional Resources**

16. If Africa's decapitalized economies are to grow rapidly and raise consumption at the same time, an extended period of concessional financing will be needed. Investment rates will need to be sustained at about 30% of GDP to achieve the ambitious growth needed to reduce poverty. Africa's domestic savings rates are low, about 13%, and thus can meet less than half this need. There are limits to the extent that private investment can compensate. Experience of other regions suggests that private capital inflows of more than 5% of GDP cannot be sustained without risking serious financial instability. Official assistance will need to play a bridging role for a long period of time before private investment can provide the needed resources and before public investment can be financed on commercial terms. Even under the most favorable conditions, the typical African country will need resources of more than 12% of GDP to cut poverty in half by 2015, or about \$25 billion annually over the next 15 years (excluding South Africa). The sharp drop in aid since the mid-1990s (from \$32 to \$19 per person) has reduced total ODA flows from the high of \$32 per person in 1990 to a low of \$19 per person in 1998.

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<sup>2</sup> South Africa, Nigeria and Algeria have been mandated by the OAU to lead this effort and have been liaising with the G7 countries. African institutions, including the ECA and the AfDB are also contributing.



17. Assistance will take several forms. There is already a severe problem of unsustainable public external debt in most IDA-only countries in Africa. The HIPC initiative is helping to address the overhang of the excessive stock of debt, but new concessional resources will need to remain at the heart of external resource support for public services. Debt reduction through the HIPC initiative is essential to allow many African countries the space to shift public expenditures

toward critical areas, especially investment in people. Debt relief under the HIPC initiative (from all participating creditors, bilaterals and multilaterals) will total some \$23.5 billion in net present value terms (or approximately \$40.0 billion in nominal terms) over the next few years. The debt relief offered under the HIPC initiative is projected to cut public debt on average by two-thirds in recipient countries.

18. IDA is the single largest source of financing for reform programs and investment projects, and typically provides about 10-20% of total ODA inflows to IDA countries in Africa. Over the coming years, IDA will continue to contribute about 15% of needed flows, or about \$3.0 to \$4.0 billion annually.

19. The support provided through IDA, however, goes far beyond resource transfer. To ensure results on the ground, IDA provides a package of services. This includes analytical work and advice to assist policymakers in developing programs and policies. It includes access to worldwide knowledge and experience, especially in other developing countries, to provide different perspectives on solving national problems. It includes, through project preparation and supervision, assistance in solving implementation constraints. And it includes multi-country and regional approaches to issues, such as debt reduction, governance and endemic diseases, which cannot be handled solely on a national level. IDA provides these services together with resource transfer, increasing the impact of both its financing and its knowledge-based services.

### **IDA's Lending Commitments to Africa**

20. IDA12 projected an increase in IDA commitments to Africa to \$10.3 billion compared to \$7.6 billion during the IDA10 period and \$6.6 billion during the IDA11 period. Over the last three years, however, this target has not been met, although the number of projects has risen. Without special effort, IDA12 commitments would remain at IDA11 levels which is not acceptable.

21. Why have commitments lagged? The primary reasons relate to conditions in the countries themselves. One major reason is Africa's **volatility** due to political instability and resulting conflicts, as well as governance issues. Currently, one-fifth of Africa's population lives in countries affected by conflict, and the trend has worsened in the last decade. Other potential IDA recipients are affected by political instability. Taken together, some 16 countries with no or reduced IDA commitments in FY99 and FY00 accounted for 40% of Africa's population. If Nigeria is included, this number rises to 59%. *Thus, a large proportion of Africa's people currently benefit little if at all from IDA assistance.* Between FY98 and FY99, for example, the drop in IDA commitments can be linked directly to a drop of nearly \$600 million in lending to Ethiopia alone. At present, nine countries out of the 40 eligible for IDA in Africa are unstable, with lending programs reduced or suspended; these countries had potential IDA programs estimated at about \$725 million in FY01. Together, all the 16 countries represent 33% of the IDA lending program over the next three fiscal years. Given the small size of most African countries, it is difficult to expand lending to other clients when a country program slows down.

22. A second reason is the countries' own record of **performance**, on which IDA allocations are based. Performance indicators, which encompass progress on macroeconomic as well as

social and governance conditions, have been improving overall in Africa, but can be highly variable among countries.

23. An important indicator of performance affecting effective delivery is a country's macroeconomic framework. Adjustment lending is not normally undertaken unless an appropriate **IMF** arrangement is in place. Countries' macroeconomic performance and coordination with the Fund in ascertaining its adequacy was a key factor for the delivery of \$600 million of new lending (29% of IDA commitments) in FY00, and \$1.2 billion in new lending (40% of projected deliveries) in FY01. The close Bank-Fund collaboration on PRSPs will likely heighten the importance of this factor in future.

24. **Absorptive capacity** of IDA countries varies widely. Many stable countries are limited in the amount of IDA and other development resources they can absorb through traditional investment lending, due to size and in-country capacity constraints. The Africa Region in the Bank is doing more projects with smaller lending amounts per project. Multiplicity of donor-financed programs and lack of adequate coordination can also slow both commitments and disbursements: although the need for resource transfers remains, countries may not have sufficient capacity (such as experienced project managers, accountants and technical staff) to absorb resources through investment projects alone. The CDF, programmatic lending, and enhanced donor cooperation (including efforts to harmonize donor procedures) are beginning to address these problems. But it is also clear that IDA and other donors need to explore new ways of designing programs to deal with capacity constraints, along the lines outlined in para. 36 onwards.

25. **IDA allocations** can also be a factor. IDA is allocated to individual countries annually according to performance. Presently, 12% of funds targeted for Africa under IDA12 is allocated to countries emerging from conflict. It is clear that not all these IDA funds will be used, as lending programs remain uncertain. Thus, continued flexibility will be required to ensure that allocations are aligned with recognized shifts in performance across countries on an annual basis.

