IDA'S SECTORAL PROGRAMS AND COUNTRY ALLOCATIONS

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SYMBOLS

The symbol . in tables means "less than half the unit shown"
The symbol .. in tables means "not available"
The symbol - in tables means "not applicable"
ACRONYMS

GDP    Gross Domestic Product
IBRD   International Bank for Reconstruction and Development
IDA    International Development Association
       IDA8 and IDA9 refer to the Eighth and Ninth Replenishments of IDA respectively
IMF    International Monetary Fund
NGO    Nongovernmental Organization
SAL    Structural Adjustment Credit
SFA    Special Facility for Africa

Note: Unless otherwise indicated the source of data for all the tables is The World Bank.
I. THE NEEDS OF THE LOW-INCOME COUNTRIES

1.1 "The Evolving Role of IDA" sketched the cycle of recent development experience in the low-income countries. In the late 1970s high primary commodity prices, negative real interest rates and plentiful non-concessional credit led governments in many of these countries to increase their expenditures and invest in new capacity. In the early 1980s sharp declines in commodity prices combined with high real interest rates to result in debt servicing problems and limited access to non-concessional credit. It became crucial for governments to adjust by shifting resources into the production of tradeable goods and services and by restoring fiscal balance. IDA and the IMF took the lead in supporting adjustment programs in the low-income countries by ensuring that a link was established between the provision of external funds and the undertaking of the needed policy changes.

1.2 By FY88, when the account in the earlier paper ended, the internal debate in many low-income countries was not about whether to adjust, but rather about the timing and sequencing of the adjustment process. For most low-income countries the priority was clearly perceived as more efficient resource use -- both in the short run through better utilization of existing productive capacity, and in the longer run through institution building and the development of human resources and the conservation of natural resources. This emphasis was also relevant for the large Asian countries, which, although not facing a crisis of macroeconomic adjustment, were concerned that high rates of investment in the 1960s and 1970s had not yielded commensurate growth. Programs in these countries were increasingly geared to economic reforms aimed at raising growth rates and reducing poverty.

1.3 The most enduring legacy of the 1980s may well be the volatility of the global environment and the premium placed on flexible economic structures and responsive economic management. In this respect some of the lessons of the 1980s have been learned and many low income countries will enter the next decade with more resilient economies and an enhanced capacity to manage their domestic economies flexibly in response to changing exchange rates in the major trading countries, varying real interest rates and capital flows, and short-term commodity price fluctuations.

1.4 In attempting to identify the needs of the low-income countries in the 1990s, it is useful to distinguish four broad country groupings. The first three consist of countries which have faced the need to adjust to the lower commodity prices and external resource flows of the 1980s, and in these the level of investment has fallen sharply since the late 1970s. In sub-Saharan Africa, for example, gross domestic investment was only 12 percent of GDP by 1985. At this level, gross investment is absorbed largely by replacement expenditures to maintain the existing capital stock. These investment levels are not adequate to provide the wide range of supporting infrastructure which will be needed to exploit already available capacities in agriculture, industry and services. Nor, at these levels, has it been possible to safeguard the resources needed for long-term development, both human and natural. Social service coverage of the population has stagnated or declined and environmental damage has continued, perhaps irreversibly in some countries.

1.5 Important differences have begun to emerge among these countries, however. A first group of countries (most notably Bolivia -- see Box 1.1, Burundi, Ghana, Malawi, Togo, and most of the small island economies in the Caribbean) has essentially completed the first phase of their adjustment programs -- of correcting the key macroeconomic imbalances. This group of countries have by and large set their exchange rates at realistic levels which provide incentives to domestic producers, have reduced biases against exports and agricultural
INTRODUCTION

The background paper on "The Evolving Role of IDA", which was discussed by the IDA9 Deputies at their meeting in February, outlined the very considerable changes which had taken place in IDA's programs and policies during the period FY85-88. In their discussions the Deputies asked that IDA's management provide an indication of how IDA's programs were likely to evolve further during the period of the ninth replenishment (FY91-93) and the consequences of that evolution for the allocation of IDA resources. This paper responds to that request.

The paper begins with a discussion of the different ways in which countries have responded to the need to adjust their economies since the early 1980s. A number of countries have substantially implemented the first (macroeconomic) phase of the adjustment process and are in a position to deepen adjustment programs at the sectoral levels and to expand investment in infrastructure and the social sectors. A second group of countries have just started to adjust and must still give priority to the task of restoring macroeconomic balance. Growth in these countries will depend on their ability to make more efficient use of existing capacity and to reallocate resources between and within sectors. A third group of countries have not yet embarked on adjustment programs. In addition, there is a fourth group of countries -- mainly the large, diversified Asian economies -- which have been relatively well-managed and have grown rapidly during the 1980s. Section I explores the needs of these four categories of countries during the 1990s if they are to achieve sustained growth and poverty reduction.

There are a number of common themes in IDA's support for development programs in these countries. These include: the efficient allocation of resources, poverty alleviation, environmental programs, institution-building, the development of the private sector, collaboration with non-government organizations and the coordination of external aid. Section II describes how IDA's programs in the various sectors are designed to support these common themes of country development programs. The management of these themes requires careful integration of activities within and across sectors, and IDA's lending instruments are designed to achieve this integration. The balance of activities between sectors and between lending instruments is built up from IDA's response to individual country needs. Current projections are that this will result in some shift towards the human resource sectors and an unchanged share of adjustment lending in the IDA9 period as compared to IDA8.

IDA allocations across countries are determined by the size of the country, its per capita income, performance and absorptive capacity, and creditworthiness. In the IDA8 period there has been a substantial premium in allocations attached to the willingness of countries to undertake adjustment programs. During IDA9 it is possible that a number of other countries, mainly in Africa, will begin adjustment programs requiring substantial IDA allocations in support. Also, some Asian countries received relatively lower IDA8 allocations than intended because of the impact of natural disasters and political instability on project implementation. Some of these countries would also be claimants for additional allocations in IDA9. Section III reviews the possible trends in allocation in IDA9 relative to IDA8 and concludes that, given the uncertainties relating to the prospects for individual countries and the likely pressure of additional claimants on constrained IDA resources, it will be important that allocations in the IDA9 period be managed flexibly across regional and country programs.
I. THE NEEDS OF THE LOW-INCOME COUNTRIES

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Box 1.1: Bolivia: The Second Phase of Adjustment

In late 1985 Bolivia faced a major economic crisis brought on by a crushing debt burden, a huge and inefficient public sector, extensive controls on economic activity and poor macroeconomic management. Hyperinflation was running at 28,000 percent, per capita income had fallen by 24 percent since 1980 and the public sector deficit had widened to 23 percent of GDP. In response, the new Government embarked on a stabilization program, raising the prices of most public sector services, cutting spending, and devaluing by 93 percent; inflation was reduced to 22 percent by 1988.

