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IDA12 (2000-2002)
A RETROSPECTIVE OVERVIEW

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ACRONYMS

AFUR	African Forum for Utility Regulation
APC	Adaptable Program Credits
CAS	Country Assistance Strategy
CBRD	Community Based Rural Development
CDD	Community Driven Development
CDF	Comprehensive Development Framework
CEA	Country Environmental Analysis
CFAA	Country Financial Accountability Assessment
CGA	Country Gender Assessment
CGAP	Consultative Group to Assist the Poorest
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
CPRGS	Country Poverty Reduction Strategy
DLC	Distance Learning Center
EA	Environmental Assessment
ECD	Early Childhood Development
EFA	Education for All
ESW	Economic and Sector Work
MDG	Global Public Goods
HIPC	Heavily-Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HNP	Health Nutrition and Population
IAVI	International AIDS Vaccine Initiative
IDA	International Development Association
IFUR	International Forum for Utility Regulation
IGR	Institutional and Governance Review
IMCI	Integrated Management of Child Illness
IMF	International Monetary Fund
JAM	Joint Assessment Mission
LICUS	Low Income Countries Under Stress
M&E	Monitoring and Evaluation
MAP	Multi-Country AIDS Program
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MNA	Middle East and North Africa
MOU	Memorandum of Understanding
NEAP	National Environment Action Plan
NPV	Net Present Value
PER	Public Expenditure Review
PARPA	Action Plan for the Reduction of Absolute Poverty
PETS	Public Expenditure Tracking Surveys
PPI	Private Participation in Infrastructure
PPIAF	Public-Private Infrastructure Advisory Facility
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
PSIA	Poverty and Social Impact Analyses
SAC	Structural Adjustment Credit
SAFIR	South Asian Forum for Infrastructure Regulation
SDR	Special Drawing Rights
SME	Small and Medium Enterprise
SWAP	Sector-Wide Approaches
TSS	Transitional Support Strategy
WBG	World Bank Group
WSS	Water Supply and Sanitation

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Executive Summary

The IDA12 Retrospective (IDA12 Retro) provides an overview of IDA's activities and achievements during IDA12 period. It also touches upon some of the issues and challenges facing IDA13. The IDA12 Retro -- a deliverable under the IDA12 Arrangement -- is intended for a broad audience and is to be widely distributed. Because of the importance of conveying the messages in the report to a wide audience that may not be very familiar with the institution, a comprehensive Overview of the report -- on which most readers are likely to focus -- has been included.

The IDA12 period has been an important phase in the development of IDA's policy framework. The enhanced HIPC initiative established a close link between concessional resources, poverty alleviation and debt reduction. IDA's performance-based resource allocation system was enhanced by putting a stronger emphasis on country performance, in particular governance. Prompted by the importance of ensuring that resources released by debt forgiveness were devoted to poverty reduction, increasing weight was placed on country ownership of development strategies as the basis for international support. The advent of national Poverty Reduction Strategy Papers (PRSP) has established a critical basis for the use of IDA resources, emphasizing program selectivity and coordination with development partners. At the same time, IDA scaled up its fight against communicable diseases, particularly HIV/AIDS and developed a more systematic approach to dealing with post-conflict countries.

During IDA12, a review of IDA's performance was undertaken by OED. The Review concluded that IDA significantly enhanced its relevance and improved its portfolio performance. It increased its responsiveness to its borrowers, diversified its lending instruments, and intensified its partnership efforts in the context of CDF and PRSP initiatives. At the same time, it noted that there were critical areas where further progress is needed: deepening country-based programming of development assistance, improving governance, capacity building, strengthening the focus on development outcomes, and establishing a harmonized and structured donor coordination process. OED's recommendations have fed into IDA13 priorities and policies, currently under implementation.

In IDA13 and beyond, the challenge is to consolidate, deepen and sustain the initiatives launched during IDA12, while ensuring a more explicit and objective emphasis on development results. The PRSPs will provide the framework for country-led strategy formulation, coordination and harmonization of development assistance. IDA will support, through CASs, an agreed subset of the poverty reduction priorities of its clients. Within that context, stronger and wider application of economy and sector-wide programs may be needed at the country level. Particular attention will be paid to scaling up what works best in country specific contexts, results orientation, and donor coordinated approaches supportive of country-owned programs.

Building on the strong foundation established in the IDA12 period, IDA will need to provide support to developing countries' economic growth and the development community's commitment to meeting the Millennium Development Goals. An important element of IDA's effort in both these aspects is a more explicit focus on measuring and monitoring results. To that

end, a systematic monitoring and evaluation scheme is being put in place for IDA13. A concerted effort will be needed, however, on the part of all development partners to make overall aid more effective.

IDA has been a valuable catalytic resource over the IDA12 period -- in financial terms, but also in terms of responsiveness and of development best practice. At the same time, IDA's role must be viewed against the exceptional challenges which poor countries face, and the fact that IDA alone meets only a small portion of developing countries' external resource needs. IDA's record will continue to be tested by the difficulties its client countries face -- and tested by a requirement not only to deliver high-quality inputs, such as the IDA12 Retro documents, but also, going forward, by its contribution to the global partnership for achieving better development results.

Overview

The International Development Association (IDA) assists the world's poorest countries. During the IDA12 period, IDA continued to support low-income countries' efforts to accelerate sustainable economic growth and poverty reduction through a mix of concessional finance, analytical work, and aid coordination services. It did so against the background of exceptional challenges: the aftermath of the East Asia financial crisis, the events of September 11 and their aftershocks, the exploding HIV/AIDS epidemic, and the persistence of conflict in a substantial number of IDA countries.

During IDA12, IDA committed over \$19 billion to some 80 countries. At the end of IDA12, there were 813 IDA projects under implementation, for a total net commitment of about \$38 billion. Africa has the highest number of projects being implemented and the largest share of net commitments. IDA's resources were focused, in line with its core objectives, on improving economic policies, expanding access to basic social services, building essential infrastructure, and strengthening public sector management and governance. At the same time, IDA responded to the special needs of countries emerging from conflict, and of those recovering from natural disasters. IDA has also paid particular attention to two major crises affecting low income countries: the HIV/AIDS pandemic and excessive indebtedness.

The IDA12 period has been an important phase in the development of IDA's policy framework. The enhanced HIPC initiative, launched at the outset of IDA12, established a close link between concessional resources, poverty alleviation and debt reduction. IDA's performance-based resource allocation system was enhanced by putting a stronger emphasis on country performance, in particular governance. Prompted by the debates around the enhanced HIPC framework and the importance of ensuring that resources released by debt forgiveness were devoted to poverty reduction, IDA's members placed increasing weight on country ownership of development strategies as the basis for international support. The advent of national Poverty Reduction Strategy Papers (PRSP) has established a critical basis for the use of IDA resources, emphasizing program selectivity and coordination with development partners.

IDA has further sharpened the focus of its assistance on poverty reduction, within a country-owned medium-term framework:

- Building on the Comprehensive Development Framework (CDF), the PRSP approach is intended to be country-owned, participatory, results-oriented, and to take a long-term perspective. IDA's country assistance strategies started to be aligned with countries' PRSPs, benefiting from the broadly-shared analysis and program priorities made possible by the partnership approach central to the PRSP process. While the PRSPs are still in the early stages, this has clearly been a positive development for the quality of IDA12 programs.
- For the PRSP approach to be successful, a stronger focus has been put on understanding the dimensions and determinants of poverty. As a result, groundbreaking regional studies on poverty, public expenditure reviews that assess the pro-poor nature of public outlays, and poverty assessments that examine the links between growth, policy options and poverty outcomes have become increasingly important and indeed normal IDA outputs.

At the same time, the participatory nature of these poverty analyses has considerably increased.

- IDA-supported adjustment and sectoral operations are being increasingly integrated within medium-term country-owned expenditure and policy frameworks focused on structural, social, and institutional reforms with a strong emphasis on poverty reduction. Programmatic support to well-performing countries' PRSPs, based on up front actions, typifies this approach.
- Within this framework, emphasis has shifted to improving countries' own public expenditure management, procurement, and financial accountability systems, rather than ring-fencing the financial management of IDA's operations. Strong public expenditure and financial accountability has been shown to foster faster growth and poverty reduction. Country financial accountability and procurement assessments have emerged as key diagnostic tools that are to be completed for all IDA countries by mid-2005.

IDA supported countries' efforts for broad-based growth by helping improve public sector governance and promoting private sector development:

- IDA has made considerable progress in focusing on public sector and governance issues through analytical work and an increase in lending for systemic cross-cutting areas of public sector reform such as fiscal management, administrative and civil service reform, and legal and judicial reform. The area of public sector reform has seen the single largest increase in IDA disbursements during IDA12, while there has also been a stronger emphasis on capacity building in specific sectors.
- The World Bank Group's support to private sector development has been multi-pronged: undertaking diagnostic work on investment climate followed by recommendations and implementation help; supporting privatization; assisting small and medium enterprises through lines of credit, matching grants, business advisory services, and micro-finance; providing partial investment guarantees in an increasingly risk-averse international finance environment; and strengthening institutions. A major private sector strategy was produced during IDA12 to chart future directions.

IDA's investments in human capital, as well as its efforts to ensure effective participation are important elements of empowering the poor and the underprivileged:

- In basic social services -- education, health, and safe water supply -- IDA support focused mainly on systemic reforms to improve quality, equity, and the efficiency of service delivery, emphasizing accountability and governance, including greater involvement of communities. In IDA12, about one third of both commitments and disbursements was focused on social sectors.
- IDA has increasingly stressed community action and stakeholder participation in decision making across all sectors. Examples include support for decentralization that gives greater voice to local residents in expenditures and other decisions affecting their lives; governance and anti-corruption, and surveys of public officials that not only diagnose problems, but also increase transparency; public expenditure tracking surveys that assess

whether expenditures reach intended beneficiaries; and mechanisms to promote citizen feedback for greater accountability. In parallel with these initiatives, lending for community-driven development more than doubled during IDA12.

- The completion of the Bank's Gender Strategy and the start of its implementation have improved understanding of how gender considerations can be effectively incorporated in IDA's operations to ensure better outcomes. Such considerations are being increasingly mainstreamed in IDA's assistance, particularly in agricultural and social sectors. During IDA12, there was also a steady increase in integrating gender-related actions in lending operations, from 19 percent to 42 percent of operations. But more remains to be done; progress in the implementation of the gender strategy will be monitored regularly.

IDA has improved its capacity to respond to crises and help mitigate their impact:

- Under the enhanced HIPC Initiative, debt relief was made "deeper, broader, and faster." More countries became eligible for debt relief, and most became eligible for greater relief. At end-2002, IDA has delivered more than \$2 billion in debt relief to the 26 eligible HIPCs, leveraging significant increases in social spending in these countries. In the years ahead, these HIPCs are expected to spend on average four times more on social spending than on debt service, providing strong reinforcement to the commitment of new IDA resources in these areas.
- Support for HIV/AIDS prevention, care and treatment has been significantly scaled up, notably with the \$1 billion Multi-country AIDS Programs for Africa, of which \$600 million was committed in IDA12. HIV/AIDS is now at the center of development agenda, and HIV/AIDS activities are being mainstreamed in all sectors and regions. However, to improve the impact of IDA's efforts in this area, there is a need to intensify implementation and accelerate disbursements of the existing portfolio, as well as push forward with new interventions.
- IDA developed a more systematic approach to its support for countries afflicted by conflict. The overall thrust has been to ensure that these countries receive timely and adequate financial support throughout their recovery period. At the same time, assistance has been geared to strengthening social cohesion and good governance, with the aim of reducing the possibility of future conflicts. During IDA12, Democratic Republic of Congo (DRC), Afghanistan, Kosovo, and Timor-Leste received post-conflict assistance. DRC and Afghanistan were recipients of post-conflict grants in anticipation of arrears clearance, the first cases under this new provision in the IDA12 agreement.
- IDA countries are especially vulnerable to sharp adverse trade movements. During IDA12, IDA responded quickly and flexibly in a number of such instances, for example in a series of supplemental credits to African countries facing commodity price squeezes. IDA also supported export diversification in a number of countries, but clearly the whole area of trade and engagement in the international trade economy requires more sustained attention.

- During IDA12 proactive support was provided to a number of African and Asian countries to help with reconstruction programs following floods, and for the consequence of the major Gujarat earthquake. At the same time, stronger programs were initiated to reduce vulnerability to disaster, notably by food and water resources management and monitoring in Africa, disaster prevention and mitigation in Central America and catastrophe risk management in the weather-vulnerable Caribbean countries.

IDA12 was a period during which major efforts were launched to increase IDA's effectiveness:

- Particularly noteworthy is the strengthening and implementation during IDA12 of IDA's performance-based allocation system, which is the principal mechanism for ensuring that IDA resources are delivered to countries where they can be used effectively. This system put in place a tight link between IDA resource allocation and country policy performance, particularly governance, resulting in per capita IDA allocations to countries in the highest performance quintile which were almost 3 times larger than those in the lowest performance quintile.
- The CDF and PRSP processes provided new momentum for stronger coordination with development partners at the country level. Beyond partnership in individual countries, IDA accelerated its efforts to coordinate at the institutional level with its partners, including regional development banks, on key development issues, such as a results-oriented framework, support to Low Income Countries Under Stress (LICUS) and countries implementing PRSPs, and harmonization of donors' policies, procedures and practices to reduce transaction costs in aid delivery and management.
- IDA sustained the improvement of its portfolio through better project design thanks to stronger ownership and participation of stakeholders and greater attention given to all aspects of implementation. Systematic reviews by the independent Operations Evaluation Department (OED) and the Bank's internal Quality Assurance Group (QAG) show that these efforts have been largely successful. Throughout IDA12, OED evaluation results showed that IDA operations had satisfactory development outcomes equaling or exceeding the institutional target of 75 percent.

During IDA12, a major independent review of IDA's performance was undertaken by OED. The review, covering the period FY94-00 (and hence the first year of the IDA12 period) acknowledged the quality and scope of IDA's operations but called for greater selectivity of objectives and actions, a stronger basing of IDA's programs in country-owned strategies, and a more systematic focus on development results rather than on inputs. In all these respects, the OED review echoed key themes in the emerging development debate, which increasingly emphasize mutual accountability and partnership, and a stronger and more explicit linkage of development priorities and resources to results. The Review found that IDA significantly enhanced its relevance and improved its portfolio performance. It increased its responsiveness to its borrowers, diversified its lending instruments, and intensified its partnership efforts in the context of CDF and PRSP initiatives. The Review concluded, however, that there are critical areas where further progress is needed: deepening country-based programming of development assistance, improving governance, capacity building, strengthening the focus on development

outcomes, and establishing a harmonized and structured donor coordination process. In moving forward, the Review recommended that IDA focus on implementation of its existing framework, align resources with strategic priorities, consolidate its mandates, work at the strategic level in support of economy and sector-wide reforms, and make capacity building a core dimension of its assistance. OED's recommendations have fed into IDA13 priorities and policies, currently under implementation.

In IDA13 and beyond, the challenge is to consolidate, deepen and sustain the initiatives launched during IDA12, while ensuring a stronger more explicit and objective emphasis on development results. The PRSPs will provide the framework for country-led strategy formulation, coordination and harmonization of development assistance. IDA will support, through CASs, an agreed subset of the poverty reduction priorities of its clients. Within that context, stronger and wider application of economy and sector-wide programs are needed at the country level. Particular attention will be paid to scaling up what works best in country specific contexts, results orientation, and donor coordinated approaches supportive of country-owned programs. At the same time, IDA provides a bedrock of support for developing countries' economic growth and the development community's commitment to meeting the Millennium Development Goals. An important element of IDA's effort in both these aspects is a more explicit focus on measuring and monitoring results. To that end, a systematic monitoring and evaluation scheme is being put in place for IDA13. A concerted effort will be needed, however, on the part of all development partners to make overall aid more effective.

The development policies and framework of concessional resources allocation embodied in the IDA12 agreement, and implemented over 1999-2002, have demonstrated their appropriateness in action – as the following pages attest. The stronger emphasis on good policies and transparent governance – and the performance-based allocation system which underpins it – has served IDA and its members well, while IDA's ability to respond rapidly to human and economic crises has played an important international role. IDA's donors rightly found the IDA12 framework to provide a good basis on which to build not only a record IDA13 replenishment, but also key innovations including: a stronger emphasis on development results, an expanded though still experimental program of grants, and greater inclusiveness in the approach to partnerships and participation in the development process.

At the same time, IDA's strengths must be viewed against the exceptional challenges which poor countries face, and against the fact that IDA alone can meet only a small part of developing countries' external resource needs. IDA has been a valuable catalytic resource over the IDA12 period -- in financial terms, but also in terms of responsiveness and of development best practice. This record will continue to be tested by the difficulties which IDA's client countries face -- and tested by a requirement not only to deliver high-quality inputs, such as this report documents, but also, going forward, to contribute to global partnership for better development results.

I. Introduction

1. **The International Development Association (IDA), established in 1960, is the World Bank Group's (WBG) concessional financing window.** It provides long-term credits, grants and guarantees to the poorest of the developing countries.¹ IDA resources support these countries' efforts to accelerate sustainable economic growth and poverty reduction through improved economic policies and investments; expanded access to basic education, health, and other social services; and strengthened public sector management and governance. IDA also assists poor countries emerging from conflict and those afflicted by natural disasters. At the same time, IDA provides technical assistance on macroeconomic policy, sector reforms and institutional development. IDA's assistance is underpinned by sector and thematic strategies that articulate operational support choices and provide guidance for their implementation at the country level.²

2. **This report describes IDA's assistance to its borrowers during IDA12 (mid-1999 through mid-2002).** In this period, IDA set out an ambitious and systematic policy framework, with poverty reduction at the center. Particularly important was the new approach to the challenge of reducing poverty based on country-owned poverty reduction strategies that are expected to be comprehensive and long term in perspective, results-oriented, participatory, and conducive to internal and external partnerships. CASs have become strategic instruments, transparent and participatory in nature, in support of countries' PRSPs. This emphasis led to stronger poverty orientation in IDA's analytical work and operations; as well as to a major focus on governance and public sector accountability. An important innovation, in IDA12, has been the strong link between IDA's resource allocation and country performance, particularly governance. At the same time, IDA scaled up its fight against communicable diseases, particularly HIV/AIDS; and significantly broadened and deepened its debt reduction efforts in the heavily indebted poor countries.

3. **During this period, a major independent review of IDA's performance³ -- covering part of IDA12 period -- was undertaken.** The review found that IDA significantly enhanced its relevance and improved its portfolio performance. It increased its responsiveness to its borrowers, diversified its lending instruments, and intensified its partnership efforts in the context of the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy

¹ IDA eligibility is determined by per capita income levels, adjusted each year. The threshold for IDA lending in FY02 was GNI per capita of \$885. During IDA12, 66 countries were "IDA-only," meaning they had no access to IBRD resources, because of creditworthiness issues. Fourteen countries were eligible for a blend of IDA and IBRD resources. They met the low-income criterion for IDA lending but were also creditworthy -- or could become creditworthy relatively quickly with the adoption of appropriate policies -- for some IBRD financing.

² Strategy papers prepared during IDA12 are: *Reforming Public Institutions and Strengthening Governance: A World Bank Strategy* (R2000-91), July 2000; *Sector Strategy Paper: Gender Mainstreaming Strategy Paper* (R2001-0160), August 2001; *Environment Strategy Paper: Making Sustainable Commitments*, (R2001-01121), June 2001; *Population and The World Bank: Adapting to Change* (SecM2000-154), March, 2000; *Social Protection Sector Strategy: From Safety Net To Springboard* (R2000-160), September 2000; *Strategy for the Financial Sector* (R2000-169); *Cities in Transition: A Strategic view of Urban and Local Government* (R99-191), November 1999; *Private Sector Development Strategy: Directions for the World Bank Group* (SecM2002-0047), February 2002.

³ *IDA's Partnership for Poverty Reduction (FY94-00) -- An Independent Evaluation*, OED, May 1, 2001.

Paper (PRSP) initiatives. The review also underscored the dilemma facing IDA: while development process requires a broad approach, there is also a need for IDA to consolidate its various mandates, and be more selective in its programs. The Review concluded that disappointing progress in poverty reduction, especially in Africa, while not attributable to IDA's performance, points to the need to continue the process of improving IDA's effectiveness. Critical areas where further progress is needed include: deepening country-based programming of development assistance, improving governance and capacity building, strengthening the focus on development outcomes, and establishing a harmonized and structured donor coordination process. Many of these conclusions and recommendations were taken up in IDA13 discussions, and reflected in IDA13 Arrangements.⁴

4. **This retrospective report** sets out, first, the global context within which IDA12 was implemented and the major challenges faced by the poorest countries during this period (Section II). Section III provides an overview of IDA's financial response to these challenges, while Section IV describes the new approach to sharpen IDA's poverty focus and related changes in its business model: the PRSP process, launched during IDA12, has increased IDA's poverty focus, and put countries more clearly in the lead with regard to their development processes. Country Assistance Strategies (CAS) -- the main instrument for managing IDA's assistance to borrowers -- have become IDA's business plan in support of countries' national poverty reduction strategies, and they have been publicly disclosed to provide greater transparency and encourage participation.

5. **Development experience shows clearly that sustainable broad-based growth is essential for poverty reduction.** Section V describes IDA's activities in areas critical for such growth: good governance, and strong and accountable institutions; private sector development, including small businesses, micro-enterprises, and small farmers; gender equality; and, environmental sustainability. On the other hand, it is difficult to experience sustained growth without a healthy and well-educated labor force. Investments in expanding and improving **basic social services** are needed to raise the productivity of the poor and hasten their emergence from poverty. Section VI reviews IDA's investments in health services and nutrition, basic education, including for girls, and clean water and sanitation.

6. **In addition to its core development activities, IDA has helped countries deal with crises of varying nature** (Section VII). In response to a persistent debt crisis, the enhanced Heavily Indebted Poor Countries Debt Initiative was redesigned to reach faster a broader range of countries, with greater debt relief. IDA scaled up its interventions to combat the HIV/AIDS pandemic, initially focusing on Africa, the hardest hit region. It strengthened its capacity to respond rapidly and flexibly to the special needs and circumstances of countries emerging from conflict. IDA has, also, continued to assist countries facing emergencies such as natural disasters and terms of trade shocks.

7. **IDA continued to enhance the measures aimed at increasing effectiveness** (Section VIII). A stronger link between IDA allocation and country performance directs a larger portion

⁴ "Additions to Resources: Thirteenth Replenishment – Supporting Poverty Reduction Strategies", Report from the Executive Directors of IDA to the Board of Governors and Resolution No. 204 (the "Thirteenth Replenishment arrangements") IDA/SecM2002-0488, adopted by the Board of Governors September 29, 2002.

of IDA funds to countries where they are likely to have the greatest impact. Improvements in portfolio performance translate into more effective development spending. Tighter financial management at the country and project levels, reduces waste in aid expenditures. Stronger ownership of and participation in IDA supported programs/projects and enhanced partnerships lead to greater development effectiveness.

8. The experience of the last three years shows that IDA's basic approach to development remains valid. Yet, it is also clear that more efforts are needed to tap the full potential of innovations/changes introduced during IDA12. IDA's effectiveness will need to be further strengthened by enhancing partnerships underlying the PRSP process, increasing selectivity at the country and sectoral levels, harmonizing donors' policies and procedures, and enhancing the effectiveness of monitoring and evaluation systems. Section IX describes the development agenda ahead and IDA's strategic approach.

II. Challenges in Reducing Poverty and Improving Social Outcomes

9. Over the last several years, a new operational framework has emerged with respect to defining and reducing poverty. The World Development Report (WDR) 2000/2001⁵ broadened the definition of poverty to include the three dimensions of opportunity, empowerment and vulnerability (see paras. 28-29). This new framework emphasizes achieving concrete measurable results towards poverty reduction as exemplified in the Millennium Development Goals (MDGs).⁶ While MDGs represent an important step forward in recognizing the non-income dimension of poverty, promoting broad-based, job-creating growth remains a critical component of IDA's poverty reduction framework in order to raise the incomes of the poor, without which MDGs are not achievable.

10. The first MDG calls for reducing the proportion of people living on less than \$1 a day to half the 1990 level by 2015. Among the people in IDA countries,⁷ 36 percent were living on less than \$1 per day as of 1999 (see Table 1),⁸ as compared to 42 percent in 1990. While the proportion of people living in extreme poverty has fallen overall, the number of poor people has risen. In blend countries as a whole,⁹ both the incidence of poverty and the number of poor people have been reduced over the last decade, with poverty incidence having fallen by nearly 20 percent. Much of this progress is due to the considerable poverty reduction achieved by India and Indonesia, countries that experienced high growth rates during much of the 1990s.

11. The situation in Sub-Saharan Africa -- where over 300 million people live on less than \$1 a day -- remains the greatest cause for concern. Here, both the proportion of poor

⁵ *World Development Report 2000/2001 -- Attacking Poverty*, World Bank 2001.

⁶ For a complete list of the MDGs, see www.developmentgoals.org.

⁷ The list of IDA countries is defined as the countries that were eligible to borrow from IDA during the IDA12 period. This list does not include China which graduated from IDA in July 1999 and which accounted for most of the reduction in world poverty during the 1990s.

⁸ Based on most recent poverty estimates (World Bank, October 2002).

⁹ Includes Nigeria and Zimbabwe.

people in the population and the number of poor people have risen. In fact, the number of people living in extreme poverty has risen by 33 percent since 1990. Much of this increase is due to higher poverty incidence in the Region's most populous countries, Nigeria and Ethiopia. At the same time, a number of countries, including Ghana, Mauritania, Mozambique, Senegal, and Uganda made progress in reducing the incidence of poverty over the last decade.

Country Group	1990		1999	
	<u>% of population</u>	<u>Number in millions</u>	<u>% of population</u>	<u>Number in millions</u>
All IDA eligible	42	846	36	856
O/w IDA Only	40	281	37	316
O/w Blends	43	560	35	542
O/w Sub-Saharan Africa ^{b/}	51	240	54	319

^{a/} Data from World Bank, DEC, updated in October, 2002. The list of IDA countries is defined as the countries that were eligible to borrow from IDA during the IDA12 period, except China that graduated from IDA in July 1999.

