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IDA18 Strategic Directions

Setting the Agenda for IDA18: Strategic Directions

March 1, 2016

IDA Resource Mobilization Department (DFIRM)



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IDA18

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IDA Resource Mobilization Department (DFiRM)

March 1, 2016

ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

AAAA	Addis Ababa Action Agenda	INDCs	Intended Nationally Determined Contributions
AfDB	African Development Bank		
AFR	Africa Region	IRM	Immediate Response Mechanism
AsDB	Asian Development Bank	IsDB	Islamic Development Bank
CCSAs	Cross-Cutting Solutions Areas	LCR	Latin America and the Caribbean Region
CERC	Contingent Emergency Response Component	LICs	Low-Income Countries
COP21	Conference of the Parties	M&E	Monitoring and Evaluation
CLR	Completion and Learning Review	MDGs	Millennium Development Goals
CPF	Country Partnership Framework	MICs	Middle-Income Countries
CRW	Crisis Response Window	MIGA	Multilateral Investment Guarantee Agency
CSIs	Core Sector Indicators		
DRM	Disaster Risk Management	MDB	Multilateral Development Bank
ECA	Europe and Central Asia Region	MNA	Middle East and North Africa Region
EU	European Union		
FAO	Food and Agriculture Organization	MTR	Mid-Term Review
		ODA	Official Development Assistance
FCSs	Fragile- and Conflict-affected States	OECD-DAC	Organization for Economic Cooperation and Development – Development Assistance Committee
FCV	Fragility, Conflict and Violence		
FDI	Foreign Direct Investment	PFM	Public Finance Management
FfD	Financing for Development	PLR	Performance and Learning Review
FY	Fiscal Year		
GBV	Gender-Based Violence	PPP	Public-Private Partnership
GDP	Gross Domestic Product	RMS	Results Measurement System
GFF	Global Financing Facility	SDGs	Sustainable Development Goals
GNI	Gross National Income	SAR	South Asia Region
GPs	Global Practices	SCD	Systematic Country Diagnostics
IBRD	International Bank for Reconstruction and Development	SME	Small and Medium Enterprise
		SSA	Sub-Saharan Africa
IDA	International Development Association	TAR	Turn-Around Regime
		UN	United Nations
IDS	International Debt Statistics	UNHCR	United Nations High Commissioner for Refugees
IDPs	Internally Displaced People		
IEG	Independent Evaluation Group	WBG	World Bank Group
IFC	International Finance Corporation	WDI	World Development Indicators
IMF	International Monetary Fund	WDR	World Development Report
ILO	International Labour Organization	WEO	World Economic Outlook
		WHO	World Health Organization

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EXECUTIVE SUMMARY

i. **This paper sets out the context and proposes key directions for the IDA18 Replenishment round against the backdrop of ongoing strategic discussions on the future of the World Bank Group (WBG).** The WBG is assessing how its four arms – IDA, IBRD, IFC and MIGA – can best support their clients and the international community in a rapidly changing external environment. IDA is integral to the “Forward Look” discussions and is adapting to meet the needs of its increasingly diverse clients to help them achieve development goals when facing challenges such as: stubbornly high poverty; fragility, conflict and violence; and significant development and capacity challenges in building functioning economies.

ii. **The international community now confronts a large and urgent task at a time of limited resources.** It needs to implement and fulfill the promise of a compelling and ambitious agenda agreed in 2015 – the Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda (AAAA), and the Paris and Sendai agreements. At the same time, it needs to confront and manage a range of increasing and complex challenges – global economic headwinds; fragility and conflict; violent extremism; unprecedented refugee flows; climate change; natural disasters; and health crises and pandemics – all requiring a coordinated international response across multiple policy areas. As the world becomes increasingly interconnected, challenges facing one country have increasingly stronger spillover effects for other countries. The WBG, as a global actor that supports individual countries to address complicated multi-sectoral challenges, is well positioned to address these issues.

iii. **As part of the Forward Look discussions, the WBG is exploring ways to stretch its impact, building on its roles as a country partner, private sector partner, and global integrator.** This exercise has identified five areas to focus on. *First*, how to improve the WBG’s ability to assist the full spectrum of client segments, tailoring its support to the diversity of country situations. *Second*, how to further strengthen our leadership on global and regional issues. *Third*, the importance of expanding customized knowledge services, particularly south-south learning. *Fourth*, building on changes introduced in past years, how to further enhance the WBG’s ability to respond to clients in a fast and efficient way. *Fifth*, given the magnitude of the challenges and the ambition of the 2030 agenda, how to scale up finance for development, including through significantly increasing external leverage – especially from the private sector.

iv. **A results-driven IDA is integral to the WBG’s value proposition.** IDA exemplifies the comparative advantages of the WBG itself and draws on the qualities of the other parts of the WBG to bring a unique and powerful set of services to the world’s poorest countries. IDA provides concessional financing to the poorest WBG clients, and its proven country-based model is an efficient channel for donor resources to promote the 2030 agenda. IDA is able to connect global agendas with country action, and to partner with IFC and MIGA to bring the private sector to the poorest and most fragile countries. IDA plays a critical role as an integrator across the international system, bringing global partnerships with other organizations and countries at all levels of development to its work in the poorest countries. IDA is integral to a full-service WBG, providing urgently needed concessional resources to the poorest countries that need it the most, and helping their smooth transition to IBRD status, including by exploring the leveraging

of IDA's equity to provide additional financing. Possible innovations in the WBG and IDA could further assist in providing assistance tailored to a range of country circumstances.

v. **The IDA18 Replenishment discussions begin at a time when development gains in the world's poorest countries are uneven and tenuous.** IDA's diverse client countries include small islands, Fragile- and Conflict-affected States (FCSs), commodity exporters and more diversified economies. Despite overall progress in developing countries over the past decade, progress has been uneven at the country level:

- *Robust growth* in developing countries in the past decade has shifted the global economic center of gravity towards the developing world. However, large differences in country growth performance are apparent, especially among a number of FCS where resurgence of conflict and fast population growth hindered poverty reduction.
- Important gains were made in *poverty alleviation*, with the global rate of extreme poverty in IDA countries nearly halving since 1990 with positive developments in promoting shared prosperity. Yet, these achievements were not uniformly strong, with extreme poverty increasingly concentrated in challenging environments and a high number of those that escaped extreme poverty remaining vulnerable to relapsing into it.
- Meanwhile, *finance flows* to IDA countries have expanded as a number of them gained access to more diverse financing options, with several issuing bonds in the international capital markets. Yet, for the majority of IDA countries, concessional resources remain the key source of external financing as they do not have access to market-based financing at affordable rates. Concerns remain over sustainability, selectivity and coordination among the sources of financing, and the vulnerable debt outlook in a number of countries.

vi. **IDA countries are facing significant economic risks.** Global growth decelerated in 2015, with a slowdown in IDA countries from 5.9 percent in 2014 to 5.0 percent in 2015. This mainly reflects sharp declines in commodity prices, weaker capital flows and subdued global trade. In an environment where the room for policy makers in IDA countries to respond has narrowed, the risk of reversal of hard-won achievements in poverty reduction is significant. *Particularly at risk are the approximately 50 percent of extreme poor and near poor in IDA countries who live in countries where growth slowed down in 2015.* This risk of reversal is compounded by more frequent and severe adverse events – climate-related disasters, pandemics, pressure from refugees, conflict and violence – to which IDA countries, especially the poorest and small islands, are most vulnerable.

vii. **In this challenging context, IDA's value proposition rests on four core pillars:**

- **Country solutions, global challenges.** IDA translates global goals into country action. IDA:
 - is among the largest sources of country-based financing for urgent challenges such as climate change and on Fragility, Conflict and Violence (FCV);
 - customizes global knowledge to local conditions, brings country experience to global policy-making and facilitates knowledge sharing among countries;

- invests in the data needed for evidence-based policy-making, monitoring results, and measuring progress against the SDGs;
 - supports countries to find regional solutions to development challenges, enabling collective action on cross-border challenges and helping overcome scale and capacity constraints for small states; and
 - partners, integrates and convenes, with a record of working together with other organizations and donors at the global, regional and country level.
- **Essential tool for resilience, risk management and crisis response.** IDA provides:
 - predictable, countercyclical financing and policy advice that helps countries protect essential public investments and services and build targeted social safety nets to protect the most vulnerable;
 - support to mainstream short- and long-term climate and disaster risks into countries' development planning;
 - substantial on-the-ground knowledge and advice based on experience FCV, investing in fragility assessments, almost doubling financial support for FCS over the last 10 years and working upstream to address the socio-economic drivers of conflict;
 - assistance in helping countries manage refugee flows with knowledge, operations and partnerships; IDA could play a larger role helping to address the issue of forced displacement helping strengthen humanitarian/development coordination together with the United Nations High Commissioner for Refugees (UNHCR);
 - timely response to shocks and crises through IDA's Crisis Response Window (CRW), which was exhausted in just the first year of IDA17; and
 - support for regional integration and addressing regional challenges through the Regional program, which – like the CRW – faces greater demand than it can finance.
 - **A long-term investor in institutions, infrastructure, inclusive growth and private sector development.** IDA helps countries:
 - build resilient, inclusive economies, generating new sources of demand and growth for the global economy;
 - strengthen governance. IDA's multi-sectoral long-term support helps countries by building institutions and capacity to grow and manage public finances, helping ensure that all resources are spent wisely;
 - build inclusive economies, where opportunity for all also promotes productivity, resilience and growth – including through important investments in education and health system strengthening, and mainstreaming gender considerations, including in the “hard” sectors;
 - develop the private sector as an engine for job creation and growth together with IFC and MIGA. Of the US\$20 billion per year in infrastructure commitments the WBG averaged over the last 3 years, over half was in IDA countries, along with

about one-third of IFC infrastructure investments and about three-fourths of all MIGA guarantees; and

- develop quality infrastructure; IDA’s involvement helps assure quality across a project’s full life cycle.

- **A sound investment**, through:

- a proven, country-led and performance-based model that, combined with the ability to leverage and multiply finance, delivers development results. This positions IDA well to help deliver the 2030 financing for development commitments as outlined in the AAAA and the “Billions to Trillions” paper;
- flexibility to serve a diverse client base with a range of financing terms, working in tandem with IBRD as countries move up the income spectrum;
- a strong results focus, reflected in robust accountability mechanisms which benefit from dialogue with WBG’s partnership of developed and developing countries; and
- a long tradition of evolving through lessons learned and adapting to meet changing needs. IDA will continue to adapt and support statistical capacity building in IDA countries.

viii. **The proposed overarching theme for IDA18 “Investing in growth, resilience and opportunity”**. The proposed overarching and special themes, aim to capture and expand upon this value proposition. This overarching theme provides a frame for the four special themes of IDA18. Three proposed special themes build on and deepen the IDA17 focus in the following areas:

- **Climate resilient development as a special theme** acknowledges the growing impact of climate change on development outcomes, and hence the importance of building country resilience to protect hard-won development gains;
- **Gender Equality as a special theme** recognizes both the significant progress that has been made in closing gender gaps, especially in education, while acknowledging the unfinished agenda, especially in economic empowerment; and
- **Fragility, Conflict and Violence as a special theme** recognizes that this is among the most pressing global policy issues, and that FCV constitute major obstacles in achieving development goals with impacts at the country, regional and global levels.

ix. **The proposed new theme of Economic Transformation and Jobs calls for an economy-wide framework that supports the potential of both firms and workers to build assets and use market opportunities**. It also requires a multi-disciplinary and multi-stakeholder approach – one that is gender informed, adapted to context (e.g., FCV, youth employment), and encompasses the full range of jobs (e.g., farmers, self-employed as well as informal and formal wage workers). The enabling environment, includes a focus on connectivity and capabilities of individuals and firms, with a special emphasis on quality infrastructure to ensure long-term growth. Effective interventions to advance connectivity and capabilities must be underpinned by macro-fiscal stability, strong domestic resource mobilization capacity, as well as sound

institutions, and good governance. This theme evolves from the IDA17 special theme of inclusive growth, and reflects suggestions at the IDA17 Mid-Term Review (MTR) to capture “jobs,” “private sector development,” “infrastructure,” and “economic transformation” in the special themes.

x. **The proposed IDA18 Special Themes are inextricably linked.** In fact, the 2030 agenda emphasizes that the development goals are not a menu of independent objectives, but rather underscores their interconnections and need for integrated implementation. For example, jobs with special attention to gender concerns are particularly important in fragile environments that are further undermined by climate change. Meanwhile, female labor force participation and prevention of gender based violence is important not only in fragile environments, but also in all IDA countries to allow them to reach their full potential. Moreover, displacement of people can be exacerbated both by fragility and conflict as well as by climate change. Additionally, more and better jobs, made possible by a vibrant private sector and sizeable infrastructure investments, are important for stabilizing fragile states but also for ensuring that women participate in economic activity. Developing climate resilient growth strategies requires special attention to gender issues as women, children and the elderly are most affected. IDA is uniquely placed to address the interlinked challenges spotlighted by the special themes because of its global breadth, country depth, analytical capacity, financial strength and ability to draw on IFC and MIGA where appropriate.

xi. **IDA18 provides an opportunity to further strengthen these interlinkages.** Deepening the links across all special themes and all sectors, will support identification of opportunities to enhance resilience through infrastructure, urbanization, and technology adoption at the firm level. Access to energy, water, transport, and telecommunications infrastructure brings opportunities for better earnings, access to health care, markets and education. Quality infrastructure also addresses adaptation efforts in the form of reliable water and energy systems that help communities protect livelihoods and assets from climate risks. These risks and demographic factors can act as threat multipliers in environments where basic government functions are weak and societies are not cohesive. Therefore, understanding better how climate change and the youth bulge is likely to impact demand and supply of jobs and earnings in key sectors (e.g., agriculture, forestry, and fisheries) and regions where the poor are concentrated will be critical to designing appropriate policy and investment solutions.

xii. **A robust IDA18 will be critical for the international community to tackle today’s ambitious development agenda in the midst of so many complex, interconnected challenges.** Demand for IDA’s help exceeds supply: IDA17 commitments of roughly US\$19 billion were a record for the first year of a replenishment period; the CRW was exhausted in its first year and demand for the regional program greatly exceeds its current capacity. To play its part – as a global integrator, a key tool in finding country solutions for global challenges, and a catalyst for economic transformation and building resilience and inclusion – IDA needs to be able to come in at a scale where it can have influence, draw in other financing and leverage resources. In a world of complex global challenges, a strong IDA18 replenishment, underpinned by a strong package of policies is an investment in the poorest countries, which in turn, contributes to a more stable and prosperous world.

INTRODUCTION

1. **Ongoing strategic discussions on the future of the World Bank Group are taking place amidst recent global agreements that have set ambitious goals for development.** These goals encompass the 2030 agenda for sustainable development, the Addis Ababa Action Agenda (AAAA) on Financing for Development (FfD), the historic COP21 agreement on climate change and the Sendai Framework for Disaster Risk Reduction (Box 1). The WBG is assessing how its four arms – IDA, IBRD, IFC and MIGA – can best support their clients and the international community in a rapidly changing external environment. IDA is integral to the “Forward Look” discussions and is adapting to meet the needs of its increasingly diverse clients (see Section II).

2. **Achieving the ambitious global development goals will be challenging in an environment of mounting global risks, that could reverse hard won gains in lifting people out of poverty.** Recent *global growth performance* has been disappointing, mainly reflecting a slowdown in economic activity in emerging and developing countries amid low commodity prices and diminished flows of trade and capital.¹ While global growth is set to accelerate modestly in 2016, it will be at a much lower pace than previously projected and subject to many downside risks. Meanwhile, *peace and security challenges* are more pressing, with Fragile- and Conflict-affected States (FCSs) accounting for around 20 percent of the world’s extreme poor – a figure that is expected to double by 2030.² Negative spillovers of conflict are increasingly affecting non-FCSs (both IDA and non-IDA), including through *increasing refugee flows and the rise in violent extremism*. The world is currently experiencing the largest – and growing – displacement of people since the Second World War.³ Other risks to development progress from *climate change, natural disasters and pandemics* are becoming more frequent and severe than in the past.

3. **A world of complex global challenges needs a strong, results-driven IDA18 replenishment.** To play its part as a global integrator and a key source of country-level solutions for global challenges, IDA needs to be at a scale where it can have influence and leverage its support. Building resilience in a world of more frequent economic shocks, natural disasters, and pandemics requires a balance between strong *immediate crisis response capacity* and *longer-term investment in preparedness and resilience*.

4. **This paper sets out the context and proposes key directions for the IDA18 replenishment round.** It builds on guidance from Participants at the IDA17 MTR. As in previous IDA Replenishments, IDA18 will emphasize special themes that warrant intensified and systematic focus by IDA. The paper is structured as follows: Section I describes the current development landscape; Section II describes strategic directions WBG; Section III outlines IDA’s value proposition; Section IV presents the proposed Overarching and Special Themes in IDA18; Section V elaborates on the monitoring of results; and Section VI sets out next steps and lays out the issues for discussion.

¹ See World Bank (2016).

² See World Bank (2011)a.

³ See UNHCR (2014). The unprecedented surge in Syrian refugees has placed huge strains on neighboring countries; while in the Horn of Africa, much of the displaced population is in border areas, with poverty rates in excess of 80 percent.

Box 1. Increased Global Aspirations

The Sustainable Development Goals (SDGs) represent a paradigm shift in global development aspirations:

- Comprise 17 comprehensive and inter-connected goals and 169 associated targets which bring together economic, social and environmental priorities on a new scale.
- Build and expand on the Millennium Development Goals (MDGs). They are broader, more ambitious, have greater focus on quality, equity and sustainability, recognize synergies among development objectives, and have universal coverage.
- Emphasize a focus on implementation means (financing, policy, capacity, data and technology), monitoring of progress, and reporting on results.
- Place a high priority on data, monitoring and reporting of progress, areas where IDA can offer its significant expertise (recognizing that even further investments in data will be necessary).



The Paris agreement on climate change (COP21) represents another watershed moment for global development ambitions:

- Universal agreement on climate mitigation, adaptation, and finance, adopted by 195 countries aiming to address climate collectively change and strengthen disaster resilience.
- Implementation requires support for country-driven strategies and for the additional financing needed to implement the Intended Nationally Determined Contributions (INDCs).
- Emphasizes regional and international cooperation for meeting more ambitious climate targets and raises the bar on investment requirements for climate-proofing and building resilience.

The Sendai Framework for Disaster Risk Reduction 2015-2030 stresses: the need for improved understanding of disaster risk in all its dimensions of exposure, vulnerability and hazard; strengthening of disaster risk governance, including national platforms; accountability for DRM preparedness to “Build Back Better”; recognition of stakeholders and roles; mobilization of risk-sensitive investment to avoid new risk; resilience of health infrastructure, cultural heritage and work-places; strengthened international cooperation and partnership, and risk-informed donor policies and programs, including financial support and loans from International Financial Institutions (IFIs).

The financing needs from new commitments under these global agreements are vast and require concerted action, and equal ambition, on multiple fronts. At around US\$135 billion a year, Official Development Assistance (ODA) is far from enough to finance the achievement of the SDGs. The AAAA presents a vision and framework for intensified, synergistic finance solutions to unlock, multiply and catalyze flows across all sources of financing – public and private, domestic and international – to achieve the SDGs. In this context, public financing has a key role to play in providing complementary support for leveraging private sector investments.

Source: United Nations.

I. A NEW DEVELOPMENT LANDSCAPE

5. **Despite overall gains for developing countries in the past decade, progress has been uneven at the country level.** *Robust growth* in developing countries in the past decade has caused the global economic center of gravity to shift towards the developing world – it contributes close to half the world’s gross domestic product (GDP). Important gains were made in *poverty alleviation*, with the global rate of extreme poverty in IDA countries nearly halving since 1990 and positive developments in promoting shared prosperity. Yet, these achievements were not uniformly strong, with extreme poverty increasingly concentrated in challenging environments and a high number of those that escaped extreme poverty remaining vulnerable to relapsing into it. Meanwhile, *finance flows* have expanded with significant changes in their composition. However, there are concerns related to sustainability, selectivity and coordination among the sources of financing, and the vulnerable debt outlook in a number of countries.⁴

6. **The global economic environment has weakened over the past year and the outlook is subject to downside risks.** Global growth decelerated in 2015, with a slowdown across IDA countries from 5.9 percent in 2014 to 5.0 percent in 2015. This mainly reflects sharp declines in commodity prices, weaker capital flows and subdued global trade. In an unprecedented development since the 1980s, many of the largest emerging economies in each region have been slowing simultaneously for three consecutive years. While near-term forecasts indicate a modest pickup in aggregate growth, it is subject to significant downside risks.⁵ In an environment where the room for policy makers in IDA countries to respond has narrowed, the risk of reversal of hard-won achievements in poverty reduction is significant. *In IDA countries, the approximately 50 percent of extreme poor and near poor live in countries where growth slowed in 2015.* This is compounded by more frequent and severe adverse events – climate-related disasters, pandemics, conflict and violence – to which IDA countries, especially the poorest and small islands, are most vulnerable.

