



**IDA14**

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# **Working Together at the Country Level: The Role of IDA**

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## **List of Acronyms**

AAA	Analytical and Advisory Activities
AfDB	African Development Bank
AfDF	African Development Fund
AIDS	Acquired Immune Deficiency Syndrome
APL	Adaptable Program Loan
AsDB	Asian Development Bank
AsDF	Asian Development Fund
AUSAID	Australian Agency for International Development
CAS	Country Assistance Strategy
CAW	Country Analytical Work
CDF	Comprehensive Development Framework
CEA	Country Environment Analysis
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee
DANIDA	Danish International Development Assistance
DFID	Department for International Development
EA	Environmental Assessment
EBRD	European Bank for Reconstruction and Development
EC	European Commission
e-GP	Electronic Government Procurement
EMP	Environmental Management Plan
EU	European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS Tuberculosis and Malaria
GNI	Gross National Income
GTZ	German Technical Cooperation
HIV	Human Immunodeficiency Virus
IDA	International Development Association
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
JAM	Joint Assistance Mission
JICA	Japan International Cooperation Agency
LICUS	Low-Income Countries Under Stress
MAP	Multi-Country HIV/AIDS Programme

MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MIC	Middle-Income Country
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
NORAD	Norwegian Agency for Development Cooperation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
OPCS	Operations Policy and Country Services
PAF	Performance Assessment Framework
PARIS21	Partnership in Statistics for Development in the 21 <sup>st</sup> Century
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PRGF	Poverty Reduction Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
RDB	Regional Development Bank
RIAS	Regional Integration Assistance Strategy
SFIA	Strategic Framework for IDA's Assistance to Africa
SIDA	Swedish International Development Cooperation Agency
SWAp	Sector-Wide Approach
TSP	Transition Support Program
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agency
WFP	World Food Programme
WG	Working Group
WHO	World Health Organization
WP-EFF	Working Party on Aid Effectiveness and Donor Practices
WTO	World Trade Organization

# WORKING TOGETHER AT THE COUNTRY LEVEL: THE ROLE OF IDA

## I. Introduction

1. **At the February 2004 IDA14 Replenishment meeting, IDA Deputies noted that, to raise aid effectiveness more cooperation is needed between IDA and other multilateral and bilateral institutions and proposed a thematic review on the role of IDA in relation to other development partners at the country level.**<sup>1</sup> This paper responds to that request. It reviews the role of different agencies in providing aid to IDA countries and evaluates progress in areas identified by the international community as in need of reform, particularly aid harmonization. It also looks at the role of IDA in the reform process, both in what has already been achieved and what remains to be done. The paper concludes with some recommendations and issues for discussion on how to improve donor coordination at the country level.

2. **This paper complements a report on the Aid Effectiveness and Innovative Financing Mechanisms,**<sup>2</sup> prepared for the October 2004 Development Committee Meeting. The latter looks at the case for aid more widely, covering the aid issues that are currently being debated, including absorptive capacity and financing modalities. Within that broader picture, the current paper focuses on the IDA countries and on issues that affect the role of IDA in achieving greater aid effectiveness, especially at the country level.

## II. Recent Trends in Development Assistance

### II.A Trends in Financial Flows

3. **Since 1995 levels of Overseas Development Assistance (ODA) have fluctuated between \$48 billion and \$59 billion per annum, with the figure standing at \$58 billion in 2002** (Table1).<sup>3</sup> Roughly 70 percent of this came from bilateral donors and 30 percent from multilateral donors. Further substantial increases in these flows are expected in the near future, as donor countries start delivering on the commitments made at Monterrey.<sup>4</sup> Preliminary data show a total of \$69 billion for 2003, and forecasts for 2006 reach \$77 billion.

4. **The bilateral to multilateral ODA ratio has remained steady at 70:30 since 1995, but IDA's share of total ODA has declined from around 9.2 percent at the beginning of the period, to 5.6 percent in 2002.** Thus while DAC contributions to multilateral institutions have remained fairly constant, there has been a shift away from IDA. But even as donor contributions to IDA have declined, overall disbursements from IDA to recipient countries have remained steady, accounting for about 35-37 percent of gross multilateral disbursements (Table 2) over the period. This reflects the fact that IDA has been able to generate a significant proportion of its

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<sup>1</sup> Chairman's Summary, IDA Deputies Meeting, Paris, France, February 18-20, 2004.

<sup>2</sup> Aid Effectiveness and Innovative Financing Mechanisms, Report for the 2004 Annual Meetings, Development Committee, October, 2004.

<sup>3</sup> ODA outside Development Assistance Committee (DAC) stood at \$3.2 billion in 2002.

<sup>4</sup> See Global Monitoring Report 2004. Development Committee, April 2004.

resources from repayments on existing credits. It is also worth noting that IDA has remained efficient in converting its commitments into disbursements.<sup>5</sup>

**Table 1: Official Development Assistance from DAC Donors to Developing Countries and Multilateral Institutions**  
(in millions of US\$)

	1995	1996	1997	1998	1999	2000	2001	2002
OFFICIAL DEVELOPMENT ASSISTANCE - 1+2	58,780	55,591	48,465	52,087	53,233	53,749	52,435	58,274
1. Bilateral ODA	40,481	39,088	32,397	35,207	37,843	36,064	35,123	40,734
a. Bilateral Grants	36,208	36,553	31,296	32,480	33,931	33,040	33,522	39,793
of which: I. Technical Cooperation	14,298	14,142	12,888	13,056	13,036	12,767	13,602	15,452
b. Bilateral Loans (net flow)	4,273	2,535	1,100	2,727	3,912	3,024	1,602	941
2. Contributions to multilateral institutions	18,299	16,503	16,086	16,880	15,390	17,685	17,311	17,540
of which: UN	4,267	4,383	3,885	4,249	3,654	5,185	5,233	4,634
EC	5,370	4,727	4,860	5,002	5,017	4,950	4,946	5,695
IDA	5,405	3,992	4,062	4,155	2,834	3,672	3,599	3,279
Regional Development Banks	1,301	1,578	1,551	1,895	1,860	2,187	1,491	1,813
Supplementary Information								
<b>ODA Effort As a Percent of Donors GNI</b>	.26	.25	.22	.23	.22	.22	.22	.23
<b>IDA as a Percent of Total ODA</b>	9	7	8	8	5	7	7	6

Source: OECD-DAC; last updated 26 July, 2004

**Table 2: Gross Disbursements of Concessional Finance (loans and grants) a/**  
(in millions of US\$)

	1998	1999	2000	2001	2002
<b>UN System</b>	2,521	2,741	3,272	3,462	3,608
UNDP	604	508	390	282	275
UNICEF	484	564	576	600	567
UNFPA	214	185	133	311	310
WFP	270	354	357	379	351
UNHCR	236	253	493	545	633
UNRWA	298	286	301	359	392
Others	415	591	1,022	986	1,080
<b>European Commission</b>	5,396	5,238	4,763	5,908	6,831
<b>Regional Development Banks</b>	2,383	2,142	1,937	2,040	2,334
AfDB	624	516	360	464	741
AsDB	1,149	1,114	1,135	1,031	1,168
IDB	610	512	442	545	425
<b>IDA</b>	5,742	6,135	5,468	6,160	6,923
<b>IDA as % of Total</b>	36%	38%	35%	35%	35%
<b>Total</b>	16,042	16,256	15,440	17,570	19,696

a/ Annual data is on a calendar year basis. Country coverage for institutions is not identical

Source: 2003 DAC Report

5. **Although the ratio of bilateral to multilateral ODA is 70:30, each group contributes about the same in terms of project and program expenditures.** Bilateral ODA has also seen a change in the use of aid, away from country projects and programs, towards special purpose items, including debt relief, emergency responses, food aid and technical cooperation.<sup>6</sup> The

<sup>5</sup> See *IDA Disbursement Ratios FY95-04: Technical Note*, Paper to the Deputies, August 2004.

<sup>6</sup> 2003 Development Co-operation Report. Development Assistance Committee, OECD. This trend is partly attributed to the growing share of social sectors in ODA, where technical cooperation inputs are more common.

2004 Global Monitoring Report estimates that only 30 percent of **bilateral** ODA now goes to project and program expenditures, the rest being allocated to special-purpose items. Conversely, the bulk of **multilateral assistance** (around 70 percent) is for project and program expenditures. In aggregate, therefore, both multilaterals **and** bilaterals each provide around 21 percent of total ODA in the form of project and program aid.

6. **The geographic distribution of aid in terms of how much each donor contributes to each region shows bilaterals to be the largest contributors in all regions** (Table 3). Their lowest share is in South and Central Asia (52%) and in Africa (60%). Among multilateral donors, IDA is the biggest provider of ODA in Sub-Saharan Africa (18 percent of overall ODA), South and Central Asia (27 percent), and East Asia (10 percent). The EC is the lead multilateral provider of ODA in North Africa (27 percent), Europe (30 percent), North and Central America (11 percent), and Oceania (5 percent). Among RDBs, only the IDB is the leading multilateral provider of ODA in its region accounting for 10 percent of ODA in South America, and North and Central America (combined). The AsDF provides 7.5 percent of total ODA in Asia and the AfDB provides 4 percent of ODA for Africa. The UN is a major multilateral player in the Middle East (22 percent), owing largely to its humanitarian assistance mandate and to UNRWA operations in Palestine.

7. **Another way to look at the geographic distribution is in terms of where each donors aid goes** (Table 4). **This shows that IDA devotes the largest share to Sub-Saharan Africa (44 percent), which is where all other donors (except of course AsDF and IDB) also focus most of their resources** (Table 4). Reflecting its regional interests, the EC has a strong focus on Europe (23 percent) and North Africa (13 percent). In Asia, while multilateral organizations focus more of their resources on South and Central Asia, bilateral donors devote a larger share to East Asia (21 percent).

**Table 3: Regional Distribution of ODA (1998-2002)**  
(in percent)

	Africa North of Sahara	Africa South of Sahara	Europe	South & Central Asia	Far East Asia	Middle East	North & Central America	South America	Oceania
Bilaterals	69	60	61	52	79	62	67	71	91
AfDF	1	3	-	-	-	-	-	-	-
AsDF	-	-	-	10	5	-	-	-	3
IDB Sp Fund	-	-	-	-	-	-	10	10	-
EC	27	12	30	5	3	11	11	9	5
UN	2	6	3	5	3	22	5	7	1
IDA	2	18	6	27	10	5	8	4	-
Total	100	100	100	100	100	100	100	100	100

Source: OECD-DAC; last updated 14 June 2004

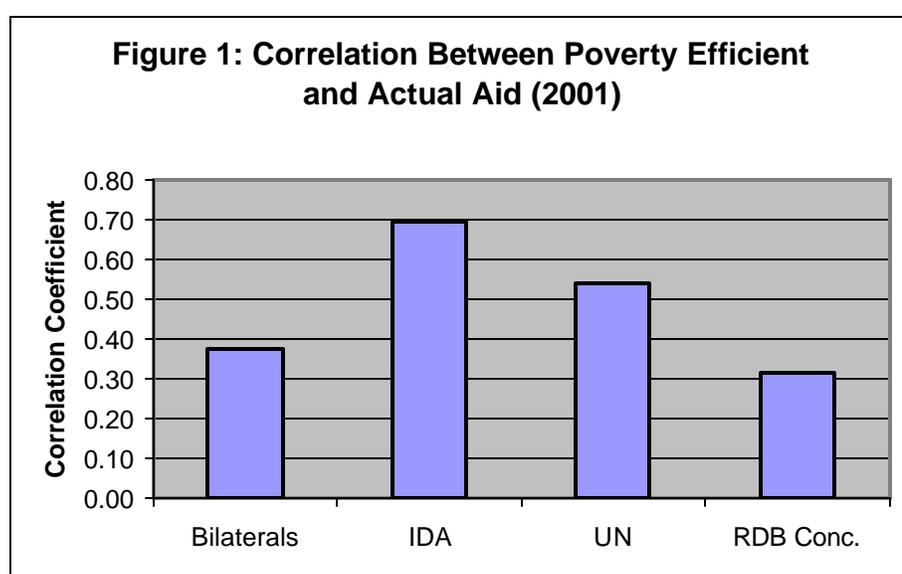
8. **In terms of allocation by country, IDA has the greatest poverty focus compared to other donors.** IDA also has the highest correlation with ‘poverty efficient aid’ – i.e., the distribution of aid by country that would make the greatest reduction in poverty, as can be seen in Figure 1<sup>7</sup>. Details of these estimates are given in Annex 1.

<sup>7</sup> The notion of poverty efficient aid is developed in P. Collier and D. Dollar, *Can the World Cut Poverty in Half?*, World Development, 29, 1787-1802.

**Table 4: Regional Distribution of ODA (1998-2002) by destination**  
(in percent)

	Bilaterals	AfDF	AsDF	IDB S.F.	EC	UN	IDA
Africa – North of Sahara	6	4	-	-	13	2	-
Africa – South of Sahara	31	96	-	-	35	37	44
Europe	8	-	-	-	23	5	4
South & Central Asia	14	-	61	-	8	16	31
East Asia	21	-	36	-	5	9	13
Middle East	5	-	-	-	5	19	2
North & C. America	6	-	-	61	6	5	4
South America	6	-	-	39	4	7	2
Oceania	4	-	3	-	1	1	-
Overall	100	100	100	100	100	100	100

Source: OECD/DAC; last updated 14 June 2004



9. **The sectoral distribution of ODA shows some specialization by agency but also considerable overlap** (Table 6). Social infrastructure and services – which is defined by OECD/DAC as health, education, water and sanitation, and government and civil society – has taken a significant share of total disbursements for all donors, reflecting in part the increased importance given to attaining MDGs.<sup>8</sup> Between 1998 and 2002, IDA devoted 40 percent of its resources to this area, with the RDBs, UN, and bilateral donors providing upwards of 30 percent of their support in this category. Along with the social sectors, an important focus of the RDBs, IDA and EC has been on economic infrastructure and the production sectors – which, under the OECD/DAC definition include transport, communications, energy, banking, financial and business services, agriculture, industry, mining, construction, trade, and tourism. At the same time, EC and IDA are the largest providers of budget support (14 and 16 percent respectively of their resources have been for structural adjustment and programmatic assistance). The EC and the UN provide significant resources to “food aid” and “emergency and distress relief”; over 40 percent of UN aid is in this category.