^{b/} Includes African blend countries (Nigeria and Zimbabwe)

12. **In addition to income poverty, the MDGs seek to reduce the lack of education and health care, hunger, gender inequality, and environmental degradation.** While many of the goals seem far out of reach for the poorest countries,¹⁰ some IDA countries have made progress towards a few of the goals, and are likely to reach the corresponding targets. In countries where data are available, prospects have been assessed based on the rate of progress over the past decade and, in some cases, on the level of attainment.¹¹ In many of the IDA countries, missing data and the lack of reliable statistics limit the ability to monitor progress.

13. **In IDA countries as a whole, most progress has been made in achieving gender equality in school,** and it is likely that many IDA countries, especially those in Eastern Europe and Central Asia and in East Asia and the Pacific, will achieve equality in enrollment ratios by 2005. This MDG is also meeting with relative success in Africa where seven out of 23 countries (where data exist) have made considerable progress, and are likely to meet the goal. **Progress toward primary school completion has been mixed.** To reach this goal, schools must enroll all school-age children and keep them in school for the full course of the primary stage. This is possible and even likely in a number of IDA countries by 2015.

14. **Sub-Saharan Africa faces the greatest challenge in meeting the MDGs.** On present trends, countries in this region are unlikely to meet the poverty reduction goal fully, while progress on the social development goals is likely to be mixed, with a number of countries poised to meet them. Running at an average GDP growth rate of 3.3 percent a year in the recent past, most African countries will not achieve the income poverty reduction goal, and the number of poor in the Region is likely to increase further. Some important exogenous shocks have contributed to low growth rates and slow progress in social indicators: severe deterioration in

¹⁰ Given that data on child malnutrition and access to safe water are available in less than 50 percent of the IDA countries, no conclusions can be made at this time about the likelihood of achieving these targets.

¹¹ For two indicators lacking time-series data -- maternal mortality and HIV/AIDS prevalence -- prospects have been assessed based on level alone.

the terms of trade,¹² lower aid flows, and the HIV/AIDS pandemic. Also underlying the limited progress are protracted conflicts, weak states, and policy reversals. Nevertheless, 14 Sub-Saharan African countries registered average growth rates of more than 5 percent during 1995-2001. Although these countries are unlikely to achieve the poverty goal completely, they can -- on present trends -- be expected to make substantial progress towards it. At the other extreme are countries, which due to persistent conflicts, severe governance problems, or high prevalence of communicable diseases, are actually moving away from many of the MDGs.

15. Good policies and governance are critical for reaching the MDGs. Studies have shown that among the African countries, those that are performing well in terms of strong policies and institutions¹³ are also outperforming the rest in terms of economic management, economic performance and social development. These countries have the smallest budget deficits, the lowest inflation, and the largest saving and investment ratios. They also have the highest GDP and export growth rates and the lowest current account deficits. These are the same countries that are making important headway toward achieving the MDGs. Examples of these countries are Burkina Faso, Mauritania, Mozambique and Uganda.¹⁴

16. Continued and accelerated progress towards the MDGs will require further progress in a number of areas, including: (i) deepening macroeconomic reforms and enhancing domestic competitiveness and efficiency, as the basis for a favorable investment climate and pro-poor growth; (ii) strengthening democratic institutions and systems of public budget and financial management to ensure that governments are accountable to their people, especially for the effective use of public resources; and (iii) investing adequate resources in human development. In addition to achieving faster growth rates, it is essential that economic growth be broad-based to maximize its impact on reducing poverty. This presents a huge challenge for IDA countries, most of which face major capacity and resource constraints.

17. The MDGs cannot be met without increased aid. Yet, there has been a decline in aid over the past few years -- which comes on top of falling aid through much of 1990s. Expressed as a share of donors' GNP, aid fell from 0.33 percent in 1990 to 0.22 percent in 2000.¹⁵ Preliminary calculations indicate that a doubling of aid, coupled with an increased allocation of aid to developing countries with good policies, will be required to halve poverty by 2015.¹⁶

¹² Compared to the entire group of developing countries that saw their terms of trade decline by 15 percent in the 1980s and 1990s, those of Africa have experienced a decline almost twice as severe at 27 percent. Non-oil commodity price indices of Sub-Saharan Africa fell by 35 percent between end-1997 and 2001. Volatility in the terms of trade is a serious macroeconomic problem as their costs are enormous. It is estimated that a one-third terms of trade decline would directly reduce national income by 3-4 percent of GDP, and the resulting crisis and recession would further cut production and income.

¹³ As measured by the Bank's annual Country Performance and Institutional Assessment (CPIA).

¹⁴ "Policies and Progress Toward the MDGs in Africa: Progress, Prospects, and Policy Implications", June 2002, African Development Bank in collaboration with the World Bank.

¹⁵ "Recent Trends in the Transfer of Resources to Developing Countries", August 27, 2002, DC2002-0015, the IMF and the World Bank.

¹⁶ S. Deverajan, M. J. Miller, and E. Swanson, "Goals for Development: History, Prospects, and Costs", 2002, World Bank.

While IDA has been a stable source of concessional assistance, it is a relatively small financier in the development arena (para. 18). Concerted strong efforts are needed on the part of the international community not only to increase the availability of concessional aid, but also to improve donor policies for increased aid effectiveness, and to remove barriers to trade that are restraining developing countries' exports.

III. Financing New Operations

18. IDA accounts for about 15 percent of concessional assistance to developing countries. IDA allocates its resources to eligible countries on the basis of their policy and institutional performance, as well as other considerations such as absorptive capacity. PRSP based country assistance strategies determine the exact level and nature of funding, taking into account how the IDA allocation relates to performance, including governance capabilities.

New Commitments During IDA12

19. At the end of IDA12, there were 813 IDA projects under implementation in 76 countries,¹⁷ for a total net commitment of \$37.8 billion. Africa has the highest number of projects under implementation and the largest share of net commitments. The two largest country programs are in India and Vietnam, which account for over one fourth of the total IDA portfolio. Operations in social sectors make up about 36 percent, the largest share of IDA portfolio.

20. During IDA12, new commitments for 393 projects totaled \$19.2 billion -- about the same level as in IDA11. Adjustment lending was up -- from \$ 3.9 billion in IDA11 to \$5 billion. Investment lending fell from \$15.3 billion in IDA11 to \$14.2 billion, accounting for 74 percent of total IDA lending. Table 2 lists the largest IDA borrowers over the period.¹⁸

Country	Number of Operations	Commitments ^{a/} (\$ million)
India	18	2,683
Vietnam	12	1,508
Pakistan	5	1,174
Ethiopia	10	877
Tanzania	13	807
Bangladesh	13	773
Uganda	12	687
Nigeria	9	682
Ghana	7	514
Congo, DR	2	500

a/ Excludes IDA guarantees and HIPC debt service grants.

¹⁷ Annex A provides an overview of the current IDA portfolio.

¹⁸ Table B2 in the Annex B shows new commitments country by country. Tables B3 through B6 give sector breakdowns and trends.

21. **IDA continued its support for investments in human development and social services** (education, health, nutrition and population, water supply and sanitation, and social protection). New investment lending to social sectors totaled \$5.3 billion in IDA12, slightly lower than in IDA11 at \$5.8 billion (representing about 37 percent of total investment lending). Africa and South Asia accounted for 46 and 22 percent of total social sector investment lending, respectively.

22. As a result of a strong focus on **Sub-Saharan Africa**, new commitments to the Region increased by 36 percent from \$6.8 billion in IDA11 to \$9.2 billion in IDA12 (48 percent of total commitments). Adjustment lending increased only slightly at \$2.8 billion, while lending for investment projects went up significantly from \$4.3 billion in IDA11 to \$6.4 billion in IDA12. Lending increased in several countries with good or improving performance -- Tanzania, Uganda, Ghana, and Ethiopia. IDA also responded swiftly to the restoration of stability and improved outlook in Democratic Republic of Congo, and the country received the first post-conflict grant. But poor performance and/or civil conflict continued to affect many other countries -- resulting in no or minimal lending to such potentially large borrowers as Angola, Sudan and Zimbabwe.

23. New commitments to **East Asia and South Asia** reached \$7.3 billion in IDA12, somewhat lower than \$8.3 billion in IDA11. In Bangladesh, commitments declined to \$773 million because of absorptive capacity constraints. New commitments to India remained at about the same level as in IDA11. After a hiatus in FY00, lending to Pakistan increased owing to improved performance. Afghanistan received a post-conflict grant of \$100 million.

24. During IDA12, lending to **Europe and Central Asia** declined to \$1.5 billion from \$2.2 billion in IDA11, reflecting the phasing out of the extraordinary support for the initial period of the transition and reconstruction needs of the countries in this region. IDA lending was provided to the Federal Republic of Yugoslavia on an exceptional basis. While FYR Macedonia graduated from IDA at the end of FY02, Uzbekistan gained access to IDA funds as a blend country. In **Middle East and North Africa** where the main IDA borrower is Yemen, total new commitments were \$415 million. In **Latin America and the Caribbean**, total new commitments declined somewhat to \$837 million, reflecting, in part, a return to normal lending in Honduras after large hurricane emergency credits, and the decline in lending to Bolivia as the country became a blend borrower.

Financing IDA12 Resources

25. Resources funding new IDA12 commitments, came from the following sources (Table 3).

Table 3. IDA12 Funding Sources	
	\$ billion
Donor resources	11.38 <u>a/</u>
Internal resources	7.85 <u>a/</u>
IBRD transfers	0.90
Total	20.13 <u>b/</u>
<u>a/</u> Valued at 6/30/02 exchange rates.	
<u>b/</u> This figure differs from the total commitment level (\$19.2 billion) because of exchange rate adjustments.	

26. Donor resources from thirty-eight countries contributed 57 percent of the funding for new commitments (Table 4). Donor resources included: (i) a small carry over from IDA11 donor resources; (ii) IDA12 contributions; and (iii) resources from the Interim Trust Fund that was terminated in 2000 and its assets and liabilities transferred to IDA. Barbados became a new IDA donor. Several countries increased their basic shares from those in IDA11: Finland, Greece, Ireland, and the United Kingdom.

Table 4. IDA12 Donor Countries			
Argentina	France	Kuwait	Slovak Republic
Australia	Germany	Luxembourg	South Africa
Austria	Greece	Mexico	Spain
Barbados	Hungary	Netherlands	Sweden
Belgium	Iceland	New Zealand	Switzerland
Brazil	Ireland	Norway	Turkey
Canada	Israel	Poland	United Kingdom
Czech Republic	Italy	Portugal	United States
Denmark	Japan	Russian Federation	
Finland	Korea, Republic of	Saudi Arabia	

27. Other sources for funding for IDA12 were IBRD net income transfers (5 percent) and internal resources (39 percent). The latter included repayments by IDA borrowers for past credits (called IDA reflows), investment income from IDA's liquidity, and any other resources that become available to IDA, such as foreign exchange adjustments. Repayments on past credits are gradually becoming a larger proportion of the total funding available to IDA.

IV. Sharpening IDA's Poverty Focus

28. IDA's overarching objective is poverty reduction, and all its activities are a means to that end. *The World Development Report (WDR) 2000/2001 -- Attacking Poverty* provided the intellectual underpinning for broadening the understanding of poverty, and, thus, helped to

sharpen IDA's strategy for poverty reduction. The three pillars of poverty reduction identified in the WDR 2000/01 are: (i) promoting opportunity for poor people, including increased access to jobs, credits, roads, electricity, markets, schools, water, sanitation, and health services; (ii) facilitating empowerment by sound and responsive institutions; and (iii) reducing vulnerability to economic shocks, natural disasters, ill health, disability and personal violence.

29. **During IDA12, the need to sharpen further the focus of IDA's support to poor countries became evident.** Follow up work¹⁹ to the 2001/2002 WDR underscored *inter alia* the need to: (i) refine IDA's strategic directions and the country business model with a sharper focus on poverty reduction; (ii) improve poverty analysis to better understand country and context-specific determinants of poverty; and (iii) support and monitor country targets that contribute to MDGs, reorient sector strategies to the achievement of the MDGs, and specifically discuss proposals for attacking poverty.

Poverty Reduction Strategy Papers and IDA's Business Model

30. **During IDA12, a new approach for the provision of concessional assistance was launched,** with the aim of increasing the focus of all IDA assistance on the overarching objective of poverty reduction. Governments began to prepare Poverty Reduction Strategy Papers (PRSPs) with the expectation that PRSPs would provide the foundation for external assistance. Building on the Comprehensive Development Framework (CDF), the PRSP approach is country-owned, participatory, results-oriented, and takes a comprehensive and long-term perspective. The aim is for countries to build their own national strategies that are poverty focused and linked to national budgets.

31. **The PRSP is now broadly accepted as the framework for the interaction of IDA countries with their development partners and for donor coordination.** In line with this approach, IDA has introduced changes to its business model to realign its support, as needed, with country PRSPs. Specifically, (i) CASs are expected to be fully aligned to countries' PRSPs while taking into account IDA priorities such as good governance, gender equity, and environmental sustainability; (ii) where appropriate, programmatic lending is to be used in support of countries' poverty reduction strategies through Poverty Reduction Support Credits (PRSCs); and (iii) increased emphasis is placed on establishing the necessary oversight and fiduciary frameworks to ensure the good use of IDA resources in the context of country-led efforts.

32. **The CAS plays a central role in spelling out how IDA will support the priorities set out in the PRSP.** As far as possible, IDA programs and policy conditionalities are drawn directly from the indicators and policy commitments contained in the country's PRSP. For example, in the CAS for Burkina Faso, the triggers for higher IDA lending explicitly include measures specified in the Government's PRSP and linked to its implementation, focusing particularly on improving public financial management and enhancing competitiveness. Similarly, Vietnam's CAS matrix mirrors exactly that presented by the authorities in the PRSP

¹⁹ *Poverty Reduction and the World Bank: Progress in Operationalizing the WDR 2000/2001*, The World Bank, 2002.

(Box 1). The CASs are also expected to indicate efforts toward streamlining conditionality and simplification, and harmonization of procedures and documentation requirements.

Box 1. Vietnam -- Aligning IDA's Program to Support the Country's Poverty Reduction Strategy

The Vietnam Comprehensive Poverty Reduction and Growth Strategy (or CPRGS as the PRSP is called) recognizes the importance of growth and policy and institutional reforms for poverty reduction. One important challenge has been what it would mean to "align" government resources and donor support to the CPRGS. In that connection, the CAS for FY03-06 was delayed by 12 months so that the CPRGS could be completed. The last CAS for Vietnam, in 1998, also reflected the Government's priorities for development. The CPRGS process has, however, introduced the following changes:

Content of the CAS: Extensive consultations with the poor have helped the Government to shape its priorities and to bring the priorities of the poor to the forefront. The CPRGS -- and therefore the CAS -- give greater recognition to the needs of special vulnerable groups such as ethnic minorities, women, and unregistered urban migrants, put greater emphasis on making basic social services affordable for the poor, and reflect a greater awareness of vulnerability to health shocks and natural disasters.

Financing the Government's Program: The Government developed a detailed medium-term program of policy and institutional reforms. IDA will support implementation of the Government's reform program through annual one-tranche PRSCs, based on significant program accomplishments, rather than ex-ante conditionality.

The Way Aid is Delivered: The Bank Group, like most donors, is looking for ways of delivering aid more effectively. The CAS proposes to deliver 25-40 percent of the high case lending every year through PRSCs and sub-sector "SWAPs" (Sector Wide Approach). Major efforts are also underway to harmonize procurement, financial management, safeguards and other measures with the Government and with other multilateral and bilateral donors.

33. **As part of this process, CASs also place a strong emphasis on poverty analysis.** They are expected to assess the existing poverty analysis against guidelines to determine whether it is satisfactory (see para. 36 for what constitutes a satisfactory poverty analysis). If a satisfactory poverty analysis does not exist, the CAS determines the gaps and how the requirements for a satisfactory poverty analysis are to be addressed over the time horizon of the CAS. According to the most recent CAS retrospective: *Country Assistance Strategies: Retrospective and Future Directions, September 2002* (CAS Retro III) -- which covers half of IDA12 period - the poverty focus of CASs has continued to improve. Sixty-three percent of IDA CASs are rated satisfactory or better in their poverty focus. Particularly noteworthy is the increase in the share of IDA CASs whose poverty focus was deemed to be highly satisfactory (38 percent of CASs in Retro III, as compared to 6 percent of CASs in Retro II).

34. **A key element of the PRSP architecture is the results orientation and annual reporting on progress.** Each country is expected to produce annual PRSP progress reports that enable IDA and other partners to make a well-informed evaluation of the country's performance in implementing the PRSP. At the same time, the CAS should identify any specific additional issues (e.g., fiduciary, accountability or data availability), which need to be agreed upon with the authorities, and which might not necessarily be provided as part of the PRSP annual review process.

35. **Within the framework of this new approach and business model, much progress has been made during IDA12.** Twenty-one countries are now implementing their PRSPs; another 45 countries have produced interim PRSPs and are working toward a full strategy; annual PRSP

progress reports have been produced in 7 countries. Twenty CASs have been preceded by either an interim or a full PRSP, or by a national poverty strategy, as in the case of India.

Broader Poverty Analysis

36. **Analysis of the dimensions and determinants of poverty has become a critical building block**, as the PRSP process takes hold and as countries develop their own strategies for eliminating poverty. Good poverty analysis covers at a minimum the following: (i) a brief description of the evolution of the poverty situation across time and regions using income and non-income indicators that reflect various dimensions of poverty; (ii) an analysis of the determinants of income and non-income poverty, including what is known about the impact of growth on the linkages between public actions and poverty; and (iii) an assessment of current systems and capacity for poverty monitoring and evaluation, together with needed improvements. Good poverty analysis takes a multidimensional view of poverty and considers opportunity, empowerment, and vulnerability; it is based on good survey data and qualitative participatory studies, and integrates institutional, social, gender, ethnic, regional/local and environmental concerns.

37. **During IDA12, much analytical work on poverty has been done to underpin IDA's strategy and operations, as well as PRSPs.** Nineteen poverty assessments were completed in IDA countries in FY00-02. Several examined the links between growth and poverty reduction, specifically why growth had not been more pro-poor. The *India--Policies to Reduce Poverty and Accelerate Sustainable Development (FY00)* study identified a number of factors that might explain lack of progress in reducing rural poverty: poor infrastructure, inefficient social services, and poorly targeted poverty programs in the poorer states, as well as weaknesses in governance and institutions. Other poverty analyses looked at issues related to the security dimension of poverty and identified weaknesses in existing arrangements for protecting the poor and vulnerable. For example, the *Moldova--Poverty Assessment (FY00)* showed that the pension and social assistance systems were inequitable, and that reforms will need to focus also on coverage of the poor. The *Tajikistan--Poverty Assessment (FY00)* innovated by including qualitative analysis of poverty, based on studies on the perceptions of the poor. In *Vietnam*, participatory work done for the *Voices of the Poor* study informed follow-up analysis.

38. **Formal poverty assessments comprise only a fraction of the analytical work on poverty undertaken by IDA alone or with partners.** Other work with a strong poverty focus includes cross-country studies, sectoral studies and informal and research activities. Recent cross-country studies consist of a ground-breaking report on poverty and inequality in the ECA transition economies, "*Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*", regional studies for Latin America and Africa, including the report "*African Poverty at the Millennium: Causes, Complexities and Challenges*." These studies go well beyond analyzing the economic causes of poverty to include discussion of the impact of corruption, ways in which power structures perpetuate inequality and the role of elites. Also, these regional studies made an important contribution to cross-country knowledge sharing.

39. **Sector work and Public Expenditure Reviews (PERs) have sharpened their poverty focus.** PERs increasingly assess the quality and transparency of expenditures on the poor. The *Ethiopia PER (FY01)* evaluates the country's systems for monitoring poverty and for assessing

the impact and outcomes of public expenditure on the poor. The *Nicaragua PER (FY01)* analyzes the pattern and evolution of public expenditures and assesses their consistency with PRSP priorities, and recommends ways to improve their poverty reducing impact. This PER also diagnoses the country's institutional capacity to implement the poverty reduction programs in the PRSP and recommends measures for raising that capacity. Good examples of sectoral poverty work include an analysis of rural poverty issues in *Nicaragua* and urban poverty work in *Kampala, Uganda*.

40. **There is an increasing number of informal poverty analyses done at the request of countries.** Poverty work in *Cambodia, Guinea, Lao PR, Mali, Niger* and *Pakistan* is feeding into the preparation of poverty reduction strategies. The extensive work done on poverty in *Uganda* -- new household data, qualitative poverty studies, expenditure tracking surveys, and service user surveys -- has informed Uganda's national debate on the Poverty Eradication Action Plan. Another example of ongoing, collaborative poverty analysis is in *Madagascar* where partnership between the Malagasy Statistical Institute, Cornell University (funded through USAID) and IDA produced a number of analytical background studies for the Madagascar PRSP. These studies -- widely disseminated -- analyzed changes in poverty levels and the characteristics of poverty as well as changes in the distribution of government expenditures in the social sectors.

41. **Overall, the poverty focus of IDA's analytical work has improved.** Beginning in 2000, the Bank began to rate its analytical work on a number of criteria including poverty focus. In FY00, the evaluation showed that 60 percent of the analytical pieces had a satisfactory or highly satisfactory "analysis of the implications on the poor." Where analysis was less than satisfactory, it was often due to a failure to link policy options with poverty outcomes; lack of analysis of regional spending patterns, in view of observed regional difference in poverty; weak analysis of the impact of private sector participation and other policy shifts on the poor; and limited analysis of the impact of reforms on the poor and on groups most vulnerable to income shocks. In FY01, the ratings improved significantly, and 83 percent of the analytical work was rated satisfactory or better in terms of its poverty analysis. In addition, greater emphasis on participatory analysis, carried out in collaboration with countries and other development partners, led to higher quality analytical work, especially in terms of relevance and impact.

42. **The PRSP approach has prompted a major new analytical resource, the "Sourcebook for Poverty Reduction Strategies,"** in addition to the poverty analysis for individual countries. The PRSP Sourcebook²⁰ brings together information on the linkages between poverty reduction and action across a range of sectors and cross-cutting areas of activity (such as environment and gender) and serves to assist countries in developing and strengthening their poverty reduction strategies. The Sourcebook reflects the thinking and practices associated with the CDF, as well as lessons emerging from the WDR 2000/2001 and the PRSP approach, and good international practices related to poverty reduction.

²⁰ <http://www.worldbank.org/poverty/strategies/sourcons.htm>.

Experience with PRSP Process

43. **The early experience with the PRSP approach suggests that it holds considerable promise for improving the effectiveness of development assistance to low-income countries.** The experience of PRSPs during IDA12 is documented in: “*Review of Poverty Reduction Strategy Paper Approach: Early Experience with Interim PRSPs and Full PRSPs.*”²¹ There is widespread agreement that early experience reflects four key achievements of the PRSP approach: (i) a strong sense of ownership by most governments of their poverty reduction strategies; (ii) a more open dialogue within governments and with at least some parts of civil society; (iii) a more prominent place for poverty reduction in policy debates, with data collection, analysis and monitoring becoming more systematic; and (iv) an acceptance by the donor community of the principles of the PRSP approach, which will lead to stronger partnerships and closer donor coordination. Box 2 provides a few examples illustrating these achievements.

²¹ “*Review of Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs*”, SecM2002-0086, February 21, 2002. The full range of background material and submissions, as well as related aspects of the Review, can be found at: <http://www.worldbank.org/poverty/strategies/review/index.htm>.

Box 2. PRSP Process -- Some Examples of Achievements to Date

Strong sense of ownership by governments. PRSPs have received attention at the highest political level in almost all countries, and many of the PRSPs provide useful information about the institutional arrangements for preparation and implementation. For example, in the Mozambican PRSP, considerable detail was provided about how the PRSP -- the Action Plan for the Reduction of Absolute Poverty (PARPA) -- is related to the overall "public planning system" and how it fits into the budget processes of the government. The PARPA provided the basis for annual operational plans that were developed interactively with the annual state budget. Niger's final PRSP was approved by the Cabinet of Ministers, and submitted to the National Assembly for information and discussion.

Dialogue and participation in the PRSP process. The PRSP approach has established a presumption in favor of openness and transparency and broad-based participation. For example, even though Mauritania does not have a tradition of a strong civil society, the PRSP process led to a more open policy dialogue. Civil society raised a number of priority issues that were reflected in the PRSP. The PRSP includes a box about "the position of civil society" and the government's responses. With the PRSP process having created an enabling environment for participation, the government is now committed to involving civil society and other stakeholders more substantively.

Improved analysis. The preparation of PRSPs has been marked by useful steps toward better poverty data and diagnostics. A specific aspect is the analysis of poverty and social impacts (PSIA) of key policy reforms, which are being conducted in several countries. For example, in Vietnam, the Government initiated an ex-ante PSIA of the employment effects of state enterprise reform, documented in the I-PRSP and supported by the PRSC.

More systematic monitoring. Monitoring of progress towards poverty reduction in all its different aspects forms a key component for the PRSP process. For example, in Tanzania a Poverty Monitoring Master Plan was developed. It involves a three tier approach: measurement of a limited number of poverty impact and outcomes, amenable to regular measurement; tracking outputs in social sector programs; and the monitoring of inputs, especially budget allocations and expenditure tracking. Similarly, Bolivia is establishing a system to monitor the progress made in implementing the set of policies and actions set out in the PRSP, using qualitative and quantitative information. There is substantial focus on the allocation and performance of public spending with links to agencies responsible for fiscal programming, budgeting and audits.

Closer donor coordination. Donors have agreed in principle to align their programs with PRSPs. At the country level, there is an increasing tendency to involve donors in PRSP preparation, for example, through including donor representatives on PRSP working groups, and/or regular consultations. Recent examples include Ghana, Niger and Vietnam. The importance of alignment is also being addressed through discussions of aid modalities and partnership arrangements. In several countries, governments are taking a leadership role in coordinating and aligning donor activities. In Ghana, for example, the Government has entered into an MoU with a number of its partners (AfDB, Canada, Denmark, the Netherlands, UK, USAID and IDA) for more coordinated support of the poverty reduction strategy.

44. **Success in reducing poverty will require efforts that are sustained over the long term.** There is substantial scope for countries to improve both the preparatory process and the content of their national strategies. In order to lay stronger foundations for the PRSP approach over the medium to long-term, the PRSP Review suggested that good practice at the country level would include near term priorities to: (i) improve public expenditure management systems; (ii) put greater emphasis on, and build capacities for monitoring and evaluation; and (iii) strengthen and institutionalize participatory processes involving a broad range of domestic stakeholders and development partners.