7. **The development landscape for IDA countries has become more heterogeneous.** Today’s development landscape is marked by a wider and graduated spectrum of country situations between and within country groupings. IDA’s clients comprise a wide array of countries, including small islands, FCSs, commodity exporters and more diversified economies.⁶ *The dispersion of GDP per-capita has increased* over time across IDA countries (Figure 1.A). As a result, the GDP per-capita of the 10 wealthier IDA countries is 6.5 times that of the poorest – compared to 2.1 times in 1980. There is also *significant heterogeneity on the poverty front*: the poverty “gap” can vary significantly even for countries with the same poverty rate (Figure 1.B), and the profile of the bottom 40 percent varies considerably across countries.^{7,8} Meanwhile, IDA countries have gradually gained access to more diverse financing options, with several issuing bonds in the international capital markets. Yet, for the majority of IDA countries, concessional

⁴ See World Bank and IMF (2015)a.

⁵ See World Bank (2016) and IMF (2016).

⁶ For an elaboration on the heterogeneity of IDA countries within the FCS group see IDA (2012).

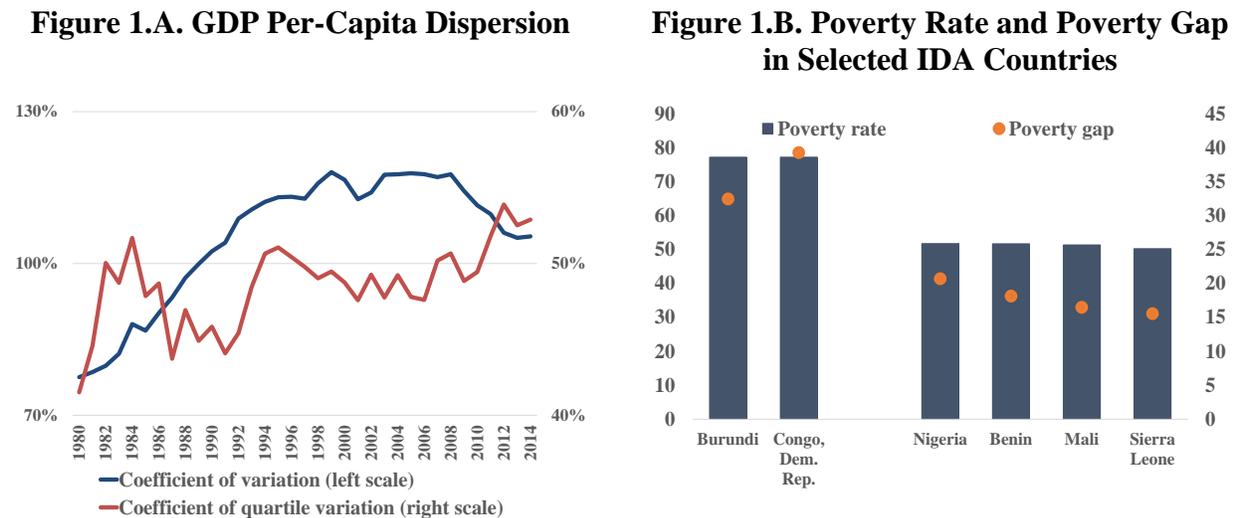
⁷ The Poverty “gap” is the mean shortfall in income or consumption from the poverty line of US\$1.90 a day in 2011 purchasing power parity terms (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence.

⁸ See World Bank and IMF (2015)b.

resources remain the key source of external financing as they do not have access to market-based financing at affordable rates. In this heterogeneous development landscape, IDA is well placed to play a key role in responding to the calls of the international community to deliver on the development agenda (see Section III).

8. **IDA’s effectiveness in serving its clients will also depend on its continued adaptation to emerging challenges.** The development agenda will be shaped by a combination of secular trends (e.g., demographic trends, globalization and urbanization), cyclical factors and shocks. IDA’s efforts to adapt to these factors will be both informed by and aligned with the WBG “Forward Look” exercise.⁹

Figure 1. Increased Heterogeneity in IDA Countries



Source: World Development Indicators (WDI), World Economic Outlook (WEO), and staff calculations.

A. ECONOMIC LANDSCAPE

9. **Driven by favorable external conditions and prudent policies, IDA countries experienced significant growth rates in recent years; but significant challenges remain.** During 2000-14, IDA countries grew on average by 5.7 percent a year, compared with just 2.7 percent a year for the world (Figure 2.A). This strong economic expansion was accompanied by greater income convergence.¹⁰ Strong growth and favorable external conditions helped IDA countries accumulate fiscal and external buffers and reduce debt burdens (also helped by debt relief) enabling them to use automatic stabilizers to tide themselves over during the crisis.¹¹ Moreover, IDA countries have become more integrated with the global economy, thanks to increased trade, investment opportunities and the search for higher yields (Figure 2.B). However, there were large differences in country performance. Most notably, resurgence of conflict and fast population growth in FCSs decreased per-capita growth rate and hindered

⁹ As detailed in Section II, the Forward Look exercise examines the changes in the challenges faced by developing countries and the WBG’s ability to adapt to these changes.

¹⁰ The global Gini coefficient declined from 75 percent in 2000 to 62 percent in 2015. See World Bank and IMF (2015)b.

¹¹ See IMF (2014).

poverty reduction.¹² In addition, despite the relatively favorable economic conditions that followed the global financial crisis, many countries failed to reconstitute fiscal and external buffers, with a concomitant increase in government debt, especially in resource rich countries (Figure 2.C).

Figure 2. Evolving Economic Landscape for IDA Countries

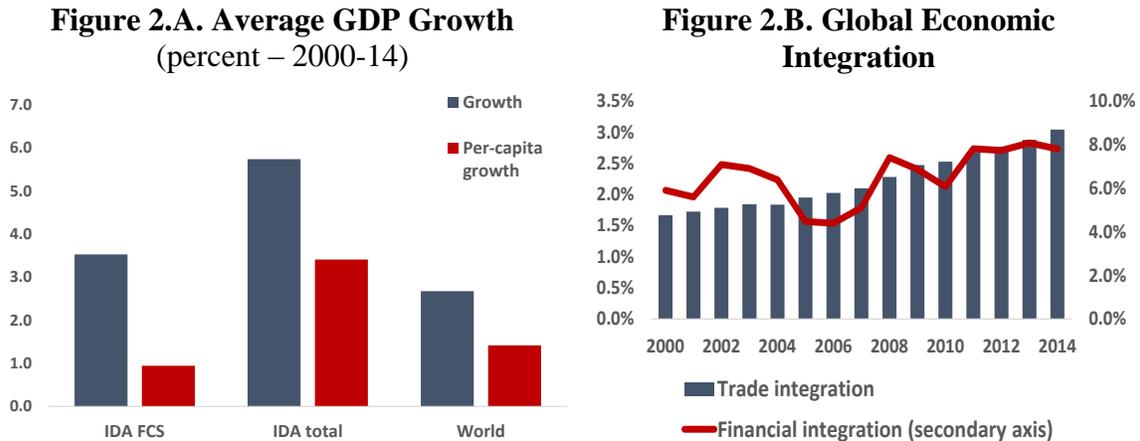
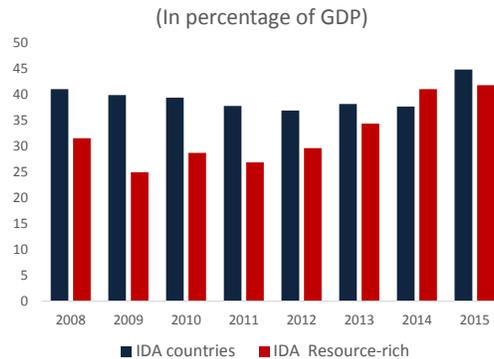


Figure 2.C. General Government Gross Debt



Source: WDI, WEO, and staff calculations.

Note: Trade integration reflects ratio of total imports and exports to world trade. Financial integration is the ratio of total net external private financial flows (including bank loans, direct investment, bonds, and equities) to overall external private financial flows to developing countries. Debt figures in chart 2.C reflect the median for each category.

10. The global environment for IDA countries has weakened over the past year, with the reduction in commodity prices, trade, higher cost of financing and increased volatility.

¹³ With the exception of India, all major emerging economies are slowing. Driven by a deceleration in demand from large emerging markets, global trade slowed in 2015 with

¹² In per capita terms, FCSs growth over the period 2000-14 years has averaged only 0.9 percent, 2.5 percentage points less than IDA countries overall (Figure 2.A).

¹³ See World Bank (2016).

commodity prices falling on average by 45 percent from their 2011 peak. In addition, monetary policy tightening in the U.S. has resulted in rising borrowing costs and decelerating capital flows (Figure 3). As a result, growth in IDA countries slowed from about 5.9 percent in 2014 to 5.0 percent in 2015, with growing domestic (e.g., eroded policy buffers, growing external and fiscal pressures in commodity exporters and slow productivity growth) and external challenges (e.g., tighter, more volatile global financial conditions). The slowdown in IDA countries was pronounced among commodity exporters (e.g., Nigeria). Shocks and spillovers also had significant negative impact for both commodity and more diversified exporters (e.g., security disruptions – Burundi and Yemen; natural disasters –Nepal and Nicaragua; and spillover effects¹⁴ – Kyrgyz Republic, Moldova, and Tajikistan). Several countries (Côte d’Ivoire, Ethiopia, Mozambique, Rwanda, and Tanzania), however, continued to post solid growth, supported by large-scale infrastructure, ongoing mine development and consumer spending.

Figure 3. Changed External Environment

Figure 3.A. Merchandise Import Growth

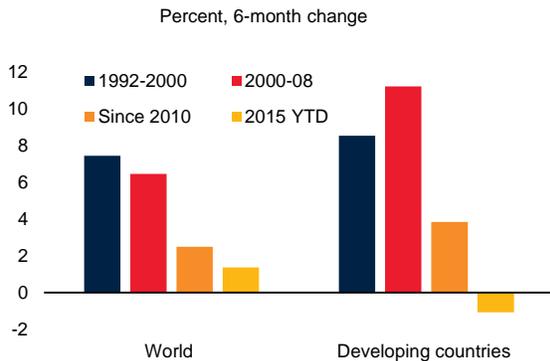


Figure 3.B. End of Commodity Supercycle

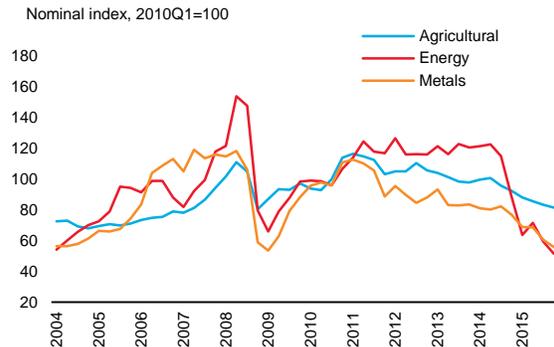


Figure 3.C. Emerging Market Bond Spreads

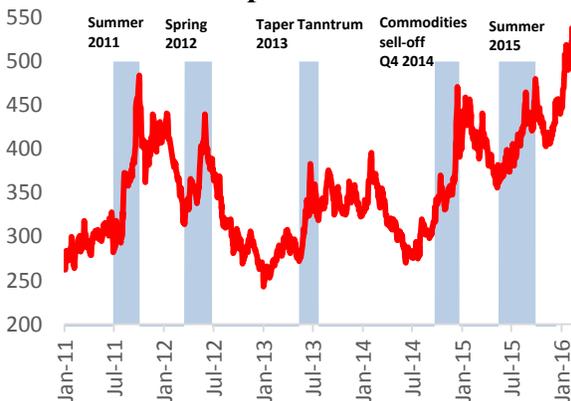
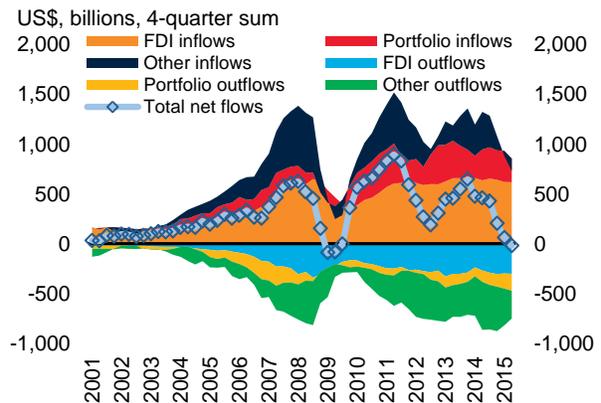


Figure 3.D. Emerging and Frontier Market Economies. Capital Flows

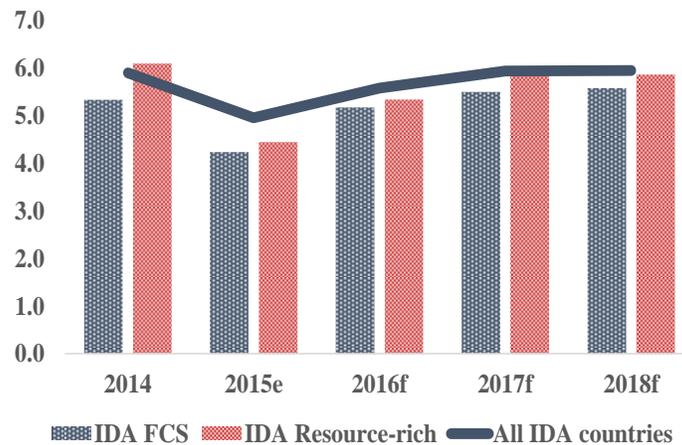


Sources: World Bank, Bloomberg, Haver Analytics, Commodity Markets Outlook and CPB Netherlands Bureau for Economic Policy Analysis.

¹⁴ Mainly through reduced remittances as a result of the recession in Russia.

11. **Growth in IDA countries is projected to remain relatively strong, but the outlook is subject to downside risks.** Global growth is expected to pick up, reaching 2.9 percent in 2016 and 3.1 percent in 2017-18. This assumes a continued recovery in major developed economies, some improvement in emerging countries, marginal changes in commodity prices and a gradual, contained increase in interest rates. For IDA countries, the forecast is for growth to increase to about 6 percent over the projection period. The implications for individual countries will depend on country-specific factors, including composition of trade and availability of external financing. Growth in IDA resource-rich countries is expected to increase relative to 2015, while more diversified exporters are expected to record strong growth similar to the 2015 levels. A rebound is expected in FCSs (Figure 4). This outlook is subject to significant risks, both external and domestic.¹⁵ Risks to the outlook include policy uncertainty, eroded fiscal and external buffers, natural disasters, political instability and conflict.

Figure 4. Growth Projections for IDA Countries
(in percent)



Source: WDI, WEO, and staff calculations.

B. POVERTY LANDSCAPE

12. **Strong GDP growth has enabled to an unprecedented decline in extreme poverty over the last two decades.** Globally, the number of extreme poor decreased from 37 percent of the world population in 1990 to 10 percent in 2015.¹⁶ Over the same period, the extreme poverty rate in IDA countries fell from 55 to about 30 percent (Figure 5). *Overall, about 700 million people are living in extreme poverty, of which about 500 million live in IDA countries (close to the entire population of North America).*¹⁷ This significant achievement in poverty reduction at the global level was led by progress in a small number of countries (mainly China and India). As a result, extreme poverty has become dispersed.¹⁸ Regionally, the extreme poor are located mainly in Sub-Saharan-Africa (SSA) and Asia, primarily in IDA countries (Figure 6.A).

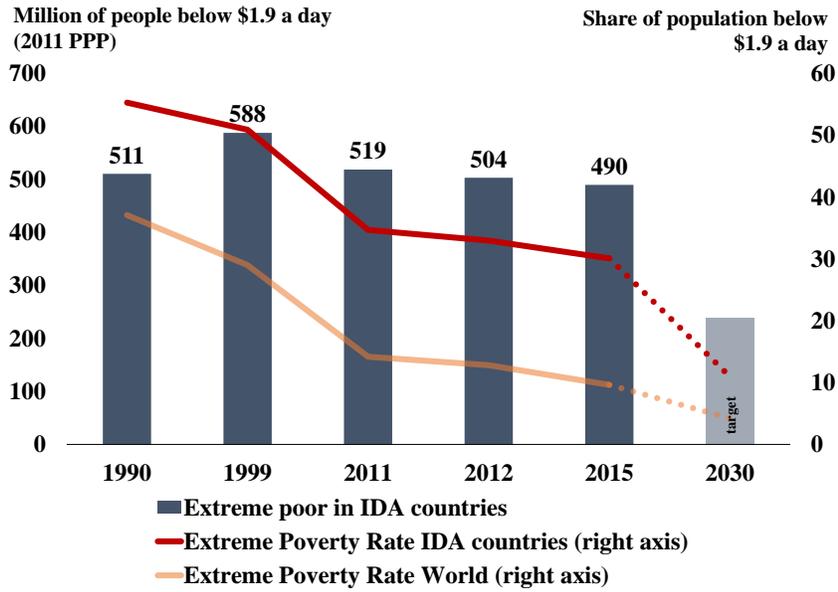
¹⁵ For a detailed discussion see Chapter 1 of World Bank (2015)d.

¹⁶ See World Bank (2015)a.

¹⁷ Defined as the number of people with a daily consumption/income below US\$1.90 in 2011 Purchasing Power Parity terms.

¹⁸ See World Bank (2015)e.

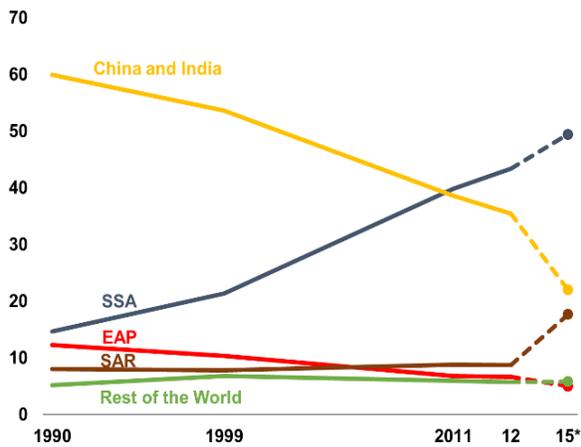
Figure 5. Global Poverty



Source: World Bank.

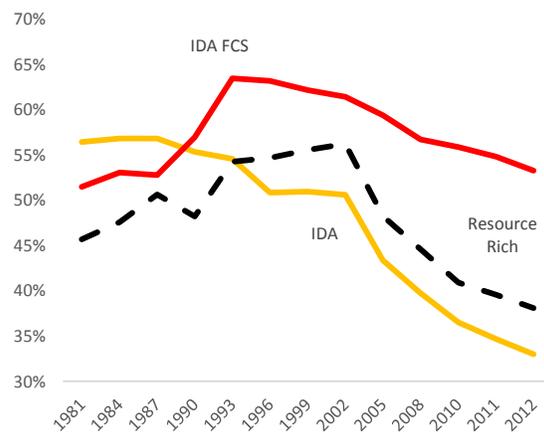
Figure 6. Poverty Landscape

Figure 6.A. Regional Distribution of Extreme Poverty



Source: PovCal Net.

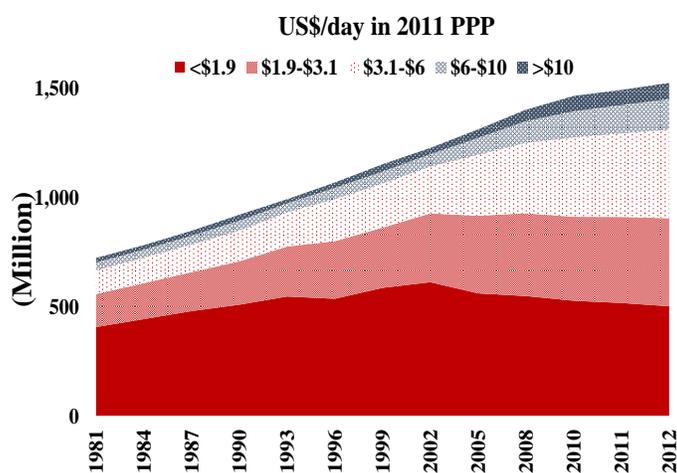
Figure 6.B. Poverty Reduction in IDA Countries



Source: PovCal Net.

13. **Significant challenges remain in reducing extreme poverty and tackling inequality in IDA countries.** IDA countries are home to 70 percent of the world’s extreme poor. Of these, the majority live in FCSs and/or resource-rich countries where demographic dynamics and weak links between the natural resource sector and the rest of the economy have resulted in a slower pace of poverty reduction compared to other IDA countries (Figure 6.B).¹⁹ Notably, *the number of extreme poor in IDA FCSs has increased over time*, representing more than half the population of this group of countries. Furthermore, more than 50 percent of the population in IDA countries live on less than US\$6 a day and are considered at high or moderate risk of relapsing into poverty (Figure 7). Finally, inequality in about half of IDA countries has increased over time (e.g., Madagascar, and Togo).

Figure 7. IDA Countries. Population by Consumption Level



Source: World Bank

Note: Assumes constant income distribution over time.

14. **Poverty is exacerbated by vulnerability to global issues, including conflict, displacement, climate change and natural disasters.** A major episode of violence can wipe out an entire generation of economic progress and poverty reduction, and lead to mass displacement.^{20, 21} Climate change also presents a threat to sustainable economic development and poverty reduction. IDA countries, especially small islands, will be particularly affected by the impact of climate-related natural disasters. The livelihoods of those least able to adapt – the poor and most vulnerable – will be affected the most (Box 2).²²

¹⁹ In FY16, FCSs represent 38 percent of IDA countries. Resource-rich countries represent about 1/3 of IDA countries. Together, these two categories represent close to 60 percent of IDA countries.

²⁰ See World Bank (2011)a.