<sup>8</sup> The World Bank defines water and sanitation under infrastructure and not as part of the social sector.

**Table 6: Sectoral Distribution of ODA (1998-2002)**

(in percent)

<b>Sector</b>	<b>Bilateral</b>	<b>UN a/</b>	<b>EC b/</b>	<b>RDBs c/</b>	<b>IDA</b>
<b>SOCIAL INFRASTRUCTURE AND SERVICES</b>	<b>32</b>	<b>39</b>	<b>16</b>	<b>39</b>	<b>40</b>
Education	7	3	2	9	9
Health	4	5	4	6	6
Population Programs	3	15	1	0	4
Water Supply and Sanitation	5	2	3	8	5
Government and Civil Society	6	10	5	7	7
Other Social Infrastructure and Services	6	4	2	8	10
<b>ECONOMIC INFRASTRUCTURE</b>	<b>18</b>	<b>1</b>	<b>23</b>	<b>27</b>	<b>23</b>
Transport and Storage	9	0	16	15	11
Communications	1	0	0	0	0
Energy	5	0	4	7	6
Banking and Financial Services	1	0	1	3	4
Business and Other Services	2	0	2	2	2
<b>PRODUCTION SECTORS</b>	<b>8</b>	<b>3</b>	<b>9</b>	<b>12</b>	<b>11</b>
Agriculture, Forestry, and Fishing	6	1	4	10	10
Industry, Mining, and Construction	2	1	4	1	1
Trade and Tourism	1	0	1	0	1
<b>MULTISECTOR</b>	<b>8</b>	<b>8</b>	<b>4</b>	<b>15</b>	<b>7</b>
<b>OTHERS</b>	<b>34</b>	<b>49</b>	<b>48</b>	<b>7</b>	<b>19</b>
o/w: Structural Adjustment	1	0	14	3	16
Food Aid excluding Relief Food Aid	3	18	10	0	0
Other General Programme & Commodity Ass.	4	0	5	0	0
Action Related to Debt	10	0	0	1	0
Relief Food Aid	1	0	0	0	0
Non-Food Emergency and Distress Relief	6	24	18	1	2
Administrative Costs of Donors	2	4	0	0	0
Support to NGOs	2	0	0	0	0

a/ includes averages of available 1998-2002 data for UNDP, UNICEF, UNHCR, UNFPA, and WFP.

UNDP, UNICEF and UNFPA based on commitments; UNHCR and WFP based on gross disbursements.

b/ European Development Fund less European Investment Bank assistance.

c/ Includes AsDF, AfDF, and IDB's Fund for Special Operations.

Source: OECD/DAC; updated 14 September 2004

10. **Over time the sectoral distribution of donors' aid has shown some changes.** There has been a decline in bilateral aid for economic infrastructure (from 24 percent in 1998 to 13 percent in 2002); an increase in EC aid to production sectors (from 5 percent to 14 percent over the same period), a decline in IDA aid to production sectors (from 16 percent to 5 percent over the same period); and an increase in IDA aid for structural adjustment (from 12 percent in 1999 to 29 percent in 2002).

11. **The terms of aid provision have also changed in recent years.** Bilateral ODA has steadily moved towards grants and away from loans, the grant share having risen from 66 percent in 1974 to 98 percent in 2002. Multilateral aid maintained its grant share to 2002, but some increase is expected since then (full data beyond 2002 are not yet available). The introduction of grants under IDA13 (as well as under the subsequent replenishments of the African and Asian Development Funds) has raised some concerns about the division of labor between the UN

agencies and IDA (as well the AfDF and AsDF). In this context it is important to note that while the advent of IDA grants has changed the level of **concessional**ity of IDA resources for recipient countries, it has not changed the mandate of the Bank nor the activities in which the Bank is engaged. In particular, there is no evidence that the introduction of grants by IDA “crowd out” programs of the UN agencies. Where there is sectoral overlap with the UN (e.g., in Social Infrastructure and Services), IDA’s programs generally complement those of the UN and its agencies. To further ensure complementarity, a number of measures have been taken to improve collaborative arrangements between the Bank and the UN and its specialized agencies (see below).

## **II.B Conclusions on the Role of IDA from Trends in Financial Flows**

12. The trends in aid flows outlined above show that:

- (i) IDA received 5.6 percent of total ODA contributions in 2002, down from 9.2 percent in 1995.
- (ii) Nevertheless, it has maintained its share of multilateral disbursements at around 35 percent. Thus, with a relatively small – and in fact declining – ODA allocation from donors, IDA is a relatively big contributor in financial terms.
- (iii) IDA and other multilateral agencies together account for about the same amount of program and project aid as the bilateral agencies.
- (iv) IDA is efficient in disbursing the aid as shown by the ratio of disbursements to commitments.
- (v) In terms of geographic distribution, IDA is present in virtually all low-income countries and focuses more than other agencies on poor countries. Moreover, it has the most poverty efficient aid.
- (vi) IDA has a significant presence in all socio-economic sectors.
- (vii) The adoption of grants under IDA13 has given rise to some concerns that IDA may be competing with the UN. The advent of grants, however, has not changed the mandate of IDA and its program generally complement those of the UN. Furthermore, measures to improve coordination (discussed below) should reduce the chances of program overlap.

## **II.C Developments in Donor Coordination**

13. **From Table 3, the picture that emerges is one where donors are still involved in various sectors of aid provision: social infrastructure, economic infrastructure and production sectors.** Of course this is not new – donors have always overlapped in their programs – and by itself it is not necessarily undesirable. Different donors bring different skills and expertise that help determine the strategic positioning of different development partners, and the ways in which they will interact in each country. Some may be more familiar with the country setting and with some sectors or sub-sectors than others, and this can be a source of comparative advantage in dealing with the government as a trusted partner.

14. **What has been brought into prominence, however, are concerns about the effectiveness of the system.** Although donors have been talking to each other – formally through Consultative Groups and by undertaking coordinated and joint operations, which have resulted in some coordination of aid provision – a widespread consensus has emerged that more

needs to be done. In particular, the focus has moved from developing partnerships and sharing information about aid plans to alignment and harmonization around country priorities and systems. A structure involving many donors, some offering similar packages of assistance that were not necessarily part of a coherent whole, and that added substantially and wastefully to transactions costs both for providers and recipients was criticized in a number of reviews in the last few years.<sup>9</sup> An outline of these reviews is given in Annex 2. In turn, the reviews resulted in a number of measures by the donor community. These issues will take on greater urgency in light of commitments to increase both the effectiveness, efficiency and volume of ODA in the next few years.

**15. In response to recommendations from the reviews and from advances in thinking on the approach to development cooperation, the development community focused on stronger partnerships and country ownership as ways to improve coordination, with the PRSP approach emerging as a promising instrument.** Based on that broad foundation, two specific initiatives were launched aimed at bringing the whole development community together for concrete action: **management of aid for results** and **harmonization**, both of which make improved donor coordination a central theme. The first initiative began in Monterrey in 2002, where the Presidents of the MDBs issued a joint statement “Measuring, Monitoring and Managing for Development Results.”<sup>10</sup> In June of that year they brought together key actors – from MDBs, other development agencies and client countries – for a jointly sponsored first roundtable on development results. In 2003, the MDB Presidents endorsed the formation of a working group on managing for development results, and in February 2004 the MDBs, in cooperation with OECD/DAC, jointly sponsored the second roundtable on development results in Marrakech. With regard to harmonization, the MDBs jointly sponsored the Rome High Level Forum on Harmonization (with OECD/DAC and the Italian government) in 2003. The Rome declaration issued at the end of the forum identified the priority areas identified for action and a group of frontier countries for implementation. A second High Level Forum on Harmonization is to be held in Paris in early March 2005, co-sponsored by the MDBs, in cooperation with OECD/DAC and UNDP, and hosted by the French government. This Forum will take stock of progress since Rome and lay the groundwork for further progress and commitments to action by donors and developing countries alike. In preparation for the Forum, a series of regional workshops are being organized by the regional development banks (AfDB, AsDB, EBRD, IDB) in cooperation with the World Bank.

## **II.D Coordination Between the Bank, the UN, and Other Multilateral Agencies**

**16. A central part of the response to the initiatives described above is a change in the working relationship between the Bank and multilateral agencies.** A major effort has been made to strengthen these relations in recent years. Following the Monterrey statement, the Bank

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<sup>9</sup> See OECD, 2003, *Harmonising Donor Practices for Effective Aid Delivery: Good Practice Papers*, DAC Guidelines and Reference Series, Paris, Chapter 3 provides a “Needs Assessment of the Concerns of all Parties”.

<sup>10</sup> The President’s Note to the Development Committee, April 4, 2003, defines, in Annex 1, the terms alignment and harmonization. Alignment addresses the fragmentation of aid that results from individual donors undertaking their own programs and projects and means donors working with each other. Harmonization addresses the efficiency of aid and refers to consistency in institutional requirements and operational tools and practices across the donor community. Coordination is not defined there but in current usage refers to a more general agreement on strategic objectives and instruments to make aid more effective and coherent.

set up a framework of coherence and cooperation with other multilateral organizations.<sup>11</sup> This identifies and periodically monitors progress in key areas of cooperation and in planned future actions. Agencies covered under the framework include the IMF, the RDBs, the UN and its agencies, OECD/DAC and WTO. Topics given special consideration are collaboration in supporting country programs, thematic issues, overall strategic coherence and coordinated institutional approaches. Many of these issues are discussed further in Section III. An example of the strengthening of institutional links is given in Box 1 for the UN and its Agencies.

**Box 1: Strengthening Institutional Links Between the Bank and the UN and its Agencies**

The Bank-UN relationship has been evolving toward greater collaboration over the last few years, to strengthen the broad-based engagement that the Bank has with the UN at several levels. At the interagency level it acts through the Chief Executives Board and other high level coordinating committees. With the specialized agencies on the ground it acts through the UNDP Resident Representative. The relationship has been strengthened as a result of the revamping of the Bank's UN office, and attention and support from the President and Senior Management.

The adoption of the MDGs and the partnership in the preparation and follow-up to the Monterrey and Johannesburg conferences have given focus and impetus to a shared agenda. The Bank has an internal Steering Group chaired by the Chief Economist to coordinate the Bank's engagement with the UN on the MDG agenda. There has also been close collaboration on monitoring progress on the implementation of the Monterrey Consensus. This was most recently the case in the preparations of the Global Monitoring Report for the Development Committee and the Secretary General's Report on Implementing the Monterrey Consensus.

At the operational level, the Bank has been working closely with the UN Development Group and UNDP on how to support countries in the implementation of the PRSP. Given that the Bank is a participant at a Vice Presidential level in UNDG (OPCVP sits in for the Bank) there has been a growing level of coordination of efforts. For example, there was an agreement on the complementarities between MDG reporting at the country-level and the PRSP annual review reporting that was sent to all UN Resident Coordinator and Bank Country Directors to facilitate the country-level joint work between the two institutions. As well, the Bank is routinely consulted in the preparation of new guidelines for UN Resident Coordinators and country teams on the PRSP process and related matter. This has been complemented with discussions with UNDG on joint harmonization efforts, which has opened a continuous channel to address common challenges to support countries in their policies to reduce poverty.

There has also been progress on thematic and sectoral issues. A good example is UNAIDS, where the Bank is a co-sponsor, along with seven UN organizations, of an effective unified program to combat AIDS. Other notable developments include working with UNDP on statistical capacity building, and on monitoring and assessing PRSPs; with UNDP and UNHCR on coordination during conflict emergencies and humanitarian and relief phases of post-conflict reconstruction (see also para. 66); with WHO on accelerating progress to achieve the health MDGs; with FAO/IFAD on a joint rural strategy and on a Global Donor Platform for Rural Development; and with ILO on core labor standards, analytical work on child labor and on the social impacts of globalization. There may be differences in perspectives between the Bank and the UN on particular issues given the difference in mandates and structures. But at the same time, there is a clear shared agenda with much common ground and better mechanisms to pursue coherence.

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<sup>11</sup> See *Coherences, Coordination and Cooperation Among Multilateral Organizations: Progress and Challenges*, Board Report:  
[http://imagebank.worldbank.org/servlet/WDS\\_Ibank\\_Servlet?pcont=details&eid=000012009\\_20040412103117](http://imagebank.worldbank.org/servlet/WDS_Ibank_Servlet?pcont=details&eid=000012009_20040412103117)

## **II.E The Role of IDA Under the New Coordination Initiatives**

**17. In the development paradigm outlined above, all donors including IDA make important contributions. IDA is not usually the biggest player but has important and specific roles to play.** In addition to the financial points made in para. 12, IDA has a number of comparative advantages.