45. **The PRSP focus should now shift to implementation and outcomes.** The PRSP Review, because of the limited experience with the PRSP approach, has focused on process and tentatively on assessing the emerging content of PRSPs, rather than on the impact on poverty outcomes. Going ahead, improving knowledge of the linkages between policies and poverty

outcomes is critical, as is the need for realism in the setting of goals and targets. IDA will need to examine changes in poverty outcomes, and assess the effectiveness of the PRSP approach. Such a review is planned for 2005.²² This focus will be possible, provided that countries give sufficient attention to building up their monitoring and evaluation (M&E) capacities so that changes in indicators, including in PRSPs, can be tracked. If close attention to poverty monitoring is sustained during IDA13, an information base should be available from a range of countries in order to better review issues of impact (for further information see paras.159-160).

Programmatic Approach to Poverty Alleviation

46. **Recent adjustment operations are taking a more systematic approach to poverty reduction.** This shift was necessitated by the realization that in many cases, first round reforms (in the 1980s and early 1990s) such as trade liberalization were not accompanied by lasting reductions in poverty or improvements in social conditions. As a result, there has been an increasing awareness of the need to design adjustment operations that address poverty issues as a priority, and take into account social dimensions of adjustment. For example, *Kyrgyz Republic--Consolidation Structural Adjustment Credit* helps reduce the burden of utility tariff increases on the extreme poor by putting in place a compensation system for poor households and disadvantaged groups. *Vietnam's PRSC* supports modification of the design of the fund established to finance the social safety net for state-owned enterprise workers who are likely to be affected by the reforms.

47. **The emphasis in adjustment operations shifted toward medium-term structural, social and institutional reforms.** Programmatic support to well-performing countries' poverty reduction strategies, through PRSCs, reflects this emphasis. PRSCs link IDA assistance to priority policy reforms and public actions outlined in the PRSP. There is usually considerable analytical and fiduciary work to support PRSCs. PRSCs are based on up front actions that demonstrate progress in reforms towards mutually agreed outcomes, the overriding objective being poverty alleviation (see Box 3). Also, adjustment operations -- even the ones not labeled as programmatic -- are increasingly being formulated within the context of action plans to implement PRSP priorities and recommendations, and medium-term expenditure frameworks that incorporate these priorities. This approach allows IDA's assistance to be better aligned with countries' budget and planning cycles, thereby facilitating the implementation of their PRSPs and coordination of donor support.

²² Also, a review is being planned by OED, in parallel with the IMF's Independent Evaluation Office, focusing on IDA's effectiveness in supporting the PRSP approach. This review will include several in-depth country case studies, and completion is scheduled for early 2004.

**Box 3. Why a Programmatic Approach to Poverty Alleviation?
The Case of Burkina Faso**

Burkina Faso's development partners launched a shadow "test" program in 1997 to explore how to change the aid-relationship and policy-based conditionality, in ways that would improve the reform program and the effectiveness of aid. The approach is geared mainly toward enhancing Government ownership of the policy identification, monitoring, and evaluation processes. It is also geared to increasing the effectiveness of aid by monitoring programs on the basis of measurable and previously established performance indicators. The idea is for the Government to agree with all donors on a series of performance indicators in key sectors. Those indicators form the basis for the Government to gauge its progress and for the donors to decide on their financial assistance -- preferably in the form of program support.

The "test" found very little relationship between aid flows and policy change, and confirmed some of the problems observed in many developing countries:

- Project funding appeared to be fungible -- that is donors' financial support for the project that the government would have financed from its own budget anyway, freed up resources for other activities.
- Even the projects with high rates of return were not always effective in the overall context of economic growth and poverty reduction, because they could not be scaled up or replicated.
- The use of conditionality was intended as an incentive for reform, but it weakened ownership.

Working closely with the Government and other donors, IDA is moving through a series of PRSCs. Triggers and prior actions are replacing conditions. The approach is being streamlined and focused to make it more effective, while strengthening the Government's ownership of reforms. Another key element of the new approach is to strongly emphasize monitorable results on the ground. The benchmarks for moving forward with IDA support are fewer and include key results indicators of the PRSP. The Government adopted a MTEF consistent with PRSP priorities, as the framework within which Burkina Faso's PRSC was formulated. One of the major components of the PRSC is a set of pro-poor sectoral policies and institutional changes focusing on basic education, health and rural development, based on government's medium-term programs.

48. **With the growing importance of programmatic approach and debt relief, it has become clear that achievement of development objectives depends on satisfactory management of countries' public finances.** Proposals for an ex ante fiduciary assessment of the country's public expenditure management, procurement, and financial accountability systems for all adjustment lending, have been developed. The interim guidelines for PRSCs require "an assessment of the country's public financial accountability arrangements, which covers its public expenditure, procurement, and financial management systems."²³ CASs are expected to specify how the governments are addressing weaknesses identified in the country's policies and institutions likely to undermine the effectiveness of the IDA-financed programs, in particular adjustment programs. They are also expected to describe how these efforts would be supported by IDA programs,²⁴ based on the guidance provided regarding the treatment of fiduciary issues in CASs.²⁵

²³ *Operational Memorandum Interim Guidelines for Poverty Reduction Support Credits*, May 31, 2001.

²⁴ *From Adjustment Lending to Development Policy Support Lending: Key Issues in the Update of World Bank Policy* (CODE2002-0036), May 20, 2002.

²⁵ *Treatment of Procurement and Financial Management Issues in Country Assistance Strategies: Interim Guidelines to Staff*, June 25, 2001.

V. Promoting Broad-Based Growth

49. **Economic growth is essential for sustained progress on poverty reduction.** Countries that have grown the fastest have reduced income poverty the most. Creating an investment climate that sustains growth requires progress in a number of areas: macroeconomic stability and trade openness, good governance with public sector institutions that function reasonably well, including a legal and judicial system that guarantees property rights and enforcement of contracts, a strong and well regulated financial sector, a competitive environment, and adequate infrastructure. For growth to be sustainable, it is important that no segments of the population be left out, gender equality be promoted, and the environment be safeguarded.

Institutions and Governance

50. **Good public sector governance is a key determinant of broad based growth.**²⁶ IDA is supporting a multi-pronged strategy for improving governance and combating corruption, combining economic policy reform, public sector administration reform, legal and judicial reform, and strengthening oversight, transparency and accountability in the use of public resources. The Bank's strategy *Reforming Public Institutions and Strengthening Governance*, being implemented during IDA12, brought governance issues to center stage. It emphasized the demand side of reform and included pragmatic initiatives seeking "entry points" and "good fit" for governance reform in the areas of public expenditure management, decentralization, anticorruption, legal institutions of the market economy, civil service reform, e-government and public service delivery.²⁷

51. **Anti-corruption work is mainstreamed in Bank operations and policy dialogue.** Attention to governance and anticorruption has increased markedly in IDA CASs and operations. For some countries (such as Azerbaijan) governance issues were identified as the key challenge to development. There has been a substantial increase in the number of CASs that (i) focus on governance and corruption issues, (ii) use governance-related triggers, (iii) review audit institutions and other accountability mechanisms, and (iv) discuss the causes of corruption. Also, many more CASs are integrating anti-corruption and governance issues into technical assistance and lending programs.²⁸ Furthermore, based on a study for the ECA Region,²⁹ the Bank launched a new approach to improving governance and combating corruption related to the degree of state capture as opposed to administrative-level corruption. In the East Asia and Pacific Region, the *Indonesia-Kecamatan Development Project* has supported community efforts

²⁶ World Bank Group Strategic Framework Paper, January 24, 2002, on the web at <http://www.worldbank.org/html/extdr/strategy/papers/strategic.pdf>.

²⁷ See the Bank's website at: <http://www1.worldbank.org/publicsector/strategy.htm>

²⁸ All 28 CASs (surveyed for CAS Retro III) mentioned governance and corruption risks whereas in the previous retrospective only 78 percent (29 of 37) mentioned governance and corruption risks.

²⁹ Examples of anticorruption work in IDA only countries in the ECA region in FY2001 include: Albania, Armenia, Bosnia-Herzegovina, Georgia, Kyrgyz Republic, and Tajikistan. *Anticorruption in Transition: A Contribution to the Policy Debate*, (Washington, DC: The World Bank, 2000). See the Bank's website at: <http://lnweb18.worldbank.org/eca/eca.nsf/General/D74DB51B2D46615D8525695B00678C93?OpenDocument>.

to establish self-governance mechanisms that are responsive to local needs and are relatively free of corruption. In the Africa Region, many countries have anticorruption interventions.³⁰

52. **The Bank has invested significant resources in survey tools for institutional assessment** to underpin an increasingly complex agenda of institutional reform and governance. These include analytic toolkits and survey instruments related to governance, institutional reform, anticorruption, public expenditure, financial accountability, and the delivery and financing of public services: *Governance and Anti-corruption Diagnostic Surveys* that seek the views of households, private firms and/or public officials on the extent and causes of corruption; *Public Officials Surveys* that analyze the incentives faced by civil servants; *Public Expenditure Tracking Surveys* that help identify the share of budget disbursements reaching intended beneficiaries in education and health services;³¹ and *Surveys of Court Cases* to understand what types of cases are handled by courts and where there might be scope for greater efficiencies.³² These various survey instruments have added considerably to IDA's knowledge base, and in some cases have helped stimulate demand for governance improvement, while also pinpointing priorities and entry points for reform strategies.

53. **These survey findings are useful inputs to broader institutional analyses.** *Institutional and Governance Reviews* (IGRs) and scoping notes³³ deal with difficult institutional issues such as patronage systems, incentives and capacity to deliver public services; the risks of capture of decentralization reforms by local elites; and actions to enhance transparency and accountability. Similarly, expenditure tracking under HIPC has developed an innovative assessment tool for public expenditure management systems (Box 4). Most of these diagnostic instruments combine empirical surveys with a participatory coalition building process to promote collective action. There is now an array of Economic and Sector Work (ESW) and analytic tools to better understand institutional realities on the ground. For example, in the Latin America and Caribbean Region, more than a dozen new ESW tasks on governance and public sector issues were undertaken in FY00-02, including two institutional reviews (Bolivia and Organization of Eastern Caribbean States), several PERs, and studies on decentralization and the judicial sector. Work has also begun on anti-corruption issues (e.g., Bolivia, Honduras, Nicaragua and Tanzania) with the World Bank Institute playing an important supportive role. Progress continues to be made on the full integration of the analytic work with effective policy dialogue, reform design,

³⁰ Examples of IDA-only countries in the AFR Region with projects or funding listed with anticorruption components include: Governance and anticorruption surveys (Benin, Ethiopia, Ghana, Guinea, Malawi, Mozambique, Nigeria, Tanzania, Uganda, Zambia, FY99-present); IDF funding for an Anticorruption Commission in Nigeria (FY02), an Anticorruption Authority in Kenya (FY00), an Anticorruption Bureau Project in Malawi (FY00), and a Combating Corruption Project in Uganda (FY01); IGRs in Cameroon (FY01), Ethiopia (FY01), Tanzania (FY01), Zambia (FY01), Benin (FY02), Mozambique (FY02), Senegal (FY02), Kenya (FY02/03); and other initiatives.

³¹ Scoping notes are simpler and less costly IGRs. Scoping notes and IGRs were undertaken in 5 IDA countries: Ghana, Honduras, Rwanda, Tanzania, and Uganda, with two more underway in Chad and Mozambique.

³² For examples of toolkits and survey instruments, see: <http://www.worldbank.org/wbi/governance> and <http://www.1.worldbank.org/publicsector/toolkits.htm>.

³³ Scoping notes are simpler and less costly IGRs being tested in Africa. IGRs and scoping notes are undertaken for Cameroon, Ethiopia, Tanzania, Zambia, Benin, Mozambique, Senegal, Nigeria and Kenya.

and lending operations. The World Bank's Institutional Development Fund (IDF) grant facility has been re-focused to support capacity building in core areas of governance.

Box 4. HIPC Expenditure Tracking Assessments and Action Plans

The Bank and Fund undertook a joint exercise in 2001 to work with HIPCs to assess their capacity to track public spending and to formulate action plans to improve such capacity. These assessments sought a balanced development of public expenditure management systems, including budget formulation, execution and reporting. The HIPC tracking exercise was carried out in 24 IDA countries (20 in Africa and 4 in Latin America and the Caribbean).

The HIPC expenditure tracking work has already begun to influence areas of emphasis in IDA lending. For example, support to Chad's expenditure tracking action plan has become the core public expenditure reform in SAC IV and SAC V. Moreover, this process helped identify gaps in donor assistance in support of capacity building in this area, and ensure that those gaps were filled, by the Bank, Fund, or other donors. The approach brought about an agreement on assessments and action plans, combined with reform priorities and comprehensive donor and technical assistance focused on a specific set of problems with measurable indicators to strengthen countries' capacity for public expenditure management. The 15 poverty expenditure tracking indicators, covering budget formulation, implementation and monitoring, are being used as benchmarks by both developing countries and development agencies.

54. **IDA has enhanced its focus on institution and capacity building**, through an increase in lending³⁴ for systemic cross-cutting areas of public sector reform, and improved focus on institution building in specific sectors. Recognizing the complex and long term nature of institution building, there has been a significant move toward longer-term programmatic approaches in both investment and adjustment lending. For example, the PRSCs for *Uganda*, *Burkina Faso* and *Vietnam* focused on public sector reform and governance,³⁵ taking into account the specifics of each country. PRSCs for Burkina Faso and Uganda focus on accountability and transparency in budget management and emphasize decentralization in order to improve access to and quality of public services, while in Vietnam the emphasis is on private sector development and reforming state enterprises to improve efficiency. In *India* IDA's collaboration with reforming states has provided a platform to support cross-sectoral governance and institutional reforms, aimed at making governments smaller, more effective, and responsive to the needs of citizens. In Africa, the Bank is supporting the Partnership for Capacity Building (PACT) initiative (Box 5).

³⁴ The number of IDA projects with core public sector components has increased significantly. From FY1990 to FY2000 the Bank (IBRD & IDA) increased its core public sector projects from 3.8 percent to 16 percent of total Bank commitment. "Core" public sector projects mean projects that focus exclusively on system issues of public sector reform.

³⁵ Examples of other IDA SACs with a strong public sector reform agenda include: Tanzania (PSAC I), Bolivia (PSAC), Benin (PERAC), Sao Tome & Principe (Public Resource Management), Mauritania (Fiscal Reform Support Operation).

Box 5. Partnership for Capacity Building (PACT)

In 1999, the World Bank's Executive Directors approved the Partnership for Capacity Building (PACT), to support capacity building efforts in Africa, and committed up to \$150 million of funding. The PACT is being implemented by the African Capacity Building Foundation (ACBF), based in Harare, Zimbabwe. Integration of PACT into ACBF's mandate has proceeded quickly, with ACBF's portfolio expanding from 34 projects to more than 80 projects in just two years. Under an aggressive Strategic Medium Term Plan, the ACBF is positioning itself to play a much more significant role in capacity building in Africa. It has become active in Africa-wide and regional capacity building issues; is focusing on integrated country programs; and is creating a functional and operational knowledge management program to serve institutions across Africa. Given its expanded mandate, the ACBF is also strengthening its own institutional capacity through an intensive change management process. ACBF/PACT projects are supporting key areas of public sector and good governance programs in Africa. Many of the projects directly build capacity for improved public service management, economic analysis, and increasingly, the role of parliaments, civil society and the private sector.

55. **An effective legal system promotes development** by protecting people and their property, allowing peaceful resolution of disputes, facilitating economic exchange, thereby improving the investment climate. IDA has assisted countries through law reform -- helping them to develop legal environments that provide institutional checks and balances on the executive and encourage local and foreign investment through predictable systems to protect and honor property and contractual rights. An independent and impartial judiciary is often the most important constraint on the abuse of power, as the existence of legal recourse underpins the credibility of other institutions of the state. Judicial independence is critical but must not come at the expense of accountability. Reforms aimed at raising judicial accountability consist of setting and monitoring judicial performance standards and ethical behavior, introducing greater transparency in relations between judges and litigants, publishing trial records and judicial decisions, and introducing transparent methods of case assignment. Stand alone legal and judicial reform projects have been designed for Albania, Armenia, Bangladesh, and Sri Lanka.

56. **Mitigating risk associated with the fiduciary environment and supporting effective procurement systems have become key responsibilities for IDA.** During IDA12, the *Country Financial Accountability Assessment (CFAA)* (Box 6) and the *Country Procurement Assessment Review (CPAR)* have emerged as key diagnostic products, complementing the project-level assessments in place since FY98. CFAAs were completed in 25 IDA countries by the end of FY02. Management aims to have current (i.e., not more than 5 years old) assessments in place for active IDA borrowers by the end of FY04. In FY00-02, 26 CPARs have been initiated or delivered on IDA and blend countries, with the objective of achieving full coverage for all active client countries by the end of FY04. In the private sector, a new diagnostic review of accounting and auditing practices under the auspices of the Report on Observance with Standards and Codes initiative was introduced in FY01. The first review was conducted for Kenya.³⁶

³⁶ On the web at: http://www.worldbank.org/ifa/rosc_aa.html.

Box 6. What is a Country Financial Accountability Assessment (CFAA)?

The CFAA is a diagnostic tool designed to evaluate for the Bank and its clients the financial accountability systems in the public and private sectors. It supports the exercise of the Bank's fiduciary responsibilities by assessing the strengths and weaknesses of financial accountability arrangements in the public sector, and by identifying the risks that these weaknesses may pose to Bank programs and to the use of Bank funds. The CFAA helps promote a common understanding by the client country, the Bank, and other development partners, of the country's financial management arrangements, thereby facilitating the design and implementation of capacity building programs. The CFAAs support dialogue on financial accountability issues within client countries, as well as with donors, helps the development of country-led action plans, and identify areas in which donors can support capacity building. They also provide valuable inputs to CASs and the design of investment operations.

Private Sector Development

57. **Private initiatives play a critical role in promoting growth and poverty reduction.** The World Bank Private Sector Development (PSD) Strategy³⁷ emphasizes the role of the private sector in generating productivity growth and higher incomes. It highlights the potential for private initiative to help provide basic services that empower the poor by improving infrastructure, health and education. IDA supports private sector development through a wide array of lending and non-lending activities aimed at: (i) improving the investment climate; (ii) facilitating privatization and enterprise reform; (iii) providing direct support to enterprises; and (iv) promoting private provision of public services. During FY00-02, 174 IDA projects were approved with significant PSD components.³⁸ To enhance PSD support, an increasing number of CASs are being prepared jointly with the IFC, combining the policy perspective of the World Bank with the transactions knowledge of the IFC.

58. **IDA helps improve the investment climate** by encouraging countries to establish the legal and regulatory framework for private sector development, including through deregulation, strengthening property rights and corporate governance. One hundred eighteen IDA projects approved during FY00-02 had components with these objectives. In addition to the PSD-specific activities, IDA's work on improving macroeconomic stability, opening up trade, strengthening financial systems and developing infrastructure also contributes to improving the investment climate in countries.

59. **To be effective, projects aimed at improving the investment climate must be based on an in-depth understanding of the constraints to private sector development.** The Bank Group has placed increased emphasis on analytic work and data related to the investment climate. These include:

- ***Investment Climate Assessments*** underpinned by firm-level surveys that link productivity to various dimensions of the investment climate. The first investment assessment was completed for *India*. Assessments were launched in seven IDA countries

³⁷ *Private Sector Development Strategy - Directions for the World Bank Group, April 2002* on the web at: <http://www.rru.worldbank.org/strategy>.

³⁸ These numbers cover only those projects that could be considered as having significant PSD components. There are many other projects with minor private sector development components.

(*Bangladesh, Bhutan, Eritrea, Ethiopia, Mozambique, Nigeria, and Pakistan*). In addition, Foreign Investment Advisory Services (FIAS) -- a joint Bank-IFC facility -- undertook several diagnostic studies in IDA countries (see para. 60).

- ***Corporate Governance Regime Assessments*** carried out in *India* and *Zimbabwe*;
- ***Small and Medium Enterprise (SME) Country Mapping*** exercises that highlight both the availability of services for and the constraints facing SME development in a given country, region or sector. Such assessments were undertaken for 14 IDA countries. As a result of this work, several institutional capacity-building pilots addressing business environment and development (mainly via business associations) are underway.
- ***Quantitative indicators on the Business Environment*** based upon specific laws and regulations that affect business investment, productivity and growth. Topics covered in the *2002 Doing Business project* include entry regulations and procedures, enforcement of contracts, access to credit, labor regulations and bankruptcy³⁹ (indicators available for 110 countries including 39 IDA countries). The data will be collected annually to make comparisons over time and across countries.
- ***The Africa Regional Program on Enterprise Development (RPED)*** is a program of country and regional surveys designed to provide policy advice and operational guidance to improve the business environment in African countries. (Surveys were undertaken in *Burundi, Cameroon, Cote d'Ivoire, Eritrea, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Zambia, and Zimbabwe*). In addition, in collaboration with research institutes and universities, special studies were completed on examining supply chains of cut flowers, tourism, and other non-traditional exports in selected countries, as well as evaluating matching grants schemes and other topics.

60. **IFC helps promote private sector investments in IDA countries.** It does so by mobilizing private financiers to take risks they would be unwilling to assume on their own. In IDA12, IFC's investments in IDA countries stood at almost \$2 billion, Sub-Saharan Africa accounting for 45 percent. While IFC's investments are spread over various sectors, special focus is on the financial sector (31 percent of IFC's investments in IDA countries), which is essential for expanding access to capital, particularly for SMEs. IFC is also involved in a wide range of advisory services through the Technical Assistance Trust Funds Program,⁴⁰ FIAS (see para. 59), the SME Capacity Building Facility, the Private Enterprise Partnership in Former Soviet Union, and Private Sector Advisory Services (PSAS) that focus on some of the riskiest sectors and countries. PSAS has been at the forefront of advisory services in the water, power, and telecommunications sectors.

³⁹ Additional indicators to be developed in the future cover areas such as business licenses, taxation, property, infrastructure, trade, corporate governance, and rule of law.

⁴⁰ Over FY00-02, IFC approved 425 technical assistance projects for a total of \$51 million. Major recipients include Tajikistan, Uzbekistan, Lao PDR, Mozambique, Kenya, and Bangladesh.

61. **The WBG helps IDA countries attract foreign investment.** FIAS conducts diagnostic studies and provides recommendations on policies, laws and regulations, procedures, and investment promotion strategies and institutions. FIAS also often provides assistance to client agencies in implementing the recommendations. During IDA12, FIAS carried out about 100 assignments in IDA countries. These include studies of administrative barriers to investment in Bolivia, Bosnia-Herzegovina, Georgia, Guinea Bissau, Madagascar, Mali, Nigeria and Vietnam; assistance to the institutional development of the investment promotion agencies in Nicaragua and Senegal; and review of investment codes/laws in Mauritania, Kenya, Indonesia and Mongolia. The Multilateral Investment Guarantee Agency (MIGA) also helps promote foreign direct investment by offering political risk insurance (guarantees) to investors and lenders. Greater emphasis on IDA countries is now one of MIGA's corporate goals. IDA countries now represent 29 percent of MIGA's gross portfolio.⁴¹

62. **Privatization is one of the major areas of IDA's work in private sector development.** Thirty five projects were approved during IDA12 with significant privatization components. The spectrum of privatization actions include management contracts, leases, concessions, build-operate-transfer schemes, and outright divestiture. IDA-supported privatization projects cover a wide range of measures: (i) strengthening the institutional capacity of client governments to formulate and implement privatization strategies and policies; (ii) developing the legal framework for privatization; (iii) transaction-related advisory services; (iv) dealing with labor retrenchment; (v) promoting indigenous and popular participation in privatization; (vi) privatization guarantees to attract private flows in a highly cautious environment; and (vii) public information campaigns. IDA's efforts are complemented by IFC which provides transactions-specific advice, or invests in privatized enterprises.

63. **There has been increased attention to social and environmental implications of privatization.** For example, the *Zambia-Railway Restructuring Project (FY01)* -- that helps the government with a private concession agreement -- estimated that up to 2400 staff could be retrenched. The project set aside funds for severance payments and counseling services, based on the recommendations of a social mitigation assessment. The *Uganda-Privatization and Utility Sector Reform Project (FY01)* finances environmental audits in several public enterprises prior to privatization to identify pre-existing liabilities. Also, the project helps build capacity of the environmental regulatory authority to monitor environmental compliance after privatization.

64. **Several IDA projects provide assistance to private firms.** These include lines of credit, matching grants, business advisory services, micro-finance and rural finance. Most lines of credit give preference to, or are exclusively focused on small-scale or export-oriented enterprises. The Bank takes the position that SME financing should not be subsidized, and preferably be provided via the IFC. Where subsidies could be justified, e.g., capacity-building or other activities with identifiable externalities, they are to be performance-based and targeted transparently.

65. **A special form of direct assistance to private infrastructure projects consists of guarantees and funding through project financing facilities.** There are a few project financing facilities, mostly in South Asia. There is an increasing trend toward providing

⁴¹ MIGA, *Annual Report 2002*.

assistance to small-scale providers of energy and infrastructure services. For example, the *Sri Lanka-Renewable Energy for Rural Economic Development Project (FY02)*, uses off-grid renewable energy technologies to provide electricity in remote rural areas, and promotes private power generation from renewable resources for the main grid.

66. IDA also provides partial risk guarantees to catalyze private infrastructure projects, under a pilot program. In FY01, a \$115 million partial risk guarantee was provided for the *Bujagali Hydropower* project in *Uganda*. The IDA guarantee will help mobilize long-term cofinancing of over \$550 million substantially beyond prevailing market terms for Uganda. The Bujagali Power Project is the single largest investment in East And Central Africa whose financial closure is still pending. This is the third IDA guarantee under the pilot program. Overall, there has been a strong interest by client countries for such guarantees, reflecting the increased risk aversion in capital markets.

67. The private sector can provide managerial expertise and finance the delivery of infrastructural services. Private participation in infrastructure (PPI) ranged from management contracts and leases to the concessioning or privatizing of existing assets and the private financing of new facilities. During IDA12, 69 projects were supporting PPI in 43 countries. These projects were helping countries put in place the policy and regulatory environment necessary to introduce and expand private service provision. IFC and MIGA are often instrumental in financing and providing risk coverage for PPI projects.

