



IDA14

Initial Draft

Part 1 of the Deputies' Report for IDA14

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IDA's Vision - Towards a World Without Extreme Poverty

The world-wide fight against poverty is the central aim of all IDA's policies and actions. Its mission is to use its financial and human resources to best effect to bring about the greatest possible reduction in world poverty. IDA is a long-term development instrument, and its finances are managed in such a way to ensure that resources are available to address the development needs of poor countries in the medium and long run.

IDA's mission has been reinforced over the last decade – a period during which IDA's focus on poverty reduction has sharpened and during which its approach to attacking poverty has been continually informed and refined by country experience. IDA supports the consensus reached between developed and developing countries around the Millennium Development Goals as a shared objective and supports the notion of a compact between these partners that centers on the provision of adequate development resources on the one hand and the need for demonstrable policy performance on the other.

IDA's approach to poverty reduction has evolved over time, and while experience bears out the continued relevance of a strong focus on growth and human development, IDA also recognizes the complexity of the development process in which action needs to proceed on many fronts, including the empowerment of the poor and disadvantaged.

Experience has also shown that development can only be achieved when poor countries themselves take control of their destinies. The main thrust of IDA's work is at the country level, supporting the governments of poor countries in implementing well-designed national poverty reduction strategies. IDA also aims to help to deal with global problems that have a particularly serious impact on poor people, such as the HIV/AIDS epidemic.

Neither IDA nor any other single party can achieve lasting improvements in the livelihoods of the world's poor. A broad coalition against poverty is needed. IDA works in partnership with governments, international organizations, the private sector and civil society, respecting the comparative advantage of its partners and playing to its own strengths. When called upon to do so, IDA will take a leadership role and use its convening capacity to coordinate the activities of other development actors.

Experience shows that development resources are most effective at reducing poverty in countries that are pursuing good growth and poverty reduction policies. IDA has exercised leadership in the development community in encouraging the alignment of resources with country effort and performance, and it continues to refine its methods for doing this, incorporating lessons learned from experience as well as new research findings.

Nevertheless, IDA also recognizes that many poor people live in countries with acute and long-term performance problems, including those that are emerging from conflict. IDA works towards strengthening the basis of institutions in these countries in an effort to help them move towards greater stability and resumed growth, but clearly

more needs to be understood about how external assistance can best be employed in poorly performing states.

IDA has played an important role in leading change both within the Bank and within the entire development community. While the underlying framework of IDA's approach to poverty reduction continues to prove its relevance, it is important that IDA apply new knowledge and experience to development problems in order to maintain the flexibility needed to adapt to a changing world.

IDA is itself a partnership between its client and donor countries and is accountable to both and to the wider international community. It aims to conduct its business with the greatest possible transparency, to safeguard its resources in all its operations and to demonstrate its impact and the results it achieves.

IDA's Strategy for the Reduction of Poverty

The Context: Fighting Poverty in a Global Age

Despite economic progress in recent decades in many parts of the world, more than a billion people still live in conditions of abject poverty, while inequality across nations has continued to widen. For billions of people, hunger, poor health and limited access to clean water are daily facts of their existence.

The challenge of poverty reduction has to be met in a rapidly globalizing world, against a background of the growing importance of private investment, trade and technological advance, as well as a rising advocacy role for international and national civil society. The benefits of globalization need to be brought to all, through market reforms and institution building.

In recent years a consensus has emerged within the development community around the shared objective of the Millennium Development Goals and the compact between developed and developing countries that is needed to achieve these goals. Developed countries must reduce barriers to trade, provide adequate aid resources, and ease debt burdens. Developing countries need to focus on good governance, sound policies and robust institutions.

IDA's Role: Country-led, Performance-driven

Operating within this consensus, IDA provides vital financial resources and policy advice to 81 countries where the vast majority of people live on less than \$2 a day. Together these countries are home to 2.5 billion people, comprising half the population of the developing world. These countries have little or no access to market-based financing, and IDA, as the largest single source of concessional assistance to the world's poorest countries, plays a critical role in their efforts to achieve sustained growth and poverty reduction. IDA is a long-term development instrument, and its finances are managed in such a way to ensure that resources are available to address the development needs of poor countries in the medium and long run.

IDA's approach to reducing poverty has evolved over time, incorporating the lessons learned and knowledge gained from the experience of developing countries and the efforts of the international community to assist them. IDA's approach to supporting poor countries is based on a compact about performance and resources between donors and borrowers, which embodies the core principles of the Monterrey consensus.