The stabilization was accompanied by an adjustment program designed to stimulate growth by rationalizing the public sector and by allowing prices to allocate resources. Almost all quantitative trade restrictions were eliminated, and a uniform tariff of 20 percent was introduced. Controls on prices and on interest rates were abolished. So were subsidized credit programs. The restructuring of the banking sector was begun. The exchange rate was determined in daily auctions with universal access. Restrictions on employment practices and wage negotiations were eased. A first phase of public enterprise reform started, including employment reductions and the reorganization of the Central Bank. Public administration reforms included tighter control of all public sector wages and a complete overhaul of tax administration. The Emergency Social Fund was established to cushion the impact of the program on the poor. The economy has responded, but slowly, growing by 2.4 percent in 1987 and 2.8 percent in 1988.

While macroeconomic balance has thus largely been achieved, much remains to be done in the areas of public administration, incentives and external finance and to integrate the poor into the development process. The Government plans to improve tax and customs enforcement, to reform wage and employment practices, to privatize public enterprises, and to decentralize health and education services. Public investment is to be made more efficient, and infrastructure improvements necessary to support greater industrial production and trade are planned in power and transport. The Government will continue reforms in the banking sector (see Box 2.4). Investment code reform will improve the business climate, and will be critical to attracting foreign investment in mining and hydrocarbons. Reforms are also underway in agriculture - which is stagnating - to increase output and exports through improved crop production systems, the introduction of new technology and the increased availability of credit. Achieving these planned reforms will be difficult, however, because of Bolivia's large debt burden; despite buybacks and rescheduling, official debt service in 1988 still accounted for 10 percent of treasury revenues and 51 percent of export earnings. Increased concessional assistance and further debt rescheduling will be necessary to support further economic reforms and ensure sustained growth.

production, have lowered rates of protection on manufactured goods, have reduced fiscal deficits and inflation rates, and have moved real interest rates to positive levels.

1.6 The priority for this group of countries is to address the technological, institutional and infrastructure bottlenecks which limit the supply response. This requires a deepening of the adjustment process at the sector level through upgrading key sector agencies, improving administration, and the deregulation and privatization of activities which can be better handled through appropriate incentives and policies. Further, it requires the identification of investment needs in the supply of infrastructure -- not merely in the short-run, but, given the long gestation period,
Box 1.2: Nepal: Continuing Structural Adjustment

The government of Nepal's growing frustration with low growth performance over three decades of development efforts manifested itself in surging public expenditures to accelerate development in the early 1980s. The budget deficit rose from 6 percent of GDP in FY81 to 10 percent in FY85. During this period international reserves fell, and domestic borrowing increased substantially to finance development expenditures. It became evident that growth was not sustainable under these macroeconomic conditions. In 1985, Nepal embarked on a structural adjustment program of stabilization (increasing public revenues, tightening government expenditures and monetary policies) and structural reforms (promoting agricultural and industrial growth while improving development administration and public enterprise performance), supported by IMF Standby Arrangements, and subsequently by the SAF and a SAL from IDA. Macroeconomic performance under the program through FY85-88 has been encouraging - GDP growth averaged 4 percent annually; international reserves increased substantially through export growth, doubling of tourism receipts and increased aid disbursements; and gross domestic borrowing fell from 4 percent of GDP to 2 percent while development expenditures increased by 12 percent in real terms. In spite of the improved macroeconomic balances, Nepal's economy remains fragile. Imports are almost twice the level of exports and public expenditures are almost double public revenues. Improving Nepal's weak institutions and development administration is a slow but crucial process. Even with this promising start, adjustment measures have to be sustained and broadened into other areas in the coming years to accelerate growth, while ensuring macroeconomic stability. Within this broad framework, supporting investments will also be necessary in agriculture and hydropower to mobilize the necessary resources and in human resource development to address critical poverty concerns.

1.7 In addition to the supply response these countries must emphasize the sustainability of the development process. They must resume the expansion and upgrading of their education and health systems and develop programs for natural resource conservation and management. While these countries should be able to finance the expansion of these programs out of increased levels of domestic savings, they will continue to require concessional resource flows at the current real levels. There is little likelihood within a time-frame of five years that these countries will develop sufficient creditworthiness to permit any significant amount of non-concessional borrowing.

1.8 A second group of countries has made a promising start in adjusting (Guinea, Mali, Nepal -- see Box 1.2, Nigeria and Tanzania, for example). In these countries, the key first steps towards achieving macroeconomic balance have been taken, but must now be reinforced through supporting measures. For example, in most cases foreign exchange use has been liberalized, but substantial areas of control and rationing remain. Quantitative restrictions are in the process of being substituted by tariffs and tariff levels are being reduced. Fiscal deficits have been brought down, but remain too high. In general, progress has been quite good in the areas of interest rates and agricultural prices where the major distortions have been corrected. In essence, macroeconomic adjustment still requires strengthening.

1.9 The problem for these countries is to sustain their adjustment efforts. This is not just a matter of policy change. These countries have not yet developed the management capacity and undertaken the
Box 1.3: The Prospects for an Adjustment Program in Zambia

The Zambian government stopped servicing its debt and embarked in May 1987 on a program, without the support of IDA and the IMF, which while maintaining some earlier sector reforms, has exacerbated policy distortions -- an overvalued fixed exchange rate and administrative allocation of foreign exchange, extensive price controls, fixed interest rates at highly negative real levels, and an inflationary public expenditure program financed largely through borrowing from the central bank. Zambia's situation including its dependence on steadily declining copper resources is an unusually difficult one and even with quite far-reaching adjustment measures the prospect is for constrained growth until the economy is gradually diversified out of its dependence on copper. Recently the government has taken some steps in the right direction, recognizing perhaps the unsustainability of the current approach even with both relatively favorable recent copper prices and very limited payments on its debt. It carried out a small devaluation, increased the interest rate ceiling to 25 percent -- though inflation is running at about 50 percent, announced a 1989 budget designed to reduce the budget deficit to 5 percent of GDP from a reported 9.5 percent in 1988, and introduced a scheme to target the maize subsidy to the poor. IDA is continuing its dialogue with the government about the content of reform programs and measures to help clear the arrears. A full fledged adjustment program will require both debt relief and substantial concessional funding sustained over the long-term if it is to have any chance of success.

institutional reforms which can support the achievement of adjustment. Continuing fiscal deficits, for example, are in many cases a symptom of an unwillingness or inability to come to grips with the problems of the public enterprises and to eliminate the budgetary drain which they are causing.