68. A significant part of the IDA support for PSD involves the establishment and/or strengthening of institutions, such as investment promotion agencies, infrastructure regulatory bodies, institutions to promote public-private consultations on PSD issues, private sector collective bodies, financial intermediaries, business advisory services, and micro-finance. Most of this work is being done in collaboration with other partners: such as *Consultative Group to Assist the Poorest* in capacity building of micro-finance institutions; and the *Public-Private Infrastructure Advisory Facility* that helps countries improve the quality of their infrastructure through private sector involvement.

69. Many infrastructure privatization projects include features to facilitate access by the poor. One of the PSD Strategy's major initiatives is the output-based aid approaches to the delivery of basic services. This involves techniques for using public funding to improve the affordability of services delivered by private firms, structured in a way to better target the poor, increase accountability for performance, and help mobilize private finance. Examples include projects in the water sector in Cambodia, energy for rural transformation in Uganda, and the telecommunications sector in Nepal.

70. A well-functioning financial sector is necessary to support private sector-led growth. During IDA12, almost \$1.4 billion were provided for the financial sector, mainly focused on strengthening the banking system and improving access of the poor to credit. Banking reforms include privatizing and/or restructuring state banks, improving the regulatory framework and prudential supervision (e.g. assessing capital adequacy and liquidity ratios), and facilitating private entry. Box 6 provides some examples of IDA's financial sector operations.

71. **IDA helps empower the poor through micro-finance and SME programs** which made up about 30 percent of the financial sector-related IDA12 projects. Cutting-edge work in this area include: (i) improving information on the creditworthiness of small activities (e.g., adapting credit reporting ideas to client countries) to be able to assess the risks of small borrowers; (ii) innovative financial mechanisms to promote access to private housing ownership, including for the least endowed; (iii) promotion of contractual savings; and (iv) weather-indexed insurance schemes aimed at distributing internationally the risks faced by small farmers, thereby helping stabilize their income.

Box 7. Financial Sector Reforms

Support for Bank Restructuring and Privatization: In Pakistan, the *Banking Sector Restructuring and Privatization Project* focused on fully or partially divesting the state's shares in national commercial banks (NCBs). The state shares of the Muslim Commercial Bank will be fully divested, while the government's 49 percent stake in Allied Bank will be sold. As part of the bank restructuring process, the project supports rationalization of NCB branches and staff. The project envisages strong efficiency gains from the reform program -- lowering the cost-to-income ratio of NCBs, reducing the NCB branch network by 40 percent, and staff by 50 percent.

Strengthening Banking Regulations and Supervision: In Albania, while the banking regulatory framework reflects standards that are considered "best practice", financial institutions remain vulnerable without improving the effectiveness of the regulatory/supervisory framework. The *Albania--Financial Sector Adjustment Credit Project* helps foster efficient banking intermediation and ensure that risks of individual banks and the system as a whole are being properly identified, measured, monitored, and managed. The operation supports greater independence of the Bank of Albania (BoA), and helps strengthen commercial bank corporate governance. The BoA, with IDA support, is paying particular attention to anti-money laundering efforts in regulations and supervision. To this end, the BoA has prepared draft regulations on the "Prevention of Money Laundering."

Expanding Credit Opportunities for Rural Poor: IDA helps provide direct financing of rural poor and rural micro enterprises. The *Vietnam--Second Rural Finance Project*, in addition to directly supporting the rural poor through micro enterprise finance, provides term lending for viable private investments in the rural areas. The credit also finances small and medium rural enterprises, helps provide wholesale credit to rural banks, and encourages agricultural exports and improves rural productivity through lending to export-oriented farming. It is estimated that 90,000 economic entities will benefit from the Project.

Supporting Recovery in Post-Conflict Situations: In the Democratic Republic of Congo (DRC), IDA helps develop basic financial infrastructure. Years of civil strife have left DRC with a dramatic decline in financial sector activity and widespread insolvency in the banking system. The banks are under-capitalized, illiquid, and insolvent with over 60 percent of assets declared "non performing." Under the *Congo Economic Recovery Credit Project (ERC)*, the Government will place the three non-viable state banks into liquidation, and limit state shareholding in banks to under 20 percent. An overall financial sector strategy will be adopted.

72. **The Financial Sector Assessment Program (FSAP) diagnoses vulnerabilities and identifies developmental priorities in financial sectors**, tailoring the assessment to reflect countries' needs. Jointly managed by the World Bank and the IMF, the FSAP includes assessments of the observance of selected international supervisory and regulatory standards and codes. Since their inception in 1999, for IDA countries 9 FSAPs have been completed, and another 9 FSAPs are in progress.

Increasing Incomes In Rural Areas

73. **Improving living standards in rural areas** -- where about 75 percent of the people with less than a dollar a day live -- is critical for achieving IDA's poverty reduction objective. The Bank's Rural Strategy⁴² has encouraged public policy choices to increase rural people's access to assets by: (i) providing greater security for the assets rural people already possess, e.g., strengthening informal land rights and improving or preserving adults' health status; (ii) widening market access by the poor to productive assets, including land and financial services; (iii) facilitating private-sector provision of rural micro finance; (iv) providing infrastructure, such as rural feeder roads, and other local public goods; and (v) accelerating the transfer of appropriate new technology to poor farmers and small non-farm businesses.

74. **The themes addressed in agricultural/rural sector work have been diverse**, and ranged over topics such as pastoral management in Ethiopia, land reform in Uganda, fisheries management in Maldives, while others have transcended national boundaries, such as study of forest biodiversity in Africa. Improved sector work coupled with strong emphasis on rural development in PRSPs have resulted in greater integration of rural themes in CASs. Of the 25 CASs reviewed over FY00-01, the treatment of rural sector issues was satisfactory or better in more than 70 percent.⁴³ Several CASs, such as Burkina Faso and Indonesia, have proposed strategic choices in country program design and resource allocation to rural areas.

75. **Agricultural sector reforms have emphasized pricing and marketing policies to raise incomes and export earnings.** The range of reforms included both domestic and external trade policies, with strong emphasis on abolishing exchange rate controls, curtailing or phasing out remnants of crop marketing board interventions, and putting in place the institutional framework to foster internal competition rather than private monopolies. The elimination of controls and reduction in high crop taxes and tariffs, and the removal of input price subsidies contributed to expanding private investments and marketing in farm outputs and major inputs, such as fertilizer and fuel. The *Cote d'Ivoire's Economic Recovery Credit (FY02)*, for example, supported measures to enhance competition to raise producer prices for cocoa, coffee and cotton.

76. **During IDA12, there was a significant increase in lending in rural space,⁴⁴ while lending for agriculture *per se* declined.** There are several reasons for the decline,⁴⁵ such as the changing nature of the Bank's agricultural investments, led by a clearer understanding of public and private sector roles, market functioning and the need for institution building. IDA has withdrawn from sometimes unsuccessful investments in public infrastructure (such as large irrigation perimeters), government bureaucracies (e.g., agricultural credit institutions), and integrated rural development programs. Emphasis is being increasingly put on more effective

⁴² *Reaching the Rural Poor: A World Bank Sector Strategy*, World Bank, 2003 forthcoming.

⁴³ Satisfactory CASs look at: (i) rural poverty reduction; (ii) widely shared growth; (iii) food security; (iv) sustainable natural resource management; (v) policy and regulatory framework; and (vi) building alliances as ancillary themes.

⁴⁴ During IDA12, over 40 percent of IDA lending was in rural space.

⁴⁵ As the IDA's Evaluation by OED notes: "relative decreases in agricultural lending over other sectors cannot be assumed to be a bad thing a priori, especially since lending for social funds, rural infrastructure, and health and education have been robust".

and comprehensive rural institution building, in particular, delivery of key agricultural services better integrated into community based rural development, new technologies, (e.g., information and communication technologies, biotechnology, etc.), and on improving the links between farmers, markets, and agribusiness.

77. **In the area of agricultural technology generation and dissemination, the emphasis has been on building the capacity of rural producers, community organizations, and local governments** to contract extension services and monitor implementation, resulting in services responsive to farmer demands (including information on marketing and business management). These initiatives are underway in several regions, especially in Eastern Africa. At the same time, the concept of extension services has evolved: more participatory and interactive advisory services, highlighting the role of the agent as a facilitator, are replacing the traditional technology transfer methods. These services incorporate greater reliance on cost recovery and community funding, necessary elements for sustainability. Agricultural Services projects in Ghana and Uganda illustrate this new emphasis (Box 8).

Box 8. Empowering Farmers -- Agricultural Services

Ghana-The Agricultural Services Subsector Project (FY01) aims at decentralizing agricultural programs to the regions and districts, promoting demand-driven extension services, and strengthening the capacity of farmers-based organizations. The project consists of four components:

- Improved agricultural technology generation and diffusion is the main thrust of the program, which is expected to accelerate agricultural growth, resulting in reduced poverty.
- Institutional reform of the Ministry of Food and Agriculture will result in decentralized services under the administration of district assemblies, thus placing the responsibility for planning and implementation of agricultural services and development activities at the grassroots level.
- Development of farmer-based organizations will result in a grassroots independent movement, empowering farmers.
- The capacity of agricultural training institutions will be strengthened to produce the middle level human resources/skills critically needed in the sector.

Uganda -The National Agricultural Advisory Services Project (FY01) will assist poor farmers in becoming aware and able to adopt improved technology and management practices in their farming enterprises, thereby enhancing their productivity and welfare. The project will:

- provide agricultural advisory services to farmers, including a program orientation, and group mobilization for farmers' participatory planning, farm advisory services, information and communications, including training;
- foster linkages among farmers, advisers, and researchers, in addition to links between farmers and markets; finance contract researchers to develop new technologies adapted to markets, featuring on-farm technology and market linkage development; and provide expertise to address district, regional, or countrywide technology issues, as demanded by farmer institutions;
- develop a regulatory framework by setting standards for qualification and performance, including technical auditing of service providers;
- finance training of service providers; and
- facilitate financial management, auditing, and reporting of the program.

78. **IDA has also supported promotion of non-farm entrepreneurial activities, in addition to helping increase agricultural productivity.** Interventions focus on establishing linkages with small local enterprises. For example, the *India--Karnataka Watershed Development Project* supports the formation of beneficiary groups for additional income generation through handicrafts, and other small scale enterprises such as food processing,

tailoring and carpentry. Similarly, *Ethiopia--Women Development Initiatives Project* helps women's groups in organizing themselves in productive activities. The *Ghana--Community Water and Sanitation Project* assists small scale entrepreneurs through skill development and simplification of business procedures so that they can provide hardware and software services for the water and sanitation sector.

79. **IDA refocused its support for pro-poor infrastructure investments in rural areas**, such as water, transport and energy, as many PRSPs recognized the importance of these sectors in growth. The new approach to these sectors is different from the earlier ones in two significant ways. First, there is a strong emphasis on service delivery and social impact of investments through stakeholder involvement and increased empowerment of rural communities. Greater emphasis is placed on knowledge sharing and the provision of service delivery by NGOs and the private sector, while building the capacity of local/state governments. Second, the need to ensure increased impact has meant addressing issues multi-sectorally and within the context of institutional reform. This new approach is reflected in projects such as *Ethiopia-Road Rehabilitation*, *Madagascar-Transport*, *Ghana-Community Water* and *Senegal-Rural Infrastructure*. Similarly, in *Cambodia (Northeast Village Development Project)*, a community based participatory approach was used to support the formation of Village Development Committees who helped develop Village Action Plans, identifying priority investments that primarily include village roads, culverts, bridges, small-scale irrigation, wells, and latrines.

80. **IDA's efforts to increase growth in rural areas are constrained by developed countries' barriers** to developing countries' exports and their subsidies for agricultural production. OECD markets, particularly for cereals, dairy, horticultural products, sugar and meat products, have not been sufficiently opened to developing countries. IDA countries cannot fully capture the gains from trade and/or be encouraged to improve their agricultural productivity if they cannot sell their produce because of limited access to the markets of developed countries. In rural Africa, the deterioration in commodity prices due to high levels of subsidies in the developed world and the global slowdown in growth has contributed to decapitalization. This, in addition, contributes to environmental degradation that leaves rural areas highly vulnerable to climatic shocks.

Promoting Gender Equality

81. **Gender equality is a key issue for effective development and a development objective in its own right.**⁴⁶ Gender inequalities often lower the productivity of labor, create labor inefficiencies in the general economy, contribute to poverty, and reduce human well-being.⁴⁷ Without adequate human capital, access to economic resources, and a voice in decision-making -- and with an increasing burden of household chores -- poor women find themselves engaged in sectors with low incomes and few opportunities. In contrast, when men and women

⁴⁶ See the Bank's Policy Research Report *Engendering Development -- Through Gender Equality in Rights, Resources, and Voice*, 2001.

⁴⁷ *Engendering Development -- Through Gender Equality in Rights, Resources, and Voice*, 2001, a World Bank Policy Research Report; *World Development Report 2000-2001: Attacking Poverty*, 2000; and *Voices of the Poor: Can Anyone Hear Us?*, Narayan et al, 2000.

are relatively equal, the poor move more quickly out of poverty, and the well-being of men, women, and children is enhanced.

82. **The Bank's new gender mainstreaming strategy**⁴⁸ calls for working with governments and civil society in client countries, and with donors, to diagnose the gender-related barriers to and opportunities for poverty reduction and sustainable development, identify and support appropriate actions to reduce these barriers, and capitalize on the opportunities. It is to be implemented in each country where there is active Bank assistance by: (i) preparing periodic, multi-sectoral Country Gender Assessments (CGA); (ii) developing and implementing priority policy and operational interventions that respond to the assessment; and (iii) monitoring and evaluating the implementation and results of operational interventions. CGAs are being produced in all regions (Box 9).

Box 9. From Bank-Led to Country-Owned Gender Assessments

The Country Gender Assessment (CGA) is a consensus-building process based on empirical information, produced in collaboration with governments, NGOs, UN agencies and other donors. It provides an analysis of gender roles, activities, resources, and rights; reviews the country context, especially the institutions affecting gender relations and the country's gender equality action plans; and identifies possible gender-responsive policy and operational interventions that are key for poverty reduction.

During IDA12, CGAs were prepared for Benin, Cambodia, Ghana, Haiti, Honduras, Malawi, Nicaragua, Senegal, Tanzania and Vietnam. Notwithstanding the emphasis on country ownership and collaboration, the experience of preparing CGAs had significant variation in approaches, across countries. Some CGA processes, such as those for Ghana and Benin, are mostly IDA-led with some in-country consultations, and others, such as that for Vietnam, are fully country-owned and highly collaborative, often building on previous work.

The Vietnam CGA process brought together the work done over three years jointly by IDA and the Government. It included the Government's own five year plan of action for the advancement of women, prepared by the National Committee for the Advancement of Women (NCFAW). Together with other donors, IDA assisted the NCFAW, in conducting gender situation analysis and policy recommendations. IDA also helped NCFAW with mainstreaming gender issues into the Comprehensive Poverty Reduction and Growth Strategy, and funded the research on gender-based violence, and facilitated the equality of economic opportunity for women under Vietnamese laws.

83. **PRSPs and CASs are important mechanisms for gender mainstreaming in IDA countries.** Reflecting the focus on girl's education and maternal mortality, the coverage of gender issues was generally good in education and health sectors, but tended to be much less in other sectors (e.g., financial services, labor markets or infrastructure, governance and legal issues). On the other hand, the CAS Retro III found that the treatment of gender issues has continued to improve. About 69 percent of the IDA CASs reviewed have satisfactory or very satisfactory treatment of gender issues, as compared to 62 percent in CAS Retro II.⁴⁹

⁴⁸ *Integrating Gender into the World Bank's Work, A Strategy for Action*, January 2002, World Bank. This Gender Strategy was informed *inter alia* by OED reviews: *Integrating Gender in Bank Assistance*, (Washington, D.C. World Bank, 2000) and *The Gender Dimensions of Bank Assistance for Women: An Evaluation of Results. Draft Report*, 2001.

⁴⁹ A "satisfactory" rating includes an analysis of gender issues and subsequent action, or analysis of gender issues, with explanation of why action is not needed. A "very satisfactory" rating includes an analysis of gender issues and subsequent action in several sectors.

84. **During IDA12, there was also a steady increase in integrating gender-related actions in lending operations.** The proportion of projects incorporating gender-specific actions increased from 19 percent to 42 percent during this period. Gender-related activities were most prevalent in traditionally “female” sectors such as health, population and nutrition, education and other social sectors, as well as the agricultural sector (over 64 percent of the projects with gender related actions were in these sectors). On the other hand, projects in sectors such as oil and gas, transportation, mining, environment, urban development, finance and private sector development did not regularly incorporate gender actions, despite the evidence that policies and programs in these areas often affect men and women differently. Box 10 provides examples of mainstreaming gender in IDA operations.

Box 10. Mainstreaming Gender in IDA Operations

Yemen – Child Development Project uses a community education approach in trying to increase girls’ enrollment and retention in primary schools, building on a UNICEF model. It complements the government’s new strategy on girls’ education, which includes waiving school fees for girls to reduce cost barriers. The project supports:

- Setting up community schools;
- Increasing the number of female teachers and providing them with adequate training;
- Providing school kits to reduce costs and strengthening textbook distribution system; and
- Incorporating water systems into the project, thus freeing up girls’ time so they can attend school.

Chad – Second Population and AIDS Project aims at reducing the vulnerability factor, transmission co-factors and socio-economic impact of the HIV/AIDS epidemic and of high fertility, by supporting women’s education and income generating activities for women and women’s associations. It seeks to empower women to decide on their fertility, and includes gender specific indicators among project performance indicators, such as:

- Targeted information, education and communication campaigns for behavior change in the areas of population and HIV/AIDS;
- Increasing the status and autonomy of women through income generating activities leading to a reduction in their fertility rates and HIV infection;
- Comprehensive support and care for HIV/AIDS orphans;
- Accessibility of voluntary HIV counseling and testing and mitigation of mother to child transmission for pregnant women; and
- Promotion and distribution of modern methods of contraception.

Working Toward Environmental Sustainability

85. **Promoting environmental improvements is a fundamental element of development and poverty reduction strategies and actions.** The Bank’s Strategy⁵⁰ sets three interrelated objectives: improving people’s quality of life, improving the prospects for and the quality of growth, and protecting the quality of the regional and global environmental commons. It stresses the need for improvements in three key areas: (i) analytical and advisory activities through country level diagnostic studies and strategic environmental assessments; (ii) project and program design through the mainstreaming of environmental considerations with special emphasis on IDA countries; and (iii) improving the safeguard system.

⁵⁰ See the Bank’s new environment strategy -- *Making Sustainable Commitments: An Environment Strategy for the World Bank*, July 2001.

86. **IDA broadened awareness of environmental issues in client countries.**⁵¹ During IDA12, sector work covered a wide variety of environmental themes, from water resource management in Armenia to environmental health in India. All IDA countries with active lending programs and appropriate political conditions completed national environment action plans (NEAPs). In many cases, IDA has followed up on the NEAP process with technical assistance or other financing to help establish legal and institutional systems for environmental policy and regulation, and to address critical environmental issues. On the whole, NEAPs have proved useful in raising awareness about environmental issues, particularly in those countries where the preparation process was highly participatory. They have been less useful in identifying priorities for action and generating the necessary resources and political commitment, particularly when environmental objectives compete or conflict with short-term economic or political objectives.

87. **Systematic analyses of environmental issues are needed to better integrate them into country programming, policy dialogue, and sector programs.** A few examples of good analytical work are provided in Box 11. Country Environmental Analysis (CEA) is being developed as a diagnostic tool to inform countries' policies and programs. CEAs build on NEAPs, environmental and conservation strategies, and other environmental priority setting processes. They aim at helping mainstream environmental considerations into the PRSP preparation, implementation and monitoring process by emphasizing the links between poverty reduction and sustainable environmental management; highlighting the environmental aspects of policies and strategies supported by the PRSP; assessing environmental management capacity and gaps; and identifying key indicators to monitor progress. Several pilots are underway including in Andhra Pradesh, Karnataka, and Uttar Pradesh in India, Ethiopia, and Rwanda. In several cases, CEAs are jointly managed with other development partners.

Box 11. Examples of Analytical and Advisory Activities for Environment

Africa: Nile River Basin – Shared Vision Program. The primary purpose of this program is to create an enabling environment for cooperative management and development in the Nile Basin through a limited but effective set of basin-wide activities and projects. The Shared Vision Program project portfolio includes seven projects that address crosscutting themes deemed critical by the Nile riparians to ensure an integrated and comprehensive approach to water resources development and management.

East Asia and Pacific – Indonesia: Environment and Natural Resource Management in a Time of Transition. The report analyzes trends and issues in terrestrial resources use, specifically, forestry, biodiversity, and mining, with particular emphasis on the resource-rich regions of Java. Its overarching objective is to provide (i) a practical analysis of the natural resource issues and options for which they are about to assume much greater authority and responsibility for the first time -- both by sector and in terms of the cross-sectoral issues and opportunities offered by decentralization -- and (ii) an explanation of the need to ensure adequate regional expenditure for environmental protection.

88. **The treatment of environmental issues has improved in CASs, especially in the identification of issues, discussion of environmental concerns in mainstreaming, and in attention to links between poverty and environment (CAS Retro III).** Environment is increasingly treated as an inherent part of development. For example, the Mongolia CAS presents an analysis of

⁵¹ That was one of the conclusions of OED Reviews: *Review of Environmental Sustainability Issues in IDA10-12, 2001*, and *The Bank's Performance on the Environment* (Washington D.C., World Bank, 2001).

economic growth after taking into account resource and environment depletion. The poverty-environment link, however, is an area that needs further attention. Several CASs show awareness of the detrimental effect of the legacy of environmental degradation, but do not explore the impact on the poor. This suggests a need for greater focus on the dynamics of poverty-environment interactions, and on the incorporation of environmental considerations into the design of the poverty reduction schemes.

89. IDA lending for the environment consists of projects with primary environmental objectives as well as projects with environmental components. IDA lending for the environment has increased over time, with a gradual shift towards mainstreaming environmental consideration into sector projects. During IDA12, seven IDA projects with primary environmental objectives⁵² were approved, representing commitments of some \$84 million. In addition, there were 67 new IDA projects with environmental objectives, representing nearly \$4.4 billion (Box 12).

Box 12. Examples of Projects with Environmental Objectives

Tanzania Forest Conservation and Management Project (FY02) initiates an integrated biodiversity conservation strategy for the Eastern Arc Mountains, strengthening Tanzania's capacity to coordinate forest biodiversity conservation interventions.

Tanzania Lower Kihansi Environment Management Technical Assistance Project (FY02) aims, at the national level, to support the development of a coordinated and consistent legal and institutional framework for environmental and water resources management.

Cambodia Biodiversity and Protected Areas Management Project (FY00) assists in achieving long-term utilization of Cambodia's natural resources, particularly its mountain forest ecosystems, through the improvement of the Ministry of Environment's capacity to plan, implement, and monitor effectively the national protected areas.

Kyrgyz Republic Land and Real Estate Registration Project (FY00) supports the development of markets for land and real estate in a more intensive and effective use through the introduction of reliable property registration of rights.

90. The World Bank's safeguard policies are applied to investment and sectoral adjustment operations. Environmental Assessment (EA) has been a key instrument in helping IDA and its clients to incorporate environmental and social aspects of proposed investments into the decision making process. Of the total projects approved during IDA12, about 11 percent required a full EA. Another 36 percent required a more targeted or limited environmental analysis. More than 80 percent of projects in water supply and sanitation, electric power and energy, private sector development, transportation, and agriculture required environmental assessment or analysis. EAs have been effective tools to improve project design in order to avoid or mitigate harmful environmental impacts, consider alternatives, and consult with affected stakeholders. In many cases, environmental management plans have introduced improvements in project implementation. A good example is the Chad-Cameroon Pipeline project that has raised important social and environmental issues, and has been subject to an extensive assessment process.

⁵² Defined as projects in which at least 75 percent of the total loan amount is associated with environmental objectives.

VI. Investing in People

Improving Health Outcomes

91. **Ensuring adequate levels of basic health and nutrition lies at the heart of IDA's efforts to reduce poverty and spur economic development.** Many IDA countries have seen strong health gains over the past several decades as a result of improvements in income and education, hygiene and housing, water supply and sanitation, nutrition, and health services. Yet the challenge of improving health outcomes, and preventing an erosion of the gains already achieved, remain daunting. This is especially the case in those low-income countries hardest hit by communicable diseases, such as HIV/AIDS.

92. **IDA's efforts to meet this challenge have been guided by three main objectives:**⁵³ (i) improve Health, Nutrition and Population (HNP) outcomes for poor people, and protect the population from the impoverishing effects of ill health; (ii) enhance the performance of health systems; and (iii) secure sustainable health financing. A recent review of the HNP strategy implementation found that IDA has achieved a sharper focus on health and poverty, and made an important beginning towards ensuring financial protection from impoverishment due to disease. Furthermore, most recent projects are designed to achieve sustainable health financing or provide financial protection. These will continue to be the areas of emphasis for the future, together with increased attention to capacity building as well as monitoring and evaluation. Moreover, the Millennium Development Goals are now a central part of IDA's work in HNP, and particular efforts are being made to identify countries where, with appropriate types and levels of assistance, meaningful advances towards achieving those goals can be made.

93. **During IDA12, new commitments for HNP amounted to about \$1.8 billion** through 46 HNP operations, as well as projects outside these sectors that included HNP components. Following through on the Bank's commitment to significantly scale up efforts to fight communicable diseases, a large share of new commitments was directed to HIV/AIDS and other communicable diseases, such as tuberculosis, malaria, leprosy, and childhood illnesses (Box 13). More than two-thirds of HNP projects, together with a number of operations in other sectors, provided support to communicable disease prevention and control, either as free-standing operations, or through components/subcomponents of projects. Specifically, for HIV/AIDS in Africa, 16 projects supporting prevention and care were approved under the two ongoing phases of the *Multi-Country AIDS Program* (MAP) for Africa (see paras. 125-127 for details).

⁵³ These objectives are set out in HPNs Sector Strategy Paper: *Health, Nutrition and Population* (R97-168), July 22, 1997.

Box 13. Communicable Diseases – A Key Priority During IDA12

During IDA12, there has been a significant increase in IDA support for *HIV/AIDS* and other communicable diseases. To fight HIV/AIDS in Africa, IDA12 earmarked \$1 billion for two Multi-Country AIDS Programs (MAP), and by the end of IDA12, about \$516 million had been committed for 16 operations for HIV/AIDS prevention and care in the Region.