### **Portfolio Performance**

26. Supporting Africa's development is not simply about transferring funds: it is also about ensuring that those funds have an impact and contribute to results on the ground. The good news is that the quality of the IDA portfolio in Africa has continued to improve in recent years, reflecting both improvements in project design and in project supervision. More projects are now being implemented successfully and more projects are achieving their development objectives. These improvements can be broadly attributed to the sustained "campaign for quality" that has been underway in the Region, as well as Borrower efforts. Portfolio management actions have included the full range of project-specific and portfolio-wide measures, with strong leadership from Regional management. Intensified supervision efforts, with increasing use of country office national staff, have also contributed to improved project performance. The challenge is to sustain these improvements in the better performing countries and sectors and to target those that are not performing as well. As we move forward with increasing IDA commitments, it will also be essential to maintain the momentum for improved quality in the Region.

### **Part III: Increasing IDA Flows to Africa**

27. Responding to Africa's critical need for development resources, the Africa Region has developed a strategy to increase IDA flows to Africa. Recent analytical work (*Can Africa Claim the 21<sup>st</sup> Century?*), the HIV/AIDS crisis and ongoing piloting of the CDF, have emphasized the critical importance of forging new strategies and partnerships to tackle Africa's challenges. Experience has underlined the difficulties in increasing commitments when countries on the continent are volatile. Given IDA's potential to catalyze faster poverty reduction and economic and social development, we need to look at new ways to address Africa's development problems, particularly in areas (such as infectious diseases, conflict and regional integration) where conventional IDA instruments have not worked.

28. Our strategy includes: (i) making the best use of existing programs and instruments; (ii) restructuring how we manage program delivery; (iii) developing new instruments; and (iv) rethinking approaches to critical development problems, based on the areas of emphasis in *Can Africa Claim the 21<sup>st</sup> Century?* The first two elements of the strategy seek to have an immediate impact on IDA flows. The second two elements lay the groundwork for further increasing and sustaining these flows during the IDA13 period.

#### **Building on Existing Programs and Instruments**

29. Existing programs and instruments provide the main framework for expanding IDA commitments. Country programs are rooted in Country Assistance Strategies (CASs), which set priority sectors for IDA involvement, and link assistance to country performance. Within the current country programs, we aim to increase the size of planned operations and seek supplemental financing for well-performing projects. In terms of increasing lending in individual countries, we will focus on a subset of high-performing countries with lower per capita allocations, as well as focus on re-engaging with several large countries (Côte d'Ivoire, Ethiopia and Nigeria) which currently are not borrowing.

30. **Increase the size of selected planned operations.** It is not possible to simply do more projects to expand IDA commitments: client countries face binding capacity constraints, and the Bank faces limited administrative resources. Increasing IDA financing levels (where feasible) for selected projects already in the pipeline provides one way to increase commitments. This approach entails no substantial change of project design and no additional cost to the Bank, but depends on country and sector absorptive capacity. Scaling up operations could involve extending project scope (where feasible); increasing the percentage of IDA financing; or, for adjustment operations, increasing financing due to increased terms of trade shocks (especially due to current changes in oil prices, as discussed below). Planned projects based in the CAS are clear priorities for IDA support and would ensure that resources are directed towards areas with the greatest expected impact. Scaling up would not be done across the board, but only in selected areas where additional resources could be absorbed.

31. **Provide supplemental financing to well-performing investment and adjustment operations.** The use of supplemental financing in accordance with the Bank's operational policies to support investment projects with proven track records that are being implemented

within sound institutional frameworks carries low risk and has a high impact. It also provides the opportunity for us to transfer resources at lower transaction costs to both our clients and the Bank.

32. There is also the potential for supplementary balance of payments support in well-performing countries affected by recent terms of trade changes, in particular **increases in oil prices**. In Ghana, for example, the Board recently approved a supplement of \$50 million to the ongoing Second Economic Reform Support Operation on the basis of the sharp deterioration in Ghana's terms of trade since 1998. The sudden escalation in oil prices has combined with continued weaknesses in markets for many staple exports to produce large terms of trade shocks for many countries, including a number whose performance argues for scaling up IDA allocations. The expected impact would be adverse for growth and poverty reduction. The seven supplemental operations for African countries severely affected by the oil price shock that was approved by the Board on December 20 aim to mitigate these adverse impacts. While oil prices are generally expected to moderate after 2001, the AFR Region will closely monitor developments and be ready to provide additional resources to affected countries should they be needed.

33. **Increase lending, in particular focusing on well-performing countries.** Research has shown that assistance has the greatest impact in countries with good overall policy and institutional environments.<sup>3</sup> In expanding lending, we would put a premium on increasing lending to countries that are poor, well-placed in terms of performance ratings, and holding lower per capita IDA allocations. In addition, due to limited budget and staff resources, we would focus on countries with the largest potential project and program financing needs. This approach also ensures that IDA resources flow to a higher percentage of poor Africans. For well-performing countries, we would seek to increase commitments, as appropriate, through greater financing of projects in the pipeline and supplementals, rather than expanding project numbers. All expanded lending would be based on CAS priorities. This would mean revisiting IDA allocations for several countries which would be done in the course of the Lending Strategy Review and CAS cycles. Up to \$1.5 billion of additional commitments in the next three fiscal years could be realized.

34. **Focus on re-engaging with major countries.** Three large countries (Nigeria, Côte d'Ivoire and Ethiopia), with 35% of Africa's population, have reduced or no IDA lending, due to governance or security issues. Re-engaging with these countries quickly when conditions are right, would open access to IDA resources for significant numbers of people. Nigeria is a special case. It is Africa's most populous country (121 million people) and, despite oil revenues, one of the poorest. Per capita income is \$300, below the level at independence 39 years ago, and two-thirds of its people live below \$1 per day. Although nominally a blend country, it is no longer creditworthy for IBRD lending. The Bank is currently re-engaging with Nigeria, focusing on poverty reduction, improving management of its own internal resources and institution building. Should improvements in policies and governance take place, IDA commitments to Nigeria could increase significantly. Ethiopia, with a population of 70 million, also has the potential to absorb more IDA resources. As conflict issues are resolved, we are expanding lending again to Ethiopia (and to Eritrea), particularly to address urgent reconstruction and drought needs. Lending to

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<sup>3</sup> World Bank, *Assessing Aid* (New York: Oxford University Press, 1998).