1.10 This group of countries will not be able to increase investment levels over a five year time-frame as much as the first group. Increased domestic savings will have to be directed at restoring macroeconomic balance. This puts an even greater premium on using existing resources more efficiently. There is scope, for example, for small and medium investments in the private sector, which can yield high returns through unlocking existing capacities and can be substantially financed through new private savings. By reducing subsidies to the better off in the education and health sectors, expenditure can be retargeted to provide for expanding services and upgrading quality for the poor. At the same time, some new investment will be necessary to address the most serious infrastructure bottlenecks so that supply responses will not be constrained by lack of transport, power or water. Special interest programs which protect the poor during the adjustment process and permit broad-based support have been a key to the relative success of the mature adjustment programs in Ghana and Bolivia. They need to be designed and implemented by this group of countries as well. The provision of external resources to these countries must remain closely tied to their willingness to sustain adjustment efforts.

1.11 The third group of countries consists of those which have not yet started or have aborted their adjustment programs. These countries include Guyana, Liberia, Sierra Leone, Sudan and Zambia (see Box 1.3). To this group should be added those countries with programs which have been suspended or not begun due to political instability such as Afghanistan, Vietnam and Haiti. Somewhat different has been the case of Sri Lanka where civil strife has disrupted recent efforts to revive major adjustment efforts initiated in the late seventies and early eighties. It is not necessary to deal at length with the needs of these countries. If the political will is there,
Box 1.4: India: Supporting the Private Sector Through Policy Reforms

After several decades of restrictive industrial regulatory policies and an inward looking trade regime, India has recently embarked upon broad reforms to foster greater competition, a more active and vibrant private sector, and industrial efficiency. The reform program includes liberalizing the domestic regulatory framework to free up enterprise investment decisions and technology acquisition; encouraging exports through more flexible exchange rate policies; streamlining export administration; and starting to reduce import barriers. These changes have already stimulated private sector investment and led to significantly higher manufacturing growth and exports.

Policy reform is now under way in areas such as industrial regulation, export administration, public enterprise reform, industrial closure and credit and capital markets, particularly in such priority subsectors as electronics, automotive products, steel, capital goods and fertilizer. Private sector involvement is also being encouraged by opening up offshore areas to the international oil industry - an initiative that has proved highly successful. The Government is also providing improved incentives for increased involvement of the private sector in large public utilities such as the Bombay Suburban Electricity Supply, as well as permitting the establishment of a number of smaller private sector utilities consortia across the country.

then a very substantial international program of concessional assistance will be needed to support adjustment and reconstruction efforts. Unfortunately, with each year of delay the cost of adjustment increases, both in terms of the scale and difficulty of the reform measures needed and the required external support.

1.12 The fourth group of countries consists of those countries which do not face short-term financial crises but which are in need of continuous structural change of a long-term nature. They also face major challenges in dealing with widespread poverty and tapping the potential of their vast human and physical resources. These are largely the low-income countries of Asia which have achieved a reasonable degree of macroeconomic stability and growth through much of the 1980s: China, which grew the fastest, India (see Box 1.4), Pakistan and until the recent floods, Bangladesh. The careful macroeconomic management which has characterized these economies has, in the case of China, India and Pakistan, established creditworthiness for funding a substantial part of their development on non-concessional terms. In addition, these particular countries have much more diversified structures than the countries discussed above and a stronger base of development skills and institutions. Bangladesh has also implemented sound macroeconomic policies and adjusted well to the deteriorating external environment. Its economic structure, however, is closer to that of sub-Saharan Africa and its poverty situation perhaps even more serious; it will thus continue to be an IDA-only borrower into the foreseeable future.

1.13 Two key issues face these countries. First, China and India have achieved high levels of investment and domestic savings given their per capita income levels. They have captured the initial benefits of import substitution in manufacturing and the green revolution in agriculture. In the 1980s, governments in both countries realized that the next phase of their development required a more decentralized economic structure and a greater use of market signals to promote more efficient production with an emphasis on exports as the engine of future growth. Reform programs have been launched with this objective and in the face of considerable political opposition. The extension of these programs threatens those groups which have benefitted from the traditional systems, but
governments are aware that they provide the key to the imperatives of rapid income growth and poverty reduction.

1.14 The second key issue these countries face is the sustainability of their development programs. China, India and Pakistan all have large -- and poor -- populations relative to their resource endowments. The long-term problems of economic management are prodigious. Large segments of the population must be given the skills and facilities to participate in the modern economy. Poverty reduction efforts must be intensified. A particularly grave concern relates to the environment in these countries. There is increasing awareness that the natural resource base needs to be safeguarded against the immense pressures of increased populations. None of these countries has as yet integrated these issues into the design of its development programs and it is increasingly urgent because decentralized decision-making, necessary though it is for economic purposes, runs the risk of reducing the effectiveness of even the limited pollution controls and other regulations which exist at present.

1.15 It is apparent from the discussion above that the low-income countries enter the 1990s with a varied menu of development objectives. In some ways the problems of the 1990s are very different from those of the present decade. Many low-income countries are moving from a situation of crisis, of correcting major distortions in a limited number of key economic variables, and entering a situation where detailed policy and investment analysis and programming at the sector level need to be undertaken if they are to sustain growth and reduce poverty.
II. IDA'S PROGRAMS IN THE NEXT FIVE YEARS

2.1 IDA's objectives have always been to assist countries to promote growth and reduce poverty. But the focus of these programs has depended on the nature of the needs of recipient countries at particular points in time. With the macroeconomic imbalances of the early 1980s, IDA's programs were characterized by the attempt to deal with economy-wide issues -- and the introduction of structural adjustment in parallel with IDA's traditional focus on investment projects and individual project agencies. As adjustment has moved beyond the broad macroeconomic variables to increasing concern with sectoral policies, institutional capacity and supply responses, the late 1980s have seen a clear trend towards integrated programs at the sector level.