- (i) As the development agency that undertakes the most country-specific analytical work and research on economic development, and as a source of global knowledge in this area, it helps to strengthen the knowledge base for all development partners.
- (ii) By working closely with the IMF, it ensures coherence between the long-term development objectives and the shorter-term requirements of macroeconomic fiscal and monetary management (i.e., as a link between the micro and macro aspects). A good example is the new debt sustainability framework, jointly developed by the Bank and the Fund, which determines acceptable indebtedness or minimum concessionality levels for Low-Income Countries.
- (iii) With its increased in-country presence, as a result of a major Bank-wide decentralization program, it provides a strong presence on the ground at country level, through which it can integrate the efforts of donors to improve the design and implementation of aid programs that are better coordinated and more effective.<sup>12</sup>
- (iv) It provides continuity of engagement in countries where individual donors' engagement is more volatile. Thus, even in countries and sectors where it is not the largest donor, IDA's participation and management have provided an important source of leverage to encourage the involvement of other donors, particularly those who are willing to provide some budgetary support, but are not prepared to invest heavily on program development and monitoring.

18. The next two sections address a range of systemic and specific issues in development architecture, namely:

- Systemic Issues
  - Country accountability and strategic coherence among donors
  - Predictability of financial flows and coordinated funding
  - Common results framework
  - Harmonization around upgraded country systems
- Special Issues in Development Architecture
  - Post-conflict and LICUS countries
  - Regional programs
  - Global programs and global public goods

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<sup>12</sup> Decentralization of staff and responsibilities has been strongly pursued by the Bank. Today, 31 percent of Bank Group staff – 2,746 locally recruited and 550 internationally recruited staff – are based in offices in 122 countries other than the U.S., a proportion that has increased by over one-third during the last five years.

### III. Systemic Issues in Development Architecture

#### III.A Country Accountability and Strategic Coherence in Aid Programs

19. **The main instrument to promote country accountability and strategic coherence has been the *Poverty Reduction Strategy (PRS)*, which focuses on poverty reduction within a country-driven agenda to which all donors contribute.** In countries with capacity to design and implement their own development program, the PRS is the most important initiative towards strategic coherence. It was launched in 1999 and, as of end-August 2004, 43 countries had prepared full PRSPs and another 15 had launched the process. As they enter their 5<sup>th</sup> year, the PRSPs are becoming the cornerstone of engagement with many low-income countries on development aid. Bank and IMF reviews show that both participatory processes and content are improving as more recent PRSPs build on the experience of earlier ones. In the ‘good cases’ PRSPs are fostering coordination among donors on the timing and substance of their assistance strategies (Box 2). The same reviews note, however, that shortcomings remain, not least in making the process more country-driven and in aligning donor assistance around national strategies.<sup>13</sup> So far, changes in donors’ *processes* have been more evident than changes in the *content* of donors’ programs. This is largely explained by the first generation PRSPs’ broad scope and lack of prioritization.

20. **Comprehensive reviews of PRSPs have just been completed by the Bank’s Operations Evaluation Department (OED) and by the Bank and the Fund.<sup>14</sup> The main messages to emerge speak to these issues, but also to the gaps and challenges on the country side of the equation:**

- Country experiences and the value-added from the initiative vary widely and depend on country initial conditions, such as public sector management and monitoring capacity, the prior government-partner relationships, and relations among donors. This underscores the country-specific nature of the PRSP and the need for realism in defining expectations.
- In spite of these problems, many countries have made progress in the more straightforward challenges of the PRS approach. For example, poverty analysis has been enhanced, indicator lists rationalized and sectoral coverage broadened. The importance of growth and macroeconomic stability is being recognized and the whole process has become more participatory.
- As implementation of the PRS has unfolded, links to domestic decision making processes, such as the budget, and to representative bodies, such as parliaments, have not always been optimal.
- In a number of countries the implementation of the PRSP has been successful, has demonstrated value added over past national strategies and has improved the poverty focus of development. There is substantial scope, however, to better align aid and to harmonize and simplify donor policies and practices.

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<sup>13</sup> See the 2003 update, *Poverty Reduction Strategy Papers - Detailed Analysis of Progress in Implementation*, Report 26565, World Bank and IMF (August 7, 2003). Earlier updates can be found at: <http://poverty.worldbank.org/prsp/index.php?view=sub&id=3789>.

<sup>14</sup> OED Review of the Poverty Reduction Strategy (PRS) Process, 2004, Poverty Reduction Strategy Papers – Progress in Implementation, August 18, 2004. The Executive Board also responded to the OED Review.

**Box 2: Improved Strategic Aid Coherence as a result of the PRS Process**

In **Bangladesh**, IDA, in partnership with the AsDB, carried out a Poverty Assessment and PER which provided useful inputs to the PRS process.

In **Mali**, the government sees the PRSP as the sole framework of reference for all public sector policies, which has facilitated donor coordination. Donor coordination has also improved via regular meetings held by the Government with the major donors as part of the Mali-Donor Joint Commission. The presidency of meetings rotates regularly between bilateral and multilateral partners. IDA also participates in the UN's monthly coordination meeting and in the preparation of documents such as the 2002 United Nations Development Assistance Framework.

In **Kyrgyz Republic**, IDA worked closely with AsDB and the UN in the development of the PRSP, which is the central government development policy document.

In **Ethiopia, Mozambique and Tanzania**, a strong government role in aid coordination pre-dated the PRSP. Combined with the PRSP, it has resulted in greater coordination of donor programs in line with country priorities. In Mozambique and Tanzania this is mainly realized through budget support using the PRSC and PRGF. A single instrument – the Performance Assessment Framework (PAF) – is used as a monitoring instrument.

In **Vietnam**, a PRSP-type process initiative has provided 10 donors with a framework to align their activities in a program that has been evaluated as highly effective. According to a joint Japan/UK review of the aid experience in Vietnam, the lessons from the Bank's OED review on improving the PRS process are being implemented in Vietnam, with country ownership of the aid agenda. IDA is playing "an increasing role including bringing together donors of different orientations...leading on some multi-donor instruments and programmes...such as the Comprehensive Capacity-Building Plan, the multi-donor Trust Fund on Public Financial Management and the Poverty Reduction Support Credit." It also notes that the effectiveness of the whole process has been enhanced by the highly decentralized IDA office in Vietnam.

21. While acknowledging their importance, it must be noted that the 'success' stories in the PRSP are relatively few. There is a large group where the process has had limited success, and where it will take a few more years to deliver substantial results and there is yet another group of countries with weak institutions, many of whom are part of the LICUS group, where either the process has not started at all, or where it is struggling in its early stages. About 35 countries that intend to prepare a PRS have yet to do so. This group also includes many of the LICUS countries. The aid delivery process in these latter countries is, at present, different (see Section IV for a discussion of LICUS countries). An obvious but key conclusion for strategic coherence in aid programs is that there is no 'one size fits all' approach and any reforms to improve donor coordination have to be structured to take this into account.<sup>15</sup>

22. **Recommendations for changes to the PRSP relevant to this paper are the following:**

- (i) The initiative should be customized to country circumstances. Countries vary in capacity for implementing and evaluating the process, so a standard high level of output common to all of them is not possible. In addition, many need considerably more help than has been provided hitherto and this needs to be coordinated.

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<sup>15</sup> As a simplification, countries' can be defined along a spectrum of policy and institutional performance. At one end are the *low performing countries*, where the capacity building is a priority. At the other end are the *high performing countries* that have demonstrated higher levels of economic and social management and capacity as well as a better record of development. The appropriate instruments for the delivery of aid will vary, *inter alia*, according to where a country is on this spectrum.

- (ii) The PRS has provided a greater results orientation, but it still has a long way to go. Many PRSP targets are unrealistic and lack a clear link to the medium-term expenditure framework, the budget and executed budget. In this context, strengthening Public Financial Management (PFM) systems is a priority. Although donor assistance in this area has been forthcoming and improvements are underway, more is needed (especially in the areas of budget execution and reporting and monitoring of public expenditure).
- (iii) The list of indicators to be monitored is too large and not completely country-driven, and the statistical capacity to monitor them is often lacking.
- (iv) The PRSP has drawn attention to the need for more analytical work on the links between policies/programs and outcomes. Although the Bank has done a lot already, especially in preparing poverty assessments for its borrowers, more is needed from the donor community, to understand the country-specific constraints to more effective development. Consequently donors should assist countries in strengthening analysis on the poverty impacts of policies and give more attention to growth.<sup>16</sup>
- (v) The link to the MDGs should be deepened and the financial, policy and institutional constraints that need to be addressed to accelerate progress towards these goals identified.
- (vi) External partners need to support and align further with the PRS process. Most partners have accepted the PRSP as the overarching framework for aid management but, beyond coordinated budget support in a few cases, there is little evidence of coordination of donor programs (the education sector is an exception).<sup>17</sup>

23. ***Public Financial Management (PFM).***<sup>18</sup> **A key to better national management of the PRS is effective Public Financial Management systems (PFMs), which links the strategy to a credible public expenditure framework that can be tracked and implemented.** The Bank has invested heavily to obtain an understanding of the performance of country PFM systems through Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reviews (CPARs). Moreover, this work has acquired greater country ownership and been carried out with greater donor involvement. In Tanzania, the annual government-led public expenditure review process is managed by a working group with representation from the government, donors, and civil society. In Vietnam, the government is assuming greater responsibility for managing and producing the public expenditure review in support of their own budget and decision-making process. In India, the government of Andhra Pradesh led the State Financial Accountability Assessment, with inputs from Bank and DFID staff. In a number of large borrower countries, the central government has

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<sup>16</sup> See, *Growth in IDA Countries*, discussion paper for the IDA14 Replenishment Process.

<sup>17</sup> Coordinated budget support is, of course, not a trivial achievement. The OED report refers to a June 2003 retrospective evaluation by the Netherlands which found that, through the PRS process, "...transactions costs were actually decreased for both Uganda and the Netherlands as a result of harmonization to country procedures." The observed increase in coordinated donor budget support - in Tanzania, Uganda, and elsewhere - was considered as significant evidence of donor alignment, which has been facilitated by the PRS process.

<sup>18</sup> Public financial management includes all phases of the budget cycle, including the preparation of the budget, internal control and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective allocation of public services. See *Harmonizing Donor Practices for Effective Aid Delivery – Good Practice Papers – A DAC Reference Document*, OECD, 2003.

started to carry out fiduciary-type diagnostic reviews in support of fiscal transfers to sub-national entities using criteria agreed with the Bank, and reviewed on a sample basis by Bank staff.<sup>19</sup>

**24. Coordination in this area is substantially advanced through a partnership program on Public Expenditure and Financial Accountability (PEFA)** involving the World Bank, the EC, DFID, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Norwegian Ministry of Foreign Affairs and the IMF. It was set up in December 2001 for three years with a \$5 million budget. The goals of the PEFA program are to strengthen recipient and donor ability to: (i) diagnose the condition of country public expenditure, procurement and financial accountability systems; and (ii) develop a practical sequence of reform and capacity-building actions, in a manner that: encourages country ownership, reduces transaction costs, enhances donor harmonization, better addresses developmental and fiduciary concerns and leads to improved impact of reforms. More than half of all CFAAs are now carried out jointly with other donors. All MDBs have used the same methodology for CPARs since March 2002, and all now involve joint teams or peer reviewers from other MDBs.

**25. The Bank and other donors have developed a Public Financial Management (PFM) monitoring framework for use in all countries.** As part of the work described above, the Bank developed an indicator-based PFM Performance Measurement Framework to evaluate PFMs against a set of 15 indicators, and has been using it to track public expenditures in 24 low-income countries benefiting from the enhanced HIPC Initiative. The tool has proved to be effective in tracking performance in this important area, in laying down agreed-upon short- and medium-term action plans for improving the public finance systems and in identifying resources needed for technical assistance. The US Treasury Office of Technical Assistance and DFID are also using it for these purposes. Following on from this, the Bank and other donors have jointly developed an integrated monitoring framework that covers all aspects of the budget cycle including budget formulation and execution, procurement, accounting, auditing and internal and external controls. The framework includes a common set of indicators, and an accompanying analytic report. This PFM performance report describes the country context and environment for reform, elaborates more fully on performance as measured by the indicators, comments on progress with the implementation of the reform program, and judges its likely impact. The indicators and the report would be modified and adapted as needed based on field testing and implementation experience. As a result of the common effort in developing the framework, other donors have indicated a willingness to rationalize or resist launching their own PFM tools (e.g., EC compliance tests).

### **III.B Aligning IDA's and Other Donors' Programs to the PRSP**

**26. The main instrument for IDA's national programs is the Country Assistance Strategy (CAS).** As of July 2002, the Bank began requiring that CASs for IDA-eligible countries be prepared on the basis of PRSPs. Of the 28 countries with PRSPs/I-PRSPs since then, 27 of them had CASs approved after the PRSP completion date. In such countries, after an uncertain start, the CAS and equivalent instruments of the RDBs are becoming more coordinated, with good examples from Nicaragua, Honduras, Kyrgyz Republic and Tajikistan.

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<sup>19</sup> *Public Financial Management in World Bank Operations: A Strengthened Approach to Enhance Development and Fiduciary Objectives*, Operations Policy and Country Services, Poverty Reduction and Economic Management, July, 2004.

Discussions have taken on closer coordination or even joint country strategies in Cambodia, Mongolia, Sri Lanka, Uganda and Tanzania. The case of Cambodia is particularly instructive (See Box 3).<sup>20</sup>

**27. In April 2003, IDA and the European Commission agreed to strengthen their partnership, particularly with respect to supporting the PRSP process.** One of the major outcomes of that meeting was an action plan which laid out specific agreed principles and areas of cooperation, and one of the main elements of that action plan was an agreement on a “Joint Note Supporting the PRSP Process in Africa.” This laid out a set of principles to which both institutions would adhere in their support to low-income African countries. One of these principles is that all donor country assistance strategies and support would be based on the PRSP.