Côte d'Ivoire has been reduced this year due to governance issues. Increasing IDA flows to these three countries as stability, security and performance permit could account for a significant amount of IDA resources in the next two fiscal years.

### **Restructuring Program Delivery**

35. We have restructured program delivery and focused management in the Africa Region on meeting these goals. First, in the FY01 budget allocation process, the Region tied country administrative budget allocations to country performance, thus shifting resources to well performing countries with the potential to absorb IDA, while resources for countries experiencing political uncertainty or conflict were reduced. Second, we have involved both sides of the matrix in reviewing and ensuring that country lending programs are robust and deliverable. Sector managers now have increased responsibility for budget management and program delivery, within the strategic framework of the CAS. We are focusing closely on pipeline delivery. Third, we have completed a strategic staffing exercise that aligns staffing and skills needs with these country and sector programs. Fourth, we are enhancing quality assurance and safeguard policies oversight and staffing to enhance program delivery.

### **New Approaches to Lending**

36. Experience has shown - and *Can Africa Claim the 21<sup>st</sup> Century?* confirms - that new approaches are needed to tackle Africa's development challenges. Problems are more complex – and more interrelated. The Africa Region, together with other parts of the Bank, is developing and adapting ways to ensure that IDA resources continue to have an impact on Africa's central development problems, which may be more difficult to handle through existing approaches and instruments. African countries need broader lending instruments that support development programs, save on scarce capacity in-country, encourage donor coordination and transfer resources at lower administrative cost. Africa's development partners, including IDA, need to work in new ways to promote greater government responsibility and accountability and link support to poverty reduction. Although these actions will have a limited impact on increasing IDA lending in the short term, they are expected to lay the groundwork for accelerated absorption of IDA resources in the next few years.

37. The Comprehensive Development Framework (CDF) and the Poverty Reduction Strategy Papers (PRSPs) have placed poverty and country ownership at the center of IDA programs in Africa. We need to support the principles of CDF and the outcomes of country-led PRSPs in how we design and deliver our development support. Moreover, the country program cycle has replaced the project cycle as the Bank's most important business model. As the focus shifts to results measured in terms of poverty reduction, CAS-based lending (sector approaches, programmatic lending, etc.) are a cost effective vehicle for supporting broad policy dialogue and for working with development partners. Individual projects will still remain important vehicles, but they must be grounded in the overall CAS program. The Africa Region has thus been refocusing our lending consistent with these principles, in the ways outlined below.

38. **Sector-wide and Adaptable Program Lending.** Sector-wide and adaptable program lending allows countries to address the complex and interrelated problems in a sector or subsector, thereby enhancing support and development results, while facilitating longer-term

support for programs over time (through Adaptable Program Loans, or APLs). A sector approach encourages donor coordination and partnership, and potentially reduces costs to government of dealing with multiple development partners (although there are indications that more needs to be done in this area). Sector-wide and adaptable program lending, such as sector investment projects (SIPs) and APLs has expanded in the Africa Region over the last five years, now accounting for 35% of loans made in FY00 and 34% of resources spent in project preparation. While sector-wide and adaptable program lending can initially be higher in cost to prepare (and supervise) on a per project basis, our experience in Africa indicates that this type of lending can be more efficient in terms of cost per \$1,000 of IDA lending. In addition, there are indications that moving into the second and third phases of APL will also be lower cost than the initial upfront preparation and appraisal costs (although, as the APL remains a new instrument, we have not yet moved into second phases and thus, do not have cost data).

39. **Poverty Reduction Strategy Credits (PRSCs). Poverty Reduction Strategy Credits (PRSCs).** For low-income countries, the poverty reduction support credit (PRSC) has been conceived as an anchor for the Bank's overall support for the country's development program and poverty reduction strategy. PRSCs would normally be expected to involve a series of annual programmatic structural adjustment credits and support crucial poverty-focused policy and institutional reforms and public expenditure priorities, under the medium-term framework articulated in countries' Poverty Reduction Strategy Paper (PRSP) or Interim Poverty Reduction Strategy Paper (I-PRSP). PRSCs offer considerable potential for enhanced development impact (through increased country ownership, flexible implementation, and better donor coordination). In addition, in the longer term, they offer the potential for restructuring IDA delivery in support of results tied to poverty programs, with lower costs per unit of IDA resources transferred.

39. **Community Action Programs.** Top-down and donor-driven plans have failed to reduce poverty significantly in Africa. A new vision is needed. Poverty is not simply a lack of income, but also of voice, empowerment and governance. Poverty reduction requires processes that help people improve their capabilities and functioning, enabling them to take charge of local affairs. Community driven development aims to create such processes. Community action programs (CAPs) aim to enhance the impact of community development in two ways: first, by providing untied block grants to communities across entire countries; and second by encouraging local governments which can support communities on a sustainable basis. The Region is developing ways of supporting CAPs, through social funds, support for local governments, and linkages to the PRSPs and PRSCs.

### **Addressing Region-wide Problems**

40. *Can Africa Claim the 21<sup>st</sup> Century?* highlighted the importance of dealing with cross-cutting and regional issues if Africa is to develop. Particularly important are *endemic diseases* (HIV/AIDS, but also malaria and tuberculosis) which devastate Africa's populations and human capital; *governance*, which has dragged down Africa's rates of growth and investment; *conflict*, which has set back development in several African countries by generations; and *regional integration*, which offers potential gains to Africa's atomized economies. The Africa Region is re-examining how IDA can help tackle these issues, through further analysis, capacity building and financial support.