2.2 These sector programs have been supported by IDA first through increased economic and sector work and second through the development of sector adjustment and investment credits as lending instruments which can encompass policy change, maintenance, institutional development, investment rationalization, poverty alleviation and sustainable development. There is increasing use of hybrid loans, which combine quick disbursing funds to support policy changes and ensure that the needs of the sector are met (e.g. through provision of foreign exchange for equipment and books in the education sector) with investment components and technical assistance to provide for building up the capacity of the concerned ministries and institutions.

2.3 At the same time as the level of operation for IDA programs is trending towards the sector, the program content is being increasingly determined by a number of themes which cut across sectors.

- **The efficient allocation of resources** complements the sector-wide approach discussed above. It involves giving priority to the sectoral policy changes needed to encourage a supply response and then reallocating expenditures towards the investments and recurrent spending needed to support it; in human capital it involves reallocating expenditures away from subsidies for the better off recipients of health and education services towards expanding the coverage and quality of programs for the poor.

- **Poverty alleviation** is being implemented not only in traditional areas of activity such as rural development and human resources but also through attention to the social dimensions of adjustment, food security, the targeting of public expenditure, population policy, and the role of women in development. The instruments of support combine policy changes to correct the bias against rural income-earners, adjustment loans to support sector reallocation, and investments both as components of sector and project loans and as free-standing poverty-oriented projects.

- **Environmental programs** are designed to ensure that economic development is compatible with maintaining both the global and national ecosystem. Measures to meet this objective include not only the establishment of regional environmental units and country programs but the integration of natural resource management concerns in many sectors, including programs to limit population growth, to promote reforestation, to manage watersheds and to control industrial pollution.

- **Institution-building** involves not only the traditional long-term relationship with individual agencies such as power and water utilities and road maintenance departments but a wider attention to the respective roles of the public and private sectors, to the need to strengthen the public sector's capacity to manage economic policy, and to
the need -- especially in Africa -- for more well-trained economic managers.

- The development of the private sector is being pursued not only in industry where support is continuing for regulatory reform to improve the business environment and for the divestiture of public enterprises but also in agriculture and infrastructure, where it offers the potential for more efficient delivery of services.

- **Collaboration with Non-Governmental Organizations** is increasing particularly in environmental, poverty and human resource areas. Field missions are taking the lead in developing collaboration with indigenous NGOs.

- IDA has substantially expanded its role in the coordination of external aid, and this expansion is likely to continue. The number and scope of aid groups is continuing to grow, at the regional level with the Special Program of Assistance in Africa -- which will likely be extended, at the country level with new mechanisms for countries like Nigeria, and at the sectoral level where there is increasing coordination, including by field missions.

2.4 The succeeding sections attempt to show how these themes are being carried through in IDA's programs at the sector level.

A. **Macroeconomic Adjustment and Reform**

2.5 In all countries, macroeconomic balance is needed to ensure the consistency of domestic and external resource availability and expenditure, and the coherence of growth and poverty objectives. In many countries, moreover, economy-wide adjustment or reform requires a specific focus and cannot be addressed through the aggregation of individual sector programs. Support for macroeconomic adjustment and reform will thus continue to be a major component of IDA's programs in the IDA9 period.

2.6 There are two key areas in IDA's concern with macroeconomic balance. The first is the efficient use of resources, achieved through ensuring that incentives reflect scarcities and enabling public and private agents to respond to them. Incentives include producer prices and exchange and interest rates so that resources are allocated as efficiently as possible in line with countries' comparative advantages. They also include the regulatory frameworks affecting the business environment within which both private and public enterprises operate. The improvement of the operational efficiency and/or divestiture of public enterprises is emerging as an especially important instrument in the establishment of a responsive, competitive environment.

2.7 The second key area is the need to protect the poor in the adjustment process, both through meeting the problem of the short-term dislocation of vulnerable groups and through protecting expenditure categories which are critical to improving the economic status of the poor in the longer run. The reestablishment of fiscal balance as an element in achieving overall macroeconomic balance has usually implied reduced public investment programs and public expenditures. In order to ensure that these spending cuts do not have adverse short- or long-term consequences for the poor, governments need to explore the allocation of expenditure both within and between sectors. In a number of areas, subsidies which mainly benefit the better off can be retargeted to assist the poor. The Social Dimensions of Adjustment Project (see Box 2.1) will help both governments and IDA to incorporate such measures in adjustment programs in Africa.

2.8 The share of economy-wide adjustment in total IDA lending to individual countries will continue to vary widely according to country circumstances. As indicated in Section I, where adjustment programs are now firmly in place, IDA's financial support will shift at the margin to funding sectoral programs both for policy reform and investments in physical and human capital; adjustment lending to countries like Bolivia and Ghana will largely be confined to sectors
Box 2.1: The Social Dimensions of Adjustment Project

The project was initiated by the World Bank, UNDP and the African Development Bank in collaboration with other donors to strengthen the capacity of governments in sub-Saharan Africa in three areas. First, in the design and implementation of adjustment programs that foster the participation of the poor in the process of economic growth, and protect vulnerable groups. Second, in the development and maintenance of statistical databases that will be used to monitor the impact of adjustment measures and social policies on the poor. Third, in the formulation of policy analysis on social issues that will contribute to the design of adjustment programs. The project is expected to be operational in seven IDA recipient countries by the end of FY89: Gambia, Ghana, Guinea, Madagascar, Mauritania, Senegal and Zambia. Fourteen more are to be included by the end of FY91: Burundi, Chad, Guinea-Bissau, Malawi, Mali, Mozambique, Niger, Sao Tome and Principe, Somalia, Sudan, Tanzania, Togo, Uganda and Zaire.

The data generated by the project will provide a broader basis for dialogue between IDA and governments in Africa. Thus, while the project will increase the capability of governments to formulate policy decisions, it will also enable IDA to identify and routinely include poverty alleviation concerns in its support for adjustment. Moreover, it will enable a better understanding of how specific policies affect the poor, and thereby also prove useful in designing interventions outside the adjustment context. For example, the project has already provided support to the government in Guinea in designing the social policy reform program under SAL nii. Additionally, it has added useful input to the planned Social Development Support Project, and will contribute to the design of SAL III (planned for FY90), an education sector project (planned for FY90), and a health project (planned for FY92).

where reform is still needed, particularly the agricultural and financial sectors. Structural adjustment loans will remain common, however, for the large group of countries which have recently embarked on adjustment programs in which elements of the macroeconomic framework for growth still need to be put in place.