### **Box 3: Joint National Programs – The Case of Cambodia**

In Cambodia IDA decided to embark on a joint CAS process with AsDB and DFID, two agencies that were also undertaking their planning processes along a similar time line as IDA. This initiative has been welcomed by the Government of Cambodia and they hope it will spread to other agencies as well. It has also generated a lot of interest in the donor community and IDA is now reaching out to other partners—notably, Japan, the largest donor to Cambodia and also to the UN system, which is also embarking on their UNDAF process. The UN system in Cambodia has now agreed not to produce its own Common Country Assessment (CCA), but to take the National Poverty Reduction Strategy (NPRS) as the basis for its country-level planning, in agency-specific plans and in the coordination of these through the UNDAF.

**28. The timing of IDA’s Country Assistance Strategies is increasingly better aligned with the PRSP, which in turn is being aligned with the national budget and planning cycle.** More generally, the increased cooperation in the sectoral programs described in paras. 36-39 is a part of the improvement in overall coordination in the national programs. It remains a process, however, and one that still has some way to go before its full potential is realized.

### **III.C Predictability of Financial Flows**

**29. From the country perspective, as important as getting donors to coordinate their funding around budget and sector support instruments, is the need for predictable funding.** While these instruments make longer-term commitments possible, in reality governments are still highly uncertain about who will disburse how much and when. Increased predictability requires, as a start, multi-year pledges on the part of donors, which then has to be followed by converting those pledges to predictable commitments and disbursements. Progress in this area has been slow and a major source of grievance on part of governments.<sup>21</sup> An OECD/DAC Good Practice Paper on this subject recommends donors provide disbursement information for four years, with a firm current year commitment and make commitments 8 months prior to the start of the

<sup>20</sup> In some IDA countries where there is no PRSP, the donors are nevertheless working on joint strategies. Examples are PNG and Pacific Islands.

<sup>21</sup> A recent study has confirmed earlier findings that aid flows are in practice seven times more volatile than domestic revenue. Moreover, they are procyclical (when government revenues go down, so do aid flows). See A. Bulir and A.J. Hamann, *Aid Volatility: An Empirical Assessment*, IMF Staff Papers, 50, 1, 64-89 (2003).

recipient's financial year which, taking account of different financial years may entail a commitment very early in a donor's financial year.<sup>22</sup>

30. **An issue associated with predictability is the ability of the government to track aid flows in the country.** In this regard the same OECD/DAC report recommends an increase in the proportion of the donor funding to be included and accounted for in the government budget. Currently flows outside the budget vary from 30 percent to 90 percent of total aid delivered to recipient countries.

### III.D Coordinated Funding

31. **One important instrument to finance the PRS is the Bank's Poverty Reduction Support Credit (PRSC).** As noted earlier, what combination of instruments is appropriate will vary according to country, but a number of these each allow IDA to be used as a focal point in the funding for PRSs, around which other donors can coalesce. Potentially, country governments can use this funding base more flexibly, along with domestic budgets, as compared to some rigidities they may experience with other donor support. According to the Bank's case studies cited in the OED review, "PRSCs have helped to promote ownership because budget support is seen as a vote of confidence in the government's program outlined in the PRSP, in that external resources are given directly to the recipient to support their own program rather than through agreed discrete investment projects. PRSCs have also improved donor coordination, with the Bank seen as 'joining the team' of donors providing budget support."

32. **Donors need to agree on 'prior actions' to make coordinated funding more effective.** Even when donors agree to budgetary support around a PRSC or similar instrument, they each have their own priorities, reflected in a 'matrix' (a framework linking measures and prior actions required from the government, and indicators to measure progress on them). Performance on the prior actions serves as the basis for the credit (and sometimes as a trigger for further credits). These matrices differ from each other and from the government's own matrix, particularly with regard to the required prior actions and the timing of those actions. This makes it very difficult for the national authorities to manage the process and to predict future aid flows.

33. **The use of PRSC is relatively recent and a full review of their success is pending** (Box 4). As cooperation on the process translates into cooperation on the contents of the programs, and as measures to improve country performance bear fruit, the use of PRSCs will increase. It will also become more feasible for other donors to finance such programs if there is a greater sharing of analytical work and agreement on the implications of that work for development lending; a strengthening of government-donor dialogue at an early stage in the PRSP; and closer collaboration between partners in defining the PRS framework.

34. **Along with the PRS process, cooperation on sectors and themes has been going on through numerous channels.** Since 2000, Memoranda of Understanding (MoUs) among donors have become a tool for setting the course of cooperation in specific sectors and countries. Box 5 provides some examples of recent sectoral cooperation between the MDBs through these and other means.

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<sup>22</sup> As recommended by the OECD/DAC Working Party on Aid Effectiveness, 3<sup>rd</sup> Meeting on Increasing the Accountability and Predictability of Aid Flows, July, 2004.

**Box 4: PRSCs and Other Instruments that Finance the PRSs**

PRSCs were introduced in 2001 and are designed for countries where IDA has reasonable confidence in the government's budget processes and capacity in other areas of government. With an analytically well supported PRS and a proven track record in macroeconomic and budget management a country can receive annual single tranche credits embedded in a rolling programmatic framework. The core segment provides budget support tied to budget performance and public sector reform. Other segments provide indicative support for major public services, such as education and health. Future tranches are dependent on performance (*ex post*) but poor performance in one segment does not jeopardize the release to a segment that does well.

There is limited information on cofinancing in PRSC program documents. In Sri Lanka, the Asian Development Bank is expected to contribute US\$400 million during 2003-06. In Vietnam, four donors (the Netherlands, the United Kingdom, Denmark, and Sweden) contributed \$49 million for the first PRSC, and a wide range of donors (UK, Japan, AsDB, Denmark, Netherlands, Sweden, Australia, Canada and the EC) have either joined the PRSC or are considering whether to do so in the future. As a result, the PRSC will be worth around \$220 million in 2004, far exceeding the \$100 million IDA contribution. The second PRSC for Burkina Faso was co-financed by Belgium specifically for the implementation of the Health Development Plan within the overall framework of PRSP. In Mozambique, 18 donors are coordinating to provide budget support to implement the PRS. Donors are working towards developing a common set of results indicators on which to base future budget support decisions; however, resistance has arisen from some bilateral donors, who are also IDA members, regarding the inclusion of IDA triggers in the indicator set. With 12 percent of donor funding, IDA is quite far down the list of donors and commonly enters into co-financing arrangements with other donors, rather than leading individual programs.

**35. There is, clearly, considerable scope for cooperation to increase at the sectoral level.**

As a first step, it would be desirable to share analytical work at the sectoral level and even undertake joint work. Progress in this area is discussed in para. 51. A working group on infrastructure analysis and financing is now actively looking at opportunities for cooperation at the sectoral level. MDB cooperation in this area was one of the priorities agreed to by MDB Presidents at their Marrakech meeting.<sup>23</sup> They also decided to strengthen cooperation on another emerging common issue, namely capacity-building, a key part of any plan to achieve the Millennium Development Goals.

**36. Following greater cooperation in designing sectoral policies, it becomes easier to undertake joint or coordinated lending operations that implement the agreed sectoral policies.**

In addition to the PRSCs and other budget support instruments, at the sectoral level Adaptable Program Loans (APLs) and Sector-Wide Approaches (SWAps) have been effective in aligning donor support where the country has strong ownership of sectoral programs and the capacity to coordinate donors support. An APL involves agreement on the phased long-term development program supported by the loan, with sector policies relevant to the phase being supported, along with sector investments and recurrent expenditures. Progress in each phase of the program is reviewed and evaluated, and additional analysis undertaken as necessary, before the subsequent phase can be initiated. APLs can be effective when the country is ready to implement sustained changes in institutions, organizations, or behavior which are key to successfully implementing a program. They can be used to support a phased program of sector restructuring, or systemic reform, in the power, water, health, education, and natural resource

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<sup>23</sup> A greater need for investment in infrastructure has been noted in some PRSC reviews. If it is to be met, however, greater emphasis will have to be given to the role of growth in the PRS than has been the case hitherto.

management sectors, where time is required to build consensus and convince diverse actors of the benefits of politically and economically difficult reforms. Adaptable program loans have been particularly popular in countries that have conducted a PRSP, and in a number of cases, other donors have jointly financed programs under APLs. Examples in IDA countries include: Uganda Roads Improvement (with the Nordic Development Fund); Bolivia Health Sector Reform Program (with IDB and DFID); Yemen Irrigation Improvement project (with Government of the Netherlands) and the India Andhra Pradesh Power Sector Reconstruction Program (with DFID and CIDA).

**Box 5: Examples of Cooperation on Sectors and Themes at the Country-Level**

**AsDB and IDA**

Afghanistan: Preparation of preliminary needs assessment. Cambodia: Joint gender assessment; Uzbekistan: health sector programs.

**EBRD and IDA**

Serbia and Montenegro: Policy dialogue across several sectors.

**IaDB and IDA**

Bolivia: Banking and corporate reform.

**IDA and several donors:** Mozambique: Joint development of programs in health, education and rural development. Burkina Faso: 13 donors contributed to a coordinated education sector program. Bangladesh: IDA leads donor groups in health, population, HIV/AIDS and water supply (arsenic mitigation efforts). In education, 11 donors, including IDA, decided to support a Sector-Wide Approach, driven by the PRSP. Ghana: IDA worked with several donors to develop a common health sector program. Mali: IDA maintains a collaborative relationship with all donors, across all sectors of development. Over 15 donors are involved in the 10-year development programs for health and education. The Bank largely leads policy dialogue on the rural development, infrastructure and transport sectors, where several donors are involved.

37. **A facility for coordinated lending at the sectoral level, including the possible pooling of funds, is the Sector-Wide Approach, or SWAp.** This is not a financing instrument, but an approach by which development agencies collaborate to support sector reform programs that are based on a country's long-term vision for its development. It is borrower-managed, and usually covers an entire sector or a large part of one. To be implemented, donors have to agree with the government on harmonized approaches in planning, implementation, monitoring and evaluation, with increasing reliance on country's systems and procedures. The aim is both to achieve coherence in the sector's development, and to reduce the transactions costs for the borrower. Where countries can achieve enough agreement on fiduciary processes, a common pooling of funds makes for even lower transactions costs. The arrangement has been used successfully in a number of sectoral programs, although the pooled engagement of multiple donors is still rare. Examples considered as satisfactory, in which IDA has led the process, include:<sup>24</sup>

- The Ghana Health Sector Support Project, with a financing pool involving DFID, DANIDA, Netherlands, EU, IDA and an outside pool of 12 countries.
- The Bangladesh Primary Education Development Project (see also Box 2 above), which involved AsDB, AUSAID, CIDA, DFID, EC, IDA, JICA, NORAD, Netherlands, SIDA and UNICEF in a \$650 million pooled fund, for a total sectoral program of \$1.8 billion.

<sup>24</sup> In Uganda the SWAp has been used for the health sector, but as part of a PRSC.

- The India Elementary Education Project, where IDA, DFID and the EC are pooling resources to finance a \$3.5 billion program.
- The Mozambique Agricultural Sector Public Expenditure Program, involving 18 donors, putting up more than five times as much as the IDA credit of \$30 million.
- The Nepal Basic and Primary Education Program, in which a \$50 million IDA credit is being leveraged to \$227 million over three APLs.

38. **SWApS have been most widely used in the health sector.** A 2003 SIDA report shows that, in a review of 11 countries,<sup>25</sup> 14 bilaterals had participated in health SWApS, along with the major multilaterals and UN organizations. IDA is involved in all countries, mostly as one of the SWAp leaders. Partner pooled funding for some programs is present in Ghana, Mozambique, Bangladesh, Mali and Uganda, but the amount of pooling varies a lot. Overall, the report concludes that the SWApS have provided a useful framework, but there are challenges that remain to be met, most notably in the stability of their arrangements in the face of political changes, in implementing administrative reforms that are built into the sector programs, and in meeting the parallel requirements of those donors who insist on them.

39. **It is too early for a comprehensive evaluation of PRSCs, but the results so far have been encouraging.** The APLs and SWApS have been used much longer, and they have been effective in aligning donor support at the sectoral level, where the country has strong ownership of sectoral programs and the capacity to coordinate donor support. These approaches to lending have provided greater scope, not only for increased coordination, but also for lower transactions costs. IDA has taken the following steps to facilitate the use of these approaches. In April 2002, new fiduciary processes were agreed which allowed the World Bank to participate in pooled financing arrangements in sectorwide approaches --characterized by common arrangements for financial reporting, auditing, procurement, and disbursement. Associated guidelines for staff were issued in November 2002. In April 2004 the Bank liberalized its expenditure eligibility requirements to better align its assistance around country objectives and to make it even easier to pool financing with borrowers and donors. The RDBs have also started to embrace this instrument recently. Certainly, the suitability of the instruments varies by country and sector and this has to be allowed for. But with concerted and sustained effort on the part of all financiers to use these instruments carefully, the chances of achieving a good result will be increased. Measures that will expand their use are: (a) sharing of analytical work to develop programs that all donors can fully subscribe to; and (b) agreement on common procedures for loan preparation and implementation across donors (discussed further below).

### III.E Common Results Frameworks

40. **The Monterrey consensus underscored the shared responsibility of developed and developing countries for achieving development results such as those embodied in the Millennium Development Goals.** The need to better manage for results -- to use information to improve decision-making and steer country-led development processes toward clearly-defined goals -- has emerged at the forefront of the global development agenda in the post-Monterrey period. The World Bank is implementing a program on managing for results that was defined in

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<sup>25</sup> SIDA, *Mapping of Sector Wide Approaches in Health*, Institute for Health Sector Development, London, 2003. Countries are: Ghana, Tanzania, Mozambique, Senegal, Bangladesh, Zambia, Mali, Uganda, Burkina Faso, Cambodia and Malawi.

the course of 2002 as the next step in the Bank's long-standing efforts to improve delivery management, operational quality, and aid effectiveness.