41. **Multi-country Program Lending (“Umbrella Projects”)** offers potential to address region-wide problems. The Africa Region developed the Multi-sector AIDS Program (MAP), which was approved by the Board on September 12, 2000, with an allocation of \$500 million (Annex IV). The MAP provides a prototype approach on designing a program across sectors to tackle the HIV/AIDS pandemic which can be retailed at the country level with streamlined approval procedures. Borrowers will prepare country programs to access funds under this umbrella procedure. This approach will help expedite processing of IDA support for HIV/AIDS at the country level, encourage coordination with other multilateral and bilateral partners (in particular UNAIDS) and provide a platform for addressing the regional aspects of the pandemic. It will also help reduce processing time and costs over solely country-based approaches. Multi-country program lending, or a horizontal adaptable program loan, provides a framework for assisting on other cross-cutting issues, such as other endemic diseases, regional integration or capacity building. The Region is exploring additional areas where this approach would facilitate and better coordinate IDA financing.

42. **Communicable Diseases.** One of Africa’s central problems is poor health outcomes, leading to loss of human capacity and human life, and affecting growth. (One study found that more than 2 percentage points of the growth differential between Africa and East Asia is due to differences in health.) Rates of communicable diseases are high, particularly HIV/AIDS, but also malaria and tuberculosis.

43. Health issues, particularly communicable diseases and HIV/AIDS, pose important challenges that cannot be met by country-based programs alone. These include: (i) the need for all countries to participate in disease control to make it effective (the “weakest link” problem); (ii) the externalities from disease control (global public goods); (iii) the difficulties of cross border initiatives using country-based lending instruments; and (iv) the problems of contributing to new vaccine and drug development with IDA credits. We will continue to explore options for IDA assistance, including the limited use of grants, for these critical issues in the context of ongoing work on financing global public goods.

44. **Governance.** Improving governance at all levels is critical for Africa’s growth and stability. Countries with greater participation and reduced corruption have better development outcomes. Governance issues are increasingly important in country dialogue. We are developing new lending vehicles, notably the community action programs (CAPs) which seek to provide resources directly to local groups, increasing participation and decentralization. As we move to community-based programs and increase programmatic lending, it is critical that transparency and fiduciary accountability are strengthened. We are supporting programs to strengthen accounting, financial management and independent auditing; improve monitoring and evaluation; and support parliamentary capacity and watchdog organizations (for example, in Ghana and Tanzania). We are also looking at instruments to best support improving governance, including capacity building, anticorruption programs, legal and judicial reform and public expenditure reform credits. Examples include programs already approved in Tanzania, Zambia and Guinea, and under preparation in Lesotho, Mozambique and Senegal. In countries where governance is constraining development, we are focusing on these issues in a number of ways, including support through lending.

45. **Capacity Building.** Building capacity is essential to meeting Africa's development needs as well as realizing IDA transfers. In response to requests from the African governors, the Bank and other partners have helped build the Africa Capacity Building Foundation, which will provide support to African countries in a wide range of capacity building efforts. Capacity building remains a central theme in CASs and strategies for IDA support. Through the CDF and other vehicles, the Bank seeks to work closely with other partners in this area. One example is the EU, which has provided funding and expertise. Another is Japan, which, through PHRD financing, is helping to build capacity for project preparation.

46. **Conflict.** The Africa Region, as noted previously, has experienced high levels of conflict. Working with the IMF, the HIPC initiative and other internal actors, the Region is examining how best to support countries coming out of conflict, how to address debt and arrears issues, and how IDA can contribute towards reducing conflict in the region. One question is at what stage IDA should commit resources and how much, as the system of allocating by performance ratings does not reflect the special circumstances of conflict-affected countries. A new and more systematic approach to IDA allocations for post-conflict countries is being developed, and the Africa Region has also begun a major examination of countries in and coming out of conflict, to see how the Bank, working with other partners, can best engage, and what instruments are needed. We will be consulting with key donor partners on this in the coming months.

47. **Regional Integration.** Regional integration is particularly important for Africa, with its small economies. Although the Region has worked on sub-regional issues in West, Southern and East Africa, there is scope for improving our approach. The Region has appointed a program manager, with responsibility for looking at regional issues and constraints, and expanding support for regional programs. In particular, we will focus on how IDA can best assist regional integration, how IDA financing can be provided, how we can enhance our partnerships with others working in this area, and how to build capacity in regional institutions. There are several potential areas for IDA support. IDA can provide financing to lessen the impact of regional trade agreements (for example, Senegal has received additional budget support to adjust to the impact of sub-regional trade agreements, which harmonize tariffs and lead to drops in revenue). IDA can finance regional infrastructure projects (several are already being implemented), regional trade initiatives (a trade financing facility for COMESA countries is being negotiated) and regional resource management (two examples are the Nile Basin Initiative and Lake Victoria Project). The Region will look at issues of instruments in particular, as at present, IDA is not well-structured to provide support for regional institutions and endeavors. Partnerships will be critical to our efforts to support regional cooperation. In conjunction with the African Development Bank, we are exploring ways to enhance our efforts in this area. We will also need to expand our partnerships with other multilateral institutions (especially the regional and subregional institutions on the continent), bilateral partners, trade associations, the private sector, and other groups. Strengthening the capacity of regional institutions to carry out their mandates is essential, as is building the "soft" infrastructure (payments clearing systems, power pools, trade facilitation) that facilitates regional exchanges.

48. **IDA Flexibility.** The issues above – communicable diseases, regional integration, conflict and its spillovers – are priority issues for Africa, yet are difficult to address through existing IDA vehicles, based on credits extended to single countries. Over the coming months,

as we look more systematically at each of these areas and how the Bank might engage, we will explore whether more flexibility in IDA's traditional way of doing business would be required including the possibility of IDA grants in selected areas.