Tuberculosis kills 2 million people each year, and continues to be a priority area for IDA operations. Many IDA countries, including Bangladesh, Cambodia, Eritrea, Ghana, Haiti, India, Kenya, Kyrgyz Republic, Uganda and Vietnam are currently implementing DOTS (Directly-Observed Treatment, Short-course) programs with IDA support. Successful efforts include *Vietnam National Health Support Project*, which has contributed to Vietnam's becoming one of the few developing countries to surpass WHO targets for tuberculosis control: over 85 percent treatment success and detection of over 70 percent of infectious cases.

IDA also provides extensive support to *malaria* control efforts. In the *Madagascar Second Health Sector Support Project (FY00)* is helping improve access to services in rural areas, including drugs and insecticides, and training to diagnose, prevent, treat and monitor malaria together with other infectious diseases. The *Eritrea--HIV/AIDS, Malaria, STDs and TB Control Project (FY01)* is strengthening access to preventive and diagnostic services, and environmental techniques for malaria vector control.

IDA is also working with countries to eradicate diseases such as *leprosy* and *polio*. In the *India Second National Leprosy Elimination Project (FY01)* builds on earlier IDA-supported efforts which contributed to a decline in leprosy rates from about 55 per 10,000 population in 1981 to 3 per 10,000 in 2000. This Project is helping to make leprosy services available at all general health facilities, prevent disabilities among those affected, and most importantly, complete the task of leprosy eradication in the country. All 25 State Governments have already begun providing leprosy treatment to all persons reporting to general health care facility in rural and urban areas.

The *India Immunization Strengthening Project (FY00)* complements ongoing efforts in the country to eradicate polio and strengthen routine immunization. Progress in both areas has been satisfactory. There has been a significant decline in the number of polio cases reported, from 1,934 in 1998 to 268 in 2001, and the ratio of fully immunized children at the national level increased to almost 54 percent in 2001 (from 37 percent a year earlier). The WHO estimates that if current trends are maintained, polio-free status may be achievable by 2003.

94. **IDA has continued to provide substantial assistance to countries in strengthening health systems, emphasizing equity and efficiency improvements.** In *Bolivia*, the *Health Sector Reform APL I* focused on results by setting annual targets for 8 performance indicators to measure outcomes of project-related interventions. In 2000, all targets were exceeded, and 7 of the targets for 2001 were reached a year in advance. The *Kenya Decentralized Reproductive Health and HIV/AIDS Project (FY01)* is supporting systems efficiency improvements. Strengthened district capacity, stronger guidelines, increased oversight, are resulting in improved service delivery. The project is also helping the Government better direct public resources towards the poor through the application of objective and poverty focused criteria for resource allocation to districts. The *Moldova Health Investment Fund (FY00)* made considerable progress in hospital consolidation and restructuring to reduce the excess capacity in this area, while universal access to a minimum package of health services is being worked out.

95. **A key challenge for IDA has been to reduce the millions of preventable infant and child deaths and improve nutritional deficiencies.** Integrated Management of Child Illness (IMCI) -- one of the most cost effective and affordable public health and clinical interventions -- is a broad strategy to improve child health outcomes, with a principal focus on communicable diseases and on the poorest and most disadvantaged children. In partnership with the World Health Organization, IDA has helped support implementation of IMCI in more than two dozen

projects. For example, the *Eritrea Integrated Childhood Development Project (FY01)* is supporting the training of physicians in IMCI case management, and other health professionals in IMCI facilitation (Box 15). The *Senegal Nutrition Enhancement Program (FY02 APL)* also supports IMCI within the context of expanding integral nutrition-relevant community activities.

96. **IDA's nutritional interventions are multi-sectoral, encompassing community and school-based programs, food fortification programs, and food policy reforms.** About a dozen new projects supporting nutrition interventions were approved during IDA12 in countries like Bangladesh, Guinea, Kenya, Madagascar, Indonesia, and Yemen. The *Bangladesh National Nutrition Program (FY00)* emphasizes behavioral practices to improve maternal and child nutrition, such as breastfeeding and increased food intake during pregnancy, including micronutrient supplements, shown to improve the chances of survival for young children. It is the first of a series of planned investments to expand community nutrition services throughout the country. In *Senegal*, the primary objective of the *Nutrition Enhancement Program* is to help the country achieve the MDG of halving child malnutrition rates by 2015. The project has a strong focus on prevention of malnutrition -- as opposed to the usual approach which is to provide food supplements to children who are already malnourished -- by helping mothers better use resources available to them.

97. Still today more than 500,000 maternal deaths occur each year, and more than one third of all pregnancies (about 80 million a year) are believed to be unwanted or mistimed. **Support for reproductive health emphasizes an approach integrating family planning, maternal health, and prevention and treatment of sexually transmitted infections,** including HIV/AIDS. For example, in *Chad*, IDA supports through the *Health Sector Support Project (FY00)* a range of safe motherhood interventions, and preliminary reviews indicate signs of improvement in maternal and child health in rural areas. In *Bolivia*, the *Health Reform APL*, implemented under IDA12, has led to important increases in coverage for births attended by trained personnel, and complete prenatal care attendance has also improved.

98. **IDA also works with countries to ensure that their PRSPs give due attention to health sector priorities.** Many HIPC countries are already showing increased spending in the social sectors, and some have proposed significantly higher levels of health spending as in Burkina, Mauritania, and Mozambique. While there is still much room for improvement, a review of the health content of some of the first PRSPs (Burkina, Mauritania, Mozambique, Tanzania, Uganda, Honduras, Nicaragua, Bolivia and Guyana) has revealed a number of strengths, including a focus on health outcomes, analysis of health system performance, and an emphasis on allocations to primary and preventive care. Based on PRSPs and sectoral programs, HPN issues are increasingly being addressed within a programmatic framework (Box 14).

Box 14. Programmatic Approaches to Health Services

PRSCs

Uganda: Under the PRSC, the program focuses on improving access to good quality basic social services. While chronic under-funding of the health sector remains a challenge (with current government budget allocations at \$5 per capita), progress is being made on several fronts: utilization of facilities has increased modestly (as user fees were abolished and construction of new facilities has increased geographic access); the downward trend in DPT3 immunization coverage was arrested; and HIV/AIDS prevalence has actually declined following the Ministry of Health's intensive information, education and communication and condom distribution campaigns.

Burkina Faso: Poor health and nutritional status, combined with high levels of fertility, are both a cause and a consequence of poverty in Burkina Faso. To address these issues, the Government adopted the 10-year health sector development program, as well as a 5-year National HIV/AIDS and Sexually Transmitted Infections Strategic Plan. The PRSC will support the continuation of an innovative scheme initiated under the IDA-funded Health and Nutrition project. Under this scheme, health districts benefit from direct channeling of IDA funds for the financing of district action plans that provide liquidity and flexibility in the use of funds, and help develop accountability.

Sector-Wide Approaches (SWAPs)

SWAPs in HNP continue to demonstrate innovative ways in which IDA financing can support systemic changes and foster partnerships on the ground with communities, core donors and other key stakeholders. Explicit health sector reforms are undertaken to meet sectoral and national development objectives, as opposed to donor priorities. Sector-wide policies are implemented within the country's public expenditure framework and national implementation systems. During IDA12, IDA supported SWAPs in a number of countries, including Pakistan, Zambia, Mozambique, Ghana, Tanzania, Senegal, Bangladesh, and Sierra Leone.

In *Ghana*, a series of *Health Sector Support Projects* are helping the Government implement its medium-term health strategy and the 5-year health work program. Although the health recurrent budget is relatively small, it is being spent efficiently. DPT3 coverage is up to 77 percent and measles vaccination rates exceed 80 percent. The percentage of essential drugs stocked at the district level is currently over 86 percent, compared to the 80 percent target for the program. The SWAP has given rise to a strong partnership between the Ministry of Health, core donors, and NGOs who are private providers of services.

The *Tanzania Health Sector Development Program (FY00)* supports the development and implementation of a unified and consolidated budget under a SWAP in which the Government and its donor partners are involved. The reform program has been extended to 82 of 114 of councils, with noticeable improvements in district services planning and budgeting, capacity building, and delivery of an essential package of services.

Improving Quality and Coverage of Education

99. **Education reduces poverty and inequality, and lays the basis for sustained economic growth.** Combined with good macroeconomic policies, it is fundamental for the construction of democratic societies, and dynamic, globally competitive economies. The challenge to provide quality education for all is enormous: 900 million adults world wide are illiterate and more than 400 million 6-17 year olds are not in school. IDA is working with governments in almost all countries to help them improve and expand their efforts in the education sector. The key priorities are⁵⁴ achieving the MDG of universal primary completion; cost-effective Early Childhood Development (ECD) programs targeted to the poor; and innovative delivery and

⁵⁴ *Education Sector Strategy (R99-68)*, May 18, 1999.

systemic reform. Improved tertiary education is also necessary for sustainable progress in basic education.

100. In addition to education system expansion, IDA's support has focused strongly on systemic reforms, to improve quality, equity, and the efficiency of service delivery, through development of quality curricula and learning materials, teacher standards, measurement of student learning outcomes, and reforms to improve accountability and governance at the basic and post-basic levels, including greater involvement of communities in school management, and effective use of education providers outside the public sector. Education reform is now on the political agenda of almost all IDA's countries. Global Education for All (EFA) fora, the education MDGs, and the PRSP process have reinforced the urgency of improving education system performance in low-income countries to ensure that all children complete at least a primary education, and that opportunities for life long learning are created. Box 15 provides a few examples of IDA's assistance for systemic education reforms within the framework of countries' multi-year programs.

Box 15. Systemic Education Sector Reforms

Burkina Faso-Basic Education Sector Project (FY02). IDA is supporting the first phase (2001-2005) of the Government's Basic Education Ten-Year Program. To prepare for a shift from project to programmatic support, IDA will also help build the capacity of the Ministry of Basic Education (MEBA) with particular attention to the areas of financial management, budgeting, procurement, monitoring, evaluation and donor coordination.

The Project will help Government implement activities to expand basic education and promote greater participation by girls and women. It will experiment with integrated approaches (including early childhood education and non-formal education) in the 20 poorest provinces. Various measures and reforms to improve the quality and efficiency of education (e.g., curriculum reform, in-service training, evaluation of learning outcomes) and enhance the institutional capacity of MEBA will also be implemented.

Sustainability will be ensured through: (i) continued government budget support over the long term; (ii) development of capacity in MEBA to constantly evaluate the quality and effectiveness of basic education and to take remedial actions, as necessary; (iii) continued implementation of cost effective measures such as reduction of unit costs through more recruitment of low-cost teachers and increased rate of utilization of facilities through double shift teaching, increased student/teacher ratio, and multigrade teaching; (iv) reduced repetition and increased teaching hours; (v) regular preventive maintenance by communities to avoid high costs for classroom repairs or replacement; and (vi) continuous stakeholder and donor participation, critical for success.

Tanzania-Primary Education Development Program Project (FY02) supports the country's Primary Education Development Program (PEDP). The objectives of the PEDP are to improve education quality, expand school access, and increase retention at the primary level. These objectives would be achieved through: (i) introduction of capitation and development grants for primary schools; (ii) further development of high quality teaching materials and other educational inputs; and (iii) institutional capacity building at central, district, and school levels for efficient operation of primary education system.

The first phase of the Project supports *inter alia*: (i) the abolition of fees for universal primary education; (ii) development of information, education and communication strategy on PEDP information and guidelines to all staff; (iii) introduction of a decentralized primary school funding and financial management mechanism; and (iv) preparation of an implementation guidelines to admit all 7-10 year old children in primary schools by 2004, revisions in the design of teacher training programs, primary school curriculum and examinations, in order to facilitate enhanced student learning and classroom interaction.

101. **Over the IDA12 period, lending for investments in the education sector totaled over \$1.3 billion**, which is about a quarter of the total IDA invested in all the social sectors. The Africa Region was the largest recipient, with 44 percent of the total distributed over 19 projects, followed by South Asia with 32 percent over 7 projects.

102. **IDA's also supports countries' efforts to educate illiterate youths and adults.** The noteworthy feature of IDA's support for such programs is the private-public partnerships in non-formal education. These partnerships use outsourcing as a means of stimulating private investment in education, and thus commercialize the field of non-formal education, creating an unprecedented dynamic. They involve governments as catalysts and policy makers, private organizations as providers, and grassroots associations as beneficiaries.

103. **Support for Early Childhood Development (ECD) with a mix of pre-school education, nutrition and basic health care, helps accelerate universal basic education.** Taking an integrated approach can be critical to achieving improvements in child health and educational performance. Indeed, children who are born poor often suffer from malnutrition and do not have access to basic health care. This situation can set them on a trajectory for lower school achievement, with negative life-long consequences. IDA has supported a number of free standing ECD projects, and social sector projects with ECD components. The specific objectives and institutional arrangements for service delivery are tailored to the context of client countries. While ECD is a relatively new area for investment, over a quarter of IDA12 education projects had ECD components (Box 16).

Box 16. Helping Early Childhood Development

Eritrea—Integrated Early Childhood Development Project (FY01): The Ministry of Education's policy on Early Childhood Education (ECE) supports equal access to and improved quality of ECE interventions, the promotion of diversified forms of ECE delivery (through both formal, center-based institutions and non-formal, caregiver type arrangements), and promotion of effective, low-cost community based interventions that strengthen community responsibility and control, to assure long-term sustainability.

IDA is supporting the Government's efforts to improve and scale-up its ongoing ECD activities, and strengthen its institutional capacity to manage the ECD program. The Project will provide services for young children's basic needs: health care, nutrition, protection, cognitive stimulation, affection and early education. The integrated nationwide program in urban and rural areas will reach about 560,000 children within six years (including 310,000 primary school children and 32,000 orphans). The Project complements existing IDA-financed social sector projects (*Eritrea -- Community Development Fund, Health Project, and the Human Resource Development Project*).

Guinea—Early Child Development in the Basic Education for All Project (FY02). In Guinea, only one child in five completes primary school. For girls the figure is only one in eight. Primary school repetition rates now average 28 percent, and primary school enrollment 48 percent.

The early childhood interventions in the framework of the Basic Education for All Project seeks to prepare young children for primary school and to provide services targeting their basic needs, such as adequate cognitive and emotional stimulation, nutrition, and basic health care. The intervention will phase its goals throughout the 10-year project cycle. The project's ECD component aims to: develop an integrated, multisector approach toward child development, strengthen local capacity for delivery and management of ECD services, develop, test, and expand ECD community-based models, develop a monitoring and evaluation system for child development program, and increase awareness among families of the importance of early years.

During the first three years (Phase I, 2001-03), a pilot program will be implemented and tested in three geographical areas and at least three prefectures per region, to shape an integrated community-based ECD approach that can successfully respond to the different cultural, geographic, institutional, and infrastructure conditions and needs in Guinea. A second objective during the first phase will be to build capacity at the central level, and in each of the prefectures to prepare for the expansion phase. The second phase (2004-10) will expand the program nationwide based on lessons learned during the first three years.

104. Support for girl's education is at the core of achieving the EFA and Millennium Development Goals. In addition to the role that educated girls and women play in a country's economic development process through their labor market participation, their education is also associated with lower maternal and infant mortality rates, fewer children, improved family welfare, and a positive impact on the educational prospects of their children. In spite of the compelling economic and social benefits to girls' education, today girls' participation in schools remains low in many IDA countries. Girls constitute 60 percent of the out of school population. Boys' enrollment rates exceed girls' enrollment rates by more than 20 percentage points in a considerable number of countries and, in some instances, the gender disparity is over 30 percentage points.

105. IDA has paid particular attention to girls' education and intensified its support. Of the 84 active IDA education projects, almost half (46 percent) include specific interventions targeting girls' education. Lending for girls' education has been highest in two regions, Africa and South Asia, where the challenges on girls' education are greatest. IDA projects incorporate a variety of complementary supply and demand side strategies to increase girls' enrollment and retention. For instance, the *Bangladesh--Female Secondary School Assistance Project II* builds

on a stipend and tuition program that proved highly effective in attracting and keeping girls in secondary school. To qualify, girls must be from low-income families, attend at least 75 percent of the classes, maintain a satisfactory academic record, and remain unmarried. In another example, *Yemen--Higher Education Project* supports a revision of the formula for allocating public funds to reward progress in increasing the participation of girls. Other efforts include support for classroom and latrine construction and the establishment of a tutoring program to reduce girls' repetition and dropout, as in *Burkina Faso's Basic Education Project*.

106. An increasing number of IDA countries are experimenting with new technologies to expand education and training. Distance education via radio for instance, has been used to deliver instruction in mathematics, science, English language to primary level students in Africa, Latin America and Asia. Television is also being used effectively to deliver a wide range of training to children, teachers and other adults. Newer technologies, especially Internet, offer policymakers additional alternatives for delivering education and training to learners of all ages. For example, in *Benin*, IDA is establishing a Distance Learning Center (DLC) as an autonomous nonprofit agency with access to the latest global distance learning programs and using state-of-the-art communications technology. To ensure long-term sustainability, the operating cost of the DLC are financed on a decreasing basis. The project will help the Government improve the cost effectiveness of professional and continuing education through the use of modern technologies, as a key element in its capacity-building strategy.

Safe Water Supply and Sanitation

107. Safe water and appropriate sanitation facilities are important determinants of health and human productivity: water related illnesses account for a large proportion of the overall burden of disease in IDA countries, and diarrheal diseases are major contributors to child mortality and morbidity. Improved access to WSS services also enhances economic well being at the household level through savings of time and energy in collecting water, the burden of which falls heavily on women and children. Moreover, the presence of sanitation facilities is an important factor in stimulating girls' school attendance.

108. IDA operations relied on several approaches to deliver affordable and sustainable water and sanitation sector (WSS) services to poor households: (i) incorporating community preferences regarding service levels, delivery modalities, and management arrangements; (ii) building local capacities to support communities in expressing their needs and managing services; (iii) broadening the scope for public-private partnerships in service delivery to improve responsiveness to users and operating efficiency; and (iv) emphasizing sanitation and hygiene interventions as an essential complement to improved water supply to achieve greater health impacts and improve living conditions. These interventions were underpinned by clear government policies and institutional responsibilities promoting sanitation and environmental health, and creating conditions where all stakeholders actively contribute -- with central governments increasingly facilitating rather than directly providing basic WSS services.

109. Urban water and sanitation remained a core business of IDA operations during the IDA12 period. These operations focused on stimulating the development of more consumer responsive, operationally efficient utilities, structuring private sector contracts, regulatory incentives and legislation to facilitate upgrading service quality and extending services to poor

communities, and strategic water quality management in metropolitan areas and their surrounding water bodies and watersheds. Increasing emphasis was placed on interventions to transform traditional state owned monolithic water companies into more modern service delivery systems that emphasize operational and financial sustainability. All projects in Africa and LAC include strong private participation and to a lesser degree regulatory components (e.g., Niger, Malawi, OECS, Tanzania). In ECA, a number of operations were aimed at reform/restructuring of utilities and sectoral policies to establish a sound basis for subsequent operations.

110. Environmental management of water resources and water quality also featured prominently in IDA's operations. Environmental interventions included improvements in infrastructure, management practices and financing/cost recovery for sewerage and storm drainage networks, on-site sanitation, and to a lesser extent wastewater treatment. These interventions were linked to city and community-level planning processes and programs in health, slum upgrading and small town service provision (e.g., Indonesia, Burkina Faso, Vietnam, Uganda).

111. An important focus of IDA's operations has been the design of transactions that promote more effective delivery of services to the poor, often informal communities. Key elements include: (i) the use of local, small scale service providers; (ii) offering differentiated service standards reflecting community preferences and willingness to pay; (iii) increased emphasis on both hardware and software elements of sanitation; and (iv) efficiency improvements at the utility level to build capacity to sustain services. Some operations have included targeted interventions for low-income communities (e.g., Guinea, Senegal, Vietnam, Indonesia), linked to improvements in municipal service provision, financing arrangements, and land use management.

112. In WSS operations in rural areas, the shift towards community driven development (CDD) intensified, with greater involvement of users in the planning, implementation, and management of water and sanitation services. One feature introduced in some projects is "community contracting": user groups (rather than central government agencies) manage investment funds and directly contract goods and services. Another, more recent trend, is focusing capacity building efforts on local agencies (rather than centralized ministries) to support communities in the delivery of services. Based on a number of successful pilot projects, increased emphasis is now being placed on scaling up effective rural WSS services to national programs as an important step in putting in place sector-wide approaches to improving service delivery in rural villages and small towns. The India-Kerala (Box 17), Kyrgyz and Ghana community water and sanitation projects typify the approach of decentralizing responsibility for service provision to the lowest tiers of government.

Box 17. India-Mainstreaming CDD Approach in Rural WSS

The Bank's involvement in rural water supply and sanitation (RWSS) in India illustrates the mainstreaming of CDD approaches. The Bank has assisted the GoI in developing a sector reform strategy in RWSS through policy dialogue and reform-based investment lending. The basic principles of the sector strategy are: adoption of community-driven approach to service delivery; shifting the role of government from direct service delivery to facilitation; partial capital cost financing and full user responsibility for operations and maintenance; and participation of communities and local governments in the management of water resources. These principles have been adopted by the GoI's national program -- the Rajiv Gandhi National Drinking Water Mission's Sector Reform Pilots covering 64 districts in 22 states. The two recent IDA financed RWSS projects (Kerala and Karnataka) support decentralization of decisions and responsibilities to beneficiaries and rural communities to strengthen accountability, efficiency, and sustainability. The two projects will directly benefit 1.5 to 4 million people, a large proportion of which is rural poor and socially disadvantaged.

113. In poor communities, the provision of sanitation and hygiene has lagged significantly behind improved water supply, attenuating the favorable impact of the latter on health and living conditions. This remains a challenge because: (i) the importance and cost effectiveness of upfront actions needed to promote healthy behaviors, is not well understood; (ii) much of the investment in sanitation is made by households rather than through public infrastructure -- a difficult area for projects to address; and (iii) government policy has, in general, a bias against low-cost local systems in favor of more costly yet less sustainable sewerage-based sanitation interventions. Nonetheless, some progress is being made. An increasing proportion of multi-sectoral projects (social funds, CDD projects) incorporate sanitation and hygiene promotion. The majority of rural water supply projects include investments in sanitation facilities and health promotion. This approach is exemplified by the *Ghana Community Water and Sanitation II project (FY00)* which addresses sanitation in rural areas and small towns both through support to the public sector and through targeted interventions aimed at building the capacity of the small scale private sector.

114. In urban areas, the scope and quality of sanitation interventions is improving, though there is still a tendency to focus on wastewater collection and treatment rather than environmental sanitation as a whole. Most operations in the Africa region are supporting demand-responsive approaches to the delivery of appropriate sanitation in peri-urban areas.

115. Analytical and advisory work on sectoral and thematic issues has been a key complement to IDA lending. Water and sanitation featured notably not only in poverty assessments, but also in policy and program priorities for achieving broader poverty reduction goals such as reducing child mortality, raising living standards of the poor, realigning public/private roles in delivery of basic services, and improving efficiency and poverty impacts of public spending. As a result, water and sanitation figured prominently in more than half the PRSPs completed during IDA12. PRSPs also underscored the importance of scaling up support for sectoral performance. There have been some good examples integrating upstream sector work and multi-sectoral PRSPs into country assistance strategies and IDA operations (Box 18).

Box 18. Uganda – Programmatic Support for WSS Service Improvement

In Uganda's PRSP, the policy reform framework for WSS includes a shift to community-based services, decentralized implementation and management of services, government facilitation, regulation and quality assurance, and delivery of goods and services by the private sector. Investment allocation is through conditional grants issued to local governments and sector institutions in the context of the three-year Medium-Term Budget Framework. Since FY01, all WSS services in urban, small town and rural communities have been funded through the budgetary process. The priority afforded to the WSS sector in the PRSP has resulted in a tripling of resources for the sector. IDA has supported this program with two PRSCs based on policy benchmarks and quantitative targets.

- Over the last two years, the government met all policy benchmarks and service delivery targets with 90 percent utilization of budgeted resources;
- Over 3,000 rural water points were delivered per year -- resulting in improved access for 1.5 million rural people. This represents one of the largest rural water and sanitation programs in Africa with decentralized implementation in all 56 districts of the country;
- More than half of small towns were established as W&S authorities to be served by private operators -- about half of the towns are currently under private sector management using local operators;
- Over 6,000 new connections per year were established in the 12 large urban towns with a high proportion going to poorer families due to new pro-poor connection policy and the implementation of incentive based performance contracts. Operations in the Kampala area, which contributes 80 percent of the National Water and Sewerage Corporation's revenues, are currently under a private sector service contract. A further reaching lease contract is under preparation, covering all 15 large urban towns by 2004; and
- Sanitation promotion also featured prominently in the PRSC, at the household level (including the introduction of ecological sanitation systems), in schools and public institutions across the country.

Experience with this approach is still emerging, but performance in the last few years is promising. This initial success reflects: (i) genuine government commitment to reforms and a track record of sound fiscal management; (ii) strong base of pre-existing, comprehensive sector analysis and program preparation; (iii) broad and sustained local stakeholder participation as well as consensus building among government and donors; (iv) solid background work on procurement, financial management and quality control; and (v) systematic institutional re-structuring and capacity building of sector institutions.

VII. Dealing with Crises and Shocks

116. IDA has improved its capacity to respond to crises and help mitigate their impact. Under the enhanced HIPC initiative, IDA is playing a central role in the implementation of the concerted international effort to provide debt relief to eligible countries and to ensure that resulting savings are efficiently used. IDA has taken a proactive role in assisting countries fight HIV/AIDS epidemic which threatens their prospects for growth, as well as their social fabric. At the same time, IDA expanded its post conflict assistance and advice. IDA's rapid response to natural disasters and major terms of trade shocks is not limited to financing immediate needs arising from these shocks, but also involves restructuring and mitigation measures to enable countries to avoid or to respond better to similar circumstances, in the future.

Responding to Debt Crisis: Enhanced HIPC

117. **The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996** in response to the growing concern about unsustainable external debt in the world's poorest and most heavily indebted countries. The Initiative marked a significant departure from existing debt work-out arrangements by adopting a comprehensive approach that involved all of a country's external creditors, including multilateral institutions, and by establishing debt sustainability as its principal objective.