41. **Over the past year, the Bank has moved beyond the conceptualization phase into the implementation phase of the results agenda.** Within this short period, progress has been made in all three pillars of the Implementation Action Plan on better managing for results: (a) *in countries*, where development results are achieved, to strengthen both capacity and demand to manage for results; (b) *in the Bank*, to enhance the relevance and effectiveness of our contribution to results; and (c) *across development agencies*, to harmonize results-based approaches and better coordinate support to strengthen country capacity to manage for results.

42. ***Strengthening Country Demand and Capacity to Manage for Results.*** Developing countries need both sustained political will and national institutional capacity to manage for results. This is the fundamental issue of the results agenda and its most difficult challenge. To address this challenge, the Bank has focused on helping countries strengthen national strategic planning (including for poverty reduction strategies) and provided support for results-based public sector management, statistical capacity and monitoring and evaluation systems. Initial progress includes strengthened guidance from the Poverty Reduction and Economic Management Network (PREM) on design and monitoring and evaluation of Poverty Reduction Strategy Papers (PRSPs), and demand-driven support from the Bank's Monitoring and Evaluation Improvement Program (MEIP) for countries to assess their institutional readiness and to strengthen results-based approaches to public sector management. An important step this past year was development by the Development Economic Data Group (DECDG) of the Statistical Capacity Building Program (STATCAP) -- approved by the Board on March 25 2004, which provides a sectorwide approach to building capacity based on a strategic statistical plan for providing reliable and timely data on countries' core development outcomes as articulated in their PRSPs or national development strategies.

43. ***Enhancing the Bank's Contribution to Development Results.*** Significant first year progress has been made in increasing the focus on results in Bank strategies, instruments, incentives, and reporting systems. In particular, country teams have made progress in piloting a central element of the agenda: moving to a results-based country assistance strategy (CAS) that shifts the focus to country level results and more explicitly links these results to the choice of products and services within Bank programming. Sector Boards also made progress in strengthening the results frameworks and outcome monitoring for sector and thematic strategies. Revision of basic documents and procedures has begun to strengthen the articulation of outcome-oriented objectives and monitoring for Bank operations. Further, broad agreement on an IDA results measurement system that focuses on progress toward country outcomes and on IDA's contribution through the CAS has been an important step toward improved reporting on results (see Box 6). Development of a more comprehensive results reporting system will be sequenced in coming years to take advantage of enhanced monitoring and evaluation of CASs, sector strategies, and global programs. In terms of staff learning and incentives, a Bank-wide event, 'Results: Everybody's Business', held in early January 2004 highlighted emerging good practices and sent strong signals throughout the institution on the importance of implementing the results agenda.

44. ***Fostering a Global Partnership on Managing for Development Results.*** A formal partnership has been established through the Multilateral Development Bank (MDB) Working

Group and, more recently, through the MDB/Organization for Economic Co-operation and Development-Development Assistance Committee (OECD-DAC) Joint Venture on Managing for Development Results. For the global statistical community, more than a year of preparation resulted in agreement on a medium-term global action plan to strengthen international statistical systems. The Second International Roundtable on Managing for Development Results, held in February 2004, helped foster an emerging consensus on priorities for the global partnership. Sponsoring agencies endorsed a Joint Memorandum, core principles and action plan that can serve as a foundation to broaden this consensus and take further action in coming years. Implementation of the results agenda will continue to be among the Bank's priorities in the medium term. Much remains to be done to fully implement an agenda that requires medium-term institutional development at the country level, systems development and a further change in mindset within the Bank, and an easing of constraints to harmonized action among donors.

#### **Box 6: The IDA 14 Results Measurement System**

For the IDA13 period (FY03-05), the IDA Deputies requested an interim system to assess Bank progress in delivery of selected analytic products and aggregate progress of IDA countries toward core development outcomes. At the same time, the IDA Deputies called on the Bank to develop an enhanced results measurement system for IDA14 and beyond that would reflect the priorities of national poverty reduction strategies, have clearer linkage to the MDGs, provide aggregated information on country progress and assess IDA's contribution to development results. Following analysis and consultation with IDA borrowing countries, the Bank proposed a two-tiered system, which focuses on monitoring of aggregate country outcomes and of IDA's contribution to country outcomes.

- **Monitoring aggregate country outcomes.** The first tier monitors the aggregate progress of IDA-eligible countries on a set of 14 core development outcome indicators. In addition, all new IDA-funded operations in four key sectors will assist countries to strengthen their capacity to report on the following four country outcome indicators: under-five child mortality rate; primary education completion rate; proportion of the population with sustainable access to an improved water source; and proportion of rural population with access to an all-season road.
- **Monitoring IDA's contribution to country outcomes.** The second tier of the system rests on the medium-term development of results-based country assistance strategies in IDA-eligible countries, to better link key country outcomes to IDA programming. It includes indicators at both the project and the country program level. At the project level, the proposed indicators are: project outcome ratings; project quality at entry; percent of first Project Supervision Reports with satisfactory baseline data on expected outcomes and percent of Implementation Completion Reports with satisfactory data on project outcomes. At the country program level, IDA will continue to monitor and target the cumulative number of results-based CASs prepared during IDA14.

Building on the IDA Results Measurement System, the new results framework for investment lending, the results-based CASs, CAS completion reports and additional work on sector strategies, a comprehensive results reporting system that integrates data from country, sector, and global programs is being developed for the Bank.

### **III.F Harmonization of Donor Procedures and Practices**

45. **Ongoing harmonization efforts are seeking to increase the effectiveness and efficiency of aid.** Work on developing good practices in aid delivery, including public financial management, and supporting implementation is taking place in the OECD-DAC Working Party on Aid Effectiveness and Donor Practices. IDA is playing a leading role in this work along with

other multilateral donors and recipient countries. The need to harmonize *results measurement systems* was given a strong mandate through the Monterrey statement and a number of actions have followed.

46. **There are now specific harmonization programs in more than 35 IDA countries, involving over 35 donors.<sup>26</sup> IDA is participating in most of these, often as a key facilitator.** In October 2003, it established a position of Program Coordinator to oversee IDA's harmonization work with developing countries and IDA staff; and in June 2004 it assigned a senior staff to OECD/DAC to assist in strengthening its harmonization facilitation capacity. Countries where IDA has been particularly active in facilitating harmonization in the last year include: Bolivia, Cambodia, Ethiopia, Kyrgyz Republic, Mongolia, Rwanda, Vietnam and Zambia.

47. Some key developments in harmonization at the operational level are given below. Before discussing these in detail, it is important to note that **while the benefits of harmonization are significant, many of the initiatives that have been undertaken entail a significant increase in commitment of time and effort by donors, including IDA, at least in the early phases.**

48. ***Financial Management.* The Joint Venture on Financial Management completed good practice papers and protocols, and continues to work with relevant professional bodies on an international accounting standard for development operations, which may be completed by the end of 2004.** The MDB group has agreed to common practices on diagnostic work, including protocols for document sharing and use; financial reporting and auditing; and on financial analysis. Moving forward, the group is refocusing efforts on country level implementation and will continue to work with the DAC through the new arrangements for the technical subgroup on financial management.

49. **The Bank has been active in response to this initiative and introduced new guidelines on financial reporting to add flexibility to the content, format, and frequency of borrower reporting requirements, including allowing borrowers to submit reports based on their own financial reporting systems.** This flexibility is being implemented in all new Bank projects; Bank staff are working with country authorities and/or other donors to agree on reporting formats. In February 2003, the Board approved changes to the World Bank's audit policies to enhance assurance of loan proceeds by more explicitly aligning the Bank's policy with international auditing standards and good practice, adapting audit scope to assess project risk, and increasing attention to the quality of Bank-financed projects. The policy will be applied through country-specific approaches, aiming to increase reliance on country audit processes where capacity permits, reducing burdens on client institutions through harmonized donor approaches, and supporting interventions to address weaknesses identified in the Bank's diagnostic work. The associated guidelines for staff and annual financial reporting and auditing for Bank-financed activities were issued in June 2003; the new policy applies to all projects appraised from July 1, 2003.

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<sup>26</sup> For details see, [http://www.developmentgateway.com/download/237482/Harmonization\\_and\\_Alignment\\_Table-08-31-04.doc](http://www.developmentgateway.com/download/237482/Harmonization_and_Alignment_Table-08-31-04.doc)

50. **Country Analytical Work (CAW).** With a lack of coordination in preparation and application, the use of diagnostic products can lead to duplication of donor efforts and high transactions costs for partner countries. Donors sometimes duplicate country analytical work (CAW) in preparing specific operations and fail to consult adequately with partner countries or use the process to build partner capacity.<sup>27</sup> While there are indications that things are improving, we are not yet at a point where joint or closely coordinated analytical work is automatic. An important recent development in this area has been a virtual network devoted to inter-agency cooperation on CAW.<sup>28</sup> With more than 25 partners, including the World Bank, it is widely used (on average about 3,500 hits a day) and 3,099 documents have been posted there, more than half of which are completed analytical products. Recommendations by the OECD/DAC Task Force on donor practices for further improving coordination in this area include:

- Donors making their diagnostic tools available to other agencies and partner government; and
- Donors undertaking joint analytical work where possible. When this is not feasible they should coordinate their work and missions with other donors and the partner government. Partner government should be involved as much as possible in carrying out such work

51. **The Bank has been active in this network, and has also moved to work more closely with other donors on CAW.** The 4<sup>th</sup> Workshop on CAW was jointly organized by the Bank and EC in Brussels in June 2004 and attended by 25 agencies. Representatives confirmed their strong commitment to joint analytical work and discussed good practice cases, but also acknowledged that differences in mandates, policies and procedures made collaboration a challenging task. Recently the Bank has been undertaking joint work in a number of areas. Excluding work related to financial management which is discussed separately above, it has: (a) carried out Poverty and Social Impact Analysis (PSIA) with DFID in Mozambique, Rwanda, Honduras, Armenia and Uganda; (b) carried out joint Country Environment Analysis (CEA) with DFID, UNDP and OECD partners in Ethiopia and India; and (c) developed in-country legal capacity in collaboration with FAO and UNEP through the Netherlands financed Project on the Development of Environmental Law and Institutions in Africa (PADELLA).<sup>29</sup> In total 158 pieces of CAW were carried out in the first two years of IDA13 and another 76 are planned for FY05, thus averaging 78 a year for the whole of IDA13, compared to an average of 40 in the last two years of IDA 12. Deliveries vis-à-vis IDA13 targets as of April 1, 2004 were: 51 CFAAs (against a target of 40 for Spring 2004), 42 CPARs (against a target of 38) and 42 PERs (against a target of 40).<sup>30</sup>

52. **Procurement.** In addition to country level capacity-building in procurement, the Procurement Group completed work on harmonized bidding documents for goods, prequalification for civil works, for civil works contracts, and for selection of consultants. The group has developed a harmonized strategy for Electronic Government Procurement (e-GP). Currently, they are working on harmonization of “turn-key contracts,” expected to be completed by 2005. Two notable outcomes have been the agreement of the MDBs to use Standard Bidding

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<sup>27</sup> OECD, 2003, *Harmonising Donor Practices for Effective Aid Delivery: Good Practice Papers*, DAC Guidelines and Reference Series, Paris.

<sup>28</sup> <http://www.countryanalyticwork.net>.

<sup>29</sup> “*Improving the Bank’s Analytical and Advisory Services - Progress Report*,” OPCDM, August, 2004.

<sup>30</sup> *IDA13 Results Measurement System: Spring 2004 Update*, IDA, May 10, 2004.

Documents for an increasing range of bids; and the preparation of joint procurement reviews by two or more MDBs in different countries (Cambodia, Senegal, Angola, Ghana, Honduras, Nicaragua, Guyana and Vietnam).

53. **On IDA's side, the Board approved new procurement guidelines in November 2003**, which (i) open eligibility of source of supply allowing bidders (and consultants) from any country in the world to offer proposals for Bank funded projects; (ii) harmonize with other MDBs by adopting the best practice recommended by the above WG; (iii) simplify procedures and introduce the use of electronic procurement in Bank financed projects; and (iv) simplify the procurement schedule of the Loan Agreements.

54. ***Environment: The group agreed on: (i) a common framework for environmental impact assessments, which they continue to update;*** (ii) on terms of reference for Environmental Assessments (EAs) and for environmental management plans (EMPs); and (iii) guidance on environmental audits. Targeted harmonization efforts are under way in Sri Lanka and Vietnam, where IDA, AsDB and the Japan Bank for International Cooperation are working with national governments.

55. ***Use of Country Systems.*** IDA is required by its operational policies to ensure appropriate use of the resources it provides. To do so, IDA -- like most other development institutions -- has often specified detailed operational requirements, in effect isolating the projects it funds from government systems and creating special project implementation units that can support its requirements. The development community now understands that external agencies can enhance country ownership and project sustainability, and facilitate harmonization and simplification, if they work more directly with the institutions and systems borrowers already have in place and support efforts to strengthen them. On September 14, 2004, Executive Directors formally endorsed the proposals to begin preparing pilots that would test this approach in environmental and social safeguards, international competitive bidding and the international selection of consultants. Meanwhile, the use of country systems in financial management and national competitive bidding will become increasingly a part of regular business when appropriate conditions are met. After a consultation period with several stakeholders, including bilateral and multilateral partners, Management will return to the Board with an updated paper -- including updated information on the expected number of safeguard pilots -- that takes account of the input received. At that time, management will seek formal Board approval of a policy for safeguard pilots. This is expected to occur by February 2005, after which Management expects to be able to begin submitting pilot operations to the Board for approval.