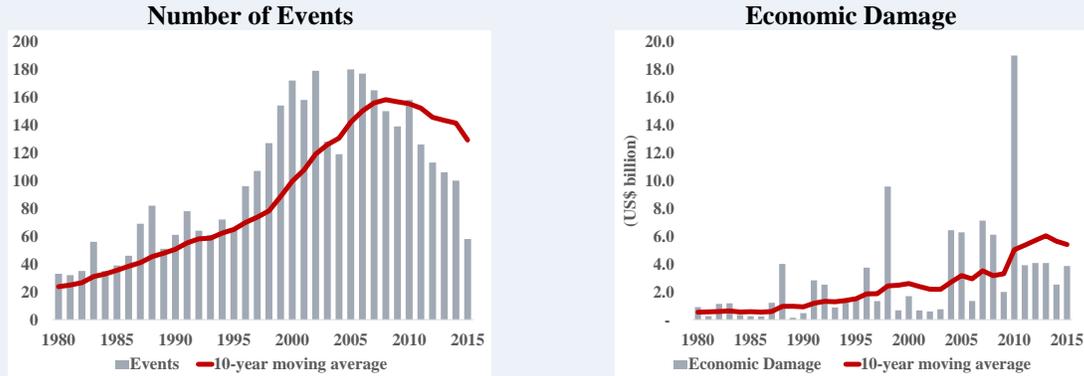
²¹ See <http://www.unhcr.org>.

²² See World Bank (2014) and IDA (2013)a.

Box 2. Impact of Climate and Disaster Risks on Poverty

Natural disasters have become more frequent and severe in IDA countries. During the last decade, *IDA countries have been affected by almost three times as many events relative to the 1980s, and their economic damage (US\$ terms) has been almost six times larger*. While richer countries incur greater absolute damage, the poorest ones suffer the greatest relative impact.¹ For example, the impact of the 2010 Haiti earthquake far exceeded that year's GDP.

Natural Disasters on IDA Countries

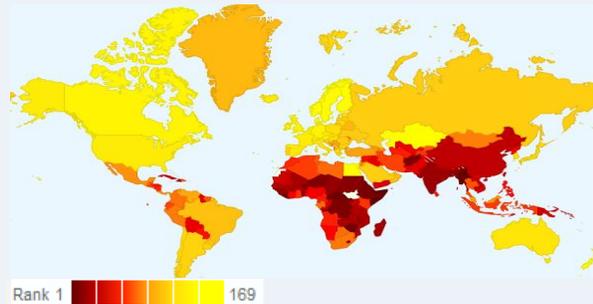


Source: The International Disaster Database (EM-DAT).

Average annual losses due to climate-related events were around 1 percent of GDP globally over the period 1970-2010. The World Bank's recent publication "Managing the Impacts of Climate Change on Poverty" reports that, *if unchecked, the impact of climate-related shocks on poverty reduction will worsen overtime and could result in more than 100 million additional people living in poverty by 2030*. Highlights from the report include:

- High temperatures in the second half of the 20th century may have slowed growth in poor countries in both the agricultural and the industrial sectors.
- Reduced rainfall in the 20th century partly explains slow growth in IDA countries, particularly in SSA.
- Every 1°C warming reduces income by 1.2 percent in the short run, and by 0.5 percent in the long run. Other studies have found even larger impacts – including a 3.8 percent income drop in the long run for every 1°C warming.
- While both rich and poor are affected by natural disasters, the impact of such events is disproportionately large on the poor as they own assets that are more vulnerable and lesser in value.
- Natural disasters are one of the critical channels through which climate-sensitive events affect the ability of poor people to escape poverty.
- Under current vulnerability levels, the total number of global fatalities may well double between now and 2080, based on the latest projections of climate change, population, and GDP.

As illustrated in the chart on the right, IDA countries are among the countries with the highest overall vulnerability to natural disasters and other negative effects from climate change (adjusted for coping ability).



Source: Center for Global Development (CGD).

¹ It is estimated that the impact of natural disasters on GDP is 20 times higher in developing countries than in industrialized nations.

15. **The diversity of demographic changes and growth prospects present challenges for poverty reduction and inclusiveness** (Box 3). IDA countries, in particular FCSs, constitute the bulk of countries that have rapid population growth, swelling working-age population and lag in key human development indicators. While a country's human resources can be a key asset, failure to lay the foundations for sustained growth, accelerate demographic transition and create more and better jobs will exacerbate the current situation where the extreme poor and the vulnerable are concentrated in the most challenging environments. More broadly, a weaker global environment poses significant uncertainties and risks for reversing hard-won achievements in poverty reduction and shared prosperity. Additional efforts are needed to promote broad-based growth, translate this growth into reducing poverty, and set up insurance

Box 3. New Challenges for Poverty Reduction

The last decade saw significant progress in poverty reduction as the MDG target of halving the global poverty rate was achieved in 2010 – five years ahead of schedule. However, 700 million people still live in extreme poverty, most of them in IDA countries.

The World Bank's Global Monitoring Report 2015-16 estimates that *even if developing countries realize the same country-specific per capita growth rates as observed during the 10-year period 2004–13, the global 3 percent poverty target in 2030 will be missed*. It would also be harder for the growth to reach the extreme poor for a number of reasons, including:

- The extreme poor are way below the poverty line compared to the previous period when they were only marginally below and could rise above the poverty line with the extant growth rates.
- Many of the remaining extreme poor are in environments where poverty is less responsive to growth (e.g., narrowly diversified natural-resource based economies).
- Deep pockets of poverty (often linked to education, ethnicity or region) can persist even in countries that, at the aggregate level, are experiencing rapid poverty reduction. People in these areas/groups may be locked in poverty traps or other low-level equilibriums in which aggregate growth does not translate into gains for them.

Accordingly income growth, much higher than in the past, will be required, and the distribution of that growth will need to be more favorable to those with the lowest incomes.

The global poverty reduction target faces significant additional challenges. As elaborated in Box 3, absent action, climate change is another factor that would have adverse poverty reduction implications. The increasing incidence of conflict constitutes another threat, with effects that are felt at the national, regional and global levels long after peace is restored – as shown by the challenges confronted by refugees and host communities.

The onus, therefore, is on the global community to support the least developed countries as they seek to meet the 2030 poverty target, by providing the financial and technical assistance required.

mechanisms against risks.

C. FINANCING LANDSCAPE

16. **The past decade has seen a remarkable increase in global financing flows to developing countries, but IDA countries benefited only from a small portion.** This has been driven by access to broader sources of financing and their expansion, as detailed later in this

section.²³ As a result, a more differentiated and complex financing architecture has emerged among developing countries, with significant opportunities and major challenges, including in terms of countries' ability to manage and combine different flows. The ability to mobilize resources needed for implementing the 2030 agenda, specifically in IDA countries, will depend on continued strong levels of external public financing (both concessional and non-concessional) and on deploying these resources in better and smarter ways to unlock the increasingly diverse pool of available resources.

17. While domestic revenue mobilization improved in developing countries, the poorest are hampered by a number of factors. Domestic revenue mobilization by developing countries grew by 14 percent annually during 2000-12, reaching US\$7.7 trillion in 2012 (i.e., more than US\$6 trillion higher than in 2000).²⁴ The bulk of the progress, however, occurred in emerging middle-income countries (MICs) and resource-rich low-income countries (LICs).²⁵ About 50 percent of all developing countries still have tax ratios below 15 percent of GDP. Revenue collection in FCSs is often even weaker.²⁶ Recent trends show that most of the increase in tax mobilization in SSA has come from the natural resources sector. Thus, while on the one hand there are countries that are mobilizing sufficient tax revenues, mainly driven by the presence of natural resources, there are others that, despite tax collection efforts continue to have small tax bases. Therefore, progress to date notwithstanding, more effort is needed in improving tax policies and administration, particularly in LICs. In addition to enhanced tax collection, increased development outlays could be realized through expenditure reforms. Addressing these issues will require long-term engagement and dedicated capacity building efforts.²⁷ A shallow financial sector is another key impediment to mobilizing domestic resources in LICs.

18. IDA countries benefited marginally from the increase in external financing to developing countries. Prior to the onset of the crisis (2000-07), the net flows to developing countries grew from US\$259 billion to US\$1.2 trillion. This trend was reversed by the impact of the crisis (2008-09); but resumed from 2010 to reach US\$1.6 trillion in 2014 – albeit at an annual growth close to a third of the pre-crisis period (Figure 8.A). This evolution reflects the growing importance of: (i) private finance – particularly to MICs in the form of foreign direct investments (FDIs), bonds and syndicated bank-lending; (ii) remittances – which have emerged as the second largest source of external financing for developing countries; (iii) increases in financing from traditional development partners; and (iv) financing from new development partners, in

²³ This section discuss three categories of financing flows, namely: domestic public, international public and international private. Domestic private financing experienced a 415 percent increase between 2002 and 2011. See EU (2015).

²⁴ See World Bank (2013).

²⁵ In aggregate, tax revenues as a share of GDP for LICs are about two-thirds of that for Upper Middle-Income Countries. See EU (2015).

²⁶ See IMF (2015)a.

²⁷ Ahead of the Addis Ababa FfD Conference, the World Bank and the IMF launched a new initiative to help countries strengthen their tax systems. Responding to country demands, this initiative has two pillars: deepening the dialogue with developing countries on international tax issues, aiming to help increase their voice in the international debate on tax rules and cooperation; and developing improved diagnostic tools to help member countries evaluate and strengthen their tax policies.

particular from the BRICS.²⁸ IDA countries – which depend the most of external financing – benefited from less than 20 percent of these flows (Figures 8.B and 8.C).²⁹

Figure 8. Net External Financial Flows to Developing Countries

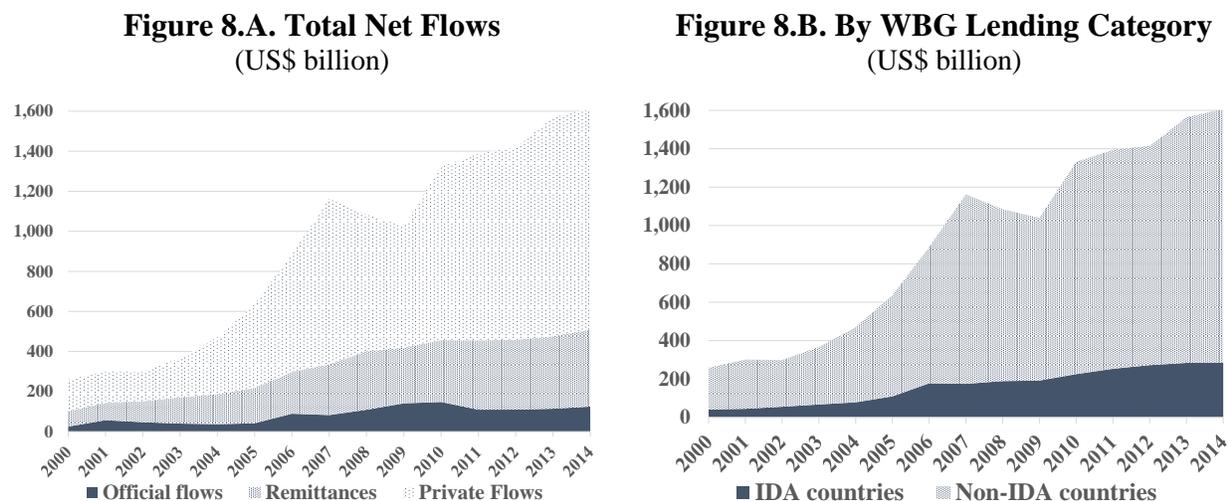
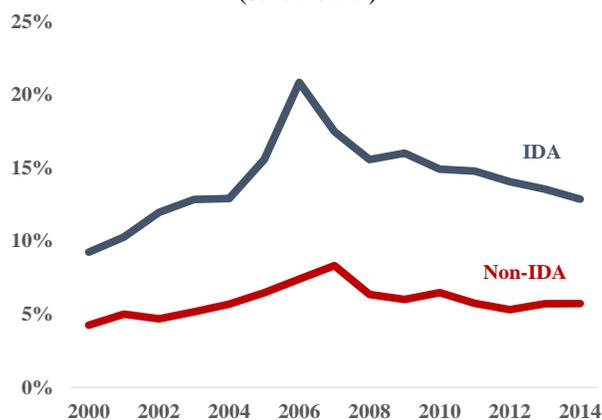


Figure 8.C. By WBG Lending Category (% of GDP)



Source: WDI, International Debt Statistics (IDS), and OECD/DAC Statistics.

19. An increasingly differentiated architecture for external financing has emerged across countries at different stages of development (Figure 9). Within this new architecture, the poorest IDA countries (i.e., IDA-only non-gap countries), rely primarily on external official financing – almost exclusively provided in the form of grants and concessional loans. For IDA gap and blend countries, remittances constitute the key source of external financing and private financing represents a larger share than for IDA-only non-gap countries, yet external official

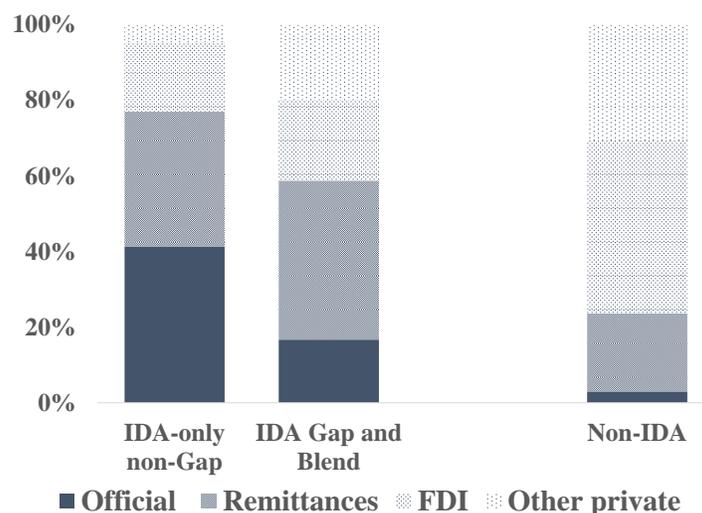
²⁸ Standing at US\$137.2 billion in 2014, ODA from DAC member countries reached an all-time high, yet still falling short – in aggregate terms – of the United Nations target of 0.7 percent of GNI.

²⁹ In 2014, external flows to IDA countries stood at US\$286 billion, about seven times the 2000 level and equivalent to 18 percent of total flows. Non-IDA countries also experienced a significant increase, with the flows in 2014 standing at US\$1.1 trillion, more than 6 times the 2000 volume and equivalent to 82 percent of the total flows to developing countries.

financing still represents about 15 percent of their external flows.³⁰ On the other hand, while non-IDA countries benefit from a sizeable share of official financing (see next paragraph), they have become primarily reliant on private flows.

³⁰ Paragraph 25 discusses the increased levels of market financing by these countries.

Figure 9. Composition of External Financial Flows to Developing Countries in 2014



Source: WDI, IDS, and OECD/DAC Statistics.

20. **The increase in external financing flows to developing countries is not without challenges, in particular for IDA countries.** The emerging trends on private financing raise questions regarding the sustainability of their expansion and the selectivity and management of these flows. Private financing tends to be pro-cyclical and much less stable relative to other sources.³¹ Furthermore, notwithstanding the strong increase for developing countries as a whole, they were *heavily concentrated bypassing the vast majority of IDA countries* (Figures 10.A and 10.B).³² Second, with respect to official flows, a significant share of these resources benefit non-IDA countries (Figure 10.C). *Non-IDA countries also benefit from a large – and growing – share of concessional flows.*^{33, 34} After peaking at about 80 percent in 2006, the share of official concessional financing to IDA countries has declined to less than 70 percent in 2014. This decrease is largely explained by the recent shift in official grant financing towards non-IDA countries.³⁵ While a significant share of the world’s poor still live in non-IDA countries, these countries have a stronger economic and financial standing relative to IDA countries and greater ability to access alternative sources of funding. In addition, the landscape for official financing has become more complex.³⁶ Finally, while remittances are a relatively stable sources of external financing, costs remain high in several countries and further policy action is needed to

³¹ Private flows declined by 26 percent during the global financial crisis.

³² Out of the 48 IDA-only non-gap countries, the top 5 countries account for 54 percent of the net FDI inflows and close to one-third of other private flows.

³³ Concessional financing as per the current OECD definition (i.e., loans with an original grant element of 25 percent or more based on a 10 percent discount rate).

³⁴ The survey of aid donor countries’ spending plans indicates that, after several years of declines, country-level aid to the poorest countries should recover over the next few years. See OECD (2015).

³⁵ Between 2011 and 2014, official grant flows to developing countries remained largely stable, but the share to non-IDA countries increased from 26 to 36 percent.

³⁶ For a discussion on the increased proliferation, fragmentation and earmarking of resources and the challenges they pose to developing countries see World Bank (2011)b.

reduce them.³⁷ Furthermore, recent developments (the de-risking phenomenon) could affect the accessibility, affordability and efficiency of remittances services.³⁸

Figure 10. Distribution of External Flows to Developing Countries

Figure 10.A. Foreign Direct Investment

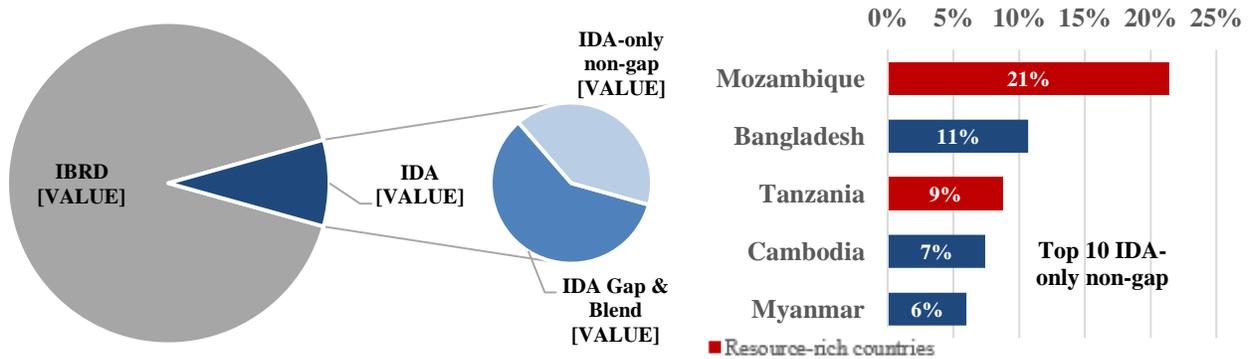


Figure 10.B. Other Private Flows

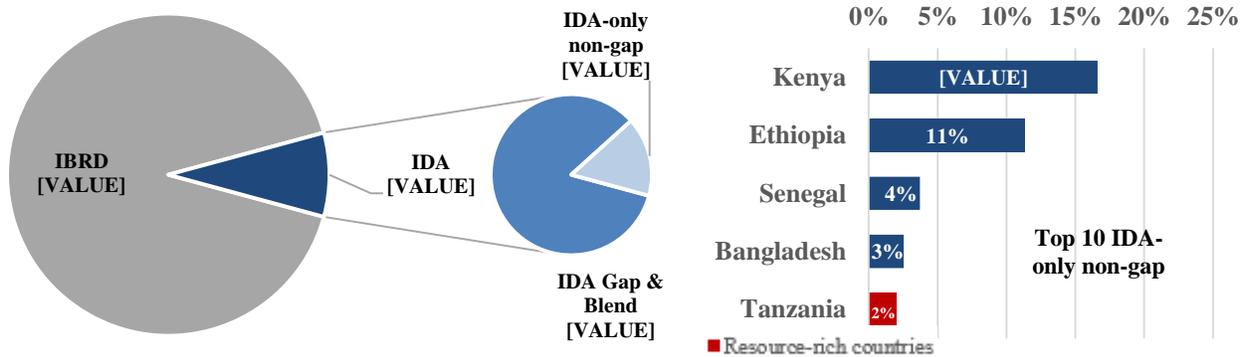
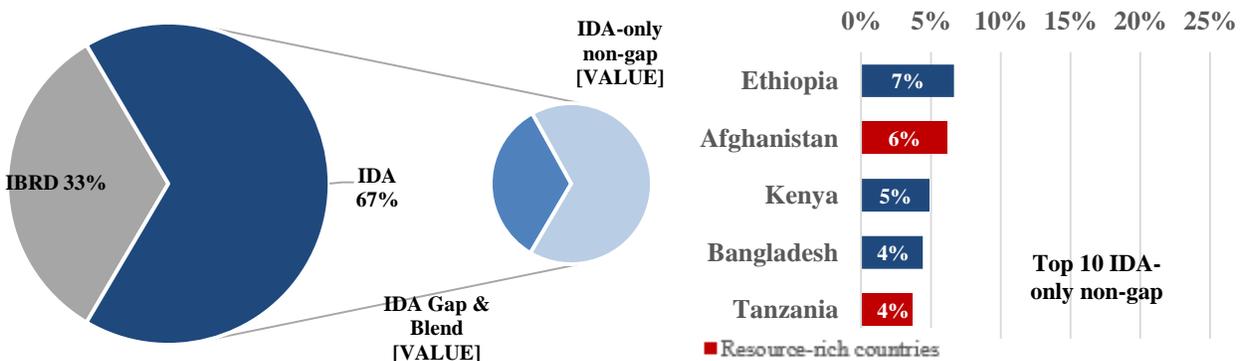


Figure 10.C. Total Official Flows



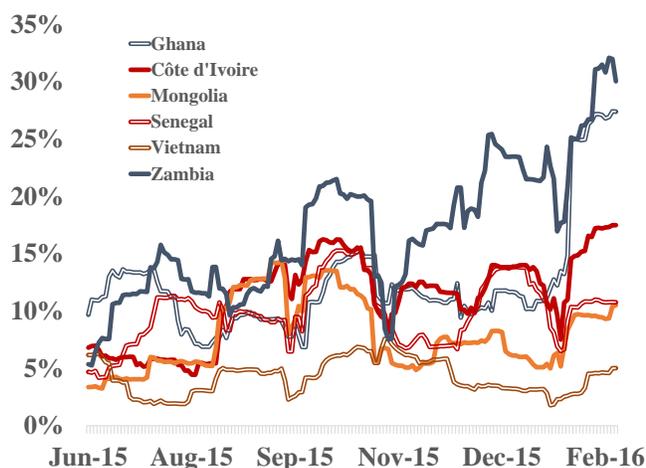
Source: WDI, IDS, and OECD/DAC Statistics.