118. **At the beginning of IDA12, the Initiative was made "deeper, broader and faster."** Among the major elements of this enhanced Initiative were: the lowering of the threshold for HIPC debt relief eligibility,⁵⁵ an increased emphasis on providing debt relief sooner, and a strengthening of the link between debt relief and poverty reduction. As a result, more countries became eligible for debt relief, and most countries became eligible for greater relief. Consequently, the estimated amount of debt relief to be provided under the Initiative more than doubled.⁵⁶ In order to provide debt relief sooner to eligible countries, the enhanced framework broadened the use of "interim" debt relief (i.e., debt relief provided after the country reaches its decision point, but before it reaches its completion point).⁵⁷ Prior to the enhancement, interim relief was the exception. Since the enhancement, most multilateral creditors including IDA, the AfDB, the IDB and the IMF are providing interim debt relief (Box 19).

119. **A major change has been to establish the linkage between debt reduction and poverty alleviation.** Recipients of HIPC debt relief are expected to use the freed resources to support poverty reduction strategies. The PRSP process has provided the foundation upon which this linkage was built. For a country to reach its decision point, it must have an interim PRSP, and to reach its completion point, it must complete and begin to implement a full PRSP. Debt reduction by itself, however, is not sufficient to support a country's poverty reduction efforts. It is just one building block in a wider program of poverty reduction centered on the PRSP and supported by all donors.

120. **At end-FY02, 26 countries were receiving assistance under the enhanced HIPC Initiative.** Of these, 22 are in sub-Saharan Africa, and 4 in Central/South America. The total net present value (NPV) of debt relief to be provided to these countries by all creditors equals more than \$25 billion, with IDA providing close to 25 percent of the total. As a result, public and publicly-guaranteed external debt of these 26 countries will be reduced by two-thirds.

⁵⁵ The thresholds for debt relief were reduced as follows: (i) the net present value (NPV) of debt-to-exports ratio was reduced from a range of 200-250 percent to a fixed ratio of 150 percent; and (ii) in highly open economies, the ratio of the NPV of debt-to-government revenues was reduced from 280 percent to 250 percent.

⁵⁶ The estimated costs of debt relief to be provided by all creditors under the HIPC Initiative rose in 2001 NPV terms, from \$14.9 billion under the "original" framework to an estimated \$37.2 billion as of August 2002 for the 34 countries currently included in the HIPC costing estimates. For IDA, the level of debt relief rose from an estimated \$2.4 billion to \$7.5 billion, with total World Bank NPV costs at \$8.2 billion.

⁵⁷ The decision point is when a country first qualifies for debt relief under the Initiative. The completion point is when the debt relief becomes irrevocable. To reach its completion point, a country must meet the completion point conditions established at the decision point, and be implementing a PRSP and IMF-supported PRGF program.

Box 19. IDA and Debt Relief

IDA delivers its debt relief primarily through reduction of debt service beginning at the decision point. The objective is to deliver IDA's full share of debt relief to a country within 20 years. During these 20 years, IDA provides annually relief of at least 50 percent of IDA debt service due on the amounts disbursed and outstanding at the reference year, when enhanced HIPC assistance is calculated.

To date, IDA has delivered more than \$2 billion in debt relief to eligible HIPCs. Over time, the total debt relief to be provided by IDA is estimated to be \$13 billion, averaging over \$500 million a year well into the next decade. Under this enhanced HIPC framework, IDA's debt relief costs increased substantially from those under the original framework. The challenge has been to ensure that IDA will not only be able to deliver debt relief to eligible HIPCs, but it will also remain financially sound and well-equipped to absorb the impact of these changes on its finances. To that end, during the first two years of IDA12, IDA's long-term financial projections model was constructed to provide a sound and transparent basis for financial management decision making.

During IDA12, the World Bank component of the HIPC Trust Fund, which so far has been financed primarily by transfers from IBRD net income and to a small extent by specific contributions from bilateral donors, has been used to finance the bulk of the debt relief provided by IDA. IDA will, however, have to mobilize additional resources to cover its debt relief beyond IDA13. Currently, the estimated unfunded HIPC debt relief requirement for IDA total is \$9 billion. Donors have agreed to address these funding requirements during the IDA14 replenishment discussions.

121. In addition to eliminating a major portion of the debt overhang in these countries, the HIPC initiative is significantly lowering annual debt service obligations, with actual savings for the 26 qualifying HIPCs expected to average some \$1 billion per year over 2001-2005. Debt service payments in these countries are expected to become a much smaller burden in relation to their economies. For example, during the 2001-2005 period, after HIPC debt relief, their average ratio of debt service as a percentage of exports is projected to fall from 16 percent to 9 percent, and as a percentage of government revenue from 24 percent to 13 percent.

122. The reductions in debt service obligations are leveraging significant increases in social spending. Over the 1999-2002 period, it is estimated that social spending as a percentage of government revenues increased in the 26 decision-point countries from 37 percent to 49 percent. In the years ahead, these HIPCs are expected to spend on average more than four times on social spending than on debt service.

123. IDA has maintained an important coordination role throughout the HIPC Initiative. First and foremost, is the partnership with the IMF as co-administrators of the Initiative. Second, IDA has worked closely with more than 20 multilateral creditor institutions with outstanding claims on HIPCs to promote their full participation in the Initiative. IDA has also administered the HIPC Debt Initiative Trust Fund. This facility, which consists of contributions from donors, provides financial support to enable eligible multilateral creditors to deliver their share of HIPC debt relief. For a number of multilateral creditors, this financial support has been crucial in permitting their full participation.

124. Sound debt management will be a crucial factor in achieving long-term debt sustainability. Poor debt management, because of weak institutional capacity, has been an important factor aggravating debt problems in many countries. Recognizing the significance of this issue, IDA and the IMF undertook a survey of all 42 HIPCs and six partner technical agencies providing assistance and capacity building to HIPCs in various areas of external debt

management. The goal was to identify weaknesses in debt management capacity, prioritize areas for further improvement, and review the roles and coordination of international agencies involved in technical assistance and capacity building.

Helping Fight HIV/AIDS Pandemic

125. During IDA12, there was a significant scaling up of support for HIV/AIDS prevention, care and treatment, with commitments totaling over \$600 million. HIV/AIDS is now at the center of the development agenda, and HIV/AIDS activities are being mainstreamed as appropriate in all sectors and regions. The approach to combating HIV/AIDS has become more systematic. Initially, focus was placed on sub-Saharan Africa due to the severity of the epidemic. Other regions are also increasing these efforts both with respect to HIV/AIDS strategy development, and lending. Nonetheless, given the magnitude of the problem, to improve the impact of IDA's efforts in this area, in addition to new interventions, there is a need to accelerate disbursements of the existing portfolio.

126. IDA's HIV/AIDS multisectoral strategy for Africa⁵⁸ that involved a highly participatory strategic planning process, includes the following main elements:

- Mounting an aggressive *advocacy campaign* with leaders in Africa and elsewhere to situate HIV/AIDS at the center of the global development agenda.
- *Building knowledge* by conducting the first cross-country analysis of the macroeconomic impact of AIDS, beginning to integrate AIDS into economic models for IDA borrowers, and working with UNAIDS on estimating the costs of comprehensive national programs.
- *Developing capacity* e.g., by "retrofitting" projects with HIV/AIDS activities, drafting an HIV/AIDS impact assessment module as part of the standard environmental and health assessment of projects, incorporating HIV/AIDS into HIPC and PRSP packages, and developing sector-specific guidelines for addressing HIV/AIDS in transport, agriculture, education, and mining.

127. The strategy has produced tangible results, beginning with the first phase of the **Multi-Country AIDS Program for Africa (MAP1)**, prepared in conjunction with UNAIDS, the International Partnership Against AIDS in Africa, key bilateral donors and leading NGOs. MAP1 represents the first phase of a long-term commitment. It was designed not only to increase resources for AIDS, but also to address the two key operational impediments to a larger response: slow implementation, and inadequate support to communities. Box 20 summarizes the main features/achievements of MAP1.

⁵⁸ The HIV/AIDS strategy for Africa entitled *Intensifying Action Against HIV/AIDS in Africa* was the result of intensive consultations that took place with African governments, UNAIDS Secretariat (the Joint United Nations Programme on HIV/AIDS) and its cosponsors, the International Partnership Against HIV/AIDS in Africa, NGOs, persons living with HIV/AIDS, other multilaterals, bilateral donors, the private sector, and foundations. The final strategy reflected the views of all consulted, and was endorsed by the UNAIDS Secretariat.

Box 20. Multi-Country AIDS Program for Africa

MAP1 (FY00) made available, during IDA12, about US\$516 million IDA funds to 16 African countries through individual projects: Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Eritrea, Ethiopia, Gambia, Ghana, Kenya, Madagascar, Nigeria, Senegal, Sierra Leone, and Uganda. These operations support the implementation (and, where necessary, the design) of multisectoral national HIV/AIDS strategies. Some achievements to date are:

- MAP1 has contributed to strengthening implementation structures: several countries have moved swiftly in adopting new mechanisms and in formalizing partnerships with a broader range of actors than were previously included in public HIV/AIDS programs.
- MAP project preparation has helped authorities to begin converting broad strategic frameworks into viable first-year action plans supported by detailed operational manuals. In many countries, sector ministries now have sectoral HIV/AIDS plans and the resources to implement them for the first time.
- All countries receiving MAP support are channeling substantial amounts of IDA funding (in most cases around 50 percent) to civil society organizations and community-based programs.
- MAP projects have been instrumental for supporting mechanisms for improved donor coordination, flow of funds, and monitoring and evaluation, which have facilitated involvement of other partners.

MAPs make support available for the full spectrum of prevention, care, treatment and impact mitigation, including funds for investments and technical support, capacity building, community initiatives, and strong monitoring and evaluation. The MAP is not a discrete subset of activities that the Bank chooses to support, but a collaborative contribution to the delivery of an integrated program. The program places special emphasis on learning-by-doing through frequent interactive workshops, stocktaking exercises, and the development of technical resource networks for implementers.

128. **Demand for MAP projects has been strong, and a second phase-MAP2 (\$500 million in FY02) was developed** in close collaboration with UNAIDS and many bilateral donors and other partners.⁵⁹ The fast pace in uptake of MAPs reflects both the growing commitment among African and other governments, and the streamlined preparation processes built into the MAP. Through periodic assessments, IDA is now focused on improving the monitoring and evaluation of MAPs and other HIV/AIDS activities. IDA is also developing knowledge management tools for MAP teams, including manuals on operations, financial management, and monitoring and evaluation, as well as setting up networks of program practitioners to enable continuous cross-country learning.

129. **IDA is working with global and regional partners to scale up HIV/AIDS interventions on different fronts.** For example, IDA is engaged with others in regional initiatives to address cross-border issues, such as transport corridors, migrant workers, and refugees. IDA also works with the *UN-Accelerating Access to HIV Care Initiative*, the *Caribbean Community and Common Market*, the *International Partnership Against AIDS in Africa*, and other regionally-based institutions and agencies. At the same time, IDA is engaged in stimulating the development of new and effective vaccines through alliances with the

⁵⁹ In the MAP projects approved thus far, preparation has involved collaboration with the African Development Bank, CIDA, Denmark, DfID, Dutch Cooperation, the European Union, French Cooperation, ILO, Italian Cooperation, the U.S. National Institutes for Health, Norway, USAID, UNDP, UNDCP, UNFPA, UNICEF, UNIFEM, WHO, as well as private firms, foundations, and civil society organizations. Preparation of projects in the pipeline involves an even broader range of partners.

International AIDS Vaccine Initiative and the *Global Alliance for Vaccines and Immunization*, among other partnerships. The Bank also acts as a Trustee for the *Global Fund to Fight AIDS, Tuberculosis and Malaria*.

Assisting Countries Affected by Conflict

130. **IDA strengthened and broadened its approach to help countries emerging from conflict.** In addition to continuing to directly assist countries emerging from conflict with policy advice and financial resources, IDA has strengthened its framework for assistance to conflict-affected countries, and developed new instruments and mechanisms to respond earlier, more rapidly, and more flexibly to the needs and special circumstances of these countries.

131. **The new policy for post-conflict countries⁶⁰ takes a comprehensive approach to conflict-related issues** by focusing not just on reconstruction after conflict, but also on the importance of preventing conflicts by promoting policies that strengthen social cohesion, institutional capacity and good governance. This IDA policy formalizes a number of the innovations made in previous years, including: (i) the use of Watching Briefs to monitor developments and prepare for future assistance in countries where on-going conflicts prevent IDA from using normal assistance instruments; and (ii) short- to medium-term Transitional Support Strategies (TSS) in lieu of more comprehensive CASs for countries coming out of conflict. Currently, 3 IDA countries are in the Watching Brief stage, and 12 countries have TSSs in place.

132. **IDA has also developed a framework for the provision of pre-arrears clearance grants to post-conflict countries with large and protracted arrears.** Previously, IDA resources could not be used to support the early recovery efforts of countries in arrears. Since arrears clearance can often be a significant hurdle for a country emerging from conflict, the presence of arrears had the potential to delay IDA's support for recovery efforts. The Democratic Republic of Congo (DRC) and Afghanistan have benefited from the pre-arrears clearance grants (Box 21). IDA has also helped the recovery efforts in Timor-Leste (then East Timor) and Kosovo, which were not members of IDA (Box 22).

133. **Allocating resources to countries emerging from violent and protracted conflict poses a special challenge for IDA.** The effectiveness of IDA's response depends on ensuring the right timing, volume and composition of assistance. IDA started to use a new framework for calibrating its response to different phases of the post-conflict period: (i) limited or no IDA involvement before the end of the conflict; (ii) IDA allocations that may be well in excess of the regular IDA allocation norm during the recovery period -- typically 3 years; and (iii) a phase down back to regular IDA allocations as conditions in the country normalize.⁶¹ While the new approach sharpens the focus on performance, it also emphasizes the need for judgment to take account of the complexities and heterogeneity of post-conflict situations. Countries that received

⁶⁰ The full text of this policy is available on the Conflict Prevention and Reconstruction Unit website, at <http://www.worldbank.org/conflict>.

⁶¹ For a complete description of the methodology, see <http://www.worldbank.org/ida/idalloc.htm>.

exceptional post-conflict allocations during IDA12 include Eritrea, Republic of Congo and Sierra Leone.

Box 21. Early Support for Recovery in Democratic Republic Of Congo (DRC) and Afghanistan

DRC: IDA approved a \$50 million pre-arrears clearance grant to support the Government's interim reform and reconstruction program (FY02). The grant focused on: (i) providing technical assistance for key reforms, preparing for more substantial medium-term engagement by IDA and the international donor community, and rebuilding state functions and strengthening capacity in key institutions; (ii) removing key transport infrastructure bottlenecks, in particular the only road linking the country's seaport to Kinshasa and the inland transportation system; (iii) raising awareness of the HIV/AIDS issue and reinforcing capacity at the provincial level to tackle the HIV/AIDS epidemic; and (iv) piloting community based rehabilitation activities in rural areas. Progress since IDA provided the initial grant has so far been promising. DRC has fully cleared its arrears and is now in the process of implementing two major IDA financed emergency recovery operations totaling over \$900 million, in addition to the grant.

Afghanistan: In addition to restoring political stability and security, Afghanistan faces a dire humanitarian emergency in the short run and enormous needs for reconstruction and development over time. In response, IDA approved a TSS that outlined a 6-9 month program of assistance designed to meet the needs of the Afghan people for peace, economic and political stability. This program focused on the restoration of normal relations with the Bank, and on the provision of exceptional IDA support for urgent recovery and technical assistance needs, supplemented by a program of policy advice, analytical work and strong coordination with other donors.

Financial support was provided in the form of four IDA pre-arrears clearance grants totaling \$100 million. The first grant for \$10 million supports government's efforts to put in place, on an emergency basis, the capacity to manage the reconstruction and aid process in order to ensure the effective flow, delivery, and utilization of international assistance. The next three grants focus on high-impact assistance to help kick-start economic activity, and help the government provide basic social services and infrastructure necessary to effect immediate improvements in the lives of Afghans. This assistance will also be designed to ensure that the reintegration of former combatants, returning refugees and displaced people is as smooth as possible.

134. Post-conflict recovery efforts need a sufficiently stable security situation, so that projects can be effectively implemented, and a strong government commitment to social and economic recovery. A number of IDA countries are still not able to meet these two basic conditions. In addition to monitoring the situation in such countries, and undertaking analytical work that could form the basis of a recovery program once conditions improve, **IDA helps implement small grant projects financed by the Post-Conflict Fund (PCF)**. This fund allows IDA to maintain a limited but often critical engagement in priority areas, when regular instruments cannot be used. Examples of PCF grant use include:

- economic and sectoral analyses in Afghanistan prior to the fall of the Taliban regime, as well as a teacher training program for Afghan refugees in Pakistan, targeting women and girls;
- delivery of health services in Somalia through the International Federation of Red Cross and Red Crescent Societies, and a watching brief focusing on macroeconomic and socioeconomic data collection and analysis;
- a program for the reintegration of vulnerable street children in urban areas of the Democratic Republic of Congo;
- a program to build administrative capacity in East Timor; and

- support in Kosovo for re-starting the budget preparation process and education and health services, as well as for small scale infrastructure projects.

Box 22. Support for Non-Members: Timor-Leste (then East Timor) and Kosovo

Both for Timor-Leste and Kosovo, IDA's initial support strategy focused on helping generate donor support (supplemented by grant funding from the World Bank Group and the PCF), while using its comparative advantage in policy advice, institution-building and aid coordination, to help ensure the overall sustainability of the reconstruction and recovery effort.

In *Kosovo*, the strategy was guided by a TSS, and supported by 12 separate grants for a total of \$62.8 million. The regional context being of critical importance to the success of the recovery efforts, both strategy and assistance were closely coordinated with the EU-sponsored Stability Pact, a framework for peace and stability in the Balkan region.

In *Timor-Leste (then East Timor)*, IDA took the lead in organizing a meeting of donors and UN agencies following the post-ballot violence in 1999. Priority reconstruction objectives were determined jointly with the government and donors through a Joint Assessment Mission (JAM). The findings of the JAM were presented at the Tokyo Donor Conference in late 1999. This conference established a framework for donor coordination, and endorsed the principle of financial assistance channeled through the Consolidated Trust Fund, administered by the UN, and the Trust Fund For East Timor administered by the World Bank. Since then Timor-Leste has received five PCF grants totaling \$2.6 million.

Natural Disasters

135. **IDA has been supporting countries suffering from natural disasters by providing emergency recovery credits and restructuring existing credits**, as needed. During IDA12, the following operations were undertaken to respond to natural disasters: In *Mozambique, the Flood Emergency Recovery Project (FY00)* contributed towards financing the balance of payments needs for rehabilitation and reconstruction of the country's largest natural disaster in recent years. In *Cambodia, the Flood Emergency Rehabilitation Project (FY01)* aimed at restoring agricultural production and rehabilitating social infrastructure (e.g., restocking of drugs and supporting schools in the flood-affected areas). In *Pakistan, the FY02 Drought Emergency Recovery Assistance* (recommitment from existing IDA projects) assisted the Government to reduce vulnerability of the population living in drought-stricken regions, by financing imports of essential commodities adversely affected by the drought. IDA's response to *India's Gujarat earthquake* disaster involved several phases, as explained in Box 23.

136. **There has also been a shift in focus towards reducing vulnerability to disaster impacts.** The Bank's Disaster Management Facility (DMF) has been providing technical support and policy guidance to better integrate disaster risk reduction into IDA's development efforts. The DMF is currently supporting country and/or regional analyses in several regions to identify measures for disaster risk reduction. Also, recent projects include a more proactive approach to disaster risk management. For example, IDA's support to Honduras and Nicaragua after Hurricane Mitch goes beyond rebuilding assets damaged. The *Natural Disaster Mitigation Project in Honduras (FY00)* and the *Natural Disaster Vulnerability Reduction Project in Nicaragua (FY01)*, aim at improving these countries' disaster management capacity, and include various disaster prevention measures. Similarly, in the case of the earthquake in *Gujarat-India*, in addition to addressing recovery, IDA is supporting institutionalization of comprehensive

disaster management planning (Box 23). Through the *OECS Catastrophe Risk Management and Insurance Reform Project*, several vulnerable small island economies are receiving support for an innovative approach to protect themselves from weather-related disasters.

Box 23. The Gujarat Earthquake in India

In the wake of the Gujarat Earthquake (resulting in over 20,000 casualties), IDA took a three-phased approach: (i) short-term -- building foundations for basic and immediate disaster management capacity, including raising awareness training in seismic-resistant construction practices; (ii) medium-term -- undertaking the emergency management component, as it deals with immediate pre- and post-disaster issues; and (iii) long-term -- strengthening capacity and hazard reduction activities.

IDA's first and immediate response to the disaster was an *emergency assistance program* of \$400 million (FY01). This was made available by restructuring 12 existing projects. IDA resources contributed to short-term needs for housing reconstruction, rubble removal, temporary shelter, health, education, dam safety and irrigation, and other immediate needs in the state of Gujarat.

IDA's initial response was followed by the *India Gujarat Emergency Earthquake Reconstruction Program Credit (FY02)* targeting the second phase of the assistance plan. This credit aimed to promote recovery in the disaster-affected areas and lay the foundations for sustainable disaster management capacity. Its components include (i) reconstructing approximately 135,000 fully collapsed houses and repairing approximately 75,000 partially damaged houses, (ii) reconstructing public infrastructure such as schools, roads, and bridges, (iii) ensuring affected communities' participation in planning, deciding, and implementing the reconstruction program, and (iv) building disaster management for the main hazards such as earthquakes and cyclones including pre-disaster preparedness and post-disaster response and training.

IDA's third response is expected to deal with hazard mitigation by institutionalizing regulatory measures and launching concrete activities to promote decentralized natural hazard reduction, facilitating participation of all critical stakeholders in the disaster management process, and piloting a natural calamity insurance scheme.

137. IDA implements programs to better respond at the national and regional levels to severe droughts. Key steps include: stronger food security monitoring and early warning systems; productivity enhancing interventions; efficient water resources and soils management practices that reduce the risk arising from drought; and social risk management measures to minimize the impact of drought. IDA supports countries promoting integrated water resource management policies with distinct related components in IDA operations, for example in Niger, Guinea and Senegal. The Bank is also supporting a number of cooperative regional river basin initiatives (the Nile, the Niger River, and the Senegal River) which will lead to enhanced and more efficient use of scarce trans-boundary water resources, thereby reducing the possibility of potential water conflict.

Terms of Trade Shocks

138. Many IDA countries are highly vulnerable to variations in their terms of trade. In these countries, negative shocks have substantial adverse consequences for growth and fiscal situation. IDA's quick response to countries suffering from external trade shocks can be highly effective. Recent research on the relationship between aid and trade shocks⁶² finds that the

⁶² Collier, Paul and Dehn, Jan, "*Aid, Shocks, and Growth*," (A World Bank Working Paper, October 2001).

adverse effects of shocks on growth could be mitigated by offsetting increases in aid, and targeting aid towards countries suffering from negative shocks appears to be an important element in enhancing aid effectiveness.

139. **In order to provide timely response, IDA took special in the form of supplemental credits to existing adjustment operations for countries facing terms of trade shocks.** IDA's response to the sharp increase in oil prices and the drop in some commodities prices, such as coffee, cocoa, and cotton, resulted in eight supplemental credits totaling \$206 million to Ghana, Madagascar, Mali, Mauritania, Niger, Rwanda, Uganda, and Zambia. With these additional financial resources, these countries will be able to maintain the implementation of their reform programs, and achieve their original objectives. For example, SAC III in Mali helps the Government's program to reorganize the cotton sector and restructure public expenditures to improve the country's resiliency to external shocks (Box 24).

Box 24. Cotton Sector Recovery Efforts in Mali

Mali, one of the poorest countries in the world, is highly vulnerable to adverse trade shocks, as more than 80 percent of country's exports consist of cotton and gold. The country has been facing a difficult economic situation since international cotton lint prices dropped significantly. The *Compagnie Malienne pour le Développement des Textiles* (CMDT), the parastatal cotton company has been unable to respond to the shocks with its high internal costs and inadequate governance and financial control mechanisms.

The objective of the *Third Structural Adjustment Credit* is to enable the government to keep the momentum of its ongoing reform agenda, particularly for the cotton sector and for management of public expenditures by: (i) refocusing CMDT's operations on core agro-industrial functions; (ii) downsizing CMDT including personnel; (iii) implementing initial actions to liberalize the sector and privatize the company; (iv) adopting a budget nomenclature to enable consolidation of expenditure across all levels of government; (v) improving the effectiveness and efficiency of information flows within the Ministry of Economy and Finance; and (vi) strengthening the budget execution process.

VIII. Increasing IDA's Effectiveness

140. **Measures to increase IDA's effectiveness have been diverse and taken at various levels of IDA's operations and interactions.** The aid effectiveness literature provides strong evidence that aid has a bigger impact on growth and poverty reduction where there are good policies and institutions. In line with these findings, the most basic measure has been establishing a *stronger link between country performance and allocation of IDA's resources*, while efforts have been underway to *improve the existing portfolio*. As IDA has been increasingly channeling its resources in support of PRSP and budget priorities in client countries, ensuring that an *adequate fiduciary framework* is in place, has become critical. During IDA12, there has been a strong focus on this area. At the project level, *participatory approaches* have helped in understanding the needs and priorities of stakeholders, thereby making IDA's interventions more relevant. At the country and global levels, *partnership, harmonization, and selectivity* are important elements of increasing development effectiveness (of IDA and other donor resources), and reduce transaction costs for all concerned. Lastly, realistic indicators are needed to better *measure country outcomes and IDA's impact* on the ground.

Strengthening the Link Between Country Performance and IDA Allocation

141. A mechanism was established for assessing country policy and institutional performance as a basis for allocating resources to IDA countries, at the beginning of IDA12. IDA's Performance-based Allocation (PBA) system⁶³ has informed similar systems for a number of multilateral and bilateral development agencies. During the IDA12 period, IDA has continued to improve this assessment process, drawing also on the findings of an independent evaluation of IDA's effectiveness.⁶⁴ Box 25 summarizes these enhancements.

Box 25. Enhancements to Country Performance Assessment and Performance-Based Allocation

The Bank conducts an annual performance assessment for its borrowing countries. The exercise, known as the *Country Policy and Institutional Assessment (CPIA)* assesses a country's present policy and institutional framework for fostering poverty reduction, sustainable growth and the effective use of development assistance. It includes twenty equally weighted criteria grouped in four clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions.