B. Agriculture

2.9 The agriculture sector remains the key to effective adjustment and poverty reduction in most developing countries, both as a consequence of the heavy dependence on agriculture for export growth and the role it plays as the leading employer and the main occupation. Substantial progress has been made in many low-income countries in correcting price distortions in agriculture -- between agricultural goods and manufactures, between different crops, and between agricultural outputs and inputs. In a number of cases the supply response has been impressive, but in many countries it is held back -- through the need to improve technologies and the inadequacy of institutional support and educational standards to do so, through the need to improve supporting infrastructure, and through the need to free up the supply of inputs so that farmers get credit, fertilizer, seeds, pesticides and water in the quantities and at the time they need them.

2.10 IDA's lending for agriculture will continue to exceed that of any other sector, accounting for about 30 percent of the total program. In Africa, agriculture lending will focus on raising output to increase incomes and provide food security with four main emphases: first, adjustment lending to eliminate price distortions and improve marketing systems -- sector lending is expected to account for about 25 percent of all lending for African agriculture; second, assisting the
Box 2.2: Introducing New Agricultural Technology in Africa

IDA is promoting an approach new to Africa, but already used with considerable success on projects in India and Indonesia, to improve agricultural systems and productivity, and hence the effectiveness and efficiency of investments, through training of extension workers by researchers and regular extension visits to smallholders by extension workers. The key element is the strengthened contact between agricultural service delivery agencies (especially research) and farmers that the training and visits bring and the consequent supply of services that are based on farmers’ needs for inputs, technology and demonstration. This approach seeks to generate and apply new agricultural technology through carefully designed national programs managed by African public and private sector managers and supported by experts based in national and international agricultural research centers. The programs are now being implemented in 20 African countries through strengthened existing institutions, in contrast to the past when many parallel agencies were established. Coordination with other donors and NGOs is essential in order to ensure a cohesive strategy.

In Kenya the training and visit approach has already been successful in significantly increasing smallholders’ maize yields in high potential areas. The IDA-supported Baringo Arid and Semi-Arid Lands Development Project focused on pilot studies to improve agricultural technology use in a resource-poor area. Successful interventions included the application of research results which identified crops and crop varieties best adapted to the difficult local climate. The rangeland was improved by reseeding and soil conservation measures, increasing livestock offtake to some extent. Rainwater harvesting techniques and inexpensive small scale irrigation were introduced to farmers.

development of new technologies and improved practices through support to agricultural research and extension (see Box 2.2); third, financing rural infrastructure, with particular emphasis on the rehabilitation and construction of rural roads; and fourth, promoting food security in order to reduce malnutrition and poverty (see Box 2.2).

2.11 Agricultural lending to Asia, where institutions are more developed, will aim to complement increased productivity with structural changes in the rural economy in order to give poor farmers better access to productive assets and to provide the landless with expanded employment and income opportunities. The strategy will include better management of land, water and forestry resources; strengthening credit and marketing institutions; improving tax policies and price incentives; enhancing the capacity of existing assets through better operations and maintenance; and promoting increased household sector involvement in agricultural investment. This new focus in agricultural lending is evidenced by watershed management and rainfed agriculture projects in some of the poorest regions in India, reforestation and small irrigation projects managed by private user groups in Nepal, restructuring of the tree crop estates in Sri Lanka to improve operational efficiency, and more effective use of local credit and marketing institutions for fisheries in Bangladesh.

C. Industry and Finance

2.12 IDA’s lending for industry and finance, which fell during FY85-88, is being built up again, closely linked to its efforts to promote an efficient private sector, but with a very different focus than in the past. The decline in lending was largely a result of the ending of most direct lending for new investment in public enterprises in the productive sectors and of a reduction in lending through financial intermediaries because of their deteriorating health. In order to promote an efficient
Box 2.3: Food Security in Africa

IDA has launched a major initiative designed to ensure food security for the 25 percent of people in Africa who are currently malnourished. Agricultural growth will continue to be the main thrust of IDA's programs, but will now be pursued in conjunction with programs to target both food insecurity arising from natural disasters (transitory food insecurity), and from either continued unavailability or unaffordability of food (chronic food insecurity). A report carried out with the World Food Programme reviewing the effectiveness of food aid on transitory food insecurity is expected to be completed in FY89 and its conclusions are expected to affect subsequent agricultural lending. Food security action plans focusing on chronic food insecurity are being devised for most African IDA recipient countries. These plans will focus on individual country situations identifying groups that do not benefit from overall economic growth and formulating specific lending operations -- both investment and adjustment -- to target these groups. In most countries the food insecure are mainly the rural poor. Increasingly African women farmers are becoming heads of households without the commensurate access to credit or land tenure rights this responsibility implies. These plans will suggest ways to integrate these women into the development process. Population growth, which is expected to exceed agricultural growth, exacerbates food insecurity and will be a key determinant in policy decisions arising from these plans. Seven food security plans will be completed by the end of FY89, for Benin, Burkina Faso, Kenya, Madagascar, Mozambique, Nigeria and Sudan, and 6-8 more will be completed each year through FY93. Lending operations are expected to start in FY90, and surge during the IDA9 period.

The initiative aims for universal food security by 2020 and will require cooperation among IDA, other donors and NGOs and the successful integration of IDA's programs for women in development, population, health, agriculture and adjustment.

2.13 The major shift in allocation during the IDA9 period is expected to be through increased lending for the private sector through the financial system, which will more than offset the trend away from direct support for public industrial enterprises. An effective business environment and an efficient financial sector are the prerequisites of this approach. The adjustment programs adopted by an increasing number of countries have supported trade and regulatory reform but have only just begun to focus on the financial sector. IDA's future lending to the financial sector in these countries, mainly in Africa but also including Bolivia (see Box 2.4), is likely to adopt a "systemwide" approach to the banking sector and promote both operational improvements at the level of individual financial institutions and the sorely needed acquisition of technical skills. Given that most private entrepreneurs in Africa at present operate in the informal rather than the modern industrial sector, innovative programs will be needed to deliver credit and other necessary inputs. In Asia, by contrast, where institutions are better staffed but are not yet playing the active role in intermediating financial flows which economic reform requires, IDA will emphasize an expanded and more effective intermediation,
Box 2.4: Reforming Bolivia's Financial Sector

IDA has supported the Bolivian government’s efforts to modernize and reform its financial sector through the Public Financial Management Operation (PFMO) and the Financial Sector Adjustment Credit (FSAC). The PFMO created a foundation for modernizing the sector by assisting the restructuring of the Central Bank, the establishment of an autonomous Superintendency of Banks, and an analysis of the problems of the public banks. IDA’s assistance through the FSAC is intended to increase confidence in the banking system and mobilize financial resources, strengthen the financial condition of banks, and reduce the high real cost of credit. The aim is to increase the overall efficiency of Bolivia’s financial sector and enhance its ability to finance the working capital and investment needs of the productive sectors. Short-run results since 1987 have been impressive with significant monetization, the improved financial condition of the banking system, and significantly lower real interest rates. IDA has also assisted the government to begin to rehabilitate Bolivia’s two largest public banks, the Banco del Estado and the Banco Agrícola; as part of the FSAC, the government is preparing restructuring plans for them. IDA expects to continue to play a major role in supporting further improvements in Bolivia’s financial sector. IDA financing of a Bank Rehabilitation Credit would be a logical next step to assist the two banks to streamline their operations, and to consolidate reforms in banking regulation and supervision.

including by commercial banks.