³⁷ For a discussion on the cyclicity of remittances see World Bank (2015)c.

³⁸ De-risking refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk in line with the Financial Action Task Force's risk-based approach. Evidence points to an acceleration of this phenomenon in recent years. This phenomenon could have implications for remittances through several channels. For example, banks could shut off access to banking services to remittance services providers, resulting in their activities becoming more expensive for everyday people. See World Bank (2015)b.

21. **Managing debt vulnerabilities could prove challenging against the backdrop of greater financial integration and shifting global conditions.** The use of the international capital markets by some countries – particularly the so-called “frontier” markets – has increased in recent years.³⁹ Evidence suggest that this increased access was driven by global factors (heightened appetite for yields in an environment of easy liquidity conditions) as well as country-level factors (development progress and improved perception of political and economic stability). With the notable exception of small states, the debt buildup in IDA countries has remained manageable for most countries. Yet, a greater reliance on market financing will increase and change the nature of risks faced by these countries – in particular a greater rollover risk. With weaker global prospects and the tightening of global liquidity conditions, market access may be at less favorable terms for many of these countries (Figure 11). In this context, prudent fiscal and financing decisions will be critical for preserving debt sustainability. Efforts to enhance debt management capacity remain paramount.

Figure 11. Volatility of Market Returns of Sovereign Bonds from Frontier Markets



Sources: Bloomberg and Barclays Capital

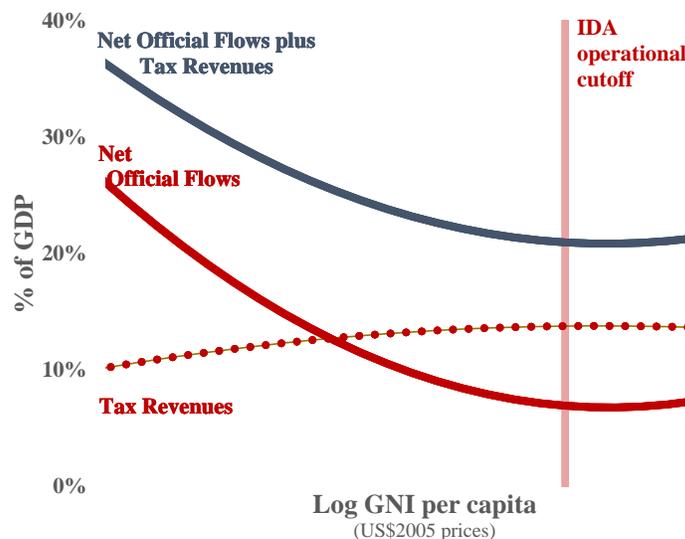
Notes: Figures reflect annualized volatility measured by the standard deviation of daily returns over a rolling one month period. Country coverage reflects data availability.

22. **Evidence points to sharp declines in total public (domestic plus external) financing relative to income per capita, particularly for the poorest countries** (Figure 12).⁴⁰ While the external financing-to- gross national income (GNI) ratio is higher for the poorest countries, sharp declines take place at the lowest end of the income spectrum and well before countries reach the IDA operational cutoff. The ratio stabilizes only at GNI per-capita around the IDA operational cutoff (i.e., gap and blend countries). While domestic public financing shows an increasing trend relative to GNI per-capita, it does not compensate for the fall in external resources. As a result, the poorest IDA countries – which have limited financing options and depend critically on public concessional financing – experience sharp declines in the overall level of total public resources as the GNI per-capita rises. This trend can also be observed in total financing (public and private) as private financing fails to compensate for the fall in public financing for the poorest countries.

³⁹ For a definition of “frontier” countries see World Bank and IMF (2015)a. Thirteen IDA countries are in this group: Bangladesh, Bolivia, Côte d’Ivoire, Ghana, Kenya, Mongolia, Mozambique, Nigeria, Papua New Guinea, Senegal, Tanzania, Uganda, Vietnam, and Zambia. External borrowing by these countries in the form of sovereign bonds and commercial loans has amounted to US\$34 billion during the period 2010-14, with a shift in recent years from commercial loans to bond issuances.

⁴⁰ As noted in the title of Figure 12, the analysis covers current IDA countries over the period 2000-13. For similar analyses covering all developing countries please see Kharas et al (2014); Kharas (2015); and EU (2015).

Figure 12. Official Flows and Tax Revenues
(IDA Countries, 2000-13)



Source: WDI, IDS, OECD Statistics, and IMF Government Finance Statistics.

23. **Implementing the ambitious 2030 agenda will require a paradigm shift on development financing.**⁴¹ Development finance will need to be used strategically to unlock, leverage, and catalyze private flows and domestic resources. Concessional financing will remain a key source of external public financing in most IDA countries. Scarce concessional financing should be increased and should be used as effectively as possible – focusing on the poorest countries and those with limited access to alternative sources of financing. Furthermore, concessional financing should be targeted increasingly to crowd in other financing sources, public and private, external and domestic.

D. THE EMERGING DEVELOPMENT AGENDA

24. **The global development agenda will also be shaped by secular trends and shocks.** The secular trends span the whole spectrum of the development agenda: (i) demographic and growth transitions, such as the shrinking of working-age population and slower productivity gains; (ii) a renewed globalization, with increasingly globalized and coordinated economic, political and social actions; and (iii) rapid urbanization, with increased demand for and stress on services; and iv) pressures on the world’s resources, including through climate change. Shocks and disruptions, such as financial and humanitarian crises, pandemics, natural disasters, and social instability, have increased in frequency as well as in range and speed of propagation. In some cases (e.g., fragility) problems have gone from being acute to chronic. IDA’s effectiveness will depend on its capacity to adapt to these challenges. Efforts in that direction will be both informed by and aligned with the “Forward Look” exercise detailed in the next section.

⁴¹ See World Bank (2015)f and United Nations (2015)a.

II. STRATEGIC DIRECTIONS OF THE WORLD BANK GROUP

25. **Management and shareholders have initiated a “Forward Look” exercise for the WBG.** This exercise examines the three interrelated challenges of the changes in the external environment, the WBG’s ability to adapt to these changes, and its financial capacity. Three engagements with Executive Directors were held in January and February 2016. The outcome of these engagements is reflected in a Development Committee paper to be discussed at the 2016 Spring Meetings and the exercise will conclude at the 2016 Annual Meetings.⁴² The Forward Look exercise is helping inform and provide the context for the IDA18 replenishment, IDA’s ongoing innovations, the review of IBRD and IFC financial capacity, and the shareholding review.

26. **The Forward Look discussions build on the WBG comparative advantage of helping the world address complex problems at scale.** The starting point for the Forward Look discussions is that the WBG has solid foundations on which to build. This comparative advantage is rooted in the three mutually reinforcing roles that it plays: first and foremost as a country development partner around the world; second as a private sector partner; and finally, as a global development partner (Figure 13). Furthermore, the Forward Look emphasizes that the WBG goals endorsed by the Development Committee in April 2013 are strong strategic pillars for engaging and supporting the 2030 development agenda.⁴³ The WBG strategy reinforces the need to focus on extreme poverty; highlights the increasing importance of sharing the benefits of prosperity; and underscores that pressures on sustainability are growing.

27. **The needs, demand and profile of the WBG clients are also evolving.** As detailed in the previous section, the global landscape for development will be shaped by a number of factors. The Forward Look exercise considers these driving forces and explores how the WBG can respond to these emerging global challenges. This will require a multi-pronged approach across the spectrum of clients – e.g., adapting to and mitigating climate change; increasing female agency, voice and participation in the labor force; building resilience and lessening the impact of FCV; accelerating job creation; building human capital; improving connectivity of people and firms; fostering regional and global integration; diversifying production, revenues and exports; ensuring macro-financial stability; strengthening governance; improving collective action in the pursuit of global public goods; and preventing epidemics and pandemics. The WBG clients’ profile is also changing: MICs and High-Income Countries (HICs) will increase in number. The number of countries below the IDA operational cutoff will shrink over time to encompass mostly SSA countries, and with a rising proportion of FCSs.

28. **The Forward Look discussions emphasize the need for continued results focus.** The WBG approach to this is fourfold: allocate resources to priorities; continued focus on effectiveness; ensuring efficiency; and leveraging our and others’ resources for maximum results.

⁴² See the upcoming interim report to Governors on the Forward Look, March 2016

⁴³ See World Bank and IMF (2013).

Figure 13. World Bank Group Comparative Advantage

	Country	Private sector	Global
Being a Country Development Partner helps	Bring experience from one country engagement to other countries while tailoring support to country context. Promote knowledge exchange (e.g., through South-South Exchange, twinning, studies, etc.)	Improve the business and regulatory environment and mitigate risks Honest broker between private sector and government	(i) inform global agenda with country level development challenges and constraints; (ii) translate global agendas into action on the ground; (iii) gather data and knowledge from all countries; and (iv) create effective global funding platform where partners are confident resources will be delivered
Being a Private sector partner helps	Bring development context to engagements with local and international private sector players Inform needed changes to business environment Promote the jobs agenda	Stronger corporate governance and improved risk management to reduce the cost of capital; benefits to business of stronger community engagement and adoption of standards; sharing of global experience (e.g., South-South)	Invest in / catalyze the private sector to support the global agenda; shape sustainable private sector development with global norms (e.g., performance standards, Equator Principles, Voluntary Industry Standards)
Being a Global Development Partner helps	Inform country development priorities with impact on regional / global agenda, e.g., factor in climate change, and bring global knowledge, data, and financing tools at the country level Provide country platform to mitigate adverse impact of aid fragmentation and earmarking	Support global agreements and norms that shape the global investment climate, including trade agreements, banking standards, regulations, etc.	

29. **At this stage, Management and shareholders are exploring ways to stretch the WBG impact further along five dimensions:**

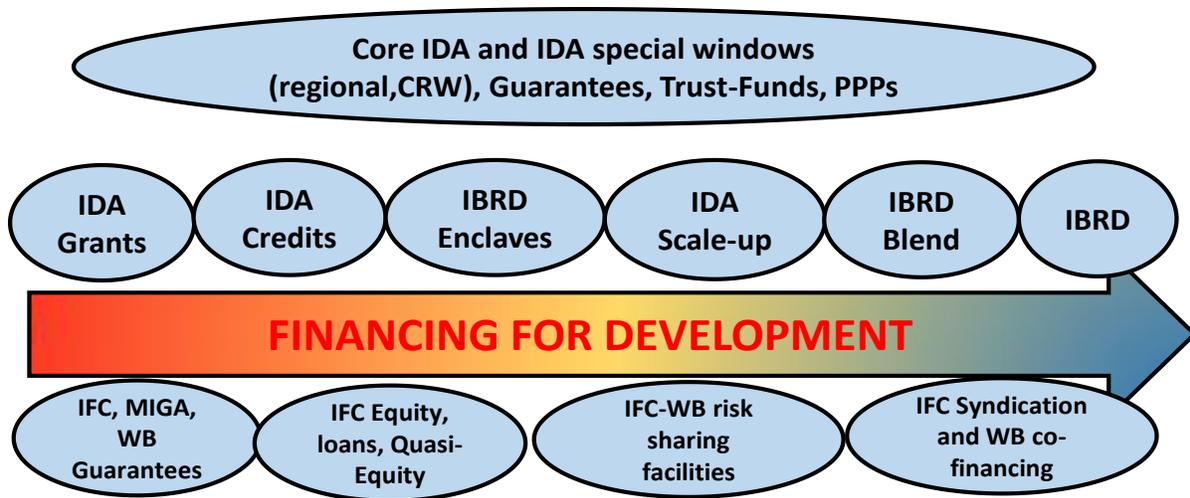
- **Improving WBG ability to assist the full spectrum of client segments, including FCSs, HICs, and sub-nationals.** Being responsive to a broad spectrum of client needs is at the core of the WBG's mission, but requires increasing flexibility. The ability to tailor assistance to the diversity of country situations needs to be strengthened. For IDA in particular, this means further scaling up engagement in FCS as well as having the appropriate tools to ensure a smooth graduation process.
- **Leadership on global and regional issues.** Increasingly countries face challenges that are facets of regional and global challenges; and global challenges require action at the country level. It also requires capturing and sharing development knowledge through analytical work at the global, regional and country levels and facilitating knowledge sharing among clients.
- **Expanding customized knowledge services, particularly south-south learning.** The WBG is putting additional emphasis on speedier flows of relevant knowledge across the globe, including moving from retail approaches to South-South learning where the WBG directly facilitates the interaction.
- **Boosting efficiency and flexibility.** As the continuum of clients grow, and the complexity of their challenges increase, it is critical to ensure that the complexity of the WBG's own policies and procedures do not grow apace. Building on changes introduced in the past few years – including the structuring of the Bank's operations around Global Practices (GPs) and Cross-Cutting Solutions Areas (CCSAs), the systematic emphasis on working across the Group, and the expenditure review, the WBG will continue to strive to respond to clients in a fast and efficient way. The nature of the development challenges identified in the Forward Look emphasizes in particular that delivering sustainable, high quality results requires adapting to country contexts.
- **Scaling up finance for development including through significantly increasing external leverage, especially from the private sector.** The magnitude of the challenges and the level of ambition of the development agenda call for expanding resources, as captured in the 'billions to trillions' agenda for the MDBs. The first priority is to extend the WBG's ability to help governments develop the policies and build the institutions that will make domestic public finance deliver more results. Second, scaling up the WBG's ability to partner with the private sector is necessary to help private investment flow into public priorities, both within and across countries. The WBG seeks to build on its ongoing platform in these areas, expanding the scale and degree of leverage to help address the huge financing needs, recognizing that private sector finance cannot address all challenges, leaving a critical need for public finance and, in particular for IDA countries, for concessional development finance.

30. **IDA is integral to the WBG value proposition.** IDA both exemplifies the comparative advantages of the WBG itself and draws on the qualities of the other parts of the WBG to bring a unique and powerful set of services to the poorest countries. IDA is able to connect global agendas to country action, and to partner with IFC and MIGA to bring the private sector to the poorest most fragile countries. IDA plays a critical role as an integrator across the international

system, bringing global partnerships with other organizations and with countries at all levels of development to its work in the poorest countries. IDA integral to a full service WBG, providing urgently needed concessional resources to the poorest countries that need it the most, and helping to ensure a smooth transition to IBRD (Figure 14). Possible innovations in the WBG and IDA could further assist in providing assistance tailored to a range of country circumstances. Going forward, a strong IDA18 replenishment will be critical to expanding resources for development.

31. **IDA is thus is an essential part of the strategic value of the WBG going forward, embodying its comparative advantage but also adapting to meet the particular needs of its client base.** This includes the particular challenges of helping countries achieve development goals where poverty remains very high; where countries may be afflicted by FCV; where countries face significant development and capacity challenges in building functioning economies; and where they remain among the most vulnerable to a range of shocks and disasters. IDA intensifies, builds on and adapts the WBG’s comparative advantage, maximizing the synergies between different parts of the Bank Group for the benefit of its clients. This lies at the core of IDA’s value proposition, discussed in Section III.

Figure 14. WBG. Tailoring Support to Diverse Clientele



III. IDA’S VALUE PROPOSITION

32. **The international community is confronted with a large and urgent task at a time of limited resources.** It needs to implement and fulfill the promise of the compelling and ambitious agenda agreed in 2015 (see Box 1). At the same time, it needs to confront and manage a range of increasing and complex challenges – fragility and conflict; violent extremism; unprecedented refugee flows; climate change; natural disasters; health crises; and global economic headwinds – all requiring a coordinated international response across multiple policy areas. As countries become more interconnected, challenges become more comprehensive and more global. The WBG, as a global actor that supports individual countries to address complicated multi-sectoral problems – for the continuum of countries from the poorest to upper MICs – is ideally suited to address these issues.

33. **For the poorest countries IDA has proved to be a powerful platform for tackling complex, global, development challenges requiring coordinated international effort.** With in-country and global partnerships, IDA is a proven channel for international cooperation translated through effective, country-owned and led programs on the ground. In an interconnected world, the challenges that countries face are often facets of larger global issues. Progress on global challenges hinges on action at country level, and global risks can be exacerbated by adverse developments in the “weakest” link. A world with more frequent natural disasters, pandemics and economic shocks urgently needs not only strong crisis response capacity, but also longer-term investment in preparedness and resilience. And this investment in building resilience in the poorest countries is an investment in global prosperity and stability. Global trends – such as climate change, demographics, and political fragility – have the largest and most far reaching impacts on the poorest countries, but they affect all countries. If IDA countries are not able to make progress on key areas of development, there will continue to be negative spill-overs on their neighbors and globally. A successful IDA18 will be critical for the poorest countries, but its benefits will be global.

34. **IDA’s value proposition rests on four core pillars.** These pillars, summarized in the bullets below, are elaborated in more detail in the following subsections.

- i. **Country solutions, global challenges:** IDA has a track record of addressing complex, multi-sectoral challenges requiring coordinated international effort and translating global challenges into lasting solutions at country level. IDA is the largest source of climate change adaptation finance for its clients and has used its country knowledge and global expertise to help countries identify and act on climate change. IDA customizes global knowledge to local conditions, brings country experience to global policy-making and facilitates knowledge sharing on global challenges. IDA invests in the data that countries need for evidence-based policy-making and measuring results, and that the international community needs to measure progress towards the 2030 agenda. IDA also supports countries in finding regional solutions to development challenges enabling collective action on cross-border challenges and helping overcome scale and capacity constraints for small states. With a record of working together with other organizations and donors, IDA is an integrator, convener and partner within the international system and at the country level.
- ii. **Essential tool for resilience, risk management and crisis response:** On the ground in 65 countries and with a network of partnerships, IDA helps countries manage risks, build resilience, and respond to crises. IDA’s predictable countercyclical financing and policy advice helps countries protect essential public investments and services and build targeted social safety nets to protect the most vulnerable. IDA also supports countries to mainstream short- and long-term climate and disaster risks into development. IDA can take early and rapid action in response to shocks or crises (e.g., Ebola outbreak) or to seize new windows for re-engagement (e.g., Myanmar). IDA has built substantial on-the-ground knowledge and experience on FCV, has invested in understanding the drivers of fragility and conflict and works to address them. IDA countries are increasingly looking to IDA’s CRW and Regional program to provide timely help and to facilitate collective action on issues that cross borders. With focus on poor and vulnerable populations, IDA

is helping countries manage refugee flows with knowledge, operations and partnerships, but could do more.

iii. A long-term partner helping build institutions and infrastructure for inclusive growth and private sector development: IDA's country-owned model supports countries' efforts to build resilient, inclusive economies, generating new sources of demand and growth for the global economy. IDA works multi-sector and multi-year to help countries build the institutions and capacity to grow and manage public finances, helping ensure that resources – both domestic and external – are spent well. IDA helps countries build inclusive economies, where opportunity for all promotes productivity, resilience and growth – including through important investments in education and health system strengthening, and mainstreaming gender considerations, including in the “hard” sectors. With policy advice, standards and tools, IDA also helps countries make financially, socially and environmentally sustainable infrastructure investments, helping to promote quality across the full life cycle. Working with IFC and MIGA, IDA is uniquely placed to help countries develop the enabling environment needed to crowd in the private sector as an engine of jobs and growth.