49. **Forging New Strategic Partnerships with Countries and Donors.** There is broad consensus that new approaches to aid should be underpinned by four key principles: (i) selectivity in choosing aid recipients; (ii) designing activities with participation of beneficiaries and implementing them in partnership with other donors; (iii) strengthening capacity of recipients at all levels; and (iv) restructuring aid delivery mechanisms to make recipients responsible for development. Our strategy incorporates all these elements. Particularly important is the need to improve donor coordination and partnerships, in order to enhance development impact, lower the in-country costs to clients of dealing with multiple programs, and build capacity. Consultations with many IDA donors have indicated the need to expand our efforts, especially in the areas of harmonizing lending procedures, focusing dialogue around PRSPs and developing PRSCs. The CDF and PRSP processes provide the framework for donor coordination and cooperation in country. We also need to work more aggressively on harmonizing donor procedures at the country level, and PRSCs present possible vehicles for doing this. The Strategic Partnership for Africa (SPA) has over the past few years provided a forum for discussing and agreeing on new approaches. We will continue to support the SPA to do this. We have agreed working arrangements with the African Development Bank (distributed to the Board last year) designed to enhance our support to clients. We are deepening our relationships and coordination with the EU, both at the country and regional levels. Finally, we are seeking to strengthen our partnerships with regional institutions (such as the Economic Commission for Africa) on a wide variety of issues.

## **Sector Strategies**

50. **Human Development.** Radical improvements in education and health standards are essential for attaining higher growth rates and pro-poor distribution of the benefits of growth. To this end, continued attention will need to be focussed on enhancing the skills of the continent's labor force, as well as on controlling population growth and improving health service delivery. Historically, no country has achieved sustained growth with the low basic education levels that the majority of African countries – several countries still enroll less than half of their children of primary school age, with 40 million children of primary school age in Africa not being enrolled. Improvements in Africa's basic health indicators have stagnated, and social safety nets are strained, especially by the HIV/AIDS pandemic. Although significant resources have been invested to date on the development of human capital in the continent, the inefficient use of these resources, in many cases, has resulted in countries realizing sub-optimal benefits and/or impacts. The Region aims to expand lending for education and health over the next three years. This would include doubling lending for HIV/AIDS, and increasing support for the use of social funds, as a vehicle for supporting both human and local development. The Region will continue to assist Governments in formulating and implementing programs that broaden coverage and increase the effectiveness and impacts of their investments. Over the past few years, the Region has made a sustained effort to improve the quality of its assistance, through better analytical work (including inputs to the HIPC initiative and PRSP efforts), through more sustained and better quality policy dialogue, and through increasing attention to new areas (adult literacy, early

childhood development, social protection, HIV/AIDS, communicable diseases and higher education).

51. **Infrastructure and Private Sector Development.** Africa needs to tackle the problems of deteriorating and worsening physical and financial infrastructure in order to establish the platform for higher growth rates and to reduce poverty. In the medium term, Africa will need some \$18 billion per year (or 6% of GDP) of sustained investment in infrastructure and basic service delivery, in both urban and rural areas, coupled with more consistent sector policies and improved public-private partnerships. While larger investments in power, roads, water and sanitation, ports or telecommunications can be carried out with private investment, priming the pump of private sector interest in Africa requires major rehabilitation and considerable building of the basic infrastructure platform. For the foreseeable future, the role of the private sector in many of the infrastructure sectors will be in management rather than financing. Particular focus will be needed on dealing with the skyrocketing urban growth in Africa if cities are to compete globally and address urban poverty. In addition, lack of rural infrastructure (in particular access) has been a barrier to market integration. The Region aims to expand lending to the infrastructure, PSD and finance sectors, to address these needs, by placing the infrastructure strategy squarely within the PRSP process and focusing infrastructure investments on poverty alleviation needs. Working closely with the networks and partners, the Region aims to “crowd in” private sector investment where feasible, to support basic infrastructure needs, to enhance service delivery and to address the policy environment. Concerted efforts are needed in all the infrastructure sectors (urban development and decentralization, water supply and sanitation and transport as well as in finance and private sector development to assure success with the challenges ahead.

52. **Environmentally and Socially Sustainable Investment.** Rural development is central to any strategy to reduce poverty in Africa, as 70% of the poorest people live in rural areas. Broad-based growth will be critical: while agriculture will be the engine of growth, fostering backward and forward linkages (consumer demand, input supply, trading, processing) is also important. Agricultural growth rates of 7% are needed to reach poverty targets; in contrast, actual growth rates for the sector have averaged only 4% in recent years. Investments will be needed in intensification, soil fertility, innovative research and extension, and other productivity-enhancing activities. Second-generation policy and institutional reforms are needed to ensure these investments realize potential returns. Rural populations must be in the driver’s seat: multi-sectoral community-driven development (through Community Action Programs, discussed above), supported by responsive sector ministries, is the keystone of our strategy. A growing IDA program calls for proper environmental and social work to be done in the preparation of a wide range of operations and to be mainstreamed into policy dialogue. Targeted investments are also needed in environmental institution building, habitat conservation and natural resource management.

53. **Economic Management and Social Policy.** The EMSP Group handles macroeconomic, public sector management and poverty issues within the Region. Two of its core activities are especially relevant for current and future IDA lending: structural adjustment lending, and the analytical work which underpins future programmatic lending, policy dialogue and country assistance strategies. Adjustment lending, as well as lending linked to poverty reduction strategies and public expenditures will continue to form an important part of our strategy. As we

move towards developing new approaches for supporting country programs (as discussed above), we will need strong analytical work - on structural and growth issues to support country dialogue, on fiduciary safeguards and other elements of sound budget management, and on effective poverty-reduction strategies. This work would help strengthen the policy and institutional framework, which in turn would enhance aid effectiveness and in-country absorptive capacity.

54. **Quality and Knowledge.** Key to the effective delivery and enhanced impact of IDA12 is the assurance of sufficient support on quality and fiduciary aspects of both the lending pipeline and the portfolio. Over the past two years we have strengthened and reoriented quality assurance and knowledge processes within the Region. Steps taken include improving country systems for portfolio management and review (through country portfolio reviews, audit reviews and fiduciary accountability reviews); building capacity both within the Region (staff training and best practice dissemination) and for clients; and improving collection and dissemination of lessons.