56. ***Evaluation. The WG is preparing a good practice paper for the evaluation of structural/policy based lending.*** This follows up on good practice papers on public sector project evaluations (which has been benchmarked), and on private sector evaluations (which will be benchmarked in 2005). Future joint country evaluations have also been discussed.

57. ***Statistical Systems and Data Collection: The Marrakech Roundtable in 2004 noted the importance of reliable statistics to achieve better results in managing for development, and the Bank has offered a support program in this area.*** Some work has been done in recent years on common results reporting and monitoring of progress on MDGs, but more is needed. The Partnership in Statistics for Development in the 21<sup>st</sup> Century (PARIS21) group, which was set up in 1999 to promote high quality statistics and their use in designing sound

policies, is leading the effort on this. In 2003 it agreed to focus on the data requirements of PRSs and the monitoring of the MDGs. The Bank is taking the need for improved statistical capacity seriously. It has developed a methodology to assess capacity, and has a proposal to track it in developing countries. It is also able to support capacity-building activities in these countries. It estimates that additional external funding of \$90-95 million a year is required if countries are to achieve the minimum statistical goals set out at the Marrakech Roundtable.<sup>31</sup>

58. ***Governance, Corruption and Capacity- Building. A working group had been set up to cover these topics, but it has been dormant for some time.*** A decision to revive it was made by the MDB presidents at their Marrakech meeting in February 2004. Although most donors are involved in capacity-building and while certain structures are in place for sharing resources (e.g., Joint Africa Institute), in general the level of cooperation is low. The joint work on capacity-building will cover the core issues around the MDGs, including capacity to formulate and implement poverty reduction strategies, but also newer priority areas such as trade related technical assistance. The Bank, with a large share of technical and financial resources devoted to capacity-building, could take a major role in this.

### **III.G Summary of Systemic Issues and the Role of IDA**

59. **The discussion on systemic issues has highlighted a number of points.** The PRS process has become one of the key instruments for the delivery of coordinated aid since it was launched in 1999 and there are a number of countries where it has resulted in donors supporting country-driven development programs more effectively than in the past. But it has a long way to go before it can be considered an effective tool for a wide range of low-income countries. Key changes to be made include supporting countries in the implementation and evaluation of the process, strengthening national public financial management systems and promoting a stronger link of the PRS to the budget, supporting analytical work on the links between poverty and growth, and getting donors to align further to the PRS process. Some measures are under way in all these areas, but more needs to be done. Specifically, donors need to act to improve predictability of their aid flows, increase the share of their aid that goes through the budget, and reach agreement on prior actions when they support the budget.

60. **In parallel with the PRS process, important initiatives have been launched on results measurements, and on alignment and harmonization of donor assistance.** The review shows that there is a formidable amount of work going on in the areas of financial management, CAW, public financial management, procurement, environment, evaluation, statistical systems and governance, corruption and capacity-building. The Bank has been playing an active part in all the activities that have been launched and has been leading in some areas, notably public financial management and statistical capacity-building. The whole process, however, is relatively new (most of the activities were launched about two years ago) and it will take time to see the full benefits.

61. **In this context IDA has a central role. With regard to the PRSs IDA is the largest provider of supporting Country Analytical Work (CAW), which is so necessary to the process.** Drawing on its multi-sector country knowledge, IDA is strongly positioned to

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<sup>31</sup> Such an effort in statistical capacity building is also key to the success of IDA's Results Measurement exercise under IDA14, and was recommended in the paper presented in Hanoi on this topic.

strengthen the underpinnings of PRSP. For example Country Economic Memoranda, Development Policy Reviews, Investment Climate Assessments and Poverty Assessments are key to this task. Likewise, its contributions to improving PFMs through Public Expenditure Reviews, Country Financial Accountability Assessments, and Country Procurement Assessments form the cornerstone of aligning PRSP with the budget and the improving the management of the public finances. A great deal of the Bank's analytical work, which in several cases is carried out jointly with other development partners, can be regarded as a "public good" for both the client country and the development community.

**62. In getting donor programs to align better with national programs, IDA is often a coordinator of the process, and in terms of coordinated funding it has introduced the PRSC and has played an important part in the use of sector-wide approaches.**

**63. In the harmonization of donors' procedures and practices, IDA is contributing substantially to the harmonization programs set out by OECD/DAC by bringing country knowledge to the fore and translating international experience at the country level.** As noted above it is active in the areas of financial management, country analytical work, procurement, environment, governance, corruption and capacity-building, statistical data collection and in-country coordination. In addition to contributing through the working groups of OECD/DAC it has launched important initiatives of its own on financial management, procurement and data collection and statistical systems.

#### **IV. Special Issues in Development Architecture**

##### **IV.A A Strategy for Conflict and Post-Conflict Countries and for the LICUS Group**

**64. Low-income countries with particularly weak institutions and difficult governance conditions are labeled as Low-Income Countries Under Stress (LICUS).** This is a heterogeneous group. A taxonomy of the 25 countries that IDA classified under the LICUS label is given in Annex III.<sup>32</sup> There are four categories -- countries in either conflict and post-conflict, countries in non-accrual, countries in both and countries in neither. The last category is made up of countries that are under stress largely because of poor governance and poor management.

**65. While allowing for its heterogeneity, this group of countries needs to be treated differently.** Some of the newer Bank instruments cannot be used to provide effective donor-coordinated aid, and indeed in most instances the "working together" challenge in LICUS countries is a non-financial one, focusing on capacity-building, social stabilization and peace building. For the LICUS group as a whole the strategy involves staying engaged, progressively establishing a country dialogue and building a foundation for closer work in the future.

**66. Beyond the minimum strategy described above it is difficult to come up with a single model for providing coherent assistance in the short run.** In the case of non-accrual countries the focus has been on: (i) working with partners to find a resolution to governance issues; (ii) building the statistical and knowledge database to design appropriate interventions; (iii) taking advantage of windows of opportunity to resume the normal development process and yield short term results; and (iv) exploring innovative approaches to deliver selected services for

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<sup>32</sup> The classification is based on a CPIA rating of 3.0 or less.

vulnerable groups, especially in areas of health and education. For **the post-conflict countries**, the World Bank, working with UNDG, UNDP and GTZ, prepared a Practical Guide to Multilateral Needs Assessments, which are seen as critical first step to determine recovery needs and development of a post-conflict transition strategy. It has also been collaborating with the UN and other international partners such as the AfDB and DFID in programs for infrastructure rehabilitation (Democratic Republic of Congo, Eritrea); a more integrated approach to repatriation, rehabilitation, re-integration and reconstruction needs (the “4Rs” approach) (Eritrea, Sierra Leone, Sri Lanka); community-based reconstruction (Rwanda, Sierra Leone); and restoration of management capacity (Angola and Republic of Congo). Resources for these programs have been allocated on an adapted version of the normal IDA allocation system, using special post-conflict indicators.<sup>33</sup> Examples include Somalia, where UNDP and IDA worked together to build capacity in the livestock and health care sectors, to initiate a poverty data and monitoring program, and an HIV/AIDS action program; and Timor-Leste, where IDA and other donors have successfully coordinated their efforts through the Transition Support Program (TSP) (See Box 7).

67. **As was noted in the IDA13 Report,<sup>34</sup> donor coordination is particularly crucial in non-accrual countries, and in post-conflict countries where the capacity to manage fragmented donor programs is even more limited than usual.** Joint donor missions undertaken in Timor-Leste, Sudan and Central African Republic are evidence of a move in this direction. IDA is also working to build partnerships in such areas as joint analytical work and preparation of projects to be funded by GFATM and forging closer relationships with partners in all these countries, including the African Union and NEPAD. While this framework of cooperation is progressing well, and while a broad division of labor between IDA and other sources of post-conflict assistance has taken root in many instances, there are areas of overlap, where further international discussion is warranted.

#### **IV.B Regional Programs**

68. **In recent years there has been a growing recognition in the development and donor community that properly-implemented, outward-looking regional integration programs could significantly contribute to growth and poverty reduction.** This is particularly relevant in Sub-Saharan Africa, made up of 47 small economies with a median GDP of US\$3 billion (many of which are un-diversified and landlocked). The Bank’s most recent Strategic Framework for IDA’s Assistance to Africa (SFIA) has recognized the importance for governments and donors to think and act regionally and has encouraged regional approaches for IDA support to Africa. This echoes the explicit demand by African client governments for more systematic and coordinated interventions in this area. In this sense, regional integration is the “other leg” of IDA’s emphasis on trade expansion: without enlargement of the economic space and greater economies of scale, trade potential is sharply circumscribed.

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<sup>33</sup> See IDA. 2001. *Adapting IDA’s Performance-Based Allocations to Post-Conflict Countries*, Washington, D.C.

<sup>34</sup> IDA 2002, *Additions to IDA Resources: Thirteen Replenishment. Supporting Poverty Reduction Strategies*.

**Box 7: Timor-Leste: A Case of Cooperation in a Post-Conflict Country**

Timor-Leste became independent on May 20, 2002, following 25 years of conflict, a violent transition from Indonesian rule in September 1999 and two and a half years of UN Transitional Administration. The World Bank became engaged in Timor-Leste's transition at an early stage. In early 1999, its support took the form of social and economic analysis and dialogue with East Timorese leadership in preparation for reconstruction. Following that it participated in a Joint Assessment Mission (JAM) to identify reconstruction priorities and estimate future external financing needs. Aid financing came through a multi-donor Trust Fund for East Timor, established under the trusteeship of IDA, and co-managed by the AsDB. This fund disbursed over US\$135 million in the areas of agriculture, education, health, infrastructure, private sector development, and community empowerment. As the Fund wound down and emergency reconstruction needs gave way to longer-term institution building activities, attention turned from project-based financing to the provision of balance of payments and budgetary support under the framework of the Transition Support Program (TSP).

The TSP is managed by the World Bank as a multi-donor, medium-term program in support of the Government's National Development Plan (NDP). Prepared shortly before Independence, the NDP outlines the government's development and poverty reduction objectives over 2003-2007 and has been considered the equivalent of a Poverty Reduction Strategy Paper during the transition years. In addition to direct World Bank financing, the TSP brings together nine bilateral donors in parallel budgetary support through Bank administered Trust Funds, amounting to about US\$77 million for the three years through FY2005: United Kingdom (US\$20 million); Australia (US\$16 million); United States (US\$12 million); Norway (US\$11 million); Finland (US\$4 million); Ireland (US\$3 million); Canada (US\$2 million); Sweden (US\$1 million); and New Zealand (US\$1 million). Portugal provides parallel budgetary support directly (rather than through Bank administered Trust Funds) of US\$9 million over the three initial years. At first, five bilateral donors provided multi-year funding, while the remaining participants pledged funding on an annual basis. In the following exercises it is expected that seven of the nine donors will engage in multi-year TSP financing. All TSP funds are disbursed in a single tranche upon effectiveness, except for financing from Australia, which is disbursed in two biannual tranches. Beyond these slight differences, funding procedures are fully harmonized across donors.

Overall, this division of labor among the donors has been successful. All donors, including partners within the United Nations system (UNDP and UNICEF), have participated in TSP design and monitoring, regardless of the mechanism through which they provide support. The TSP has provided government with a framework for coordinating and monitoring its broader program, and has harmonized the support of external partners around the country's own development priorities. Despite broadly successful collaboration, however, there have been some tensions along the way. Donor organizations have differed over the optimal scope of the program, for example. Some donors favor including a wide array of activities to fully capture the government's progress on its development program, while others prefer to monitor a leaner, more focused set of activities. These differences of opinion are generally resolved through compromises made during the appraisal mission, in donor meetings and in broader plenary meetings with the government.

69. **IDA has thus deepened its support of regional integration in Africa, mainly through regional projects and Regional Integration Assistance Strategies (RIAS).** Three main regional areas of focus have been:

- (i) issues which are best tackled through a regional integration approach in part because of the fragmented nature of the region involved, including: the convergence of macroeconomic policies including fiscal, monetary, trade and exchange rate policies; harmonizing legal and regulatory frameworks; and improving scale and competition through the integration of infrastructure and markets for goods, services, finance and labor (see also the trade section of the Growth in IDA Countries paper);
- (ii) 'regional commons' which have no real national borders, such as certain infectious diseases (e.g., malaria) or air pollution; and

- (iii) regional 'public goods,' which have obvious trans-boundary implications such as cooperation in the management of shared natural resources (e.g., watersheds and international rivers), or regional safety and security.

70. Until recently, IDA financed regional projects through splitting project costs into country components and charging the full cost to country allocations. This made them unattractive for small countries with small IDA allocations, who had to make difficult choices about the use of scarce IDA resources between pressing national needs and regional projects.

71. **To address this issue, a regional pilot allocation of up to \$300 million per annum for FY04-05 was made under IDA13** (there was no allocation for FY03). Individual country allocations would cover one-third of the project cost attributable to an individual country wherever feasible, and the remaining two-thirds would be from the IDA pool in recognition of the significant positive externalities of regional projects, making available IDA resources totaling up to \$450 million per annum for regional projects during FY04 and 05. This approach acknowledges the need for additional funding for regional projects (which was also the rationale behind a regional allocation in the African and Asian Development Banks), while maintaining an important link with IDA's Performance-Based Allocation system (PBA). In FY04, a regional project for HIV/AIDS prevention and control in the Caribbean was also approved (equivalent of US\$9 million). The Africa region used this IDA pilot allocation in FY04 to fund two regional operations (Southern Africa Power Pool -APL1, described in Box 8, and West Africa Capital Market Project for the equivalent of US\$280 million). Eight additional operations are at different stages of preparation, of which four are scheduled for Board presentation in FY05 for the equivalent of US\$270 million.