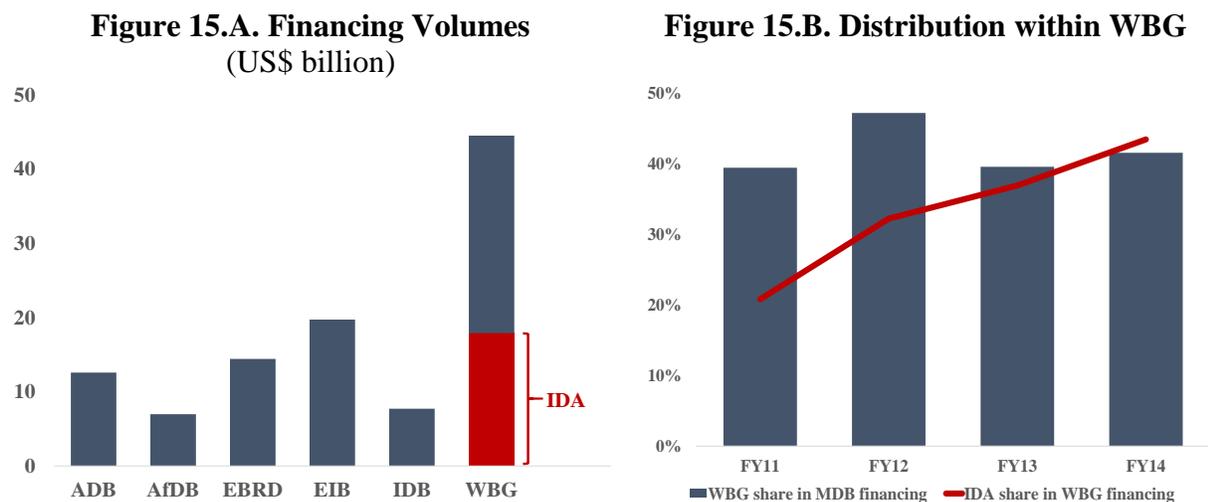
iv. A sound investment: IDA's results-focused, country-driven and performance based model works; underpinned by a WBG that innovates and evolves, improving efficiency and increasingly leveraging other players. IDA is well-positioned to help deliver the 2030 agenda, with the ability to leverage and multiply finance and a proven, performance-based model anchored in country ownership. With developing countries now more heterogeneous along a continuum of country situations, IDA has the flexibility to meet a range of needs with a range of financing terms, working in tandem with IBRD as countries move up the income spectrum. IDA has robust accountability and benefits from dialogue with its partnership of developed and developing countries. IDA has a long tradition of evolving to reflect lessons learned and adapting to meet changing needs.

A. COUNTRY SOLUTIONS, GLOBAL CHALLENGES

35. **IDA plays a key role in translating global plans into country action.** With climate change and associated natural disasters posing huge risks for poverty reduction efforts,⁴⁴ IDA has used its country knowledge, financing and global expertise to help countries identify and act on climate change at the national level. Among the MDBs, the WBG has been the largest source of climate finance, accounting for around 40 percent of all climate finance. Within the WBG, IDA has been an engine of climate finance, with its share of overall WBG climate finance increasing from around 20 percent in FY11 to around 40 percent in FY15 (Figure 15).

⁴⁴ See Shepherd et al (2013); Reisen and Garroway (2014); and Hallegatte et al (2015).

**Figure 15. MDB Climate Financing
(FY11-FY14)**



Sources: Joint Report on Multilateral Development Bank's Climate Finance 2014, World Bank.

Notes: Data reflects financing from the MDBs own resources and from external sources (e.g., CIF, GEF). In 2014, financing from external sources represented 9% of the total. WBG figures represent the sum of WB and IFC. IDA reflect climate financing from own resources only.

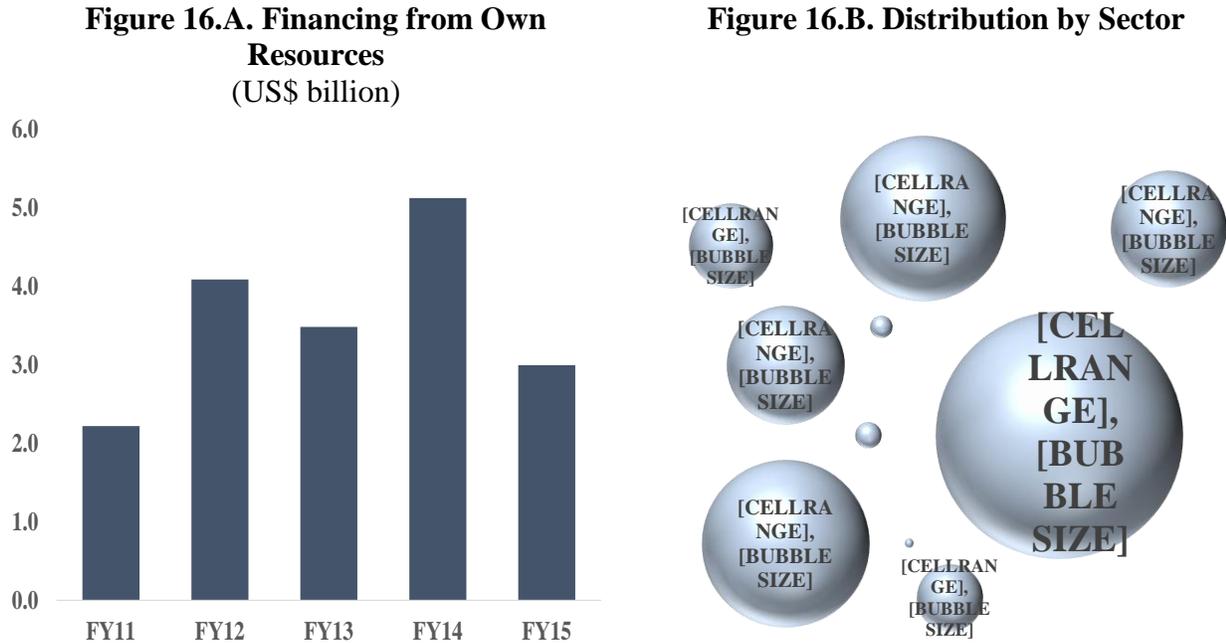
36. **IDA has been the largest source of climate change adaptation finance for the poorest countries.** IDA commitments with climate change co-benefits over FY11-15 averaged US\$3.6 billion. In FY15, IDA commitments with climate change co-benefits were US\$3.0 billion of which US\$2.2 billion had adaptation co-benefits and US\$1.0 billion mitigation co-benefits.⁴⁵ Over FY11-15, energy accounted for the largest share of commitments, followed by agriculture, fishing and forestry and water, sanitation and flood protection; other sectors such as health and education also contributed, but more modestly. This reflects the fact that some sectors lend themselves more readily to climate co-benefits than others (Figure 16). *IDA is set to do more* in line with the WBG commitment announced at the 2015 Annual Meetings in Lima,⁴⁶ with the support of shareholders, to increase climate financing by one third to 28 percent by 2020.⁴⁷

⁴⁵ Adaptation and mitigation co-benefits are assessed independently and cannot be added; the total figure above nets out overlap.

⁴⁶ See <http://www.worldbank.org/en/news/press-release/2015/10/09/world-bank-group-pledges-one-third-increase-climate-financing>.

⁴⁷ The WBG's new Africa Climate Business Plan identifies concrete actions to help boost adaptation capacity while reducing greenhouse emissions.

Figure 16. IDA Climate Financing (FY11-FY15)



Source: World Bank.

Notes: Sector distribution based on World Bank major sector classification.

37. **With global knowledge and experience, IDA works with clients to customize solutions to local circumstances, and facilitate knowledge exchange.** From targeted and cost-effective social safety nets, to designing tax regimes and irrigation, IDA draws on first hand global knowledge and experience to help clients identify a range of options to address challenges. IDA also serves as a facilitator, helping to connect policy-makers and practitioners across developing countries in support of South-South cooperation, knowledge exchange and strengthening country capacity to capture and share good development practices for replication and scale-up, both within and across countries. In addition, through the WBG’s new GPs and CCSAs, IDA provides targeted country analytics and gives countries access to systematized global knowledge and data to help inform decision-making. For example, IDA supports work to gather global data and expand the evidence base regarding both the “how” and “why” of what works in promoting gender equality. As part of the WBG, IDA can also help bring country experience to inform global policy-making. For example, the WBG has highlighted in the G20 the impacts of the de-risking phenomenon while working to reduce the costs of remittances at global and national level and address compliance with legal and regulatory standards in particular on Anti-Money Laundering and Combating the Financing of Terrorism.

38. **IDA helps to improve country statistical systems, helping countries produce quality data for domestic policy formulation and monitoring, including of IDA results, but also serving the broader global need for data, including for monitoring of the 2030 Agenda.** Quality statistics are *essential for evidence-based decision making and policy formulation*, including monitoring social and economic progress, allocating political representation and resources, guiding private sector investment, and holding government accountable. However, in

many IDA countries, capacity to produce and use quality data is low. As part of the WBG, IDA, along with other international organization and bilateral donors, is working with countries to respond to their desire to improve their statistical capacity. This involves equipping countries to be able to produce and use statistics; developing knowledge and knowledge transfer; building infrastructure, including statistical standards, IT systems, computers, and offices; as well as developing statistical regulations and laws. Larger scale projects typically include components covering all of the above.⁴⁸

39. IDA is also responding to strong demand to help countries find regional solutions to development challenges through its regional program. Growing demand for support from IDA's Regional program has seen more than 50 percent of the IDA17 Regional envelope utilized in the first year of the replenishment period. Regional approaches can help promote collective action to address challenges that affect several countries, such as forced displacement, disaster risk or disease surveillance, or can represent an efficient and cost-effective solution to capacity constraints, such as regional approaches to regulation. Regional approaches help promote economic opportunity through regional integration, connectivity and trade (at present, only around 10 percent of African trade takes place among African countries). Working with countries and other partners, IDA continues to find innovative ways to connect national and regional programs to address binding constraints (Box 4).

Box 4. IDA Supports Regional Solutions to Development Challenges

The regional IDA Program, introduced in IDA13, supports regional initiatives that have strong spill-over benefits across countries and that require collective action to achieve priority objectives. It also enables small countries (several of which are FCSs) to work in areas that would otherwise absorb most if not all of their IDA allocations – thanks to the additional financing these countries can access through the regional program.

Most regional projects are focused on **infrastructure, economic integration and regional public goods**. During IDA15-16 the majority of the funds targeted regional infrastructure (in IDA16, the figure was 90 percent), especially energy initiatives. However, the regional program is supporting a range of non-infrastructure interventions where regional approaches can address scale constraints, or promote collective action. It has, for example, supported regional market-based natural disaster risk financing tools to provide rapid financing in the wake in the natural disasters, most notably in the Caribbean and the Pacific, collective action to address sexual and gender-based violence in the Great Lakes, as well as regional approaches to forced displacement in the Horn of Africa. Upcoming work will focus on expanding regional disease surveillance in Africa, to strengthen the capacity of countries to better prevent and detect pandemics, as well as on providing critical capacity development in areas such as human resources for health and laboratory networks. For example, a regional disease surveillance project is under preparation in West Africa focusing on the longer-term resilience following the Ebola crisis, and this proposed project has incorporated lessons learned from the East Africa Lab and Health Strengthening Project. This project aims to establish a network of efficient, high quality, accessible public health laboratories for the diagnosis and surveillance of TB and other communicable diseases in the East African Community (EAC) member states. The project successfully introduced a unique and cost effective peer review mechanism, ensuring objectivity and promoting cross-country learning.

⁴⁸ For example, Ghana's Statistical Development Project (which combines US\$30 million from IDA with US\$10 million from the Statistics for Results Catalytic Fund) includes institutional reform and organizational change; training; improving statistical frameworks; physical infrastructure and equipment; and improving data production and management.

**Box 4. IDA Supports Regional Solutions to Development Challenges
(continued)**

IDA's regional programs are also an important avenue for **partnerships**. In the Great Lakes, the Sahel and the Horn of Africa, IDA has worked with the UN, AfDB, IsDB, AU Commission and the EU. In MENA, IDA, the EU, UN and IsDB are working in partnership on a Dynamic Needs Assessment for Yemen which will help coordinate an effective response once the conflict subsides. In the Pacific, IDA partners with the Pacific Island Forum on regional institutions and knowledge sharing, as well as with the AsDB, EU and Australia.

In *Africa*, IDA17 is seeing unprecedented demand for regional IDA to promote economic integration and cost-effective regional solutions to development challenges. IDA continues to look for ways that regional and national IDA can complement each other to address regional binding constraints: ongoing regional projects, including in cooperation with IFC, are connecting power grids, introducing improved seeds and helping generate a trained technical workforce. Cooperation with IFC in Africa has also been promoting **regional policy coordination**, complementing support for physical infrastructure in the power sector with policy and regulatory strengthening.

IDA's regional approaches frequently **leverage the whole of WBG expertise**. In *Mauritania, Senegal and Mali*, IDA provided partial risk guarantees while MIGA provided a guarantee to the sponsors for the Banda Gas to Power Project, which utilized the WBG's convening power and capacity to leverage private sector investments in a regional context. IDA and IFC together crowd in private investment to regional projects: future joint IDA-IFC work will include efforts to boost private sector investment on modern irrigation in the Sahel. The *Central Asia and South Asia* Electricity Transmission and Trade Project featured close collaboration between IDA and IFC on project preparation, along with bilaterals and the IsDB, to facilitate electricity trade by putting in place the required commercial and institutional arrangements across participating countries and building transmission infrastructure. Community support programs will improve corridor communities' livelihoods, helping manage security risks.

In *East Asia and the Pacific*, the WBG has quadrupled support for the Pacific Island Small States from FY09 to FY15, mostly through IDA (including the regional and crisis response windows). IDA increasingly takes a regional approach to the Pacific Island Small States to overcome scale constraints: regional approaches are underway for DRM, ICT, fisheries, as well as a proposed regional IDA grant to improve capacity for evidence based road safety management and mitigation measures. In a region where populations are dispersed across huge

40. **As an integrator, partner and convenor**, IDA provides a platform for multiple partners to work with clients on solutions to complex problems requiring "all hands on deck". IDA's platform role coordinates and leverages the capacity of donors, providing a means for smaller donors or those not present to come in behind country-led development strategies. The IDA platform thus reduces the burden that the increased fragmentation of aid places on low capacity clients. With global presence, IDA serves as an integrator in the multilateral system. IDA partners with other international organizations, sometimes leading, sometimes supporting; Examples include work with the IMF on economic management, domestic resource mobilization and debt management, and partnerships with sister UN agencies and MDBs on fragility and conflict; emergency response; building infrastructure; agriculture and food security; infrastructure; expanding service delivery in education and health; and, addressing cross-cutting issues such as gender equality; regional integration and anti-corruption.

B. ESSENTIAL TOOL FOR GLOBAL RESILIENCE, RISK MANAGEMENT AND CRISIS RESPONSE

41. **On the ground in 65 countries and with a network of partnerships, IDA is an effective tool for the international community to help countries manage risks and build resilience across the range of challenges.** From economic downturns, to natural disasters and pandemics to FCV, IDA is able to move quickly to take early and rapid action to respond to

shocks (as in the economic crisis of 2008-10) or crises (such as Ebola) or to seize new windows for re-engagement (as in Myanmar, where early analytical work enabled IDA to move quickly and effectively to re-engage once political conditions permitted).

42. **At a time of growing economic headwinds, IDA can provide much needed countercyclical financing and policy advice to help countries protect essential public investments and services and build targeted social safety nets to protect the most vulnerable.** Unlike pro-cyclical domestic and external private sector finance, predictable, non-earmarked IDA financing gives flexibility to countries to meet their high priority needs and avoid “lost generations.” These investments also build future resilience: once developed, social safety nets can be rapidly scaled up in the event of future crises and financial sector reforms serve not only to mitigate the impact of the current crisis but also reduce vulnerability to future systemic risks.

43. **Similarly, IDA’s key role in the global response to Ebola focused on both short-term crisis response and longer-term resilience.** In Guinea, Liberia and Sierra Leone, over US\$1 billion in IDA financing not only helped to stop the spread of infections, but worked towards future resilience by improving public health systems and dealing with the longer term social and economic impacts. For instance, although the Ebola crisis has abated, the continued work in strengthening public health systems remains an urgent priority, with benefits at the regional level. To provide assistance for longer-term resilience, a new regional project is in the pipeline that aims to strengthen cross-sectoral and regional capacity for collaborative disease surveillance and response in West Africa.

44. **More broadly, IDA has been stepping up to meet country demand to mainstream short- and long-term climate and disaster risks into development planning.** A total of US\$3.5 billion, 61 percent of all financing commitments that contributed to disaster risk management (DRM) in FY15, were directed to IDA countries. IDA continued to support countries along the five pillars of the DRM framework – risk information, risk reduction, preparedness, financial protection and resilient recovery – focusing on prevention, preparedness and response. Major operations in FY16 include the Nepal Earthquake Housing Reconstruction Project (US\$200 million)⁴⁹ and the Malawi Emergency Recovery Project (US\$80 million), sourced from CRW resources. As of January 2016, around 80 percent of IDA operations had been screened for short- and long-term climate and disaster risks, with the remainder in the process of being screened. All Country Partnership Frameworks (CPFs)⁵⁰ that have come to the Board to date during the IDA17 cycle included climate and disaster risks. In addition, 27 IDA countries have been identified for potential development of country-led multi-sectoral plans and investments for managing climate and disaster risks, with work ongoing in 12 at time of writing.

45. **IDA has the instruments to respond to crises, but demand exceeds supply.** IDA’s CRW has significantly strengthened IDA’s ability to respond to crises and disaster in a timely, effective and predictable manner. The importance of this mechanism is evidenced by the high demand for CRW support in the first year of IDA17 as resources intended to last three years

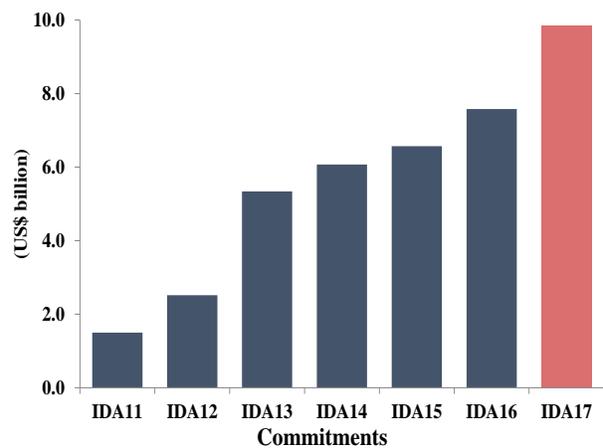
⁴⁹ This is part of an overall package of US\$300 million in CRW support for Nepal.

⁵⁰ Bolivia, Chad, Côte d’Ivoire, Haiti, Honduras, Mali, and Myanmar.

were already exhausted.⁵¹ In fact, demand for CRW resources in the first year of the IDA17 cycle was higher than the total amount provided in IDA16. The CRW is now being replenished mid-term in IDA17, indicating its importance. Under the Immediate Response Mechanism (IRM) many IDA countries have also included IRM contingent emergency response components in projects to provide rapid access to a portion of their undisbursed IDA balances to address immediate post-crisis financing needs.⁵² IDA's Regional program has also enabled collective action in response to crises and disasters impacting several countries or with cross-border spillovers, but also faces capacity constraints (Box 4). Considering the wide range of potential economic, climate, health or other threats facing the international community and its most vulnerable members, it will be important to protect, and perhaps even expand, IDA's ability to respond effectively to shocks and crises. In this context, the UN Secretary General has just called for a tripling of the CRW.⁵³

46. **IDA is a key partner in helping countries tackle the challenges of FCV, with extensive on the ground presence helping it to build tools, expertise and partnerships which it is now well placed to take further.** IDA has invested in fragility assessments and systematized knowledge of what works, to inform country strategies and operations and maximize the development impact of its support. IDA has also enhanced its financing for FCS, with a sixfold increase since IDA11 – and an almost doubling of financial support over the last 10 years – reflecting reforms to its allocation system and strong replenishment volumes (Figure 17). The newly established Turn-Around Regime (TAR) also aims at providing additional support for countries at a critical juncture. IDA continues to adapt to the special needs of FCV, introducing new flexibility on procurement and setting up mechanisms to operate in insecure areas (such as the Afghanistan National Solidarity Program). IDA is increasingly partnering with bilateral donors on fragility assessments and its politically neutral platform role is particularly valuable in FCV, where not all donors have field presence. Partnerships are critical in FCV and IDA has a close working relationship in FCV with the UN system, notably with UNHCR in support for refugees (Box 5).

Figure 17. IDA Financing to Fragile- and Conflict-Affected States



Source: Business Warehouse and Staff estimates.

Note: IDA17 reflects indicative core IDA allocations. Non-core IDA reflect the following assumptions: (i) full use of arrears clearance set aside; (ii) CRW support for Myanmar, soon to be discussed at the Board; and (iii) projects in the pipeline for the Regional Program.

⁵¹ See IDA (2015)a.

⁵² Under the IRM launched in 2011, once essential implementation arrangements are put in place, IRM contingent emergency response components (IRM CERCs) allow for pooling uncommitted resources across projects to allow IDA countries to make use of US\$5 million or 5% of undisbursed funds for immediate financing after disasters. Countries with IRM CERCs include Bangladesh, Burkina Faso, Burundi, Chad, Ethiopia, Haiti, Honduras, Kenya, Kyrgyz Republic, Madagascar, Mali, Mauritania, Mozambique, Myanmar, Niger, Nigeria, Senegal, and Uganda. Adoption of an IRM manual is a condition for disbursement under the IRM.

⁵³ Report of the UN Secretary-General for the World Humanitarian Summit, January 2016.

Box 5. The Growing Global Challenge of Refugees and IDA's Response

Globally, UNHCR estimates that in 2014 there were 19 million refugees, a 68 percent increase relative to the 2000-2013 average. For IDA countries, the increase was 30 percent; for non-IDA (mainly IBRD) countries, the increase was 127 percent.¹

In 2014, IDA countries accounted for around half the world's refugees (9 million), and two-thirds of these refugees (6 million) were hosted by other IDA countries. AFR accounts for more than half the refugees from IDA countries. SAR and EAP also have significant refugee populations.

Overall, *Africa* hosts more than a third of the world's displaced population and accounts for more than one quarter of the global total of refugees and the largest number of Internally Displaced People (IDPs). Five countries have generated more than 80 percent of those displaced: CAR, DRC, Nigeria, Somalia, and Sudan, while 60 percent of refugees in the region are hosted by just five countries: Chad, Ethiopia, Kenya, South Sudan, and Uganda.