### **Additional Challenges**

55. As we move forward with these proposals, we will face several internal challenges. We flag these below.

56. **The need to actively manage delivery of the IDA program.** The Africa Region faces unique problems in managing delivery, problems not faced by other regions in the Bank. These include: (i) the granularity of the country-based programs (many small country programs); (ii) instability of the region; and (iii) the need for close coordination with the IMF on PRSPs and the HIPC initiative. The Region has taken steps to deal with these problems. We have revised resource allocation to target well-performing and stable countries, with more flexible arrangements for countries experiencing political instability. In addition, we have strengthened coordination within the management matrix. We have also launched a new partnership with the IMF to enhance coordination and teamwork on country programs, PRSPs and the HIPC initiative.

57. **The need to pay special attention to upfront economic and sector studies** to ensure that expanded lending is based on sound knowledge of the country conditions and that international best practices, suitably adapted for local conditions, are applied. Economic work will be focused on building our knowledge and providing a sound basis for programmatic lending. Over the past six months we have successfully refocused economic and sector work on the PRSP and related priority areas. The sector networks in Africa are reviewing their economic and sector work needs to support the IDA12 strategy.

58. **The need to ensure enhanced support on safeguards.** Safeguard requirements have become more stringent in recent years and require advanced planning and upstream studies. We need to ensure that upstream input and consistent support is received from the Environment Department (ENV) and the Social Development Department (SDV) in order to avoid delays in processing, and risk not delivering the program.

59. **The need to continue implementing the Region's quality assurance plan.** We must not only increase delivery of IDA – we must continue to ensure improved quality and implementation of the portfolio. Key thematic areas of focus, based on Quality Assurance Group (QAG) and Client Feedback Surveys, would be enhanced institutional and risk assessments, and strengthened monitoring and evaluation. Our Quality and Knowledge Unit, which has been strengthened over the last year, will continue its focus on enhancing quality in the Region.

60. **The need to work in close partnership with other parts of the Bank Group, as well as the IMF.** We will need to call on the support of other units of the Bank Group in implementing this strategy. We will be calling on other key internal actors to assist us in providing critical staff and skills, in supporting us with technical inputs and advice (peer reviewers and quality assurance), and in accessing global knowledge to assist Africa in its development challenges. Expanded lending, new approaches and supplemental financing, as well as new focuses on legal and judicial reform and dialogue, will mean additional inputs and resources will be needed from the Legal Department. Finally, we are building a new strategic partnership with the IMF that will contribute to better programs and coordination, both at the country level and on issues (such as debt) affecting the Africa Region.

### **Meeting the Challenges: Africa's Future**

61. Africa represents the greatest single challenge for the international community in general, and for IDA in particular. Reversing the declines of the twentieth century and boosting growth to the levels needed to halve poverty, will require determined leadership within Africa, and sustained support from its partners. It will require greater investment in people as well as in production and infrastructure. It will require greater economic empowerment, more accountability, and wider participation. In facing these challenges, Africa has enormous unexploited potential – in resource-based sectors and in processing and manufacturing. It also has hidden growth reserves in its people. IDA must be prepared to provide the critical resources Africa needs, and to work together with all development partners to ensure these have an impact. Our strategy provides a roadmap towards meeting these goals.

Population, Income and Economic Indicators by Region						
Measure		SSA Excluding South Africa	Sub-Saharan Africa	South Asia	East Asia	Latin America
<b>Population</b>						
Population, 1997	million	575.4	612.3	1,281.3	1,751.2	493.9
Population growth, 1997	%	2.9	2.9	1.8	1.2	1.6
Workers per dependant	Aged 15-64/ Others	1.1	1.1	1.4	2.0	1.7
Urban population in total, 1997	%	31.1	31.7	26.6	32.2	73.7
Urban population growth, 1997	%	5.2	4.9	3.3	3.7	2.2
<b>Income</b>						
GNP per capita, 1997	Atlas \$	315	510	380	970	3,940
PPP GNP per capita, 1997	International \$	1,045	1,460	1,590	3,170	6,730
Gini Index (simple average for latest year available)	Index	45.9	46.5	31.2	40.6	51.0
<b>Economy</b>						
GDP per capita, 1970	87\$	525	546	239	157	1,216
GDP per capita, 1997	87\$	336	525	449	715	1,890
Investment per capita, 1970	87\$	80	130	48	37	367
Investment per capita, 1997	87\$	73	92	105	252	504
Exports per capita, 1970	87\$	105	175	14	23	209
Exports per capita, 1997	87\$	105	163	51	199	601
Savings/GDP, 1970	%	18.1	20.7	17.2	22.3	27.1
Savings/GDP, 1997	%	16.3	16.6	20.0	37.5	24.0
Exports/GDP, 1970	%	36.4	32.1	5.9	14.6	17.2
Exports/GDP, 1997	%	33.0	31.0	11.4	27.8	31.8
Genuine Domestic Savings/GDP, 1997	Ratio	0.03	0.03	0.07	0.30	0.12
Incremental Output-Capital Ratio, 1970-97	Ratio	0.12	0.10	0.23	0.23	0.14

Source: World Bank data

<b>Net Resource Flows to IDA Countries in Sub-Saharan Africa</b>											
<b>Series Name</b>	<b>1980</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999 e/</b>
<b>Aggregate net resource flows</b>	11.2	17.5	17.0	16.9	17.5	18.0	16.1	15.3	15.1	13.8	16.1
<b>Foreign direct investment, net inflows</b>	-0.1	0.6	1.7	1.4	2.3	3.1	2.5	3.7	3.8	3.7	4.6
<b>Portfolio equity flows</b>	0.0	0.0	0.0	0.1	0.2	0.7	0.3	0.2	0.1	0.1	-0.1
<b>Net flows on debt, total long-term</b>	7.8	4.9	4.3	4.1	4.9	2.7	2.2	1.4	1.8	0.2	1.9
<b>of which - Bilateral</b>	2.0	1.3	1.0	1.6	1.3	0.6	0.6	-0.2	-0.1	-0.3	-1.2
<b>of which - Multilateral</b>	1.4	3.1	2.9	3.2	2.9	3.0	2.1	2.2	2.1	1.6	1.4
<b>of which - IBRD</b>	0.3	0.1	-0.3	-0.3	-0.4	-0.7	-0.7	-0.7	-0.5	-0.6	-0.6
<b>of which - IDA</b>	0.4	2.0	1.9	2.0	2.1	2.8	2.3	2.4	2.2	1.9	1.8
<b>Grants, excluding technical cooperation</b>	3.5	12.1	11.0	11.4	10.3	11.7	11.1	9.9	9.4	9.8	9.7
e/ Estimate.											