The CPIA process was enhanced by redefining a number of the criteria within each of its clusters: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions. This included the creation of criteria more sharply focused on: poverty assessment, social protection and labor (including core labor standards) gender, health and education, corruption, and various other aspects of governance (including money laundering). Some other closely related criteria were consolidated, so that the overall number of criteria remained at twenty.

The objectivity of the CPIA exercise was increased by providing a clear and realistic definition of all rating levels for each of the criteria.

A *governance discount* was introduced, at the beginning of IDA12, to provide the PBA system with an increased focus on good governance. In practice, some drawbacks of the "governance discount" became apparent, including possible ratings distortions at the cut off point, and a perceived punitive bias. To address these concerns, the governance discount has been replaced by the "governance factor" which is more continuous in nature, ensuring a special focus on governance for IDA countries at all levels of governance performance.

Allocation Formula. The formula that determines a country's per capita allocation has been simplified, and now is largely driven by the country's IDA Performance Rating. As a secondary factor the formula includes a modest bias in favor of the poorest IDA countries.

PBA, PRSP, and CAS Envelopes/Triggers. The links between the PBA system and the PRSP-based CASs have been tightened over recent years, as clear guidance has been issued for the selection of the base and high case lending envelopes that should be based on the PBA allocation norm, and the triggers that should address the weaknesses identified in the CPIA.

Disclosure. With the objective of making the PBA system, including the CPIA methodology, more transparent to borrowers, country directors discuss country ratings and IDA allocations with government officials. Such dialogue is expected to promote changes to improve performance. Steps towards broader disclosure of country ratings are under consideration.

⁶³ For a recent overview of the PBA system, see <http://siteresources.worldbank.org/IDA/Resources/PBA2002.pdf>.

⁶⁴ IDA's Partnership for Poverty Reduction (FY94-00) Operations Evaluation Department.

142. **IDA put strong emphasis on country performance.** Table 5 shows actual lending per capita per annum during IDA12 for each of the performance quintiles. While the performance rating of the countries in the top quintile was less than twice those in the lowest quintile, the countries' per capita IDA allocations were almost three times as large.⁶⁵

Performance Quintile	Number of Countries	Population Weighted	
		Average Rating	Average Lending PCPA (US\$)
First	12	4.02	9.9
Second	12	3.60	7.9
Third	12	3.34	4.2
Fourth	12	3.16	4.5
Fifth	12	2.09	3.5
Overall	60	3.30	5.7

^{a/} Excludes:

- (i) Inactive countries: Liberia, Myanmar, Somalia, and Sudan;
- (ii) Eligible post-conflict countries: Afghanistan, Congo DR, Congo Rep, Eritrea, Guinea-Bissau, Sierra Leone, and Bosnia-Herzegovina,
- (iii) Blend countries with allocations fixed below the norm: Nigeria, Indonesia, India, Pakistan, Uzbekistan and Yugoslavia; and
- (iv) Countries with no actual lending: Haiti, Kiribati, and Togo

Improving Portfolio Performance

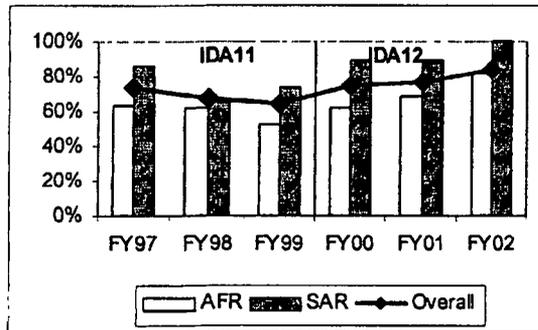
143. **A healthier IDA portfolio translates into billions of dollars in more effective development spending for IDA's clients.** IDA has continued to improve the quality of its project portfolio, seeking to strengthen development outcomes. Systematic reviews by the independent Operations Evaluations Department (OED) and the Bank's internal Quality Assurance Group (QAG) show that these efforts have been largely successful.

144. OED's outcome ratings reflect the extent to which the project's major relevant objectives were achieved, or are expected to be achieved efficiently.⁶⁶ **OED's data show that outcome ratings showed sustained improvement during IDA12, compared to IDA11.** Not only were these ratings better in the aggregate, but the major IDA regions of Sub-Saharan Africa and South Asia showed improvements as well (Figure 1). Throughout IDA12, IDA operations had satisfactory outcomes equaling or exceeding the institutional target of 75 percent, with the FY02 figure estimated at 84 percent. A higher success rate, while attainable, could be achieved at the cost of undermining the Bank's role in promoting innovative, and sometimes risky approaches to development. Box 26 describes the results of several projects that were far along in implementation during IDA12.

⁶⁵ Table 5 shows unusually low average lending of \$4.2 per capita per annum for the third quintile. This is caused by the fact that Bangladesh has tended to use less than its IDA allocation norm. Given its large population, this has a large depressing effect on the quintile's population-weighted average.

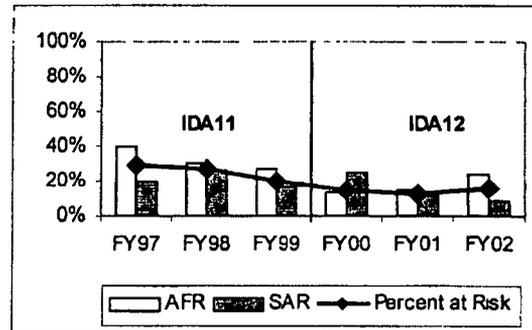
⁶⁶ OED results cover projects that exited the portfolio during IDA12, with most projects having been approved prior to FY98.

Figure 1. Projects Rated "Satisfactory" (OED)



Source: Operations Evaluation Department (OED)

Figure 2. Projects Rated "At-Risk"(QAG)



Source: Quality Assurance Group (QAG)

145. During IDA12, the overall performance of projects under implementation, as assessed by QAG, continued to improve as well, with the ratio of projects at risk,⁶⁷ dropping from 20 percent in FY99 to 16 percent in FY02 (Figure 3). While there was a net improvement over the period, there were wide variations across regions. In the Africa Region, the ratio of projects at risk increased from 14 percent in FY00 to 24 percent in FY02. Worsening environments in countries like Cameroon, Cote d'Ivoire, Kenya, Madagascar and Nigeria are seen as a factor. At the margin, a shift to more risky projects such as those addressing HIV/AIDS may have contributed, as well. On the other hand, in South Asia, there was a sharp reduction in projects at risk, from 25 percent in FY00 to 9 percent in FY02.

⁶⁷ QAG *Projects at Risk* ratings reflect the risk of not meeting project development objectives. These ratings include both actual problem projects and potential problem projects. Projects at Risk ratings, along with other QAG ratings, have been found to be a good predictor of development outcomes as later measured by OED.

Box 26. Results of Some Satisfactory Projects Closing in IDA12

Focusing on Education Targets: The *Uttar Pradesh Basic Education Project* supported construction of 3,444 schools and 3429 additional classrooms. Gross enrollment ratios rose from 65 percent to over 93 percent surpassing the target of 71 percent. For girls, the target of 65 percent was reached. Overall dropout rates decreased from 40 percent to about 32 percent, while repetition rates decreased from about 12 percent to less than 4 percent.

Promoting Female Literacy: *Senegal's Pilot Female Literacy project* supports the first phase of Government's 10-year program aimed at reducing the illiteracy rate of the age group 10-39 years from 50 percent to 40 percent (reduce female illiteracy to 47 percent) by 2006. The implementation was based on partnership: the government as policy maker, private organizations as service providers, grass-root associations as beneficiaries, and IDA as financier and adviser. By early 2002, as much as 197,577 people received training, women accounted for 94 percent. The quality of literacy training improved drastically based on learning assessments for reading, writing and problem solving, and drop out rates at 16 percent in 2001 are less than in national programs (25 percent).

Improving Health Services: In *Albania*, the *Health Services Rehabilitation Project* succeeded in significantly upgrading the quality of the infrastructure and working conditions in the targeted regional hospitals and clinics in six pilot districts, as well as the Tirana Nursing School. The project also helped establish an effective management training program for the district level health staff; and provided some critical training in emergency care and diagnostic and treatment skills among hospital physicians. As the first Bank health project in a country with weak capacity, project design was kept simple. Most of the physical objectives were achieved: 99 of the planned 100 health clinics were upgraded.

Strengthening the Economically Vulnerable: In *Bosnia and Herzegovina*, the *Local Initiatives Project* helped the microfinance sector become an important vehicle for promoting economic development among the very small-scale trade/enterprise sector at a modest cost. A key objective, to disburse 10,000 loans to low-income, war-affected clients was exceeded fivefold. Another objective of "jump-starting the 5-10 year process of establishing financially-viable microfinance institutions" was also surpassed. Finally, the development of an appropriate legal/regulatory framework for microfinance institutions is well advanced.

Protecting the Environment: In *Mali*, the *Natural Resource Management Project* met the primary objective of introducing a rational land use system that will stop and reverse the degradation of the natural resource base. Areas that, prior to the project, became marginal or were not anymore suitable for agriculture were rehabilitated and crop yields increased. Production increases for sorghum and millet were 200 percent and 300 percent respectively. The project also built up the capacity of local communities and the institutional capacity within the ministry. A total of 844 villages and 58 communes completed the first three phases of the Natural Resource Management (NRM) approach: creation of a Village NRM committee; a participative technical and socio-economic diagnostic of the "terroir" (soil); and development planning. Eight hundred seven villages and 30 communes are implementing their plans.

Supporting Rural Communities: In *Bangladesh*, the *Third Rural Electrification Project* built on prior projects, helped establish four new Rural Electrification Cooperatives (RECs). Consumer connections in existing and the four new RECs were 60 percent higher than original estimates, with a balanced mix of households and businesses.

Financial Management

146. IDA aims at aligning its development objective (improved management by client countries of all public financial resources) with its fiduciary objective (assurance that IDA funds are used properly when co-mingled with other resources, as in adjustment and programmatic lending). Thus, financial management of IDA operations pursued two broad objectives: the development of country capacity in financial management, and improved

compliance with policies that are better aligned with IDA's business objectives and changing resource transfer patterns. As noted above (paras. 54-55) diagnostic work has been a key underpinning of IDA's capacity building efforts. An integrative analysis of the country's public financial accountability arrangements covering its public expenditure, procurement, and financial management systems has been a key input into many CASs, and is to underpin the development of PRSC programs. As the CAS Retro III notes, the largest increase in ESW has been in the fiduciary products.

147. All IDA investment operations approved during IDA12 were subject to an assessment of the financial management capacity of the implementing entity by an accredited financial management specialist. The quality of financial management at project entry as measured by QAG has improved substantially -- from 77 percent satisfactory or better in 1998 (the first year of measurement) to 97 percent in FY01⁶⁸ (the most recent review). Management has also moved to strengthen the supervision of the financial management aspects of IDA-financed projects. A new financial management rating introduced in 2002, provides a more structured means to determine financial management performance during implementation. The quality of financial management supervision, as measured by QAG, has also improved significantly -- from 68 percent satisfactory or better in FY98 to 86 percent in FY00, the last year in which a full complement of projects was reviewed.

148. IDA has recently introduced new procedures for applying financial management, procurement, and disbursement policies in sector-wide approaches (SWAPs).⁶⁹ SWAPs emerged in the mid-1990s to deliver development assistance more effectively by scaling up, building stronger donor partnerships in support of country-led sector programs, and improving the performance of borrower institutions in managing all sector resources. They evolved slowly due to weak donor coordination and difficulties in adapting the different procurement, financial management and reporting policies of participating donors. The new approach creates a framework for pooling funds for procurement of local goods, works and services, resulting in procedures likely to reduce the burden on client countries. This approach increases donor commitment to capacity building based on good practice standards that should be part of a country's own system. It also provides IDA with the ability to pool its resources with those of the borrower and other donors while maintaining acceptable fiduciary standards. Financial management is one of the priority areas identified for harmonization of donors' procedures⁷⁰ (see paras. 156-157).

Ownership and Participation

149. An important lesson from successful development efforts is the importance of building consensus around reform programs. When programs are country-driven, and there is broader participation by local stakeholders, development impact and sustainability improve. The

⁶⁸ For IDA and IBRD operations.

⁶⁹ *Fiduciary Arrangements for Sectorwide Approaches (SWAPs)* (AC2002-0017), April 3, 2002.

⁷⁰ *Harmonization of Operational Policies, Procedures, and Practices: Second Progress Report* (SECM2002-0142), March 7, 2002.

open and participatory nature of the PRSP approach is particularly important in that regard. Participation in CASs improves IDA's understanding of country circumstances, issues and development priorities. It can also improve stakeholders' understanding of the Bank's goals, procedures, and result in a stronger enabling environment for implementation of IDA's assistance strategy. The level of stakeholder participation has continued to increase during IDA12. According to CAS Retro III, the quality of participation -- as measured by civil society involvement, intra-governmental participation, donor coordination and collaboration -- has been generally good. Only 18 percent of CASs had a low level of participation.

150. For projects to succeed, they should focus on results, respond to clients' needs, be innovative, and build on the lessons of experience. Evaluations carried out by OED have demonstrated the importance of client commitment to projects, and of beneficiary participation in the project design and implementation for satisfactory results. While bottom-up community empowerment has been an integral element of development operations for decades, IDA12 has witnessed a more systematic application of a comprehensive and integrated CDD framework. CDD operations have been focusing on promoting political, administrative and fiscal accountability at all levels of government through participation, and application of monitoring and evaluation mechanisms.

151. During IDA12, lending for CDD has increased significantly.⁷¹ In sub-Saharan Africa, 17 countries are receiving IDA assistance to increase funding of community groups and elected local governments to enable their greater participation in policy and institutional reform. Similar efforts are underway in East Asia (Cambodia, Timor Leste, Indonesia, Vietnam), Eastern Europe (Albania, Armenia, Romania), and Central Asia. The CDD portfolio also continued to grow in South Asia. Overall, CDD approaches seem to have been more effective at overcoming "silos" than the earlier integrated rural development projects, that were coordinated at the national level, and with less familiarity of the results framework at the local level. Several issues arose in scaling up CDD operations, and mechanisms have been developed to ensure sustainability of CDD approach: a framework for community-based micro-project implementation cycle, participatory monitoring and evaluation methodologies, and application of social safeguards for inclusion and participation (see Box 27; also see Box 16 for mainstreaming CDD approach in rural WSS).

⁷¹ Lending for CDD rose from \$568 million in IDA11 to \$1.15 billion in IDA 12.

Box 27. Community Participation

Zambia-Social Investment Fund's community investment component helped strengthen decentralization of decision-making and devolution of responsibilities to local levels. There has been a shift in emphasis from community intervention as a "project" to an "opportunity for social development and enhanced access to information". Within the span of a year, the Fund's community investment component received 220 project applications and approved 72 of them with a commitment of \$6.3 million. Projects focused on education, health, water and sanitation, infrastructure, and food security.

The *Tanzania-Social Action Fund* financed and supported small demand-based community sub-projects in the social sectors. Sub-projects had to be identified, planned, implemented and managed by the village/community; a democratically elected Community Project Committee had to be established (40 percent women); environmental impact and mitigation measures had to be in place; the sub-projects had to be consistent with sectoral norms and design standards; and a clear commitment of communities had to be in place, as evidenced by their willingness to contribute at least 20 percent of project costs in the form of labor, material or cash. Information, Education and Communication activities sought to ensure transparent functioning and to document stakeholder experiences through the use of radio messages, folk drama, posters and newspaper supplements. The project paid particular attention to vulnerable groups such as orphans, the handicapped, the elderly, widows, divorced women and unemployed youth.

Partnership and Selectivity

152. **In recent years, partnerships -- between IDA and other development actors -- have been an important element of IDA's efforts to increase effectiveness.** IDA has reported on progress with key partnership activities during IDA12, including through regular progress reports on implementation of the CDF approach and on the PRSP process as its operational manifestation in low income countries. Poverty reduction strategies, articulated in PRSPs have emerged as the focal point for partnerships at the country level, engaging an unprecedented variety of partners, both domestic and international.

153. **CASs have increasingly addressed partnerships and selectivity.** Each CAS now explains how it is linked to the PRSP, and clarifies IDA's rationale for selecting certain priorities within the country's poverty reduction strategy. All CASs address the role of other donors in general and, in most, cases they cover collaboration with other donors within and across sectors. For example, in Mauritania, IDA has chosen to focus its assistance on private-sector led growth in the energy, water, and mining sectors and on improving the overall regulatory framework, rather than on the rural and financial sectors, which are being supported by bilaterals and other multilaterals. Nonetheless, the CAS retro III finds that assessments of the Bank's comparative advantage in any given country and underpinnings for selectivity in interventions have generally been weaker. While there are well known good practice examples, such as the CDF pilot countries like Ghana, Uganda, and Vietnam, not all IDA CASs did sufficient justice to the partnership dimension.

154. **The new partnership approach underlines the importance of national government leadership in-country donor coordination processes,** thereby moving from coordination among donors to coordination of donors. In the case of Tanzania, for instance, a pioneering initiative to track developments in government-donor relations and to seek enhanced aid effectiveness, was launched in the mid 1990s. Since 2000, this initiative has gained momentum

due to PRSP implementation, and has contributed to the institutionalization of independent monitoring of government/donor relations (Box 28).

Box 28. Donor Coordination in Tanzania

In the face of growing evidence that aid effectiveness was being compromised by lack of country ownership and mistrust, an initiative was launched in Tanzania in the mid 1990s, seeking ways to improve aid relationships. A government/donor workshop laid out a set of guiding principles for all parties, with the central objective of having Tanzania take the lead and fully own its development cooperation program, in terms of planning, design, implementation, monitoring, and evaluation phases. Specific steps to be taken in pursuit of improved donor-country relations were set out. An independent review reported mixed progress in 1999, with the cost effectiveness and priorities of technical assistance being an outstanding issue.

With the beginning of the PRSP process in 2000, independent monitoring of government/donor relations was institutionalized. The competence of the independent assessor and the objectivity of the reviews have yielded positive results, and gained broad acceptance among all concerned. While there was much debate about the scope of any such assessment -- for example, donors felt strongly that only collective donor performance should be evaluated with no one donor singled out -- there was broad consensus on five core goals which continue to be monitored by an independent monitoring group: promoting ownership, reducing transaction costs, enhancing predictability of aid flows, consolidating accountability requirements and results orientation, and improving technical assistance in line with local capacity requirements.

155. Beyond partnerships in individual countries, coordination at the institutional level on key development issues, has accelerated. The recently established collaboration on moving toward a stronger focus on results exemplifies this type of partnership. To underpin the partnerships at the institutional level and give guidance to in-country work, the Bank has in recent years signed a number of agreements or Memoranda of Understanding (MoU) with key partners.⁷² A Framework for Collaboration with UNDP on support to LICUS countries is under preparation. During IDA12, the Bank also signed a Protocol with the other MDBs and IMF on support to countries preparing PRSPs. A major development has been an international effort to harmonize donor operational policies, practices, and procedures based on the good practice standards and principles developed by the working groups of OECD Development Assistance Committee (DAC) and the Multilateral Development Banks (MDBs).

Reducing Transactions Costs in Aid Delivery

156. Harmonization of donors' policies and procedures is essential to reduce transaction costs of aid delivery and improve effectiveness. Donors have a multitude of policies and procedures for development assistance covering financial management, procurement, environmental and social assessments, country analytical work, and reporting and monitoring. These different policies and procedures in their totality impede effective aid absorption and place considerable burden on governments' already strained institutional capacity. Major progress will be made in reducing this burden, if the development community can implement good practice standards and principles against which national systems would be improved and around which donors would harmonize their operational policies and procedures.

⁷² These partners include the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the Islamic Development Bank, the European Commission, the European Investment Bank and the European Bank for Reconstruction and Development.

157. **The Bank has been working with the regional development banks and more recently with OECD-DAC to harmonize key operational policies and procedures.** The need for harmonization became more evident, as the PRSP process gained momentum. The Development Committee meeting (April 2001) and an international workshop hosted by MDBs and OECD DAC (June 2001) paid particular attention to this issue. There is now an agreed action plan to harmonize key elements of operational procedures among MDBs and members of DAC.⁷³ The MDBs have also made solid progress in developing joint good principles and practice in financial management, analysis, auditing, reporting, procurement, and a common approach to environmental assessment. Master documents on international competitive bidding have been adopted. The document for pre-qualification for civil works has also been completed. Similar documents on tendering for civil works contracts, and for proposals for consultants, are at an advanced stage of preparation. Focus is beginning to shift from institutional level analytical/diagnostic work to building country experience through piloting harmonized products. Pilots have been initiated in two IDA countries: Vietnam and Ethiopia, and following the Rome Forum, Bangladesh, Cambodia, Kenya, Kyrgyz Republic, Niger, Nicaragua, Senegal and Zambia are countries where harmonization efforts will be accelerated.

Monitoring Results

158. **Establishing a result based framework at the country level has been a major challenge for IDA.** Although the CASs contain a monitoring framework, they too often do not clearly set out objectives/outcomes or quantify them. CASs often lack baseline data and quantitative targets, and include a large number of indicators without prioritization. Thus, it is difficult to identify the outcomes the CAS strives to achieve, to monitor their implementation, and later to evaluate whether planned outcomes were in fact achieved. Efforts are underway to improve IDA's results based framework (see paras. 173-174).

159. **The results framework requires that the country's medium-term goals be clearly defined.** The PRSPs provide a vehicle for countries to lay out their strategies and objectives, thus offering a platform for measuring results. While most of the MDG goals are included in PRSPs, countries often use different indicators to assess progress in implementation. Indeed, PRSPs include a wide range of indicators with a relatively limited common core. This is due to the diversity of national conditions and the range of priorities across low-income countries. Nonetheless, most PRSPs include indicators on the poverty headcount, child and infant mortality, maternal mortality, access to safe water and primary school enrolment.

160. **Strengthening countries' capacity to monitor poverty outcomes and progress toward MDGs is central for the results-oriented approach to enhance aid effectiveness.** The challenge has been not simply to improve data availability but to help countries build their own capacities for this purpose. Many PRSPs recognize the importance of sustained improvements in M&E capacities, and are making progress toward the measurement of final poverty outcome impacts. For example, Vietnam is establishing a systematic information system for poverty indicators, and plans to undertake a comprehensive household survey every two years. Uganda

⁷³ The OECD-DAC has completed six papers in this area: Framework for Donor Cooperation; Country Analytic Work and Preparation of Projects and Programs; Measuring Performance in Public Financial Management; Reporting and Monitoring; Financial Reporting and Auditing; and Delegated Cooperation.

processed and analyzed the 2000 household survey in time for the 2001 PRSP progress report. Bolivia, Honduras, Mozambique have detailed plans for improvement in M&E capacities. In support of countries' efforts, donors will need to continue their assistance to strengthen poverty monitoring systems and to develop new poverty monitoring tools and approaches.

IX. Looking Forward

161. IDA12 captured a framework for development that is relevant, for IDA13 and beyond. This framework puts a strong emphasis on economic growth in poverty reduction, effective participation and social inclusion, and ownership of development agenda by developing countries. It underscores the role of the state, as fostering an enabling environment for markets to function and providing basic infrastructure and social services, hence the importance of governance and public sector accountability. Within this framework, IDA will continue to respond in a variety of ways to the challenges its client countries faces.

162. The PRSPs are to provide the framework for country-led strategy formulation and coordination of development assistance. IDA will continue to support, through country assistance strategies, the poverty reduction priorities of its borrowers, taking into account IDA's corporate mandates in the areas of gender, environment and governance. In this regard, the IDA13 objectives fundamentally reflect the same priorities as IDA12. In spite of some challenges and difficulties in the initial stages of the PRSP approach, indications are that the PRSP will increasingly become the cornerstone for development planning in low income countries for governments and international agencies alike.

163. IDA is also focusing on some key elements to help achieve its objectives. In particular, it will further strengthen its operations to increase its effectiveness, support the development community's reaffirmation of meeting the MDGs, which would not be achievable without sustained broad-based growth, and renew the focus on measuring and monitoring results.

Strengthening IDA's Programs and Operations

164. IDA support to countries will emphasize broad-based growth. Low level of private sector investment has been a significant cause of slow growth in IDA countries. An important factor behind this, is poor investment climate. IDA's assistance in this area has focused on improving policies for foreign trade, investment, and the financial sector. Increasingly, attention is also being paid to competition policies, legal and judicial reform, and corporate governance. At the same time, major efforts are still needed to invest in rural social and economic infrastructure to raise the incomes and living standards of the poor.⁷⁴

165. IDA will further strengthen its focus on governance and institutions in its programs and resource allocation. Country dialogue and strategic programming will give particular attention to public sector reform, addressing key issues of governance, transparency, and

⁷⁴ A study by the World Bank: *Can Africa Claim the 21st Century, 2000* notes that "recent reforms have improved agricultural price incentives, but they have not done as well at addressing other structural and institutional constraints, including rural infrastructure (irrigation, roads, power, telecommunications), agricultural research and extension, and farmer health and education -- factors that impede agricultural productivity and output.

participation. Governance will continue to have a significant impact on the size of a country's IDA resource envelope. IDA12 established a strong and explicit framework for assessing governance and relating it to IDA resource allocation: this has been refined in IDA13, but it needs continued work to make it as objective and transparent as possible. IDA will complete the required fiduciary assessments for all IDA countries by the end of FY04. Where weaknesses remain, the PRSP process will provide a common framework for building on the countries' own practices and procedures, and strengthen their administrative capacity to adhere to best practice standards.

166. There is a need to build on the gains of participatory work. Overall, to sustain and enhance the open and participatory nature of the PRSP approach and CASs is particularly important. CASs are expected to further strengthen the partnership dimension, as they are being built on the PRSP of a country, and prepared within the broad partnership frameworks envisaged as part of a good practice PRSP approach. Clearly, early attempts to formulate broadly-based PRSP, have often been imperfect. It is important to learn from experience, build on democratic structures where these are in place, and improve participatory processes. At the project level, participation has been at the heart of community-based initiatives that have increased considerably during IDA12. Nonetheless, there remain opportunities to further broaden, deepen and improve the quality of participation through greater collaboration and input from stakeholders, as well as develop mechanisms to ensure the sustainability of such operations.