The largest increases in recent times have been seen in *MENA*, where the Syrian conflict is resulting in the largest displacement of people (around one third as IDPs and two thirds as refugees) since World War II. This has had an enormous impact on neighboring countries: Syrian refugees now (conservatively) account for around 25 percent of the total population in Lebanon and around 15 percent in Jordan. In *South Asia*, there are longstanding refugee populations, including Afghan refugees in Pakistan. *ECA* hosts 6 million refugees. While forced displacement is often the result of FCV, climate change may become an increasingly important driver.

There is a strong regional dimension to many refugee flows. With the exception of LCR and MENA, more than half the refugees originating in a region remain in that region; for Africa, the figure is closer to 80 percent. That said, given the scale of refugee flows, the human suffering, and the impact on efforts to end poverty and achieve the SDGs, in an interconnected world, refugees are a global challenge.

The *human costs of forced displacement are immense*. Individuals can suffer violence, trauma and persecution; can live in precarious circumstances without access to basic services; and see future opportunities closed as children miss out on education. *Girls and women*, who accounted for 50 percent of refugees in 2014 (from 48 per cent in 2011) are particularly vulnerable to sexual violence and exploitation and, in comparison to men, more often lack documentation, the means to travel and/or knowledge about their rights. With children accounting for over half of all refugees (51 percent in 2014), access to education is critical but often limited. Reasons can include language of instruction, fees, lack of infrastructure or teachers, being over-aged and cultural barriers. Girls face particular hurdles related to safe learning environments or cultural assumptions about the value of educating them, and child marriage. Children denied access to education represent not only a tragic loss of human potential, but a risk for radicalization, as well as a loss of future growth and productivity for the countries in which they live.

Beyond the enormous human costs for people forced to leave their homes and countries, *there are economic impacts* on both refugee populations and host communities. These can include *strains on public services*, especially health and education, but also energy and waste disposal, exacerbating existing deficiencies; *impacts on labor markets*, which can include downward pressure on wages for low-skill work, and increases in informal employment; *macroeconomic impacts* as well as fiscal impacts from increased budgetary costs; *rising social tensions*, including from competition for natural resources, and *strains on institutions* in simply managing and processing large numbers of refugees.

With refugees in host countries for prolonged periods, humanitarian crises become development challenges, for both refugee populations and host populations. Addressing these challenges is essential for ending poverty. IDA is leaning forward to address the challenge of improving the lives of refugees and their hosts, by working on the ground to improve basic services and help provide livelihoods; and by bringing our economic and development expertise to partnerships with other organizations and donors.

- **Meeting needs on the ground:** IDA has provided support for increased economic opportunities in countries hosting large displaced populations. In the CAR, where about ¼ of the population is displaced, a national cash-for-work program benefited 3,750 people and created 98,841 work days over the last 3 months of 2015. Furthermore, a regional pipeline project that spans both AFR and MENA regions will provide support to Djibouti, Ethiopia and Uganda to improve access to basic social services, expand economic opportunities, and enhance environmental management for refugees and host communities.

**Box 5. The Growing Global Challenge of Refugees and IDA's Response
(continued)**

- **IDA works in close partnership with other organizations, notably with UNHCR** on services and technical assistance. With the first World Humanitarian Summit to be held in Istanbul in May 2016 working toward a coherent approach for humanitarian aid delivery that can help meet the needs of millions of people displaced and otherwise affected by conflicts and disasters, IDA is helping to strengthen coordination across the humanitarian/development nexus.
- **Learning for effective responses.** In the Horn of Africa, analytic work is focusing on understanding the drivers of refugee flows and informing responses. Combined with close client engagement, this analytic work is helping finalize a promising proposal for longer-term programmatic engagement, collaborating across borders and integrating environmental management. IDA can bring the economic dimension to refugee issues, engaging Ministries of Finance in dialogue on refugee or internally displaced populations.

In the context of a strong IDA18 replenishment, IDA could play a larger role helping to strengthen the resilience of countries hosting refugees from IDA countries; to manage the long-term presence of refugees and internally displaced persons in host countries and to find sustainable solutions for refugee populations (including return or integration in host country). Given its focus and poor and vulnerable populations, there may also be interest in exploring whether IDA can do more in refugee crisis situations.

¹ UN High Commission on Refugees Database and UN Relief and Work Agency

47. **IDA also works upstream to build resilience and address drivers of conflict whenever possible.** IDA is working in countries that are not yet considered to be FCSs to mitigate the risks of escalation of violence and conflict. Working across sectors in a country-led model, IDA is well-placed to do more on addressing the socio-economic drivers of conflict, such as access to natural resources; improving transparency and use of revenues from extractive industries; improving accountability and inclusion in service delivery; improving subnational governance; and addressing regional and sub-regional inequality. With violent extremism linked to marginalization and lagging regions, IDA's work to help countries build inclusive economies and sound institutions can be a useful contribution to helping stem the rise of this serious risk to their – and global – stability and security.

48. **Despite progress,** there is clearly much more to do and to learn to bring lasting change to the difficult and long-term challenges of FCV. Areas where IDA is continuing to focus its efforts include exploring ways to maximize the effectiveness of IDA in FCV, including continuous investment in knowledge and in ensuring that operations are well designed and adapted to the particular circumstances of FCV. More can also be done to improve operational effectiveness and flexibility, including to help address greatly increased security costs, to ensure full application of existing flexibility and appropriate review to determine what else may be needed, and to ensure appropriate staffing for FCSs. Lastly, partnerships (including with the UN) can be further developed and moves to increase joint IFC-IDA-MIGA programming in FCV expanded. While it has a sound basis on which to build, FCV, risk management and crisis response are clearly areas where IDA can do more in the context of a strong IDA18 replenishment.

C. A LONG-TERM PARTNER HELPING COUNTRIES BUILD INSTITUTIONS AND INFRASTRUCTURE FOR INCLUSIVE GROWTH AND PRIVATE SECTOR DEVELOPMENT

49. **IDA helps countries build resilient, inclusive economies, generating new sources of demand and growth for the global economy.** IDA works multi-sector and multi-year through dialogue, knowledge and financing, to help countries build the institutions and capacity to: i) grow and manage public finances, helping ensure that every dollar – both domestic resources and ODA – is spent well; and ii) build inclusive economies. Working with IFC and MIGA, IDA is uniquely placed to help develop the private sector as an engine of jobs and growth.

50. **IDA helps countries grow and manage finance flows, increasing their economic resilience** (Box 6). IDA works in the poorest countries to increase economic resilience through policy guidance, institutional capacity building, technical assistance and financing. IDA, in partnership with the IMF, works to support countries' ability to enhance mobilization of domestic resources and to spend them effectively. In countries with natural resource wealth, strengthening governance and building core institutions in public financial management and regulation are a particularly important challenge. In response to strong demand, IDA is also scaling up its help to LICs to establish national tax systems and participate in the international tax agenda, including in partnership with the IMF, OECD and UN. Additionally, as discussed earlier (paragraph 21), IDA's work to help countries build capacity to manage debt in partnership with the IMF is more important than ever, with an increased heterogeneity of country situations, more development finance being provided in the form of loans and IDA countries' increased access to capital markets.

Box 6. IDA Helps Build Effective Institutions to Manage and Grow Resources

The WBG supports countries in the construction of **effective**, *transparent* and *trustworthy* institutions to help countries increase resources and spend them effectively. This includes improving public financial management; expenditure management and investment planning; enhancing domestic revenue mobilization; public sector modernization; institutional capacity for effective service delivery; improving citizens' access to government information; and increasing government accountability through "open data" initiatives.

As of July 1, 2014 the Governance GP had 39 active governance projects in IDA countries for a total of US\$1.7 billion.¹ These include the BOOST program which has improved budget transparency in over 20 IDA countries including Tajikistan, Chad, and Haiti; work in the Central African Republic to help re-establish an operational government payroll; and improving open data in Tanzania to strengthen budget credibility and execution through better cash management, public investment management and procurement.

WBG interventions range from diagnostics, technical assistance and advisory services, knowledge management and sharing, creating peer learning platforms, lending and reform implementation. With support from IDA, between FY13 and FY15, 26 IDA countries saw improvements in Public Management & Employment, 39 in Public Financial Management, 16 in Tax and 15 in Procurement.

Examples of the types of interventions and public management improvements include strengthening:

- **Civil service and public administration systems:** IDA has helped improve the degree of integration and reconciliation between personnel and payroll data in Cameroon and increased the percentage of civil servants recruited on a competitive basis in the Kyrgyz Republic. Other interventions have led to reducing the time for key services and administrative processes or increasing the percentage of the population reporting satisfaction with central government services.

**Box 6. IDA Helps Build Effective Institutions to Manage and Grow Resources
(continued)**

- **Public financial management (PFM) systems:** The Maldives PFM Strengthening project helped minimize the deviation between aggregate expenditure outturn and the original approved budget while the Uganda Local Government Management Service Delivery project led to local governments registering an increase of at least 20 percent in own source revenue. Other activities focus on reducing the average difference between legislated budget allocation and expenditure outturns, increasing the budget execution rate, reducing domestic payment arrears or improving the timeliness of the release of semi-annual budget reports on available media.
- **Tax policy and administration systems:** In Myanmar, an IDA PFM Modernization project will contribute to enhancing the Tax to GDP ratio from 6.2 percent in FY12/13 to over 10 percent by FY18/19 by increasing tax collections from large taxpayers and strengthening tax administration. Other activities include increasing the number of registered taxpayers, reducing custom clearance times or improving client perception of tax administration.
- **Procurement systems:** In Bangladesh IDA has helped expand e-procurement and use of a national competitive bidding process; in Mongolia, the procurement lead time has been reduced to below three months. Other activities include publishing financial and procurement documents or improving transparency and reduced transaction costs for public procurement.

¹ Note that beyond the Governance GP other projects in the WBG have focused or have some component related to strengthening institutions and public management systems.

51. **IDA helps countries build inclusive economies, where opportunity for all also promotes productivity, resilience and growth.** IDA's multi-year investments in health, education and social protection are critical for achieving universal health coverage in Africa. Similarly, IDA's multi-sector approach permits progress on issues requiring action across a number of sectors, such as nutrition – which in turn have positive spillovers for a range of development objectives. IDA invests in education to underpin future opportunity for all; with a view to continuing to improve results, IDA's education operations are now more consistently using the results of impact evaluations to hone in on those elements most important in achieving outcomes, including innovative approaches. Investments in universal health coverage, health systems strengthening and education have benefits not just for individuals, but for the productivity and future growth potential of the countries in which they live. Moreover, countries cannot prosper with 50 percent of the population on the sidelines. IDA brings gender equality considerations to agriculture, infrastructure, energy, and finance – "hard" sectors that are central to women's economic empowerment.

52. **IDA also helps countries make sound infrastructure investments.** With global knowledge and expertise, IDA is responding to strong country demand with a package of policy reforms, dialogue and tools to help countries select and design gender-informed projects that will be financially, socially and environmentally sustainable. IDA helps countries design projects able to attract private sector financing and uses its own financing to attract and leverage others, including within the WBG (Box 7).

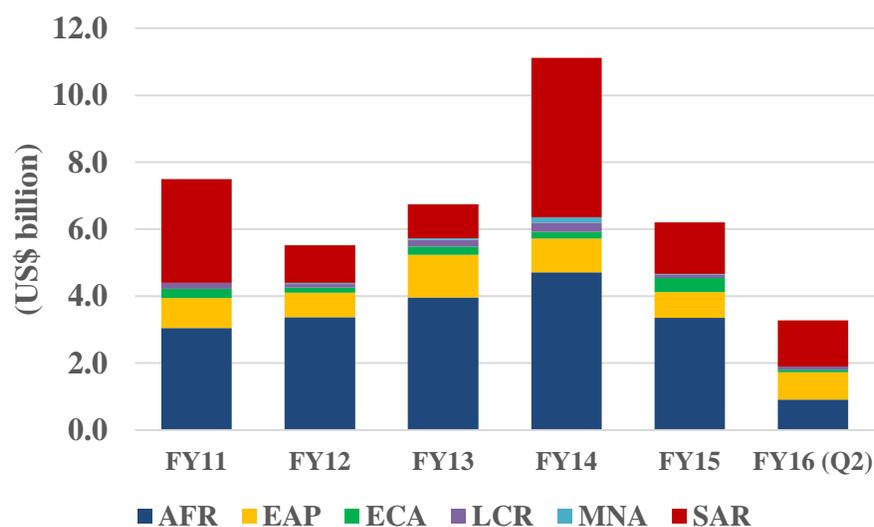
Box 7. Working Together Across the WBG to Support Quality Infrastructure

Private investment in infrastructure to IDA countries has been steadily decreasing since the end of the financial crisis. More than half of investment is in telecoms, and much of the remainder is energy generation. There is almost no private investment in water or sanitation or distribution. Boosting investment and helping IDA countries develop bankable projects requires a comprehensive approach, involving all players – public, private and MDBs. Synergies across the WBG are key for IDA's support for infrastructure:

- The WBG is the largest financier of energy in SSA and a leader in the scale-up of renewables. The WBG renewable energy and energy efficiency portfolio under implementation includes US\$2.8 billion of IDA/IBRD and US\$484 million of IFC support. In addition, the WBG has a portfolio of US\$750 million from the Climate Technology Fund (CTF) and US\$400 million from the Scaling up Renewable Energy Program (SREP), both of which are part of the Climate Investment Funds (CIFs). A customized mix of WBG financing and guarantee instruments is being used for the 360MW Nachtigal hydropower project in Cameroon as well as the 40MW Segou solar project in Mali.
- In *Ghana*, a US\$500 million IDA guarantee and a US\$200 million IBRD guarantee for the Sankofa Gas Project are expected to mobilize US\$7.9 billion in new private investment for offshore natural gas – the biggest foreign direct investment in Ghana's history and a leverage factor of 11 to 1.
- In *Lao PDR*, an IDA grant of US\$65m was matched with US\$18.9m in loans from the IFC to support rural electrification to strengthen the capacity of the power utility, expand its reach to the rural poor, and help the utility operate on a commercial basis, including bringing electricity to 200,000 households
- In *Myanmar*, the WBG has a Joint Implementation Plan on Access to Electricity. IDA provided a US\$140 million credit to increase the efficiency and more than double the capacity of the existing gas-fired power plant in Thaton I Monn State. IFC and MIGA have provided advisory services and financing for the first competitively bid Independent Power Plant in Myingyan, Mandalay Region. These two projects will jointly provide new access to electricity for more than 1 million households. IDA and IFC collaborate under the National Electrification Project – including a US\$400 million IDA credit to help 6 million people access electricity in remote areas, and the parallel complementary IFC Lighting Myanmar Program to help around 4 million people with market-based, off-grid solutions.
- In the *Solomon Islands* IDA and IFC are developing a 20 MW hydropower generation plant on a build-own-operate-transfer (BOOT) basis. IDA (with the support of EIB and Australia) has developed feasibility level engineering designs, environmental assessments and community benefit sharing plans. IFC is serving as a transaction advisor and has helped attract an experienced hydro investor/operator. Looking ahead, IDA will provide a partial risk guarantee and finance the construction of a transmission line. Other donors are also considering financial support for the project.
- With support from IFC, *Timor Leste* conducted an international bidding process to select a world-class ports operator to build, own, operate and transfer a new US\$300 million port. IDA/IBRD and other development partners are expected to finance a portion of the public investment commitments under the PPP scheme. In addition to financing, the WBG helped build government capacity for infrastructure planning, understanding government obligations under the PPP and optimizing the funding structure for public investment.
- In *Afghanistan*, IDA financed the digital transmission network, the WB and IFC helped reform policies to attract private investment, which subsequently allowed IFC to extend a US\$65 million loan to Afghanistan's largest mobile network and MIGA provided a guarantee for the mobile operator against noncommercial risks.
- In *Senegal*, IDA and IFC provided a suite of complementary instruments for the Taiba Ndiaye Independent Power Producer Project to increase electricity supply. The package aimed at facilitating South-South investment and promoting regional integration.
- In *Nigeria*, building on milestones achieved with long-term IDA support, the IBRD, IFC, and MIGA brought forward an integrated package of advisory services, loans and guarantees for a series of gas-fired energy projects to ease energy shortages. The project will also expand energy exports to neighboring countries in the West Africa Power Pool.

53. **The largest source of infrastructure finance among the MDBs,⁵⁴ the WBG averaged around US\$20 billion per year in infrastructure commitments over the last 3 years.** Over one-half of all WB Infrastructure (Energy, Transport, Water and ICT) commitments go to IDA countries, along with about one-third of IFC infrastructure investments and about three-fourths of all MIGA guarantees since 2012. In IDA countries, financing for infrastructure (Energy, Transport, Water, and ICT) has ranged between around US\$6-11 billion per year, according to demand.⁵⁵ Depending on the year, between one third and one half of commitments are in South and East Asia (Figure 18).

Figure 18: IDA Infrastructure Commitments by Region (FY11-FY16Q2)



54. **IDA plays a vital role in meeting demand for financing for infrastructure in the poorest countries.** While private capital market flows may greatly outweigh MDB and ODA financing in general in developing countries, the same cannot be said for private infrastructure investment in IDA countries. Since the financial crisis, IDA commitment levels are about the same as the total yearly global commitments – public and private, debt and equity – in private and Public-Private Partnership (PPP) participation in infrastructure in the same countries. If telecom projects – mostly investments in mobile licenses – are removed, the total private and PPP flows into infrastructure are considerably less than IDA contributions to the same countries’ infrastructure. Globally, private participation in infrastructure in developing countries is under significant pressure; a phenomenon also reflected in the decline in the number, volume and share of PPP projects in the IDA and overall WB portfolio from FY14 to FY16H1.⁵⁶

⁵⁴ According to calculations by the G24 and the Green Growth Institute, over 2004–2013, the WBG accounted for around one third of the infrastructure investments by the eight largest MDBs (concessional and non-concessional loans, grants, equity investments, and guarantees). See Humphrey (2015).

⁵⁵ This does not include additional commitments to social infrastructure, for instance health and education, which were nearly US\$2 billion in FY15.

⁵⁶ Overall, PPP projects accounted for around 12 percent of overall projects in IDA countries at end FY16H1 (US\$10.13 billion or 19 percent of projects by commitment volume), marginally down from 13 percent in FY15 (US\$10.23 billion or 20 percent of projects) and 14 percent in FY14 (US\$10.09 billion or 22 percent of projects). Over the same period, IFC’s

55. The quality of infrastructure investment matters as much as the quantity and IDA's involvement helps assure quality. The impact on jobs and growth depends on, for example, the regulatory and investment climate, the efficiency of public spending, and the selection and design of projects. IDA supports the full life cycle of infrastructure development – from advice on policy and regulatory reforms, to project preparation, transaction structuring and financing, through to implementation and ongoing maintenance, as well as monitoring and evaluation (M&E) of development impact. IDA helps countries build resilient infrastructure, as well as the institutional capacity to manage that infrastructure over the longer term. IDA also works with countries to identify which projects the public sector is best placed to undertake, and where partnering with the private sector makes sense, and helps them identify, allocate and mitigate risks, including fiscal risks. All IDA-supported infrastructure investments add critical value by promoting robust fiduciary, social and environmental safeguards to ensure sustainable results. In cooperation with MDB partners, the WBG has also developed practical tools to help countries choose the right projects and to structure them in a way that makes them financially, socially and environmentally sustainable.⁵⁷

56. Working with IFC and MIGA, IDA helps countries improve the business environment and spur private sector investment for jobs and growth. The combined WBG offers a broad range of interlinked advice, services and financing to catalyze private sector-led growth and sustainable job creation which few others can match.⁵⁸ These range from significant infrastructure financing; advisory services to structure PPPs; support for sequencing of broad sector reforms; tax reforms to reduce unnecessary burdens on businesses; guarantees to encourage investors to come into challenging environments; legal and technical assistance to improve the business environment. To date, eighteen joint IDA/IFC/MIGA implementation plans have been identified for sixteen IDA countries, of which seven are FCSs. Five Joint Implementation Plans are currently being implemented, of which two are in FCSs, with a further six (of which one is an FCS) in the design stage. IDA continues to work with clients and, in partnership with IFC and the private sector, to advance gender equality globally through lending, expertise, and convening power.

D. A SOUND INVESTMENT

57. At a time of limited resources, IDA is a sound investment, with a track record of innovating and evolving, of improving efficiency and of increasingly leveraging other players and resources to deliver development results. Results are at the core of IDA's business model and are an area of continued management attention to ensure that the results culture is mainstreamed throughout IDA's work (see Section V below). Results are also at the core of communicating IDA's value, demonstrating how IDA works with countries to make a difference on the ground. IDA has strong accountability and oversight and the high fiduciary standards of the WBG. IDA's effectiveness as a channel for aid delivery is attested by its consistently high rankings in a range of independent reviews (Box 8).

PPP-related portfolio of investment projects in IDA countries saw an increase, while the overall portfolio remained fairly stable over the same period at just under 5 percent.

⁵⁷ Examples include the Project Preparation Checklist, country assessments of PPP readiness, and PPP certification for officials.

⁵⁸ The WBG's important role in mobilizing the private sector flows was recognized in the context of the post-2015 Agenda. See United Nations (2014) and Schmaljohann et al (2015).