IDA12 - SUMMARY MATRIX OF ACTIONS

ISSUE	ACTION
<b>SHORT-TERM ACTIONS</b>	
<p>USING EXISTING PROGRAMS AND INSTRUMENTS Existing Country programs, rooted in Country Assistance strategies provide the main framework for expanding IDA involvement. Region is also looking into developing new lending instruments to tackle more complex and interrelated problems, while requiring less in-country capacity, encouraging more donor coordination, and transferring more resources at lower administrative cost (see separate section below).</p>	<p><b><i>Scale-up Selected Planned Operations</i></b> Increasing IDA financing levels for selected projects already in the pipeline provides one way to increase commitments in light of binding capacity constraints faced by client countries and limited Bank administrative resources.</p> <p><b><i>Provide Supplemental Financing</i></b> The use of supplemental financing to support investment projects with proven track records, that are being implemented with sound institutional frameworks, carries low risk and has a high impact, while providing the opportunity to transfer resources at lower transactions costs to the client and the Bank. There is also potential for supplementary balance of payments support in well-performing countries affected by terms of trade changes, particularly increases in oil prices.</p> <p><b><i>Increase Lending to Well-Performing Countries</i></b> In expanding lending, a premium will be put on countries with good performance ratings, and holding lower per capita IDA allocations. Focus would be placed on countries with the largest potential project and program financing needs.</p> <p><b><i>Focus on Re-engaging with Major Countries</i></b> Three large countries (Côte d’Ivoire, Ethiopia and Nigeria) with 35% of Africa’s population, have had limited no IDA lending, due to governance or security reasons. Quickly re-engaging with these countries when conditions are right would open access to IDA resources for significant numbers of people.</p>
<p>RESTRUCTURING AND MANAGING PROGRAM DELIVERY Region has restructured program delivery and focused regional management on meeting the increased IDA lending goals.</p>	<p><b><i>Resource Allocation</i></b> Region has tied country administrative budget allocations to country performance, thus shifting resources to well-performing countries and away from those experiencing political uncertainty or conflict.</p> <p><b><i>Program Management</i></b> Both sides of the management matrix (country &amp; sector) are involved in reviewing and ensuring that country lending programs are robust and deliverable.</p> <p><b><i>Delivery Capacity</i></b> Region has aligned staffing and skills needs with country and sector programs.</p> <p><b><i>Quality Assurance</i></b> Region is enhancing quality assurance and safeguards policies oversight and staffing to enhance program delivery.</p>

<b>MEDIUM-TERM ACTIONS</b>	
<p><b>DEVELOPING NEW APPROACHES TO LENDING</b> Africa Region, with other parts of the Bank, is developing and adapting ways to ensure that IDA resources continue to have an impact on Africa's central development problems, which may be more difficult to handle through existing approaches and instruments. African countries need broader lending instruments that support development programs, save on scarce capacity in-country, encourage donor coordination, and transfer resources at lower administrative costs.</p>	<p><b><i>Sector-wide and Adaptable Program Lending</i></b> Sector-wide and adaptable program lending allows countries to address complex and interrelated problems in a sector or subsector, thereby enhancing support and development results, while facilitating longer-term support for programs over time. A sector approach also encourages donor coordination and partnership, and potentially reduces costs to government of dealing with multiple development partners.</p> <p><b><i>Poverty Reduction Strategy Credits (PRSCs)</i></b> For low-income countries, the PRSC has been conceived as an anchor for the Bank's overall support for the country's development program and poverty reduction strategy. PRSCs offer potential for enhanced development impact. In the longer-term, they offer the potential for restructuring IDS delivery in support of results tied to poverty programs, with lower unit costs per unit of IDA resources transferred.</p> <p><b><i>Community Action Programs (CAPs)</i></b> CAPs aim to enhance the impact of community development in two ways: first, by providing untied block grants to communities across entire countries; and second by encouraging local governments which can support communities on a sustainable basis.</p>
<p><b>REGIONAL ISSUES</b> If Africa is to develop, it is important to deal with cross-cutting and regional issues as well – endemic diseases that devastate populations and human capital; governance issues that have slowed growth and investment; conflict which has set back development; and regional integration which offers potential gains for Africa's atomized economies.</p>	<p><b><i>Multi-Country Program Lending</i></b> "Umbrella Projects" offer potential to address region-wide problems. Africa Region developed Multisector AIDS program (MAP) as a prototype approach on designing a program across sectors to tackle the HIV/AIDS pandemic which can be retailed at the country level with streamlined approval procedures. This approach will help expedite processing of IDA support for HIV/AIDS at the country level, encourage coordination with partners, and provide a platform for regional aspects of the pandemic. These horizontal adaptable program loans provide a framework for assisting on other cross-cutting issues.</p> <p><b><i>Communicable Diseases</i></b> One of Africa's central problems is poor health outcomes leading to loss of human capacity and human life, and affecting growth. Health issues, particularly communicable diseases and HIV/AIDS, pose important challenges that cannot be met by country-based programs alone. The Region will continue to explore options for IDA assistance, including limited use of grants, for these critical issues in the context of ongoing work on financing global public goods (e.g. MAP mentioned above).</p> <p><b><i>Governance</i></b> Improving governance at all levels is critical for Africa's growth and stability. Africa region is: (i) developing new lending vehicles like CAPs to provide resources directly to local groups, (ii) increasing participation and decentralization; providing support to programs to strengthen accounting, financial management and independent monitoring; (iii) support to improving monitoring and evaluation; (iv) support to parliamentary capacity and watchdog organizations; and (v) looking at instruments to best support improving governance including capacity building, anti-corruption programs, legal and judicial reform and public expenditure reform credits.</p>