2.14 The approach which IDA takes to assist with the promotion of competition will also vary according to country circumstances. In the larger Asian countries, IDA will focus on the reform of the regulatory environment and reducing levels of protection. In Africa, where domestic markets are small, competition will be promoted most effectively through the continued liberalization of the trade regime. In both regions IDA will continue to support efforts to improve the efficiency of existing public enterprises. This includes attention to the regulatory and financial environment in which they operate and continued support for privatization.

D. Infrastructure

2.15 A number of adjusting countries which are gradually improving the structure of incentives face the possibility of an inadequate supply response due to bottlenecks in infrastructure. This could have serious effects not only for growth but also for the standard of living of the poor and for food security, as in Tanzania (see Box 2.5). During the IDA9 period there will be increasing attention to the need to ensure that transport, communications, power and water are available to manufacturers, traders and farmers. IDA lending will support both increasing the efficiency of existing investments and capacity expansion.

2.16 There remains considerable scope to raise the returns on existing investments. This will involve efficient operation and maintenance, complemented by rehabilitation. The financial and operating performance of power utilities in many countries, for instance, has not improved, in part because of the financial burden of past overinvestment and in part because of inadequate control of technical and other losses. IDA will continue to support improvements in the managerial and technical capacity of these institutions in order that they can achieve the levels of proficiency needed for effective operation of existing facilities and sound planning of new capacity.

2.17 As countries move from recession through adjustment to sustained growth, however, existing infrastructure will not be adequate and capacity will have to be expanded. The investments which IDA will finance often have a long gestation period and
Box 2.5: Tanzania: Transport, Poverty And Food Security

In Tanzania, past neglect of road maintenance has not only caused travel time on many trunk roads to double, but has also isolated many rural communities and agricultural production areas. It now takes 16 hours to travel from Dar es Salaam to the Kenya border, and a significant amount of the 1987 cotton crop is still in storage because it cannot be transported. Despite being able to grow enough food, Tanzania is a food insecure country; many low-fertile regions are not being served because rural roads are often so bad that transport cannot be obtained.

To address this problem, a nationwide Integrated Roads Project is under preparation to support an 8 to 10-year road stabilization program, to rehabilitate trunk and regional roads and improve access to key agricultural areas. The project, which will be supported by IDA, AfDB, ILO and many bilateral donors, will largely benefit the poor rural dwellers and farmers. Crop losses will be greatly reduced, and improved rural access will gradually encourage traders and small-scale industries to establish themselves in the hinterland. The outcome will be greater food security and a reduction in poverty through closer integration of rural areas with the internal and export markets.

cannot be delayed until shortages emerge. The foundations need to be put in place now and through the IDA9 period for the infrastructure which will be needed later in the 1990s. It is to be expected therefore that there will be major capacity expansion projects started during this period, even while existing capacity is not yet fully utilized. Obviously there is a need to proceed cautiously so that the mistakes of the late 1970s and early 1980s are not repeated. Investments will likely be smaller-scale, more flexible and more carefully phased to permit adaptation to lower than expected growth in demand.

2.18 In supporting the development of new infrastructure, IDA is moving away from a focus on individual projects. This approach is most evident in the urban sector (see Box 2.6), but is increasingly used in other sectors also. Investment needs for water supply, for instance, are so large -- and the unserved are so poor -- that all investments in the sector need to be considered in the context of payment capacity of the users and the overall management of water resources. This approach cuts across conventional sector boundaries including agriculture, industry, environmental protection, drinking water and sanitation. In the energy sector, IDA is taking steps to ensure that linkages among power, fossil fuels, forestry, rural development and the environment are factored into the design of investment programs. A special emphasis in Africa will be on the development of comprehensive energy strategies. IDA will also further its efforts to stimulate the supply of infrastructural services through increased private sector involvement, especially in transport, telecommunications, water and sanitation and urban services. This will mean paying more attention to regulatory frameworks than in the past, for example in the telecommunications sector, where the lack of competition has led to an inflexible supply unable to meet changing demand patterns.

2.19 The very large investment needs of the infrastructure sectors mean that IDA will less and less be the sole source of external finance for projects. Rather, IDA will itself move further toward sector investment lending and will also increasingly take on the role of catalyst and coordinator of external financing. The large investment needs also mean, however, that countries will need to seek out opportunities to use low cost technologies. Thus, IDA will support the accelerated development of cheaper fuel sources for power generation and low cost technologies for water and sanitation which can be maintained by their users. Where efficient, IDA will continue to encourage the use of labor-intensive construction and maintenance...
Box 2.6: Investing in Urban Services - An Integrated Approach

Cities make vital contributions to economic growth. About 60 percent of the GNP of the developing countries is produced in the urban areas. Even with continued agricultural development, nearly 80 percent of GNP growth in the near future will come from the cities. Future economic growth is thus contingent on the smooth functioning of cities as complex networks of social and economic activities. The demand for urban services will accelerate in the future along with the pace of urbanization itself; 43 percent of the developing world's population will live in urban areas by the year 2000, compared to only 31 percent today.

With limited financial and human resources, financing and managing this increased demand through maintaining existing assets and creating new capacity requires a new approach. Garbage collection or supplying water and electricity are not separate tasks but part of managing a set of interrelated services. IDA's approach is changing accordingly, away from financing traditional single subsector operations (e.g. water supply, sanitation, shelter, etc.) to more explicitly balancing the tradeoffs in investment and operations/maintenance requirements between subsectors. IDA is already supporting this new approach with the Nepal Municipal Development and the Sri Lanka Urban Development projects. These projects establish municipal or revolving funds to finance high priority investment programs after an integrated technical, financial, economic and environmental appraisal. The upstream participation of subnational government levels is critical to the process.

methods in order to generate employment and alleviate poverty.