167. IDA will also work to help the chronically weak-performing countries get onto a path leading to sustained growth, development and poverty reduction. The Low-Income Countries Under Stress initiative (LICUS) -- under implementation by IDA -- aims to increase the volume and quality of IDA's analytical work in these countries, support capacity building for selected, realistic reforms, and foster effective service delivery to the poor. As IDA's members have stressed, large aid flows are inappropriate in these countries because they lack the policy framework and capacity needed to use resources effectively for poverty reduction. Nonetheless, these countries need an appropriate mix of assistance to support their fragile efforts for reform and poverty reduction and it is rarely easy to get the timing and balance of assistance exactly right. Neglect perpetuates poverty, constrains the achievement of MDGs and may contribute to the collapse of the state, with adverse regional and even global consequences.

168. There are future challenges for IDA and other partners in the HIPC Initiative. Continued support of the PRSP process is needed for the HIPCs in the interim period to achieve the performance objectives of their PRSPs and reach their completion points. Strong emphasis on governance and institution building will be important to help HIPCs not yet qualified for assistance -- most of which are conflict affected -- reach their decision points. Notwithstanding debt relief, the financial situation of some HIPCs is likely to remain precarious, however. In such cases, strongly increasing IDA lending for poverty reduction objectives while maintaining and, achieving long-term debt sustainability may be difficult. Higher IDA concessionality through grants will be one important element of flexibility in reconciling the need for resource transfers to HIPCs with debt sustainability. Moreover, HIPC resources will have to be additional, as is widely recognized, if aid resources are not to be diverted from other poor countries.

169. **Close coordination among development partners is a key objective, both at the institutional and country levels.** At the institutional level, the Rome Declaration on harmonization reflects a strong consensus among bilateral and multilateral development agencies to take action and implement the good principles and practice work in their own organizations, as well as in country programs and projects they support. At the country level, the PRSP/PRSC framework is expected to facilitate alignment and harmonization of donor assistance with country priorities, sectoral objectives, projects/programs, including coordination of support for capacity building and governance reforms.

Supporting Progress Towards the MDGs

170. **At the Monterrey International Conference on Financing for Development (March 2002), the international community forged a renewed partnership on steps needed to accelerate progress toward the MDGs.** Heads of governments from developing countries committed to mobilizing domestic financial resources for development, and acknowledged that they must take responsibility for good governance and sound policies. In turn, the donor community committed to scale up and intensify its efforts to help developing countries meet the MDGs. This includes mobilizing resources for development, reducing barriers to international trade, supporting sustainable debt financing and relief, and helping to improve data collection and monitoring efforts at the country and global levels.

171. **IDA will continue to contribute to the knowledge base on how to promote pro-poor growth through research and operationally focused analytical work,** in addition to its lending and policy advice in all the sectors covered by the MDGs. The specific structural and social policies needed for growth, and how they translate into sustainable poverty reduction, are still not well understood. Three years into the PRSP approach, it has become clear that a major gap in most PRSPs relates to the choice and sequencing of policy and institutional reforms to accelerate growth and reduce poverty.

172. **IDA also has a major role to play in deepening country capacity for data collection and analysis** that are important inputs for the evidence-based policy making and poverty monitoring needed to support progress towards the MDGs. Many IDA countries lack sufficient data and institutional capabilities to effectively track outcomes. IDA and other donors are working to expand their involvement in this area, and increased technical and financial assistance are being made available to developing countries through country assistance programs, analytical work and learning events. In addition, IDA is engaged in several global initiatives to improve national statistical capabilities, as well as monitoring and evaluation systems.⁷⁵ Nevertheless, a formidable agenda remains ahead.

Monitoring and Measuring Results

173. **IDA is undertaking a comprehensive effort to monitor and measure results.** A system to measure, monitor and manage for development results is currently being put in place. The system will link country development outcomes, as articulated in PRSPs to CAS-based IDA

⁷⁵ Such initiatives include the PARIS 21 Consortium, the Trust Fund for Statistical Capacity Building, and Evaluation Capacity Development, the General Data Dissemination System for Africa, as well as country-based assistance for monitoring and evaluation systems.

country programs, and provide a clear indication of how IDA's operations and activities are influencing these outcomes. While country focused, the system will need to aggregate across countries to be able to assess IDA results across regions, and globally. Work is progressing on this approach. This system will begin to be initiated in the Spring of 2003, and is expected to become operational within three years. This is a major challenge not only because it represents a move away from input-based monitoring of IDA's achievements to output-based impact monitoring, but also because the indicators themselves need to be carefully chosen, and the quality of the statistical base and data, in many cases, need to be substantially improved. IDA's work on this measurement system is proceeding in line with the broader work going forward for global monitoring of results, and is being carried out with extensive consultations with other developmental partners and borrowers.

174. **The results focus of CASs is also being sharpened.** The objective of the results-based CAS is to improve IDA's performance by using intended results to define IDA's programs upfront and to assess their success, once completed. CASs will include key PRSP-based country outcome and targets, including country specific MDGs with baseline data; a clear statement of the results expected from IDA-programs in the CAS; benchmarks for assessing CAS implementation; and an assessment of the country's data systems and other capacity to monitor and evaluate progress. This new results-based framework is being put in place with pilots proposed for Cambodia, Cameroon, and Sri Lanka.

Conclusion

175. **The development policies and framework embodied in IDA12 arrangement, and implemented over 1999-2002 have demonstrated their appropriateness in action.** The stronger emphasis on good policies and transparent governance -- and the performance-based allocation system that underpins it -- has served IDA and its clients well. At the same time, IDA's ability to respond rapidly to human and economic crises has played an important catalytic role in the international arena. In IDA13 and beyond, the challenge is to consolidate, deepen and sustain the initiatives launched during IDA12, and move forward with some key innovations including: a stronger emphasis on development results, an expanded, though still experimental program of grants, and greater inclusiveness in the approach to partnerships and participation in the development process. At the same time, IDA's role must be viewed against the exceptional challenges which poor countries face, and the fact that IDA alone meets only a small portion of developing countries' external resource needs. IDA's record will continue to be tested not only by the requirement to deliver high-quality inputs, but also, going forward, by its contribution to global partnership for achieving better development results.

IDA Portfolio

At the end of June 2002, there were 813 IDA projects under implementation in 76 countries, including 393 new projects funded by IDA12. The total portfolio represents net commitment amount of \$37.8 billion. Almost 400 projects were completed during this period. The table below summarize the regional composition of IDA's portfolio. About 43 percent of total operations were in Africa (347 projects) with the net commitment amount of \$14.9 billion (39 percent of total commitment value).

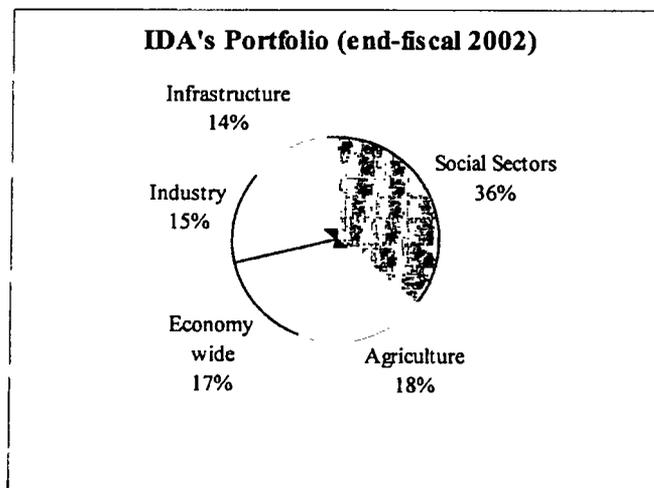
Projects Under Implementation, end-fiscal 2002

<u>Region</u>	<u>Number of Operations</u>	<u>Percent of Total</u>	<u>Net Commitments (US \$ million)</u>	<u>Percent of Total</u>
Africa	347	43	14,942	39
East Asia and Pacific	118	15	6,706	18
Eastern Europe and Central Asia	138	17	2,436	6
Latin America and the Caribbean	59	7	1,545	4
Middle East and North Africa	39	5	1,252	3
South Asia	112	14	10,954	29
Total	813	100	37,835	100

South Asia represented 29 percent of the *net commitment* value (\$10.9 billion) and 14 percent of project portfolio. This reflected the larger operations compared to ECA and East Asia. ECA represented 17 percent of project portfolio and only 6 percent of the commitment value. East Asia had about 15 percent of the portfolio with the net commitment value of \$6.7 billion.

About one-third of the value of the active IDA portfolio is under implementation in 20 countries.

The two largest country programs are India and Vietnam (Table A1). They represent 26 percent of the total IDA portfolio. Figure 1 shows the composition of IDA portfolio by sector board classification. Operations in the social sectors make up about 36 percent, the largest share of the portfolio, followed by agriculture and economy wide operations (economic policy, environment, PSD, public sector).



IDA *disbursements* reached \$17.3 billion down from \$17.9 billion in IDA11. Africa represented 38 percent of the total IDA disbursements, followed by 35 percent for South Asia, and 12 percent for East Asia (Table A2). About 75 percent (\$13 billion) of the disbursements are from investment lending. Disbursements in social sectors represented 32 percent of total disbursements, followed by economy wide interventions (economic policy, environment, PSD and public sector) and agriculture sector (Table A3).

Top Ten IDA Disbursement Recipients		
Fiscal 2000 - 2002		
	FY00-FY02	Disbursements
	\$ million	per capita
		per year (\$)
India	3,198	1.0
Pakistan	1,544	3.6
China	1,025	0.3
Bangladesh	970	2.4
Ethiopia	813	4.1
Vietnam	647	2.7
Ghana	597	10.1
Uganda	574	8.4
Zambia	504	16.4
Tanzania	448	4.3

Table A1. IDA's Largest Borrowers
Portfolio as of end-fiscal 2002

	Number of Operations	Net Commitments (US\$m)
India	52	7,088
Vietnam	27	2,814
China	40	2,618
Bangladesh	24	2,266
Ethiopia	18	1,710
Tanzania	22	1,233
Ghana	21	1,208
Mozambique	16	944
Uganda	23	864
Senegal	21	851
Pakistan	8	772
Cote d'Ivoire	12	758
Madagascar	17	737
Kenya	13	701
Nigeria	9	682
Bolivia	17	644
Yemen, Republic of	19	606
Egypt, Arab Republic of	14	575
Mali	14	546
Indonesia	11	536

**Table A2. IDA Disbursements by Region
(\$ million)**

	IDA11 ^{a/}	IDA12
Africa	7,000.1	6,648
Adjustment	2,316	2,222
Investment	4,684	4,426
East Asia	2,929	2,098
Adjustment	138	133
Investment	2,790	1,965
South Asia	4,855	6,024
Adjustment	1	1,230
Investment	4,854	4,794
ECA	1,389	1,242
Adjustment	806	562
Investment	583	679
MNA	599.5	471
Adjustment	127	85
Investment	473	387
LCR	1,083	787
Adjustment	251	79
Investment	832	708
Total	17,855	17,269
Adjustment	3,639	4,311
Investment	14,216	12,958

a/ Includes IDA HIPC Grants.

Table A3. IDA Disbursements by Sector
(US\$m)

Sectors	IDA11 a/	IDA12
Social Sectors	5,511	5,484
Education	2,130	1,855
Health, Nutrition and Population	1,585	2,154
Social Development	45	26
Social Protection	825	904
Water Supply and Sanitation	924	545
Infrastructure	1,989	1,850
Global Information/Communications Technology	113	41
Transport	1,877	1,809
Industry	2,906	2,156
Energy and Mining	1,441	942
Financial Sector	656	690
Urban Development	809	524
Economy-wide	4,334	5,166
Economic Policy	2,220	2,806
Environment	517	422
Private Sector Development	875	628
Public Sector Governance	723	1,310
Agriculture and Rural Sector	3,115	2,614
Overall result	17,855	17,269

a/ Includes IDA HIPC grants.

Table B1. IDA Eligible Countries during IDA12

<u>Africa</u>	<u>East Asia</u>	<u>MNA</u>
Angola	Cambodia	Djibouti
Benin	Indonesia ^{b/}	Yemen, Republic of
Burkina Faso	Laos, PDR	
Burundi	Mongolia	
Cape Verde ^{a/}	Myanmar [*]	<u>LAC</u>
Cameroon	Vietnam	Bolivia ^{b/c/}
Central African Republic	Kiribati ^{a/}	Guyana
Chad	Solomon Islands	Haiti
Comoros	Samoa ^{a/}	Honduras
Congo, Republic of	Tonga ^{a/}	Nicaragua
Congo, Democratic Republic of	Vanuatu ^{a/}	Dominica ^{a/b/}
Cote D'Ivoire		Grenada ^{a/b/}
Ethiopia	<u>South Asia</u>	St Lucia ^{a/b/}
Eritrea	Afghanistan	St Vincent ^{a/b/}
Gambia, The	Bangladesh	
Ghana	Bhutan	
Guinea	India ^{b/}	
Guinea-Bissau	Maldives ^{a/}	
Kenya	Nepal	
Lesotho	Pakistan ^{b/}	
Liberia [*]	Sri Lanka	
Madagascar		
Malawi	<u>ECA</u>	
Mali	Albania	
Mauretania	Armenia ^{d/}	
Mozambique	Azerbaijan ^{b/}	
Niger	Bosnia-Herzegovina ^{b/}	
Nigeria ^{b/}	Georgia ^{d/}	
Rwanda	Kyrgyz Republic ^{d/}	
Sao Tome and Pr	Macedonia, FYR ^{b/c/}	
Senegal	Moldova ^{d/}	
Sierra Leone	Tajikistan	
Somalia [*]	Uzbekistan ^{b/f/}	
Sudan [*]	Yugoslavia, Fed Rep of ^{b/c/}	
Tanzania		
Togo		
Uganda		
Zambia		
Zimbabwe ^{b/}		

a/ Small island economy exception

b/ Blend Countries

c/ On an exceptional basis, the Board approved modification of terms of IDA credits to Federal Republic of Yugoslavia (a blend country) and FYR Macedonia (an IBRD-only country with exceptional access to IDA in FY02) to include no acceleration clause and to have a maturity of 20 years, with principal repayable at 10% per annum for years 11-20

d/ Reclassify Armenia, Georgia, Kyrgyz and Moldova from Blend to IDA-only in FY00

e/ Reclassify from IDA-only to Blend in FY02

f/ Reclassify from IBRD-only to Blend in FY02

* Inactive Countries

Table B2. IDA12 - New Commitments by Country ^{1/}

Region	Country	2001 Population (million)	Number of Operations	FY00-02 Commitments (\$m)		
				Adjustment	Investment	Total
<u>Africa</u>	Africa	NA	1	-	5	5
	Angola	14	1	-	33	33
	Benin	6	6	10	78	88
	Burkina Faso	12	6	70	213	283
	Burundi	7	5	-	131	131
	Cameroon	15	3	24	77	101
	Cape Verde	0.5	3	15	17	32
	Central African Republic	4	3	20	25	45
	Chad	8	6	40	174	214
	Comoros	1	2	-	17	17
	Congo, Democrat	52	2	450	50	500
	Congo, Republic	3	4	-	90	90
	Cote d'Ivoire	16	3	233	7	240
	Eritrea	4	5	-	235	235
	Ethiopia	66	10	270	607	877
	Gambia, The	1	3	-	46	46
	Ghana	20	7	161	353	514
	Guinea	8	3	50	114	164
	Guinea-Bissau	1	2	25	26	51
	Kenya	31	6	155	212	367
	Lesotho	2	3	-	40	40
	Madagascar	16	7	51	371	421
	Malawi	11	4	56	47	103
	Mali	11	6	95	228	324
	Mauritania	3	7	48	175	224
	Mozambique	18	9	-	450	450
	Niger	11	5	117	97	214
	Nigeria	130	9	-	682	682
	Rwanda	9	7	15	188	204
	Sao Tome and Principe	0.2	2	8	3	10
Senegal	10	10	100	360	460	
Sierra Leone	5	5	90	44	134	
Tanzania	34	13	342	465	807	
Uganda	23	12	175	512	687	
Western Africa	NA	1	-	9	9	
Zambia	10	7	179	197	377	
Zimbabwe	13	1	-	5	5	
Subtotal			189	2,800	6,383	9,183
<u>East Asia</u>	Cambodia	12	8	30	105	135
	Indonesia	214	3	-	400	400
	Lao, PDR	5	5	17	70	87
	Mongolia	2	6	32	93	125
	Samoa	0.2	1	-	5	5
	Solomon Islands	0.4	1	-	4	4
	Tonga	0.1	1	-	6	6

Table B2. IDA12 - New Commitments by Country ^{a/}

Region	Country	2001 Population (million)	Number of Operations	FY00-02 Commitments (\$m)		
				Adjustment	Investment	Total
	Vanuatu	0.2	1	-	4	4
	Vietnam	80	12	250	1,258	1,508
	Subtotal		38	329	1,944	2,273
<u>ECA</u>	Albania	3	14	35	140	175
	Armenia	4	8	50	111	161
	Azerbaijan	8	6	60	102	162
	Bosnia-Herzegovina	4	14	64	200	264
	Georgia	5	6	-	140	140
	Kyrgyz Republic	5	7	35	86	121
	Macedonia, FYR	2	6	35	50	85
	Moldova	4	3	35	21	56
	Tajikistan	6	7	50	72	122
	Uzbekistan	25	-	-	20	20
	Yugoslavia, Fed. Rep of	11	4	155	17	172
	Subtotal		75	519	958	1,477
<u>LCR</u>	Bolivia	9	5	60	128	188
	Dominica	0.1	-	-	2	2
	Grenada	0.1	-	-	8	8
	Guyana	1	1	-	5	5
	Honduras	7	8	7	273	280
	Nicaragua	5	11	-	336	336
	St. Lucia	0.2	-	-	13	13
	St. Vincent and the Grenadines	0.1	-	-	5	5
	Subtotal		25	67	769	837
<u>MNA</u>	Djibouti	1	4	10	40	50
	Yemen, Republic	18	11	-	365	365
	Subtotal		15	10	405	415
<u>South Asia</u>	Afghanistan	27	4	-	100	100
	Bangladesh	133	13	-	773	773
	Bhutan	0.8	2	-	22	22
	India	1033	18	375	2,308	2,683
	Maldives	0.3	1	-	18	18
	Nepal	24	2	-	77	77
	Pakistan	141	5	850	324	1,174
	Sri Lanka	20	6	-	158	158
	Subtotal		51	1,225	3,780	5,005
Total			393	4,950	14,239	19,189

a/ Excludes IDA Guarantees and HIPC debt service grant.

Note: Supplements are included in the amounts, but not counted as separate lending operations.

Joint IBRD/IDA operations are counted only once as IBRD operations.

**Table B3. Sectoral Distribution of IDA 11 and IDA 12
Lending Commitments (\$ million)**

	<u>IDA 11</u> ^{a/}	<u>IDA 12</u>
<u>Investment Lending</u>		
Agriculture, Fishing and Forestry	2,304	1,138
Public Administration	2,301	2,474
Information and Communication	95	73
Education	1,930	1,332
Finance	412	1,062
Health	2,369	1,485
Other Social Services	558	1,252
Industry and Trade	551	544
Energy and Mining	1,154	1,458
Transportation	2,508	2,058
Water, Sanitation and Flood Protection	1,028	1,265
Law and Justice	39	98
Total	15,250	14,239
<u>Adjustment Lending</u>		
Agriculture, Fishing and Forestry	188	183
Public Administration	1,367	1,994
Information and Communication	69	49
Education	228	332
Finance	454	505
Health	68	257
Other Social Services	173	54
Industry and Trade	577	756
Energy and Mining	293	581
Transportation	309	109
Water, Sanitation and Flood Protection	19	54
Law and Justice	171	75
Total	3,917	4,950
<u>Total Lending (Adjustment & Investment)</u>		
Agriculture, Fishing and Forestry	2,492	1,321
Public Administration	3,669	4,467
Information and Communication	165	122
Education	2,158	1,665
Finance	866	1,567
Health	2,438	1,743
Other Social Services	731	1,306
Industry and Trade	1,128	1,300
Energy and Mining	1,447	2,040
Transportation	2,817	2,168
Water, Sanitation and Flood Protection	1,048	1,319
Law and Justice	210	172
Total	19,168	19,189

a/ Includes IDA HIPC developmental Grants Excludes HIPC debt service grant and IDA Guarantee

**Table B4. Investment Lending to the Social Sectors over IDA11 and IDA12
(\$ million)**

<u>Social Sectors</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>IDA11</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>IDA12</u>
Education	261	1,054	614	1,930	452	467	414	1,332
Health, Nutrition, and Population	637	1,065	667	2,369	520	473	493	1,485
Other Social Services	152	132	274	558	178	692	382	1,252
Water, Sanitation & Flood Protection	347	240	441	1,028	262	651	352	1,265
Total Social Sectors	1,397	2,492	1,996	5,886	1,411	2,283	1,640	5,334
(as % of total investment lending)	(38)	(41)	(37)	(39)	(38)	(46)	(29)	(37)
Total Investment	3,674	6,153	5,423	15,250	3,676	4,938	5,625	14,239

**Table B5. Detailed Sector Breakdown of IDA12 Commitments by Fiscal Year
(\$ million)**

	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>IDA12</u>	<u>Share of Total (%)</u>
Agriculture, Fishing and Forestry	286	411	624	1,321	7
Human Resource-Related					
Education	455	578	632	1,665	
Health	523	578	642	1,743	
Other Social Services	195	724	386	1,306	
Water, Sanitation and Flood Protection	262	689	368	1,319	
Total Human Resource	1,435	2,569	2,028	6,032	31
Industry					
Finance	206	562	800	1,567	
Industry and Trade	172	314	814	1,300	
Energy and Mining	303	465	1,272	2,040	
Total Industry	681	1,341	2,885	4,907	26
Infrastructure					
Information and Communication	22	43	56	122	
Transportation	565	738	864	2,168	
Subtotal Infrastructure	587	782	921	2,289	12
Economy-wide					
Public Sector	1,314	1,576	1,578	4,467	
Law and Justice	55	86	31	172	
Total Economy-Wide	1,369	1,662	1,609	4,640	24
Total	4,358	6,764	8,068	19,189	100

Table B6. Regional Distribution of IDA Commitments
(\$ million)

	IDA11 (FY97-99) ^{a/}		IDA12 (FY00-02) ^{b/}	
	No. of Operations	Commitment Value	No. of Operations	Commitment Value
Africa	156	6,763	189	9,183
East Asia	36	2,578	38	2,273
Europe and Central Asia	95	2,192	75	1,477
Latin America and the Caribbean	23	1,089	25	837
Middle East and North America	22	802	15	415
South Asia	48	5,744	51	5,005
Total	380	19,168	393	19,189

a/ Includes IDA HIPC developmental grants.

b/ Excludes IDA Guarantee for Bangladesh in FY01 for \$60.9 million and in FY02 for Uganda for \$115 million. Excludes HIPC debt services grant for Cameroon (\$63.9m) and Honduras (\$37m) in FY01.

Table B7. Blend Borrowers

	2001 Population (thousand)	2001 GNI / Capita (\$)	FY00-02 IDA Lending (\$m)	IDA Blend Ratio ^{a/}
Azerbaijan	811	650	162	100
Bosnia-Herzegovina	406	1,270	264	100
Dominica	7	3,060	2	70
Grenada	10	3,720	8	55
India	103,339	460	2,683	41
Indonesia	21,364	680	400	43
Macedonia, FYR ^{b/}	2,044	1,690	85	65
Nigeria	12,988	290	682	100
Pakistan	14,145	420	1,174	100
St. Lucia	16	3,970	13	55
St. Vincent and the Grenadines	12	2,690	5	57
Uzbekistan ^{c/}	2,510	560	20	19
Yugoslavia, Fed. Rep. of ^{d/}	1,064	1,100	172	100
Zimbabwe	1,282	480	5	100

a/ Ratio of FY00-02 Ida lending to total IBRD and IDA lending

b/ Graduated from IDA at the end of FY01 but have access to IDA on the exceptional basis in FY02 on harden terms

c/ Became IDA eligible in FY02.

d/ Became IDA eligible in FY02 On an exceptional basis, the Board approved modification of terms of IDA credits to Federal Republic of Yugoslavia to include no acceleration clause and to have a maturity of 20 years, with principal repayable at 10% per annum for years 11-20

Table C1. Country Strategy Documents in IDA12

	<u>CAS/I-CAS</u>	<u>Date of Board Discussion</u>	<u>TSS/ISS</u>
		<u>CAS Progress Report</u>	
<u>Africa</u>			
Benin	Jan-01		
Burkina Faso	Nov-00		
Burundi			Mar-02
Cameroon		Jun-00	
Cape Verde		Aug-01	
Chad	May-00		
Comoros			Nov-00
Congo, Republic of			Jan-01
Congo, Democratic Republic of			Jul-01
Cote d'Ivoire	Jun-02		
Eritrea			Nov-00
Ethiopia			Dec-00
Ghana	Mar-00		
Guinea		Jul-01	
Malawi	Dec-00		
Mauritania	Jun-02		
Mozambique	Jun-00		
Niger		Nov-01	
Nigeria #	Jun-01		
Sao Tome and Principe	Nov-00		
Sierra Leone			Dec-99, Dec-00, Mar-02
Tanzania	Jun-00		
Togo		Jun-00	
Uganda	Nov-00		
Zambia	Oct-99		

Table C1. Country Strategy Documents in IDA12

	<u>CAS/I-CAS</u>	<u>Date of Board Discussion</u> <u>CAS Progress</u> <u>Report</u>	<u>TSS/ISS</u>
<u>East Asia</u>			
Cambodia	Feb-00		
Indonesia #	Jan-01		
Vietnam		May-00, Oct-01	
Pacific Islands	May-00		
<u>ECA</u>			
Albania	Jun-02	Mar-00	
Armenia	May-01		
Azerbaijan #	Sep-99		
Bosnia-Herzegovina #	May-00	Oct-01	
Kyrgyz Republic		Dec-01	
Macedonia, FYR #		Jun-00	Sep-01
Moldova		Jun-02	
Uzbekistan #	Mar-02		
Yugoslavia, Fed. Rep. Of #			May-01
<u>LCR</u>			
Bolivia #		Jun-01	
Dominica	Jul-99		
Honduras	Dec-99		
Eastern Caribbean	Jun-01		
<u>MNA</u>			
Djibouti	Dec-00		
<u>South Asia</u>			
Afghanistan			Apr-02
Bangladesh	Dec-00	Jul-99	
Bhutan	Feb-00		
India #	Apr-01		
Maldives	Dec-00		
Pakistan #	Jun-02	Jun-01	

Blend country