	<p><b><i>Capacity Building</i></b> Building capacity is essential to meeting Africa's development needs as well as realizing IDA transfers. The Region is supporting this in a number of ways: (i) Bank, EU, and other partners have helped build the Africa Capacity Building Foundation; (ii) capacity building remains a central theme in CASs and strategies for IDA support; and (iii) through the CDF and other vehicles, Bank seeks to work closely with other partners in this area.</p> <p><b><i>Conflict</i></b> A new approach to IDA allocations for post-conflict countries is being developed. The Africa Region has also begun a major examination of countries in and coming out of conflict to see how the Bank, working with other partners, can best engage, and what instruments are needed.</p> <p><b><i>Regional Integration</i></b> Regional integration is particularly important for Africa, with its small economies. Region has: (i) appointed a program manager with responsibility for looking at regional issues and constraints and expanding support to regional programs; (ii) is looking at issues of instruments as IDA is not currently well-structured to provide support for regional institutions and endeavors; (iii) working at expanding partnerships with other multilateral institutions, bilateral partners, trade associations, the private sector and other groups; and (iv) helping to strengthen the capacity of regional institutions to carry out their mandates.</p> <p><b><i>IDA Flexibility</i></b> The issues above are difficult to address through existing IDA vehicles based on single country-based credits. Region will explore whether more flexibility in IDA's traditional way of doing business makes sense, in particular whether IDA might use grants in selected areas.</p> <p><b><i>Forging Strategic Partnerships</i></b> Improving donor coordination and partnerships is important to enhance development impact, lower in-country costs to clients of dealing with multiple programs, and building capacity. Region will: (i) work more aggressively on harmonizing donor procedures at the country level; (ii) continue support to the Strategic Partnership for Africa (SPA); (iii) continue to work with other partners (e.g. ADB, EU, the ECA, and others).</p>
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<b>INTERNAL CHALLENGES</b>	
<p>The Region faces a number of challenges in delivery including the granularity of country-based programs, and the instability/conflict/political uncertainty in a significant number of countries, as well as being the Region with the highest percentage of PRSP and the HIPC initiative countries. The region has taken a number of steps to deal with these problems.</p>	<p><b><i>Resource Allocation</i></b> Resources allocated to well performing/stable countries, limited allocations made to countries in uncertain status; monitoring to determine need for reallocation(s).</p> <p><b><i>Strategic Staffing/Delivery Capacity</i></b> Aligned staffing and skills to ensure enhanced delivery.</p> <p><b><i>Upfront Attention to Economic and Sector Studies</i></b> Economic work will be focused on building our knowledge and providing a sound basis for programmatic lending.</p> <p><b><i>Support on Safeguards</i></b> Region has stepped up efforts to meeting safeguards requirements, and appointed a focal point.</p> <p><b><i>Quality Assurance</i></b> Region will continue to implement its quality assurance plan that includes more explicit quality assurance plans for each operation, more proactive management at the sector level, and better integration of knowledge management and quality assurance.</p> <p><b><i>Work with Other Parts of the Bank and the IMF</i></b> Senior Regional Manager given oversight responsibility for management of relationship. Greater country and regional-level cooperation through participation in the JIC, designated staff to oversee the HIPC initiative and PRSP issues.</p>

## Annex IV

### A NEW APPROACH TO HIV/AIDS

1. In 1999, the Africa Region adopted a new strategy to intensify its efforts to help combat HIV/AIDS. The strategy comprised four lines of action: (i) advocacy to stimulate greater demand for action in countries and in the Bank; (ii) strengthening the Bank's capacity to respond to increased demand; (iii) increasing the technical and financial resources for African governments and Bank teams; and (iv) expanding the knowledge and tools available against the pandemic. The Region created a multisectoral team in the Office of the Vice President to lead implementation of the plan: the AIDS Campaign Team for Africa (ACTAfrica). By pursuing the strategy over the past year, the Region succeeded in laying the groundwork for an expanded response among key African governments, in the Bank's Board, and in Bank country teams.
2. This strategic approach culminated in the preparation of the US\$500 million Multi-Country HIV/AIDS Program for Africa (MAP), approved by the Bank's Board in September 2000. The MAP represents a new way of working on HIV/AIDS. Previous efforts had failed because of low government commitment, insufficient finance, slow support from partners, inadequate resources in the hands of communities, and an almost exclusive focus on the health sector. The MAP was designed to overcome these shortcomings by providing substantial resources in support of rapid, multisectoral, multi-level responses in countries that have demonstrated their commitment. MAP support is available to IDA countries that meet four eligibility criteria:
  - *A strategic approach to HIV/AIDS*, typically by having a national strategy in place
  - *A high-level HIV/AIDS coordinating body* empowered to oversee implementation
  - *Government agreement to use multiple implementing agents*, including NGOs
  - *Rapid but accountable financial management and procurement* to allow for effective multi-agent implementation, including channeling funds directly to communities
3. The overall goal of the MAP is to speed up, scale up, and strengthen implementation of national AIDS strategies in as many countries as possible. Support will therefore be flexible and tailored in each country to local priorities, as identified by national AIDS authorities and agreed with partner agencies. MAP support will be multisectoral and available to all stakeholders who are working within the national strategy - including the public sector, civil society, NGOs, communities and the private sector. Support will be available for the full spectrum of core HIV/AIDS activities in prevention, care, treatment and impact mitigation. This includes funds for investments and technical support, capacity building, community initiatives, and strong monitoring and evaluation. A substantial share of funds will flow directly to communities to carry out AIDS activities of their own design under simplified procurement guidelines. IDA money will be supplemental to contributions by government and donors, but is also expected to attract significant cofinancing.
4. The MAP was designed with the full participation of UNAIDS and in partnership with key bilateral agencies. As such, it represents the Bank's most significant contribution to date to UNAIDS and to the International Partnership Against HIV/AIDS in Africa. The first two countries to receive support from the MAP were Ethiopia (\$59.7 million) and Kenya (\$50 million). Several more countries including Eritrea, The Gambia and Uganda are likely to receive support in FY01.