E. Human Resource Development

2.20 The volume of IDA's efforts to support the development of human resources is growing rapidly and its direction is changing. Governments have increasingly found it difficult to maintain education and health programs in the face of weak service delivery institutions, declining public sector resources and the consequent need to reduce expenditures. "The Evolving Role of IDA" discussed the worrying tendency for governments to reduce the quality of service through starving these education and health services of the non-salary recurrent expenditures for the schoolbooks, equipment, medicines and transport needed to make effective use of teachers, doctors and nurses. Deteriorating social indicators are thus a very real possibility for the future unless service quality is restored through more efficient allocation of resources and through institutional reform.

2.21 It is increasingly evident that successful human resource development and poverty reduction programs will require better integration of the needs and status of women into project and program design. Some limited progress has been made in including women in development issues in IDA's analytical and lending work. More is needed and IDA is moving to extend its activities in this area. Intensive work now under way in Kenya, India, Bangladesh and Pakistan should lead to women in development strategies for these countries and to lessons which can also be applied elsewhere. IDA will concentrate women-oriented activities on credit and extension for smallholder farmers, credit for smallscale enterprises in the informal sector, family planning, education (especially secondary education for women on which the returns are very high indeed) and as special targets of poverty alleviation efforts such as food security in Africa. In addition, an experimental project focusing specifically on women in development is planned for the Gambia. In general, however, IDA will
support women in development not through self-standing projects but through integration into other lending; a good example is a project in Nepal which will recruit women foresters and support the establishment of Women Forest Committees, capitalizing on their spontaneous appearance during the implementation of a prior project.

2.22 IDA lending for population and health is projected to increase by over 250 percent in the next five years as compared to its level of SDR 456 million in FY84-88 (see Figure 2.1). The major increase will be for population. As important as the volume of direct population operations, however, is the impact of other measures on population growth. It is becoming evident that the most effective combination of steps to reduce birth rates includes expanded income earning opportunities and education for women, in parallel with family planning and health care. IDA's increasing attention to women's employment, education and health, in conjunction with direct population activities, will therefore support borrowers' population efforts. Financing issues will continue to be the focus of most health lending, including especially attention to cost recovery (with differentiated user charges to ensure access for the poor), insurance schemes, the provision of services by NGOs, and the decentralization of public services to link as closely as possible resource mobilization and allocation. Future lending will extend these emphases in four areas. First, more attention will be paid to the overall health policy environment and to management issues in addition to finance. Second, and closely linked, projects will adopt a narrower, more targeted focus with regard to specific interventions but a wider focus with regard to sectoral policy, finance and management. Third, and also linked, an effort

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**Figure 2.1: The Buildup of IDA Population, Health and Nutrition Lending**

<table>
<thead>
<tr>
<th>FY84-88</th>
<th>FY89-93</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDR 456M</td>
<td>SDR 1238M</td>
</tr>
<tr>
<td>Population/Health</td>
<td>Population/Health</td>
</tr>
<tr>
<td>41M</td>
<td>277M</td>
</tr>
<tr>
<td>Health</td>
<td>Health</td>
</tr>
<tr>
<td>172M</td>
<td>279M</td>
</tr>
<tr>
<td>Special Programs</td>
<td>Population, a/</td>
</tr>
<tr>
<td>123M</td>
<td>Health &amp; Nutrition</td>
</tr>
<tr>
<td></td>
<td>178M</td>
</tr>
<tr>
<td></td>
<td>Nutrition 74M</td>
</tr>
</tbody>
</table>

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a/ The differentiation shown here represents Population, Health and Nutrition lending only generally. For example, most health projects also include population and nutrition components.
b/ Specific amounts are subject to change depending on individual country circumstances and the size of the IDA replenishment. Dollar projections converted at $1.35/ SDR.
c/ Refers to AIDs, social development and poverty alleviation projects.
d/ Refers to lending which address a broad range of problems across sectors.
An education project now under preparation consists of three components, all of which both address policy and provide finance. The first deals with access to primary schooling, which is currently available to only 60 percent of school-age children, and to only 33 percent of girls. It includes the construction of new schools and classrooms, the renovation of older schools, the maintenance of school buildings, and the financing of NGOs which provide primary schooling designed to reach the very poor and girls. The second seeks to improve the quality of primary and secondary school education, through teacher training and research. In addition, it focuses on improving textbooks and examinations, and the curricula. The third strengthens institutional development, specifically the planning, management and monitoring of government education institutions, and reformulates personnel policy with regard to the promotion, pay and benefits of teachers.

The issues addressed in this project arose from IDA's extensive sector work in Bangladesh. This work identified the most important issues for education there: the development of basic skills in the population, including literacy and vocational skills, and the need to reduce waste and improve quality in education. A Vocational Training Project and a follow-up General Education Project, currently planned for IDA9, will ensure the continuation of a cohesive strategy to meet these goals for education in Bangladesh.

Nutrition will receive increased attention. While nutrition, like population, will in general continue to be treated within agricultural, food security and health operations, free standing projects are emerging in three areas: (a) "food-as-medicine" or targeted direct feeding -- following a very successful operation in the Indian state of Tamil Nadu; (b) food distribution, including the efficiency of food marketing systems; and (c) micronutrient programs, reflecting recent research into the importance of iodine, vitamin A and iron on mental ability and general health.

Major qualitative changes are to be implemented over the next five years in IDA's education lending. By the end of IDA9, sector lending will be IDA's dominant mode of operation in education, permitting a higher volume which will be essential if IDA is to support increased access to basic education. This sector lending will allow IDA to support governments in re-allocating their education expenditures to protect and expand service levels for the poorest group. This shift will involve financing not only time slices of country's education investment programs, but also greater financing of sectoral expenditure including recurrent costs (see Box 2.7). It will also include the financing of education adjustment operations, especially in Africa, where education policies are less appropriate than in Asia. By 1992, IDA plans policy-based education sector lending in about 25 African countries. IDA is also supporting the development of training institutions to increase the supply of specialized professional skills, including engineers, financial managers and economists.