The key strength of IDA's work lies in its country programs and in its emphasis on country-led development. Experience has shown that development can only be achieved when poor countries themselves take control of their destinies, and IDA works in partnership with the governments of poor countries to support the priorities that emerge from their own development strategies. IDA provides an integrated

package of finance, policy advice and institutional support to its clients and works in collaboration with the rest of the World Bank Group, other development institutions, the private sector and civil society.

The last decade of development experience has contributed to a deeper understanding of the complexity of the development process and of the need to proceed on many inter-related fronts. IDA's comparative advantage lies in its ability to take an integrated, multi-sectoral view of the challenge of poverty reduction in each borrower country, the analytical and technical capacity it brings to bear in grappling with complex development problems, and the leadership it can provide as a convening body for the rest of the donor and international community.

Experience has also shown that development resources are most effective at reducing poverty in countries that are pursuing good growth and poverty reduction policies. IDA has been the leading instrument in the development community in aligning resources with country effort and performance, and IDA's methods for performance-based allocation have proved to be useful tools for other partners. IDA's approach is based upon an assessment of countries' policies in the areas of economic management, structural policies, social inclusion and equity, and public sector management and institutions, and takes full account of the important role played by good governance in the effective use of development assistance. IDA continues to refine its performance-based approach, incorporating lessons learned from experience as well as new research findings, and exercises leadership in encouraging other partners to align their resources with performance as well.

While the allocation of IDA's financial resources is and should continue to be primarily driven by policy performance, IDA also confronts the fact that many poor people live in countries with serious and persistent performance problems, especially in Africa. In these low-income countries under stress (LICUS), many of which also experience civil conflict, absence of government commitment can severely limit progress on poverty reduction. While in these circumstances substantial financial allocations are inappropriate, IDA is determined to stay engaged, and follows a three-fold strategy:

- Dialogue to promote policy change and good governance
- Capacity building
- Social service delivery to the most vulnerable groups

Clearly more needs to be understood about the appropriate form for external assistance to take in these difficult situations, and IDA cooperates closely with partners who are well equipped to address conflict situations and LICUS problems, notably the UN system and bilateral donors.

IDA's Strategy: The Twin Pillars

IDA's strategy for poverty reduction has evolved over time to incorporate emerging lessons from both clients and partners. At times these lessons have reaffirmed the continuing relevance of IDA's original priorities; at times they have helped IDA

refine its approach to better address the complexities of development. IDA's strategy rests on two pillars:

- Building a climate for sustainable growth, investment and jobs, and
- Empowering poor people to participate in development and investing in them.

Sustainable growth requires a dynamic private sector and an efficient and effective state with the right balance between their complementary functions. The private sector is the engine of productivity growth and job creation, but the state needs to ensure sound macro-economic policies, responsible and transparent management of public finances, and institutions for market regulation that channel private initiative in ways that benefit society as a whole. Governments should endeavor to set up taxation arrangements that generate resources for development in non-distortionary ways and to establish legal and judicial systems that operate fairly and effectively. In addition, experience has shown that technical and financial services are often needed to enable the participation of small and micro-enterprises in the economy. Public investment for infrastructure should be prioritized to remove constraints to growth, and private investment mobilized for infrastructural development through well-designed incentive schemes. Trade is a crucial component of economic growth and is being supported by IDA through programs to develop regional trade and infrastructure linkages, especially in Africa where domestic markets are small and intra-regional trade underdeveloped.

It is important that short-term gains in economic growth not come at the expense of future development opportunities. Development should be carried out in such a way as to enhance livelihoods and protect natural resources and ecosystems – IDA-supported programs are designed to safeguard the interests of the future generations in its client countries. In rural areas where most poor people live, improvements in well-being can only be achieved through increasing the productivity of both farm and non-farm economies. Reducing the vulnerability of poor people to the impacts of natural disasters is also a priority for IDA in disaster-prone parts of the world.

Empowering poor people and investing in them entails supporting human development programs that reach the poor and facilitating participation by the poor in development plans and activities. The performance of health care systems needs to be improved, and models of sustainable healthcare financing developed to improve health, nutrition and population outcomes for poor people. Education priorities include basic education for girls and for the poorest groups, system reform, and innovative delivery mechanisms such as distance learning. Over time, IDA has more consistently involved participation of beneficiaries in the design and implementation of its interventions, focusing on the need to make them effective and sustainable over time. Particular attention is now given to the empowerment of women and vulnerable or marginalized groups, while recognizing that there is still more to be done to ensure that these voices are adequately reflected in all of IDA's activities.