Box 8. What Others Say About IDA

IDA is recognized as an effective source of development finance and expertise.

External assessments see IDA as one of the international community's top performing donors, citing high confidence that funding will deliver results, more predictable flows, and low administrative costs (including with the WBG now cutting more than US\$400 million from its annual budget base).

For example:

- The FY15 review of the most recent *Country Opinion Survey* reports two straight years of improvements in clients' impression of the WBG effectiveness and the extent they believe staff are well prepared to help solve clients' most complicated development challenges.
- A 2015 AidData survey of policy makers from 126 countries, the World Bank was ranked 1st out of 56 donors on agenda-setting influence in developing countries.
- The 2014 Aid Transparency Index placed IDA in the highest category of multilateral organizations.
- A 2014 assessment by the Center for Global Development and the Brookings Institution named IDA as one of the international community's top performing donors, citing IDA's low administrative costs, more predictable aid flows, and large project size relative to other donors.
- According to a recent Brookings paper, the SDGs "represent, in many ways, a validation of what the WBG has been doing for many years."¹

¹ See Kharas (2015).

58. **IDA maximizes and leverages resources with the aim of moving from billions in ODA to trillions in financing from all sources.** IDA has a multiplier effect – leveraging the rest of the WBG, providing a platform for a range of contributors, and helping draw in new private sources of finance through its presence and policy dialogue. In line with AAAA, IDA uses scarce concessional finance to mobilize and crowd in other financing sources, public and private. IDA can work with innovative new sources of private finance to embed lasting change at country level. For example, the Global Financing Facility (GFF) attracts additional domestic and international financing sources, including capital markets to expand access to quality health care. Teamed with IDA, the GFF encourages countries to put real money towards health goals. Similarly, the Pandemic Emergency Financing Facility also aims to leverage IDA resources to encourage country- and regional-level investments in preparedness and strengthening health systems (a key element for health sector resilience). Additionally, shareholders have called on the WBG and other MDBs to further optimize their balance sheets and leverage capacities to mobilize financial resources through innovative financing mechanisms.⁵⁹ In response, IDA Management and Partners are exploring options including leveraging IDA's equity to provide additional financing. Furthermore, IDA Management and partners are exploring how to leverage greater private investment flows to IDA countries, and in particular FCSs. In addition to IDA's complementary public investments, this could include flexible approaches to encourage private investments and address critical constraints to private investment through risk mitigation instruments, risk-sharing with IFC and MIGA, structured mobilization platforms, targeted policy interventions, and sector reforms.

⁵⁹ See Schmaljohann et al (2015).

59. **IDA is part of a strong WBG that has undertaken ambitious reforms to ensure resources are targeted where they can have the greatest impact on the basis of rigorous Systematic Country Diagnostics (SCDs).** The WBG's new country engagement model underpinned by rigorous SCDs and other analytical products promotes greater selectivity. Combined with IDA's performance-based allocation system, this model helps ensure that scarce resources are targeted to where they will have the greatest impact (Box 9).⁶⁰ Moreover, the new WBG organizational structure of GPs and CCSAs mirrors the SDGs, enabling the organization to help countries implement their plans.⁶¹

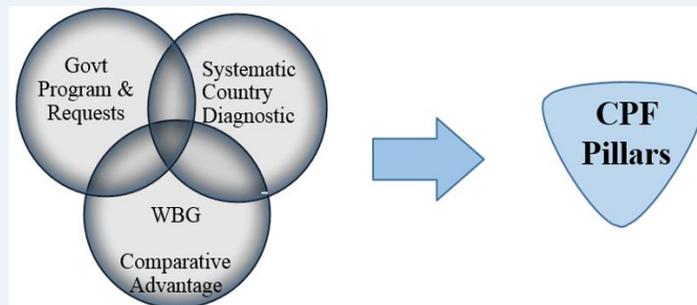
Box 9. Selectivity and Impact: the WBG's New Country Engagement Model

The new country engagement framework launched in FY15 is evidence-based and supports countries' efforts to end extreme poverty and boost shared prosperity in a sustainable manner. The framework aims to be country-led and to increase selectivity in line with the WBG's mandate and comparative advantage. The framework also helps the WBG collaborate and coordinate with other development partners to leverage resources and seek greater coherence across institutions and alignment with the country's development priorities.

The framework has four components:

- **Systematic Country Diagnostic (SCD):** The SCD, conducted by the WBG in consultation with national authorities, the private sector, and other stakeholders, identifies a select group of high impact areas that will support a country in accelerating its development. It is an all-encompassing exercise, aiming to capture all areas of knowledge or knowledge gaps to give the most comprehensive picture of the country's development situation possible.
- **Country Partnership Framework (CPF):** The CPF starts from the country's own development goals and draws upon the SCD and other WBG analytical work. It derives program priorities selectively from the intersection of high-impact areas identified by the SCD, country priorities and the WBG comparative advantage (figure). The CPF is results focused, centered on a select group of objectives that the WBG program will help the country achieve. It is highly flexible and can be revised to reflect changes in country priorities, country circumstance and learning from implementation. For FCV, given uncertainties, WBG activities in the outer years remain flexible in the initial CPF.
- **Performance and Learning Review (PLR):** The PLR reviews implementation progress and introduces mid-course adjustments, updating the results framework and extending the CPF as necessary.
- **Completion and Learning Review (CLR):** The CLR is a tool for accountability and increasing development effectiveness. It assesses CPF program performance, WBG performance and alignment of CPF with the WBG twin goals.

The success of the WBG engagement is finally reviewed and validated by the IEG.



Early experience with the WBG's new country engagement model suggest it has reinforced the focus on results, enhanced the platform for one WBG engagement; improved integration of cross-cutting issues – including gender, climate, fragility and violence – and served as a strengthened tool for partnership.

⁶⁰ To date, SCDs have been conducted in 13 IDA countries.

⁶¹ See Schmaljohann et al (2015).

60. **IDA has a long tradition of evolving to reflect lessons learned and adapting to meet the broad range of needs of a highly heterogeneous group of countries.** IDA benefits from the experience and expertise of its global partnership of developed and developing countries. With a country-owned and led model, IDA strives to learn from experience and feedback to continually improve and respond to new developments. Over time, IDA has responded to emerging requests from partners with a number of important and bold innovations to enhance its operational focus and maximize its financing and effectiveness to greatest client benefit. This process of listening, learning and leading in development innovation will continue in IDA18.

IV. IDA'S FOCUS IN IDA18

A. OVERARCHING THEME

61. **The overarching theme for IDA18 “Investing in growth, resilience and opportunity” aims to encapsulate the core elements of IDA’s value proposition.** These include IDA’s ability to connect country solutions to global challenges; its long-term engagement and investment in building robust institutions, inclusive growth and private sector development; its role as an essential instrument for building resilience, managing risk, and responding to crises; and its results focus and sound investment. The proposed overarching theme also aims to integrate the four special themes set out below, working up from these identified priorities to craft a holistic vision of what IDA18 aims to achieve. Lastly, the overarching theme aims to be a clear and compelling message, able to resonate with senior policy-makers and political leaders. It also aims to convey the sense that, in an interconnected world, IDA for the poorest countries will benefit all countries, that development finance is an investment with a return – both for IDA countries and for the global community. Given that it encapsulates the four special themes, Management proposes that the overarching theme not have separate policy commitments; its aims are well captured by the actions under the special themes below.

B. SPECIAL THEMES

62. **The special themes for an IDA replenishment serve to deepen and catalyze focus and results in critical areas across the IDA clientele.** The special themes can help highlight areas that need some extra attention – these have included: a strong focus in the 1980s on social sectors; a focus on debt sustainability in the 1990s to the present, which resulted in the approval of the Heavily Indebted Poor Countries initiative, the development of the Debt Sustainability Framework and IDA’s grant allocation framework; and the focus on results in the 2000s with IDA’s pioneering work on results measurement, the focus on managing crisis and building resilience at the time of the financial crisis, and the strong emphasis on gender, climate change and FCV in several recent replenishments. While special themes can push the envelope in key areas, including through increased data availability and the development of new tools, the IDA client remains in the driver’s seat in setting country priorities in the use of its IDA resources.

63. **Participants at the IDA17 MTR urged that the IDA18 special themes be kept selective, simple and compelling.** Given the significant unfinished agenda, they particularly encouraged a sense of continuity across the themes from IDA17 to IDA18, while emphasizing continued adaptation to evolving circumstances and the 2030 Agenda (Figure 19) in each theme. The proposals in this paper take this guidance into account and attempt to reflect this careful

balance of continuity with adaptation. Each of the proposed special themes are described below, followed by a discussion of the interlinkages between them.

Figure 19. IDA Special Themes. Interlinkages with SDGs



Climate Resilient Development

64. **Climate change ranks high among systemic issues with large impacts on poverty reduction.** The WB’s recent report “Shock Waves” demonstrates the close nexus between climate change and poverty reduction.⁶² The study uncovers the impact of climate change on agricultural productivity and food prices, and highlights the climate change link with heat waves, floods, droughts and other health consequences. For instance, in SSA, the study points to the potential for climate change to trigger higher agricultural prices, thereby threatening food security. It also unveils that poor urban households are more exposed than non-poor households to the impact of floods. In the most extreme form of livelihood impacts, climate change could make ecosystems completely uninhabitable, forcing out inhabitants – notably in small islands, some of which are at risk of disappearing before the end of the century. The report concludes that in the absence of action, the impact of climate change related shocks on poverty reduction will worsen overtime and could result in more than 100 million additional people living in poverty by

⁶² See Hallegatte et al (2015).

2030. Natural disasters will impact livelihoods, increase diseases, cause crop failure and increase food prices. These climate and disaster risks present a large agenda for action, ranging from global partnerships and agreements, adaptation, insurance mechanisms, and the ability to provide timely financing to mitigate the impact of climate-related natural disasters when they occur.

65. **2015 was a landmark year with 195 countries adopting a global climate agreement in Paris, the Sendai Framework and the SDGs.** The Paris Agreement sets ambitious commitments for parties to reach peak greenhouse gas emissions as soon as possible and achieve rapid reductions thereafter to keep the increase in the global average temperature well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels. Adaptation actions are considered as important as mitigation actions, and the agreement promotes enhanced adaptive capacity and reduced vulnerability. The Sendai Framework for Disaster Risk Reduction is the first post-2015 agreement on disaster risk reduction. It outlines seven targets and four priorities for action: (i) understanding disaster risk; (ii) strengthening disaster risk governance to manage disaster risk; (iii) investing in disaster reduction for resilience; and (iv) enhancing disaster preparedness for effective response, and to "Build Back Better" in recovery, rehabilitation and reconstruction.⁶³

66. **The WBG is well positioned to help countries achieve their targets while fostering inclusive development adapted to climate change, thus mitigating the risk of millions going back into poverty.** IDA has the opportunity to scale-up its contribution to supporting the goals of multiple areas of the Paris Agreement (Articles 5, 6, 7, 8, and 9) and the Sendai Framework. These include strengthening the resilience of the most vulnerable countries through adaptation, risk reduction, climate finance and facilitating low emission development, especially through improved land management and improved economic efficiency of large-scale infrastructure (particularly those across multiple countries). These efforts would also contribute to the SDGs and enhance country systems and capacities. Specifically, IDA18 could contribute to:

- **Deepening the discussion on climate change and resilience and continue to mainstream climate change in IDA's work.** This would provide opportunity to enhance resilience, risk reduction, building back better and improved preparedness through the use of programmatic approaches that are consistent with national and regional context. Such focus would contribute to the success of the INDCs and strengthen adaptation, resilience and risk reduction into the future INDCs;
- **Enhancing the monitoring of climate finance from a wide variety of sources, instruments and channels.** IDA18 provides an opportunity for further deepening of the methodology for climate finance tracking; and
- **Undertaking analytical work and developing metrics that will improve the understanding of opportunities and risks from climate change policies for development priorities,** especially for the poorest and most vulnerable. The work could explore the overlap between low-emission and climate resilience pathways, especially for long-lived and large scale assets. It would also provide examples of pooling of climate and development finance from multiple sources to support design and implementation of these assets. For a limited number of IDA countries, whose development hinges upon

⁶³ See United Nations (2015)b.

fossil fuel reserves or fossil-fuel dependent infrastructure, the analysis will include their economic vulnerability to the impact of a range of international and national environmental and climate policies. Potential options such as diversification of national asset portfolios and international economic integration to reduce the vulnerability will be highlighted.

67. **IDA18 provides the opportunity to continue mainstreaming climate change in IDA's work, and assist IDA countries in making progress towards climate resilient development, including through strengthened preparedness.** Building on commitments made in IDA16, the IDA17 commitments pushed the envelope by mainstreaming climate and disaster risk in IDA countries' strategies, policies, plans and investments, and built climate-screening tools as a first step towards climate resilience. Continuing climate change as a special theme in IDA18 would acknowledge the importance of climate change for achieving poverty reduction and protecting hard-won development gains. IDA18 will continue to support WBG corporate commitments, such as efforts around increased climate co-benefits, and scale-up activities towards climate resilient development; and when requested by countries, towards low emission development.

68. **Within the WB, IDA18 will be anchored in the WBG's Climate Change Action Plan, which will be presented to the Board in March, 2016, and the Regional Business Updates (e.g., Africa).** Discussions on strengthening the WBG approach to leveraging private sector financing for climate resilient and low emission development, and addressing climate change challenges through regional approaches will also be aligned with the IDA18 discussion.

Gender Equality

69. **IDA countries have made progress in closing gender gaps, especially in education; but there are still lags in critical areas.** The maternal mortality rate remains very high and IDA countries face major gaps in economic opportunity, with women's labor force participation, employment status, job quality and access to productive inputs consistently trailing those of men. Financial inclusion is a major challenge: more than 79 percent of adult women and men in IDA countries remained unbanked in 2014 – and women are less banked than men by 9 percentage points. Women and girls in IDA countries are also often deprived of voice and agency with the incidence of Gender-Based Violence (GBV) and sexual violence high, especially in situations of fragility and conflict.

70. **Gender equality is a special theme for IDA17 and in earlier replenishments.** Important progress has been made, including (but not limited to): adopting a new gender strategy, for the first time covering the full WBG; taking actions on improving availability and quality of gender data in IDA countries; launching projects to address GBV and sexual violence in FCSs; and, strengthening the knowledge base of what does (and does not) work to close gender gaps.

71. **But there is still unfinished business.** As more CPFs are prepared under the WBG's new operational model, continued focus on having SCDs identify relevant gender gaps and addressing them in the CPF content and results framework will be necessary. Impact evaluations on women's economic empowerment have informed policy and operations, especially in SSA, but need to be expanded. New Regional Gender Action Plans will be developed in ECA, MNA

and AFR. Implementation of the new gender strategy involves rolling out a tracking mechanism to better capture lessons and results throughout the implementation cycle and, critically, at the close of an IDA-funded project.

72. IDA18 provides the opportunity for investing in women’s improved access to jobs and assets, and shifting the focus to results that really matter. Fulfilling one of the IDA17 commitments, a new WBG gender strategy was presented to the Board of Executive Directors in December 2015. It will guide the work under the remainder of IDA17 as well as under IDA18. Building on the framework in the 2012 WDR, the WBG will focus on four objectives: (i) improving human endowments (including reducing high maternal mortality rates and closing sticky “first-generation” gaps in enrolment and attainment); (ii) removing constraints for more and better jobs (including a focus on enabling factors, such as better policy frameworks for care services, reducing infrastructure and transportation deficits, and reducing skill gaps and occupational sex segregation); (iii) removing barriers to women’s ownership of and control over assets (with a focus on key productive assets such as land, housing, financial services and technology, with a special effort by IFC to work with IDA countries to promote women’s access to financial products, technology and agricultural supply chains); and (iv) enhancing women’s voice and agency and engaging men and boys (including increasing women’s voice in service delivery and supporting the reduction of GBV).

73. As part of the WBG Gender Strategy, the IFC will use its investments in IDA countries and advisory services to help clients effectively close gaps between men and women in their workforces, as customers, corporate leaders and in supply chains. IFC will work with clients to promote women’s better access to loans, savings and insurance services, along with digital payment platforms. IFC will also help clients better understand how to redistribute the burden of care so as to promote an increased share of women at all levels of the workforce, especially in male-dominated sectors. On the knowledge side, IFC will help clients better measure what works, and to collect sex-disaggregated company data.

74. The new strategy places a stronger emphasis on IDA country outcomes and results, which requires: strengthening the country-driven approach, with better country-level diagnostics, policy dialogue, and sex-disaggregated data; developing a better understanding of what works for gender equality, by enriching the evidence base; building more systematically on what works, and bringing the evidence to task teams and clients; adopting a strategic approach to mainstreaming that helps achieve results in client countries, including a more robust monitoring system, and; leveraging partnerships for effective outcomes, particularly with key UN agencies and the private sector. As part of the implementation of the new gender strategy, and to strengthen our reporting for IDA18, we will launch a new system to better track how our operations perform in generating results.

75. Under IDA 18, success will require making progress in some key areas:

- **Sex-disaggregated data and surveys by including individual-level information on employment and physical and financial assets.** Real progress must be made in IDA countries’ availability and quality of data, both from the public and private sector. Household surveys must include better coverage of intra-household issues on

ownership/control over physical and financial assets, employment and income. Enterprise and labor force surveys must better capture work and earnings. IDA is well-placed to be an effective catalyst and partner in this work.

- **Building the evidence in frontier areas.** To improve the effectiveness of IDA18 operations, the WBG is investing to understand what works and what does not to close economic gender gaps. In particular, further efforts will be made to build the knowledge base on frontier issues, including on jobs and assets, but also, for instance, in looking at the linkages between women's livelihoods in FCV and GBV.
- **Increase the use of Impact Evaluation evidence to inform project design under IDA18.** The WBG Regional Gender Innovation Labs now conduct over 75 impact evaluations, most of which are in IDA countries. These rigorous, multiyear evaluations test initiatives to close specific gaps between men and women – many of them in economic opportunity – with results expected during the IDA18 cycle. Under IDA18, operations will develop a program seeking to improve the uptake of these rigorous results in their design.

Fragility, Conflict and Violence.

76. **Fragility, Conflict and Violence remain among the most pressing global policy issues today and constitute major obstacles to achieving development objectives, including the WBG twin goals.** The close nexus between fragility and poverty is illustrated by the fact that the FCSs have made slowest progress towards any MDG, including those that have already been achieved globally. Overall, about 2 billion people live in countries where development outcomes are affected by fragility, conflict and high levels of violence. In IDA FCS, more than half of the population live in extreme poverty. The number of extreme poor in those countries accounted for about 20 percent of the world's extreme poor in 2012, and by 2030 this figure is expected to double. While the number of civil and transnational wars has decreased globally, various forms of conflict, domestic political instability and violent extremism are on the rise.⁶⁴ There is also a growing recognition that these challenges are not confined to LICs with weak capacity and poor governance. Localized areas of fragility and high levels of social violence, where pockets of hard to reach poor remain, can exist within the boundaries of an otherwise high capacity country.

77. **Recent events have also highlighted that FCV do not respect state boundaries and are affected by transnational drivers and challenges.** Some fragility dynamics are inherently cross-border in nature (such as the Boko-Haram crisis or the refugee crisis) and create regional and global spill-overs. Today, 60 million people are displaced because of conflict, of which 20 million are in refugee status.⁶⁵ Most of the refugees are hosted in neighboring countries, as is the case not only in MENA, but also in SSA and SAR. FCV situations are also increasingly intertwined with regional and global dynamics: the vulnerability of state institutions combined with transnational drivers such as organized crime, ideological movements and illicit financial flows can lead to disastrous episodes of instability and/or state collapse which in turn can generate spill-overs that affect regional and global security.

⁶⁴ See IDA (2015)c, Box 1.

⁶⁵ See UNHCR (2014).

78. **The WBG is uniquely placed to support development in difficult environments and to help address global challenges associated with FCV.** The WDR 2011 has highlighted the significant time it takes to address underlying causes of fragility and conflict and to put in place the institutional arrangements required for governments to effectively mitigate and manage associated risks. The WBG's strong client focus, its long-term perspective and commitment, its technical expertise and deep cross-country experiences represent important benefits for governments at risk of conflict, violence and instability. The Bank has also embarked on important analytical work on the definition of fragility. This will provide a more nuanced approach to understanding and assessing fragility.

79. **Over the years, the WBG has engaged in important policy and financing reforms to facilitate a scaled up engagement in FCSs.** These changes culminated in IDA17 with a significant policy and financing package, to increase IDA's strategic relevance and operational effectiveness, including through the introduction of the TAR.⁶⁶ At the IDA17 MTR donors welcomed the progress made but also identified remaining challenges, in particular staffing in FCSs, increased transparency in the use of the TAR and the high reliance on trust funds. IDA deputies also called for continued attention to GBV, greater focus on risk mitigation and displacement/refugees, enhanced collaboration with the UN and faster Bank responses during crises.