**Box 8: Southern Africa Power Pool - APL1**

IDA has extended a credit of \$179 million to support the first of three phases of a six year program totaling US\$450 million, to support establishment among 12 countries of southern Africa (Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe) of an integrated electricity system. By combining mostly small national power networks, supply costs can be reduced, supply security can be improved and network coverage can extend more quickly than would be feasible through separate national programs. The integrated Regional Power Master Plan (Pool Plan) prepared by the Southern Africa Power Pool countries within the framework of the Southern Africa Development Community's (SADC) Regional Initiative Strategic Development Plan identified the high priority interventions which constitute the program. The Pool Plan is further supplemented by detailed studies of the specific interventions. IDA financing will support physical infrastructure investments in participating countries, principally transmission lines to interconnect with other participating countries. Private sector financing (US\$10 million) will support construction of transmission lines under APL1, while bilateral financing is being used to finance the Pool's coordination center in Harare. Several bilaterals and multilaterals have indicated an interest in co-financing subsequent phases of the program with the Bank.

72. **Although the size of the additional funding through the regional IDA pilot allocation represents less than 5 percent of IDA commitments available for FY04-FY05, this modest pilot has spurred considerable interest and cooperative response from development partners, especially in Africa.** At the same time, it has encouraged further interaction between IDA and the Regional Development Banks, especially AfDB on the regional agenda, including

ideas for jointly financed regional projects. The early evidence is that initiatives such as these can encourage creative cooperation, rather than competition between IDA and regionally based partners.

73. **IDA's comparative advantages in supporting regional programs include: its capacity to deliver complex projects and analytical work; its ability to combine support from IFC and MIGA and mobilize financing from other sources, which is important given the large scale of regional projects; and its ability to link regional integration and country strategies.** In Africa, the major beneficiary of IDA's regional support may be infrastructure, which is key to fostering intra-regional trade and accelerating Africa's integration in the global economy, as set in the NEPAD program priorities supported by the Bank. A number of regional activities are being considered for IDA financing in the future. These include: (i) a range of critical activities aimed at creating the conditions for deeper regional integration and reviving regional cooperation in a number of vital sectors (i.e., infrastructure, trade, agriculture, health and education) that are not adequately financed; and (ii) the promotion of institutions in charge of managing shared natural resources.

74. A case has been made for a regional project to be defined as one engaging two countries and not a minimum of three as is the case at present; at the Hanoi Meeting borrowers representatives from East Asia and Pacific noted that there are situations where the three country requirement could be a constraint for some countries in that region. Fruitful regional cooperation could start with just two countries, and later extend to a larger group.

#### **IV.C Global Programs and Global Public Goods**

75. **The efficient delivery of global public goods is a major issue in the aid community.** Financing of such programs comes from a number of sources, of which the largest is ODA, which accounts for approximately \$5 billion annually.<sup>35</sup> Other important sources such as national funds, as well as private foundations, companies and individuals, however, are becoming increasingly important for some public goods. At the same time, global public goods raise difficult issues for the aid community, including diversion of aid resources to "non-development" purposes, tensions between country-driven priorities and global objectives and a need to develop financing modalities that address incentive and free-rider problems. The importance of global public goods, and concern about their adequate provision resulted in France and Sweden setting up the International Task Force on Global Public Goods last year. It will identify those goods that contribute most directly to meeting the MDGs; and make recommendations on how to provide and finance, and how to monitor their effectiveness. The task force will report in 2005.

76. **In 2002 the MDBs jointly prepared a paper on "MDB support for Global Public Goods Provision," outlining joint priorities and approaches in supporting this important and growing part of development cooperation.** Among the IFIs and the MDBs, the World Bank plays a preeminent role as fiduciary or trustee on behalf of other donors for funding of several multi-donor global programs, such as Global Environment Facility (GEF), Global Fund to Fight AIDS Tuberculosis and Malaria (GFATM), Education For All (EFA), Fast Track

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<sup>35</sup> *Global Monitoring Report 2004*. Development Committee, April 2004.

Initiative (FTI), the Global Initiative for Improved Nutrition (GAIN) and others. It administers many donor trust funds at the country, regional and global levels. Some of these funds have specially-constituted governance arrangements, while others have created special multi-donor steering groups to guide IDA staff in carrying out this fiduciary role. Recently, cooperation has been initiated by the MDBs around trust fund policies and mobilization of resources and management, building on the Bank's experience, which should bear fruit in the coming years.

77. In addition to its role as trustee for a number of global programs, IDA also contributes to the objectives of these programs through the delivery of its own country-based programs. Perhaps the best example is the Multi-Country HIV/AIDS Program (MAP), which provides critically needed resources to a number of African countries, and is also instrumental in policy development and coordination work at the regional and sub-regional level, as well as in building up capacity in the country to effectively absorb the resources provided by other donors, including global programs (Box 9).

**Box 9: Multi-Country HIV/AIDS Programme (MAP) – The Three Ones**

Strong IDA interaction with the UN, in particular UNAIDS, and with other bilateral and multilateral donors is illustrated in a major IDA program – the Multi-Country HIV/AIDS Programme for Africa (MAP).

In this regional program to tackle HIV/AIDS, several IDA functions are at work. Through its policy, facilitation and coordination functions, IDA has provided all its support consistent with the framework adopted by the UN and many other multilateral and bilateral agencies. The framework is known as the “Three Ones” and is based on the premise of achieving one agreed HIV/AIDS Action Framework; one National AIDS Coordinating Authority; and one agreed country level Monitoring and Evaluation System.

The implementers of the MAP recognize the importance of complementing other activities engaged in tackling HIV/AIDS and IDA uses its role as convenor to bring other donors on board. UNAIDS is a key partner and the Japanese Policy and Human Resources Development (PHRD) Trust Fund helps the process of preparing programs that later become eligible for IDA funding.

Coordination and joint implementation and funding are also key and there are several other donors contributing to the implementation of national HIV/AIDS programs (e.g., DFID, USAID, French Cooperation, Netherlands, GTZ, EU, and Canada). In terms of direct implementation there are a number of partner agencies: such as monitoring and evaluation networks with UNAIDS; surveillance with WHO and ministries of health; inventory and logistics systems with Japan and India; blood supply establishment with India. In terms of supervision, a growing number of countries now host joint program reviews comprising multiple donors, as in Ethiopia, Kenya, and Rwanda.

The MAP also works at a sub-regional level, engaging in policy development and advice (e.g., co-hosted major HIV/AIDS workshops with UNAIDS, creation of a HIV/AIDS Program Managers' Network); funding (e.g., Secretariat for a Great Lakes Initiative on HIV/AIDS); and donor harmonization (e.g., promotion of the Three Ones Strategy, etc.).

78. **In spite of these positive examples, debate continues over the effectiveness of global programs and what role, if any, the World Bank and IDA should play.** The Bank's priority in IDA is clearly on country-focused development: global programs can play a helpful role in some areas – for example in combating disease pandemics or cross-border environmental degradation. It is, however, not IDA's role to become a general source of finance for global public goods; rather its resources should be used by countries to pursue their own national priorities as identified through the PRSP process, which of course in many instances are identical to those pursued by global programs. What IDA can usefully do is provide policy advice and dialogue to help ensure stronger and more productive linkages between global action and poor

countries' priorities, and encourage global initiatives which have potentially big pay-offs for both poor countries and the global community. IDA's collaboration with the GFATM, as trustee at the operational level, is an example of the former, while an example of the latter is IDA's joint endeavor with foundations as part of the global campaign for final eradication of polio.

#### **IV.D Summary of Special Issues and the Role of IDA**

79. **With regard to the LICUS countries there is as yet no broadly agreed donor strategy to address a common set of objectives.** The Bank has evolved approaches that are yielding some important positive results, but IDA is often a highly constrained actor in such circumstances compared to bilaterals and UN agencies. At the same time, donors are frequently keen, especially in non-accrual countries, to see arrears clearances and have IDA resume an active – or even leading – financing role.

80. **With the regional programs, IDA's comparative advantage arises from its capacity to deliver projects, especially complex technical operations and its supportive analytical work; as well as its ability to coordinate support from other aid agencies and to link regional and national strategies.**

81. **In many global programs, the Bank plays a key fiduciary and administrative role. The Bank also finances programs that support the same core objectives.** Such programs are often delivered in conjunction with other donors. The Bank also works to strengthen linkages between global, regional and national programs.

#### **V. Conclusions**

82. **Development architecture has been changing and with it have come considerable demands on IDA: to coordinate and provide leadership in many cases and to play supportive roles as a development partner, especially in collaborative structures which must underpin the PRSP process, in other cases.** The experience discussed in this paper confirms that the development architecture has changed markedly in recent years – not as much as the aid rhetoric, but nevertheless substantially. For IDA, too, the development of shared frameworks – the PRSP, the HIPC Initiative, the harmonization movement, the shift towards results-based approaches, shareholder initiatives for MDB alignment and reform – have all transformed the operational landscape. At the same time, the decentralization of the Bank's decision-making and accountability to the field has put IDA closer to the center of country-level efforts to align national programs and external assistance in new ways. IDA's financing weight in the total aid equation has, if anything, declined – but this has not diminished the expectation that IDA will continue to play a range of coordinating and supporting roles, in the spirit of working together at the country level.

83. **The substantial work on donor coordination in recent years should be continued.** The report shows that a considerable amount has been done in recent years by all donors, including IDA, to improve coordination and that significant progress has been made. In this regard, it is critical to continue the work supported under IDA13 and focus it at the country level under IDA14. Many of these initiatives will only bear fruit over the medium to long term and it is important to 'stay the course' to reach tangible results.

84. **IDA has a key role to play in facilitating strategic coherence at the country level and in actively collaborating on the harmonization agenda.** It can meet these challenges because it is present in all socio-economic sectors and themes and in virtually all low-income countries and has the largest knowledge base for development of any agency. Its comparative advantage lies in:

- Bringing together international and country knowledge in the design and implementation of PRSPs and country strategies.
- Ensuring that the macro and sectoral/micro dimensions of development are consistent (by working closely with the IMF as well as a range of other donors).
- Bringing its lending experience to bear on its analytical work and making its analytical work more relevant to the lending programs.
- Ensuring that the national, regional and global programs for development form part of a coherent whole and work synergistically.
- Providing, through the PRSP process, a framework around which donors can contribute to a coherent national strategy for development.

An excellent example of how this has worked is the case of Vietnam, chronicled by DFID and the government of Japan in their report to the Deputies.<sup>36</sup> It shows how IDA has played a key role: in acting as a focal point to align donor programs with the National Comprehensive Poverty Reduction and Growth Strategy (the Vietnam PRS); in playing a central coordinating role in the Partnership Group for Aid Effectiveness; in harmonizing donors' procedures for loan approvals; in coordinating financing of donors under instruments such as the PRSC; and in leading joint analytical work. The review notes that all this has been facilitated by the highly decentralized IDA office in the country.

85. **Looking forward, PRSPs have to adapt to a wide variety of country situations**, with IDA helping governments articulate the country's development needs and options, and strengthening the country's capacity to develop and implement its own medium-term strategy. In the immediate future, actions that should be taken include:

- **Undertake more upstream analytical work and follow up the work with support to the country, to strengthen and improve the quality of PRSPs.** This will further integrate the links between poverty alleviation and the sources of growth as well as the links between the PRSP and the budget. Related to this, it is important to extend and follow up implementation of the recently developed integrated PFM performance monitoring framework developed under HIPC in all IDA countries.
- **Carry out more of this work jointly with the recipient government and other donors, and in any event share its results as widely as possible.**
- As noted in the growth paper and in the IDA14 results measurement paper, improving the coverage and quality of statistics as well as policymakers' capacity to interpret them are key to better analytical work and hence well-informed policy-decisions. A number of initiatives have been launched in recent years in this area. **IDA can help by further mainstreaming these efforts at the country level.** For example, it could intensify

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<sup>36</sup> *Increasing Aid Effectiveness and the Role of IDA: Lessons from the Vietnam Experience*, Japan Official Development Assistance and DFID, paper to IDA Deputies, September 10, 2004.

support within its CASs and projects for statistical capacity-building, and work in partnership to implement the global action plan to strengthen statistical systems.

86. **It is important to recognize, however, that the increased coordination role of IDA at the country level does imply higher costs.** Coordination and joint work with other donors and with national authorities are desirable because they can improve the quality of programs and reduce transactions costs to the government and to smaller donors. At the same time, however, they can increase costs for some of the larger donors, including IDA, when they are expected to take leadership of coordination and/or provide a platform for intellectual inputs for a broader development community.