Poor people need a secure environment to go about their daily life and improve their lot. Security services must serve the interests of the communities within which they work without consuming disproportionate shares of national resources, and fair and non-violent means must be available for the resolution of disputes. IDA supports countries in their efforts to establish a safe environment for the poorest members of

society and also works to consolidate stability in countries emerging from conflict. Conflict resolution and consolidation of stability in the aftermath of conflicts are important requirements for poverty reduction, and IDA allocations have evolved to ensure that conflict-affected countries receive timely and adequate financial support throughout their recovery period, while maintaining a strong link to performance.

IDA seeks to work effectively with its client countries across **multiple sectors** to help them achieve poverty reduction through this two-fold strategy. It aims to pay due regard to key cross-cutting themes, notably environmental protection and gender equity, in all its programs and activities. The requirements for sustainable poverty reduction are complex and demanding, and more work needs to be done to understand the determinants of poverty-focused growth in many of IDA's client countries. Tensions and trade-offs inevitably arise when pursuing development outcomes with scarce resources, and IDA works with clients at the country level to assist them in managing these tensions, in examining the trade-offs implied by different policy choices, and in channelling resources most effectively to reduce poverty.

Working at the Country Level: Ownership and Strategic Selectivity

The experience of the last 20 years has shown that sustainable development can only take place if policy reforms are broadly supported by a range of stakeholders at the country level. IDA has seized upon this principle in its work by supporting **country-owned strategies** built around good policies, institutions and governance.

Underpinning this work are the principles of the Comprehensive Development Framework, including country ownership; a long-term, holistic vision and strategy; partnership amongst stakeholders; and a focus on accountability and development results.

Poverty Reduction Strategy Papers (PRSPs) aim to operationalize these principles in low-income countries, putting poverty at the center of governments' development plans and providing space for all actors, including the private sector and civil society, to engage on critical issues. IDA has played a key role in supporting the initial development of the PRSP approach and will continue to have an important role to play in solidifying the benefits of this process. More work needs to be done to align donor support with PRSPs and to encourage consistency between PRSPs and countries' budget processes. IDA's ability to cooperate closely with development partners and to take an integrated view across multiple sectors make it a key player in supporting its client countries in this process.

The diagnosis of development problems and prospects is critical to well-designed policy and programs. In collaboration with its partners, IDA seeks to maintain a base of core **diagnostic and fiduciary work**, including country economic memoranda, poverty and sectoral analysis, and public finance and accountability studies, to underpin its programs and countries' own development efforts.

Selectivity is vital to success. Within countries, IDA focuses its efforts in support of the PRSP through its Country Assistance Strategy (CAS), identifying areas of critical importance to its clients in which it has a clear comparative advantage - for example through support for policy reform, capacity enhancement, demonstration effects and

learning. IDA seeks to complement the efforts of other partners and work where its leverage is greatest.

IDA's highly concessional resources are concentrated on the poorest countries in all parts of the world. South and East Asia are home to the greatest number of the world's poor and receive substantial amounts of IDA finance. The poor countries of Europe and Central Asia, the Middle East and North Africa, Latin America and the Caribbean, and the Pacific are also IDA partners.

IDA recognizes a particular responsibility for development in **Sub-Saharan Africa**. The countries of this continent face the most acute and protracted development challenges: endemic diseases, long-term conflicts; lack of access for many people to education and other services; inadequate or non-existent infrastructure; climatic and environmental problems and shortage of natural resource endowments.

IDA's strategic framework for Africa addresses four key areas:

- Improving governance and resolving conflict. This includes greater attention to post-conflict issues, transparency and better management of revenues from natural resources, and support for public sector management and anti-corruption measures.
- Developing human resources, including the fight against HIV/AIDS and other communicable diseases, social protection, and education, particularly for girls.
- Promoting increased growth, notably through a sound policy and institutional environment for investment, and promoting regional integration and liberalization of intra-regional trade.
- Debt reduction and development assistance – relieving unsustainable debt burdens, and increasing the quantity and quality of aid.