80. **Building on the substantial progress achieved and lessons learned, possible areas for strengthened engagement in IDA18 have been identified.** These would consolidate and expand those agreed in IDA17 and include new ones that would address the changing nature of fragility and highlight linkages with other special themes. Priority areas and related commitments for further enhancing IDA's effectiveness in FCSs can be grouped under the following four objectives:

- **Support countries in addressing FCV challenges through improved strategies/operations and leveraging knowledge.** This could include mainstreaming of fragility assessments, risk monitoring and risk management mechanisms, further building on and integrating lessons of what works in FCS contexts to more directly address core FCV issues, and deepening IDA's support to tackling issues of FCV highlighted in the 2015 Gender strategy.
- **Improve operational effectiveness and flexibility.** This objective would build on IDA17 commitments related to FCSs and further enhance the adequacy of the Bank operating model for delivering high quality operations in FCSs. This would include the need for addressing higher logistical and implementation challenges and costs in FCS countries, exploring whether current operational flexibility needs to be enhanced in special circumstances, and exploring the staffing and human resource solutions available in FCSs for their growing portfolio.
- **Strengthen partnerships and "one WBG" approach.** More specificity could be added to the IDA17 partnership and one-WBG commitments based on work done over the past year. This could include building on and strengthening the partnership with the UN and

⁶⁶ At the IDA MTR, Deputies endorsed the introducing a minimum base yearly allocation in the TAR of SDR 4.0 million to ensure higher financing to countries with small populations, subject to Board approval.

the EU, further building on the WBG's convening role. In addition, recognizing the needs for the private sector to be part of early interventions in FCSs, the WBG collaboration would be further scaled up. This will build on the proven track record IDA's joint work with IFC and MIGA in FCS environments.

- **Ensure adequacy of IDA financing framework and instruments.** Recognizing the need for ensuring adequate and predictable financing to FCSs, Management could review and explore possible enhancements to its financing mechanisms. This could include reviewing IDA's current resource allocation modalities and proposing – if deemed relevant – possible options to ensure that they remain responsive to the FCV challenge – including from forced displacement – and reflect the current understanding on FCV while promoting an effective use of the resources and preserving an adequate incentive structure.

Economic Transformation and Jobs

81. **Jobs and increased earnings through private sector-led growth is the cornerstone of a self-sustaining development model and are critical to supporting social cohesion.** Growth in labor earnings are the largest contributor to poverty reduction – explaining between a third and a half of the reduction in poverty. In the context of IDA countries, where the large majority of jobs are in agricultural self-employment and non-farm informal activities, what matters most is not job creation per se but rather increasing earnings through higher productivity. Moreover, the degree to which jobs and earnings opportunities are inclusive – to youth, women, to residents of lagging regions, and the bottom 40 percent more broadly – has important implications on social cohesion and internal as well as international migration, particularly in FCSs and countries facing youth bulges.

82. **Delivering sustainable, higher earning jobs in IDA countries, especially in an era of lower global growth and depressed commodity prices, fundamentally requires facilitating the process of economic transformation through the provision of critical infrastructure and a supportive policy environment.** This starts with raising productivity in the agricultural sector, releasing workers to be absorbed into higher productivity sectors and activities, including industry and tradable services. This shift into higher productivity jobs offers the potential to support domestic resource mobilization through expansion of the tax base, which will be increasingly critical to support IDA countries in moving toward stable and sustainable fiscal regimes. But it also requires improving productivity and job quality in the informal sector, where the large majority of jobs will be created in most IDA countries for the foreseeable future.

83. **The private sector sits at the heart of the economic transformation agenda.** Governments can support or hinder the private sector in creating higher productivity jobs, but while public sector driven activities may play a palliative role in crisis periods or to address specific market failures and lagging population groups, private sector investment and market integration drives the broader process of economic transformation. In this sense, the private sector can be leveraged to deliver solutions – including infrastructure, innovation, and the delivery of critical social and market services – in IDA countries, particularly in the FCS context. Moreover, communities that invest in multiple infrastructure services – power plus roads plus

telecommunications, for example – reap far greater benefits in the form of non-farm wages and job creation than those which invest in a single sector.⁶⁷

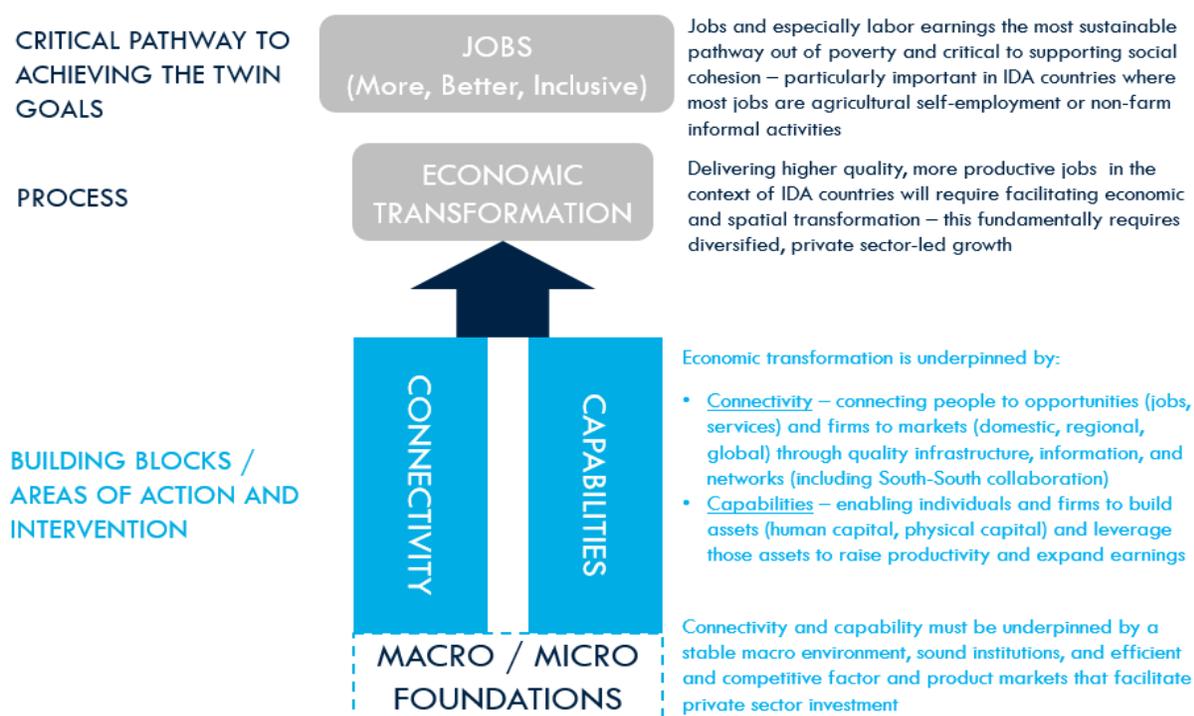
84. **Economic transformation for more jobs and more productive jobs is underpinned by an economy-wide framework that supports the potential of both firms and workers to build assets and utilize market opportunities.** It also requires a multi-disciplinary and multi-stakeholder approach – one that is gender informed, adapted to context (e.g., FCV, youth employment), and encompassing the full range of jobs (e.g., farmers, self-employed as well as informal and formal wage workers). Such an enabling environment, which IDA, and more broadly the WBG, has assisted governments in on a global level, includes the following key pillars (Figure 20):

- **Connectivity:** Connecting people to better job opportunities and firms to markets through infrastructure, information, and networks.
 - *Firms:* Supporting the potential of firms to connect to domestic, regional, and global markets and to exploit the potential of regional integration and of global value chains through infrastructure (transport, ICT); facilitating the exploitation of agglomeration economies through support for urbanization, corridor developments, and industrial infrastructure, including special economic zones.
 - *Workers:* Connecting people (particularly the poor and vulnerable) to better jobs and services through infrastructure provision, urbanization and secondary towns development, and support for mobility, including access to transport, public services, and information.
- **Capabilities:** Enabling individuals and firms to build assets and leverage those assets to raise productivity and expand earnings.
 - *Firms:* Raising productivity by improving access to infrastructure (energy, water, and transport), land, capital, and technology, and improving management capabilities, particularly in Small and Medium Enterprises (SMEs).
 - *Workers:* Ensuring workers have capabilities to transition into higher productivity employment through: asset-building, including human capital (education and health), financial inclusion, and social capital, supported by productive safety nets.
- **Macro and micro foundations:** Effective interventions to advance connectivity and capabilities must be underpinned by stable, efficient, inclusive, and competitive markets that facilitate both growth and shared prosperity. Macro-fiscal stability, including strong domestic resource mobilization capacity, along with sound institutions and good governance (rule of law, property rights protection, control of corruption, regulatory efficiency) are necessary to encourage entrepreneurship and enable firms to invest, expand, hire workers, and invest in learning and productivity enhancement. This must be further supported by well-functioning factor markets and smooth and equitable access to land, capital, and labor. Equally important are well-functioning product markets, including open trade regimes, competitive domestic markets, favorable investment

⁶⁷ Torero, IFPR (2009)

climates, and national innovation systems. By addressing market failures and through public investment that addresses bottlenecks, public resources can catalyze and leverage private capital to deliver solutions for inclusive job creation in IDA countries, particularly in the FCS context, to reach the 2030 agenda.

Figure 20. Jobs and Economic Transformation – Basic Framework



85. **Support for economic transformation and jobs has been at the forefront of the WBG’s strategic focus in recent years.**

- The WBG has supported economic transformation, diversification, and job creation in FCSs through a wide variety of operational approaches, including support for critical quality infrastructure, value chain development, market access, special economic zones, as well as support for firm-level upgrading.
- The WBG has leveraged the synergies of IDA, IFC, and MIGA to support private sector-led growth, job creation, and poverty reduction in IDA countries. For example, IDA, IFC, and MIGA offer a range of financing instruments to support public and private sector investment. Lessons from existing collaboration can help guide further significant scaling up of joint WBG assistance.

86. **As agreed in IDA17, in-depth Jobs Diagnostics in 15 countries, including 5 in FCSs, are being delivered.** They analyze both the supply and demand side of the labor market to give a comprehensive assessment of the opportunities and challenges for job creation. Going forward, the lessons learned will be better integrated into country strategies through the SCD/CPF process.

87. **In IDA18, IDA could build on lessons from IDA17 as well as the ‘billions to trillions’ agenda.** The focus could be on helping countries better identify and address country-specific impediments to economic transformation, private sector-led growth and job creation along two dimensions:

- (a) **Deepening existing operational tools and expanding approaches** to deliver more effectively in the multi-stakeholder environment inherent in the economic transformation and jobs agenda, such as measures offering risk mitigation tools and credit enhancement to leverage IDA and IDA's balance sheet; and
- (b) **Enhancing further and disseminating the Bank's knowledge base through more data and analytics** to support the focus on productivity, economic transformation, and jobs and earnings, and strengthening feedback loops to operations through lessons learned. This also includes building on and enhancing the job diagnostics and by improving the monitoring and evaluation of growth and jobs impacts of investments, particularly in major infrastructure projects.

Links Among the Proposed Special Themes

88. **IDA18 provides an opportunity to explore and strengthen links among the special themes.** The 2030 agenda emphasizes that the agreed development goals are not a menu of independent objectives. Instead, the framing of the SDGs emphasize the interconnections between development goals and the need to pursue their implementation in an integrated manner. Through its global breadth, country depth, analytical capacity, financial strength and by working with IFC and MIGA, IDA is uniquely placed to respond to this call. As detailed below, there is significant scope for synergies among the proposed special themes. IDA's holistic approach to development will ensure that efforts under one special theme are leveraged for advances in others.

- **Gender Equality and Economic Transformation and Jobs:** Jobs are at the core of the new WBG gender strategy. As countries diversify from agriculture and move up the value chain, it will be critical to help women break occupational segregation in the labor market, with special efforts to increase the productivity both of those working formally and informally. This could build on ongoing work with the Jobs Diagnostics – all those produced to date draw on sex-disaggregated data as a step to identify actions that can bring about more, better and inclusive jobs and collect information on gender norms/occupational segregation. The connectivity and capability provided by energy, water, transport, and telecommunications infrastructure brings opportunities for better earnings, access to health care, markets and education (e.g., minimizing travel times allows women to balance overlapping schedules of work and household responsibilities). Furthermore, where infrastructure services fail, it is the women of the developing world who suffer disproportionately. In cities, for example, personal safety and security is compromised by poor transit systems and unreliable and unpredictable transport systems.
- **Gender Equality and Climate Resilient Development:** Ongoing work shows that women, children, and elderly are often the most vulnerable to climate change. Women's responsibilities, including as stewards of resources, position them well to contribute to livelihood strategies adapted to changing environmental realities. Adaptation efforts should include work to empower women, especially in agriculture, to help communities actively prepare for potential climate shocks, and to ensure that productivity gaps with men continue to close. Having social safety nets as part of the climate resilience and disaster response decreases the short and long-term effects on their lives, livelihoods, and

assets. This is particularly true for FCSs, such as Haiti, where climate-related impacts can erode development gains and leave a long-term legacy.

- Fragility, Conflict and Violence and Gender Equality: Ongoing work on FCSs, including in the Great Lakes region in Africa, looks to prevent and mitigate the effects of sexual and GBV. Under IDA18, an urgent agenda will be to build a larger knowledge base to understand the norms of masculinity and violence against women, with a particular focus on what can work for normative change. IDA could also do more to make the linkages between responses to GBV and women's economic activities in project design. Finally, it will be important to include women fully in post-conflict transition operations, whether in the demilitarization and demobilization agenda or in fast-disbursing community-driven development projects.
- Fragility, Conflict and Violence and Climate Resilient Development: Climate risks and demographic factors can act as threat multipliers in environments where basic government functions are weak and societies are not cohesive. Repeated cycles of conflict and violence may hamper appropriate mitigation and adaptation policies, adding the effects of climate change to communities already devastated by violence. In higher capacity environments, they can exacerbate conflict risks, through for example increased resource competition, volatility of food prices and transboundary water management disputes. Further efforts are also needed to better understand the impact of climate change on migration, migration as a mechanism for adaptation, and the needs of fragile communities that ultimately migrate due to (or in part) to climate change.
- Fragility, Conflict and Violence and Economic Transformation and Jobs: Providing ex-combatants with sustainable employment and income is a critical component for stabilization and long-term development in post-conflict (PC) environments. Investments in the expansion of water and sanitation networks and in road maintenance and rehabilitation produce much more short-term jobs than other, technology-intensive investments, due to the natural targeting to low income workers.⁶⁸ Yet, in a PC setting, almost no private investment in infrastructure materializes in the first seven years after the close of conflict.⁶⁹ Thus, the time in which these countries are at the highest risk for return to conflict coincides with the years in which investment is least likely to flow. More broadly, the challenge of a sizeable number of youth entering the labor market represents a significant stress factor for FCSs. Failure to address the jobs challenge, especially in countries with an upcoming "youth bulge," is likely to have serious implications not only on poverty reduction, but also on migration and social cohesion. In FCSs, employment creation has remained flat, due to weak infrastructure, high costs, low productivity and depressed levels of investment. Employment levels will remain substantially below what's needed unless private-sector led economic transformation is jumpstarted.

⁶⁸ Largely due to the sensitivity of infrastructure investment to sovereign risks.

⁶⁹ See Schwartz et al, World Bank (2004) and Araya et al, World Bank (2013).

- **Economic Transformation and Jobs and Climate Resilient Development:** Reducing greenhouse gas emissions is, in large part, an infrastructure story. The alternatives available and consumer choices related to passenger and freight transport as well as energy production and consumption will drive client countries' ability to reach their INDCs. While IDA countries represent a small share of overall emissions, infrastructure investment decisions are being made today that will lock countries into particular carbon-intensity paths.⁷⁰ In addition, understanding better how climate change is likely to impact jobs and earnings in key sectors (e.g., agriculture, forestry, and fisheries) and regions where the poor are concentrated will be critical to designing appropriate policy and investment solutions. Deepening these links will support identification of opportunities to enhance resilience and also promote adaptation, through infrastructure, urbanization, and technology adoption at the firm level. Concretely, reliable water, transport, and energy systems and quality housing are critical to managing the impacts of climate changes on economic activity and individuals' well being. If investment in resilient assets is postponed inhabitants and economies will be at increased risk.

V. MONITORING OF RESULTS

89. **IDA's focus on monitoring, measuring and achieving results goes back more than a decade and is now embedded systematically into IDA's operations, reporting and systems.** In 2002, as part of IDA13, IDA was the first MDB to use an overall framework with quantitative indicators to monitor results and performance, now known as the IDA Results Measurement System (RMS). IDA has, thus, been a pioneer in results measurement, through the RMS, with a view to maximizing development impact and ensuring efficiency.^{71, 72}

90. **IDA has now established a strong track record with its sustained focus on results, while adapting to changing needs and lessons learned.** Since IDA13, the RMS has been enhanced and refined in order to better position IDA to identify the extent of progress achieved, along with emerging challenges. Notably, IDA's results focus has been reinforced by continued support for statistical capacity building in IDA countries and improved quality of results frameworks in IDA's operations and country strategies. The RMS has also been expanded to provide a more comprehensive measurement framework for monitoring IDA countries' progress, IDA-supported development results, as well as IDA's operational and organizational effectiveness. The RMS includes selected aggregated Core Sector Indicators (CSIs) that measure IDA's contribution to key sectors.

91. **The IDA RMS provided the foundation for development of the WBG Corporate Scorecard.** The Corporate Scorecard launched in 2011 also covers financing from IBRD. In 2014, the first WBG Corporate Scorecard (also covering the IFC and MIGA) was presented as an implementation tool to track progress toward the goals of the new WBG strategy. The current

⁷⁰ These lock-in effects will include levels of sprawl and the potential for urban densification, the share of thermal power in energy matrices, the efficiency of commercial trade across transport corridors, and the orientation of riders to transit alternatives versus individual cars.

⁷¹ See IDA (2014).

⁷² See IDA (2013)b.

WBG Corporate Scorecard covers 83 indicators, divided into three main tiers: the long-term development outcomes and the broader the context of countries in which the WBG operates; results achieved by WBG clients implementing operations supported by the WBG; and a performance tier to measure operational and organizational effectiveness.

92. **Looking ahead, IDA will continue its focus on rigorous monitoring of results.** For instance, as noted above, a critical component of the new WBG gender strategy will be to put in place a tracking mechanism to better capture lessons from throughout the implementation cycle and, critically, to capture results at the close of a project. More broadly, efforts will continue to strengthen results measurement at the country and project level and to create incentives for staff to incorporate lessons from evaluations and other studies (including impact evaluations) in order to rebalance a compliance mindset with a learning perspective. There will be an enhanced focus on tracking the implementation of policy commitments and attention to strengthening the monitoring of IDA's special themes building on the existing robust system put in place for IDA17. The RMS will also maintain a close linkage with the IDA18 policy commitments and further enhance its relevance as a management tool to track progress on IDA's development effectiveness, with a special focus on IDA's special themes.

93. **Efforts will be focused on enhancing and streamlining the RMS while maintaining its robustness and strategic value.** Key efforts will include harmonizing the RMS with the WBG Corporate Scorecard as much as possible to improve efficiency, enhance coherence between the tools and contribute to improving the quality of the associated data. Alignment with the SDGs, as its global monitoring indicators are finalized, would be another critical consideration. It will also include efforts to improve the usability of the IDA RMS as a management tool, such as refining indicators of the RMS as part of the ongoing CSI reform, acknowledging and adjusting challenges associated to data quality (i.e., measurability, quantifiability, marginal effort to report) and refining aggregation methodologies for measuring and aggregating indicators to make these relevant to current practice and the re-organized WBG. Central to these efforts will be ensuring that the IDA RMS (and WBG scorecard) is consistent with and reflect the spirit of the new SDGs, while maintaining the RMS's ability to serve specific needs in monitoring IDA's performance.

VI. NEXT STEPS AND ISSUES FOR DISCUSSION

94. **The IDA18 replenishment will be key in setting the tone for IDA's role in tackling today's ambitious development agenda and complex, interconnected challenges.** The detailed papers to be prepared on the overarching and special themes for the June meeting will demonstrate this, and present areas where IDA can push the envelope to best meet those challenges. The papers, which will reflect the inputs from Participants at the first IDA18 meeting, will present possible policy commitments to further strengthen both results as well as cost efficiency and effectiveness. They will also emphasize efforts to expand the knowledge base of IDA's engagement and strengthen the statistical capacity of IDA countries, essential for evidence-based solutions.

95. **Rising to the challenge of the global ambitions, and associated country needs, will require a strong replenishment** for IDA18. This will be underpinned by a strong agreement on the importance of tackling the areas set out by the special themes and overarching theme. A robust replenishment would be underpinned by a strong package of policies and strong support for the proposed strategic directions to ensure IDA continues to be well-positioned to tackle the global ambitions and support clients in their development paths. In this context, do Deputies:

- a. Agree that the reflection of today's complex and interconnected challenges in this paper appropriately sets the context for the IDA18 replenishment?
- b. Recognizing the need for strong coherence between the ongoing discussions in both the WBG Forward Look and the IDA18 replenishment, agree that IDA is a key tool for the international community to implement global agreements in the poorest countries?
- c. Agree with the proposed overarching theme for IDA18 of "*Investing in Growth, Resilience, and Opportunity*", and the continued focus on results?
- d. Agree with the four proposed special themes for IDA18, including (i) continuation of the IDA17 special themes in the areas of *climate resilient development, gender equality and fragility, conflict and violence*, and the directions for deepening work in these areas articulated thus far in the paper; and (ii) a new special theme of economic transformation and jobs with a focus on *connectivity and capabilities*, and building the foundations of stable, efficient and competitive markets; with a special emphasis on *quality infrastructure*?
- e. Agree, given IDA's focus on poor and vulnerable populations, to explore how IDA could enhance its support to address the issue of forced displacement?

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