87. *Alignment and Harmonization.* In terms of alignment and harmonization, the Rome agenda has been taken up by partner countries as well as individual donors and donor groups collaborating through the DAC Working Groups described in the paper. Indeed, actions are needed by all agencies, not just IDA. At the country level, IDA can assist the process as follows:

- **Contribute to Efforts to Effectively Monitor Progress at the Country Level. Indicators of progress in alignment and harmonization have been developed by the Working Party of the OECD-DAC, of which IDA is an active member. IDA should continue to support this exercise and should work with other stakeholders at the country level to ensure that such monitoring becomes locally own and locally driven. IDA should report these efforts at IDA14 mid-term.**

88. *Regional programs.* Resulting from an increasing recognition of the importance of regional programs to address issues such as trade, power sharing, water resource sharing and infrastructure, IDA and other donors have initiated a number of support programs. **The recommendation is for IDA to continue its role as a major financier, and provider of analytical support for regional programs, especially where such finance and support are necessary to complement critical national activities aimed at creating the conditions for deeper regional integration.**

89. *Global programs.* On the global programs, IDA and other donors are engaged in an increasingly coordinated way within the “Three Ones”. The “Three Ones” was initiated by the UNAIDS co-sponsors, including the World Bank, and is now formally supported by the Global Fund, the U.S., and the World Bank; they aim at achieving the most effective and efficient use of available resources and ensuring rapid action and results-based management through supporting: (i) One agreed HIV-AIDS framework that provides the basis for coordinating the work of all partners; (ii) One national AIDS coordinating authority, with a broad-based multi-sectoral mandate; and (iii) One agreed country level program monitoring and evaluation system. But IDA remains unique in its provision of implementation support at the country level, its ability to work across sectors, its capacity to channel money to the public and private sectors and civil society – particularly at the community level, its existing involvement in complementary activities such as health sector reform and PRSP/PRSCs, and its willingness to fund projects that others will not particularly in post-conflict situations and regionally. **The recommendation is for continued IDA support at the national and regional levels, to support increased harmonization and coordination of donor efforts, and to build implementation capacity.**

## V.A Issues for Discussion

90. If more countries are to achieve credible PRSs, they will need more and better coordinated donor assistance. Conversely, PRSs will need to take a firmer hold at the country-level in order to be effective mechanisms to underpin a shared development architecture. Points that need further discussion are:

- Improvements in Public Financial Management are key to strengthening the PRS and implementing it. Such improvements make the national budget more effective and tracking of expenditures easier. *Beyond the successful experience of PEFA at the analytical level, what more can the donor community do to strengthen PFM in the partner countries?* As noted earlier, in many countries substantial donor resources flow off budget, which weakens the PFM system. *To avoid this, are donors willing to allow more of their aid to be reported and accounted for in the country's budget?*
- *What further decisions are needed to arrive at a strategy for action in LICUS countries and to implement it in a way that acknowledges their low capacity and weak governance structures? Do donors support the approach taken by the Bank for different groups of LICUS countries? Is it feasible to develop a common approach around which donors can formulate their programs?*

91. ***Predictability of financial flows.*** The need for more predictable aid flows is a strong priority for partner countries. *What changes in donor budgeting practices are possible to allow more multi-year pledges and to follow these with predictable commitments and disbursements?*

92. ***Harmonization and alignment of donor procedures.*** As noted, a considerable amount is going on in this area. *What actions can donors take to harmonize donor practices and reduce transaction costs at the country level, particularly in using the country's systems for aid delivery?* With the expected increase in aid flows over the next few years, this will become an even more important issue.

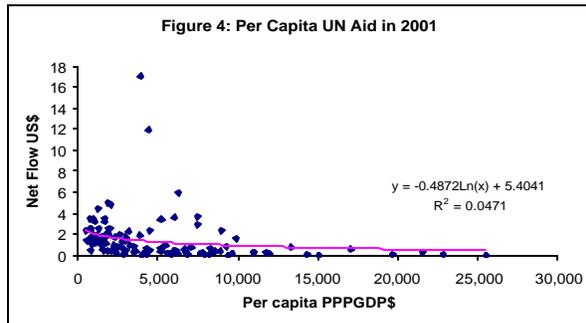
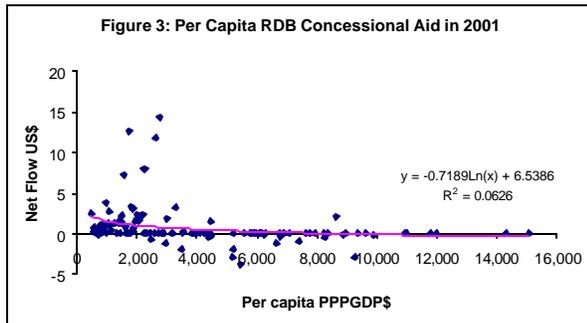
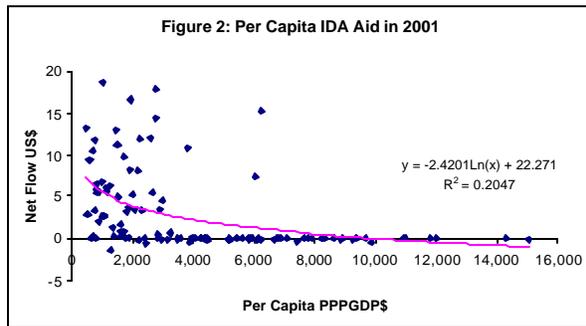
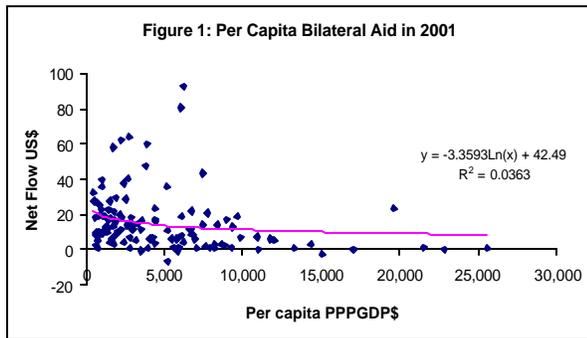
93. ***Regional Programs.*** *Do donors agree that, in exceptional cases, access to regional funds could be considered even if only two countries are involved? If so, under what conditions?*

94. ***Global programs.*** *How can donors ensure coherence between the many targeted funds and the country's capacity, and priorities for development?*

## Annex I

### Allocation of Aid By Per Capita Level of Recipient Country and Poverty Efficient Allocations of Aid

An important feature of aid allocation is the difference between agencies with respect to the level of development of the recipient countries. Traditionally, bilateral aid has been less concentrated on the poorest countries than has aid from IDA or the RDBs. Figures 1-4 show the *per capita* net aid disbursements for the DAC donors, IDA, the concessional arms of the RDBs and the UN system against the *per capita* Purchasing Power Parity Gross Domestic Product (PPPGDP) of the recipient countries for 2001. While each donor group has a negative correlation between these two variables, it is only significant for IDA. In all other cases the correlation is not significant and the variation of aid with respect to GDP<sup>37</sup> is substantial, especially for bilateral aid.



A better measure of the contribution of the aid flows to poverty alleviation is obtained from a comparison between the amounts provided by each donor group and a ‘poverty efficient’ allocation of aid. The latter has been estimated by Collier and Dollar, based on the distribution of a given amount of aid that would maximize the reduction of poverty, ‘with the marginal dollar being equally effective in each aid receiving country’<sup>38</sup>, (Collier, 2004). The correlations between actual allocations and poverty efficient allocations are shown in Figure 1 in the main report. All donors correlate fairly well with the poverty efficient allocations, with IDA being clearly the highest.<sup>39</sup> This analysis is preliminary, as a longer time period needs to be looked at, but it does indicate that, in terms of poverty focus, IDA is the most effective agency by this measure.

<sup>37</sup> Measured in purchasing power parity terms (PPP).

<sup>38</sup> Paul Collier and David Dollar, 2001, *Can the World Cut Poverty in Half?*, World Development, 29, 1787-102.

<sup>39</sup> Poverty-efficient aid is not equivalent to aid to the poorest countries. The Collier estimates take account of capacity to absorb aid, as well as the number of people in poverty in each country in calculating this figure.

## **Annex II**

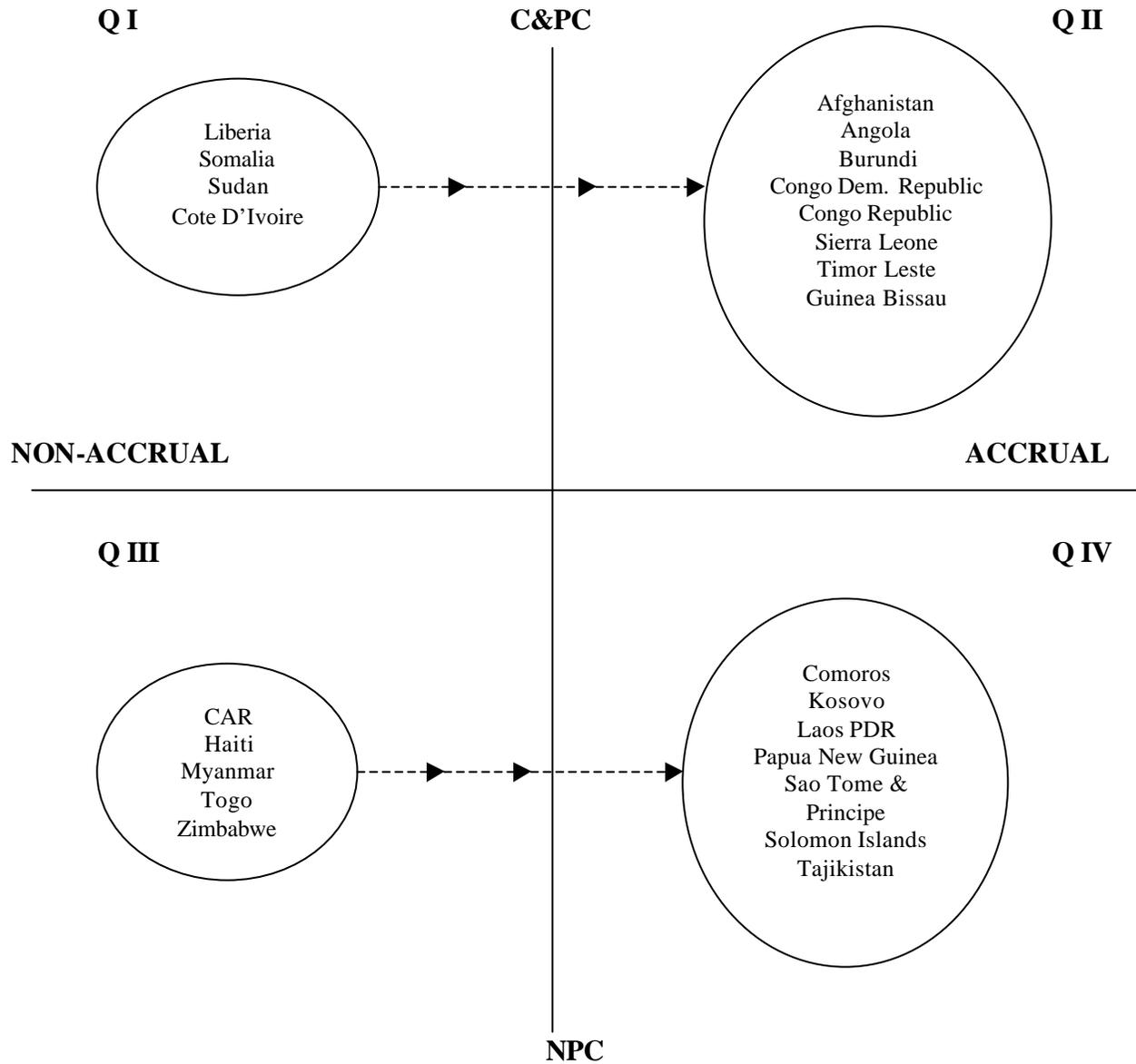
### **Summary Outline of Reviews of Aid Architecture Since the Mid-1990s**

Debate on the effectiveness of the aid architecture has been ongoing ever since the MDBs were established, but there has been a concerted effort to initiate changes in the last ten years or so. In the mid-1990s a task force was established to look at rationalizing and strengthening the MDB system. Its conclusions were broadly that the MDBs should eliminate wasteful competition and seek a division of labor, based on comparative advantage. It called for harmonization of MDB policies and procedures, to decrease transaction costs and improve efficiency. Largely due to its broad sponsorship and backing, this report set the tone for much of the partnership work among the MDBs in recent years.

Following that, a number of reviews and studies were launched. Starting with the most recent these were:

- The G7 Finance Ministers' joint report on "Strengthening the International Financial System and the Multilateral Development Banks" in 2001. Here the focus was on cooperation, where "selectivity, accountability and a focus on results are key principles." Several recommendations on internal governance, mostly aimed at the regional banks, were also included in the proposals.
- The IDS, University of Sussex study in late 2000, 'A Foresight and Policy Study of the Multilateral Development Banks' with conclusions much more along the lines of the MDB Task Force. The report states that "...the MDB model is a most useful institutional innovation to assist developing countries" and "...there are no alternative institutional innovations in sight that could provide the combination of financial resource mobilization, capacity-building and institutional development, knowledge brokering and the provision of international public goods." The report did, however, criticize the owners of the MDBs for not acknowledging the transaction costs in moving to more coordinated country programs.
- The "Meltzer Report" in 2000 from the 'International Financial Institution Advisory Commission' to the U.S. Congress. This report basically concluded that the multilateral institutions (including the IMF) had largely failed in their mission. It recommended major changes, including transferring development lending substantially to the regional banks and pulling the World Bank out of most such lending (except for Africa). All debt of HIPC countries implementing effective programs was to be written off. Parts of the World Bank's callable capital was to be transferred to the Regional Development Banks.
- The Center for Strategic and International Studies report, 'The United States and the Multilateral Banks' in 1998, which recommended a stronger focus on countries with good policies and governance, fine-tuning of knowledge products and more robust use of their convening power.
- The Canadian North-South Institute's study, 'Titans or Behemoths' in 1997, the conclusions of this work were in many ways similar to those of the MDB Task Force, with the difference that it recommended more of a combination of competition and cooperation and coordination among institutions.

### Annex III LICUS Typology



C&PC : Conflict and Post-Conflict  
NPC: Non-post Conflict.