Global and Regional Public Goods

While the focus of IDA's programs is clearly at the country level, IDA recognizes that development and poverty reduction are affected by a range of issues that cross national boundaries. While the main weight of its interventions is in country programs, IDA seeks to contribute to the resolution of **global problems** where they are shown to be of particular relevance to poverty reduction. Five key areas have been identified for attention: communicable diseases, environmental commons, economic governance and social stability, trade integration, and the knowledge revolution. IDA will collaborate closely with other partners in all these areas, for example with the GEF on the environment, and with the Global Fund and other actors in the case of communicable diseases.

HIV/AIDS and other major communicable diseases are a serious impediment to development and poverty reduction. IDA seeks to work both at the country level and across countries through regional projects and support for international initiatives, to combat these diseases and mitigate their effects, especially on poor people.

While prudent and well-managed borrowing is a valuable instrument for development, excessive levels of **indebtedness** can blight poor countries'

development prospects. IDA sponsors the enhanced HIPC Initiative and supports client countries in effective management of their external and domestic debts.

IDA recognizes that regional and trans-boundary questions can exercise an important influence on countries' development efforts, and nowhere more so than in Africa. IDA seeks to develop and apply regional solutions to regional problems, such as through a pilot program that encourages the development of regional projects. IDA also works closely with other institutions that have a strong regional base and expertise – notably the Regional Development Banks.

Partnerships

Throughout its work at country, regional and global levels, IDA cooperates closely with key partners on the basis of shared objectives and comparative advantage. IDA's key institutional partners include:

The International Monetary Fund. The IMF is IDA's foremost institutional partner, collaborating across the range of IDA client countries. The IMF is responsible for macroeconomic issues, while the Bank takes the lead on social and structural issues.

The United Nations. IDA has strong relationships with the specialised agencies, funds and programs of the UN system. Collaboration is particularly close on working towards and monitoring the MDGs, on the PRSP process, and on conflict emergencies and post-conflict reconstruction.

The Regional Development Banks. IDA works closely with the Regional Banks on issues of key importance in each region, and on cross-country issues within regions.

The European Union, providing over 50% of world development assistance, is a natural partner for IDA. Areas of cooperation include the HIPC Initiative, the PRSP process, and the Strategic Partnership for Africa.

Bilateral Donors are a key source not only of development finance but also of skills and practical experience of project and public sector management. IDA seeks to work closely with all the main bilateral donors in each of its partner countries and to ensure the greatest measure of alignment and harmonization of development programs.

Civil Society. IDA consults and collaborates with great numbers of CSOs throughout the world, including the private sector and community-based, indigenous peoples', and faith-based organizations, and foundations.

Impact and Monitoring Results

The ability to monitor progress and measure results is integral and essential to IDA's overall strategy. A **monitoring framework** for the MDGs has been designed by the staff of the World Bank and IMF, in consultation with the UN, the Regional Development Banks, the World Trade Organisation, and the Development Assistance Committee of OECD, and is now being implemented.

An essential building block for effective monitoring is the ability to **measure results**. The World Bank has developed an Action Plan to enhance its effectiveness as a development agency. There are many data deficiencies in poor countries, and the plan focuses first on fostering demand and building capacity to measure results. It also entails building a stronger focus on outcomes into its country strategies. Finally, the systematic assessment of results will be incorporated into the Bank's review processes, including portfolio review, and the strategy and budget processes.

Within this framework, IDA is developing a system of indicators for monitoring and evaluating its effectiveness, grounded in the MDGs and in countries' own monitoring systems. The aim of the results-measurement system is to monitor development outcomes and link these outcomes to IDA country programs and projects. This is clearly a challenging task that will take time to refine, but a renewed focus on results, including better linking development outcomes to government policies and to donor interventions, will ultimately benefit the poor and increase accountability for the use of donor resources.

Transparency and Accountability

IDA aims to meet the highest standards of transparency in its operations, policies and publications. There have been many initiatives in recent years to enhance public information about IDA's policies and activities, and IDA's policy papers, project documents and country strategies are now publicly available. In recent years the World Bank has set up a network of Public Information Centers in developing countries through which IDA's knowledge resources are made more widely accessible. During the last round of IDA replenishment discussions, changes were made to the process in order to increase the transparency of the deliberations. The meetings were opened up to representatives of IDA borrowing countries from different regions, the background policy papers were made available to the public, and public comments were sought on the draft of the summary report of policy recommendations. IDA recognizes a responsibility to make available as rich a range of information as possible for poor countries and the international development community.