Lending for training will increasingly be implemented through free-standing credits rather than as components in investment projects in all sectors; in Nepal, for instance, a project to train engineers is being prepared. IDA is also attempting to establish a mechanism to develop a specialized cadre for economic management and analysis in Africa. There are very few first class training institutions in Africa. IDA has embarked on...
Box 2.8: Madagascar's Environmental Action Plan

Concern for the environment in Madagascar has led to the formulation of an environmental action plan (EAP) by the government, with the support of IDA, other aid agencies, the World Wildlife Fund and other NGOs. The plan proposes five priority programs to be carried out over a period of 15 to 20 years with the goal of reconciling the population with the environment and thereby halting environmental degradation. Interventions designed to protect and manage the environment while developing tourism are the first priority; without these, Madagascar's forests -- which once covered most of its land area -- will disappear in 30 years. Secondly, a National Environmental Fund will be created to provide a restricted source of financing for projects in local communities. Third, mapping and land management will be improved. Fourth, environmental education, training, and sensitization programs will be introduced in schools, universities, and implementing agencies for the EAP. Fifth, an EAP support program will be set up to establish new and reinforce existing environmental institutions, to develop environmental studies and research, and to strengthen databases. IDA's first free-standing environmental credit is expected to result from the plan. In addition, benefits will go beyond the environment. For instance, the EAP will create jobs through the development of tourism and expected improvements in agricultural production.

a dialogue with African governments and institutions, donors, private foundations and other interested parties to see how this gap might be filled, very probably on a regional basis.

F. The Environment

2.25 IDA's environmental activities are increasing rapidly, following the reorganization of the World Bank in FY88 and the major expansion of environmental staff. Environmental Action Plans have been completed for Lesotho and Madagascar (see Box 2.8) and are under preparation for Burkina Faso, Ghana, Nepal and Rwanda. Still more are envisioned for the IDA9 period, mostly in the tropical areas of Africa. These plans identify to governments areas for policy change and institution building and also specific investments that could benefit the environment; they also identify potential areas for supportive IDA lending. The institutional aspects of natural resource management are increasingly being emphasized as it becomes clear that most environmental institutions are weak.

2.26 Environmental issues and priorities vary considerably by region. In Asia the dominant issues are deforestation, land degradation, and urban and industrial pollution. Deforestation problems have been identified in India, the Solomon Islands, Sri Lanka, Laos, Nepal, and China and remedial programs and projects are being prepared. A new approach to Asian urban and industrial pollution is also under development. Although most urban projects already contain some components to handle domestic and municipal waste, and most industry projects have an industrial pollution component, the Capital Cities Clean-Up project will address these concerns simultaneously in cities with over 10 million inhabitants through research, analysis, policy recommendations, and investment. This project is intended to lead to the identification and financing of a substantial program to arrest the deterioration in the urban environment. Preliminary discussions have been held in China and India for the proposed three year program that could include Beijing, Shanghai, Bombay, Calcutta, Delhi and Madras. The program will likely have substantial lending implications for IDA during the IDA9 commitment period.
Deforestation is a dominant environmental issue in both African and Asian IDA-recipient countries. The underlying causes vary between country or region, but are usually due to increasing timber exports to industrialized countries, or a rising population which increases the demand for fuelwood and timber, and forces more land, however marginal, into agricultural production. In general, widespread poverty places substantial pressure on forests to provide a livelihood. In Asia, the Terai region in Nepal, and Sri Lanka have the highest rates of deforestation averaging annually 4 and 2 percent respectively. In Africa, deforestation is occurring most rapidly in Madagascar and Nigeria where forests are declining at a rate of 3 to 5 percent annually. Forests in these countries are likely to disappear in the next two to three decades without efficient management and new planting. IDA plans to double its lending for forestry to SDR 700 million in FY88-92.

In Africa, priority will be given to supporting the rehabilitation of forestry administrations, agro-forestry interventions, sustained management of natural tropical rainforests for productive purposes and preservation of forestry ecosystems, fuelwood provision and incorporating household energy/fuelwood components into energy projects. In the Sahel and Ethiopia a land conservation and management approach that incorporates forestry, soil and water conservation and animal husbandry will be designed to sustain overall agricultural productivity.

In Asia, IDA will support the rationalization of forestry policies in tropical timber exporting countries, the establishment of complementary industrial plantations and nature reserves, the strengthening of forestry administrations, initiatives to find better ways to manage public, commercial and private forestswastelands, and the development of commercial forestry on a large scale to achieve self-sufficiency in wood products.

2.27 In Africa, deforestation and desertification are the most important environmental problems, largely the result of the use of traditional agricultural methods on ever more marginal land under the pressure of a rapidly growing population. Thus, slowing of population growth and modernization of agriculture are key to their resolution. In addition, programs to protect and manage the remaining natural forests through institution building, equipment provision, forest demarcation, land tenure, and development interventions in the buffer zones surrounding forests are likely to expand substantially in the next decade, and to be increasingly linked to policy changes. Already, projects to redress deforestation are being developed in Guinea, Benin, Togo, Madagascar, Sudan, Ghana and Zaire. Land management and conservation projects to combat desertification and improve the productivity of drylands farming areas are under preparation in Burkina Faso, Mali, Somalia, Ethiopia, and Lesotho.

2.28 As deforestation is so important, IDA is stepping up its forestry lending (see Box 2.9). This is the most visible element in IDA's expanded environmental lending but not the most typical. Most significant is the manner in which the management of natural resources is increasingly a routine component of lending for agriculture, industry and infrastructure. In addition, IDA is also beginning to develop free-standing environmental lending as in Madagascar. Other projects under consideration include an environmental rehabilitation project for an industrial zone in India and a project to combat urban and industrial pollution in China.
Table 2.1: Sectoral Allocations in IDA8 and IDA9
(Percentage shares)

<table>
<thead>
<tr>
<th>Sector</th>
<th>IDA8</th>
<th>IDA9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Industry</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>26</td>
<td>22</td>
</tr>
<tr>
<td>(Energy, Power, Telecommunications, Transport, Urban)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resource-Related</td>
<td>15</td>
<td>21</td>
</tr>
<tr>
<td>Economy-wide</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>(Structural Adjustment, Technical Assistance)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

G. IDA9 Allocations by Sectors and Instruments

2.29 IDA allocations by sector derive from four factors. The first is the analysis carried out of country needs in the Bank Group's economic and sector work. In Malawi, for example, this work indicated that agricultural credit was available to large smallholders and estates, but largely excluded the smallest farmers. IDA then structured its lending to fill this gap. Second, programs incorporate the results of the dialogue with governments on priorities. By showing that well-designed interventions for poverty reduction and environmental improvement yield high returns, IDA has influenced governments to internalize and replicate these programs.

2.30 Third, programs are geared to IDA's leadership in the design and funding of the overall development program through its chairing of aid groups. Thus, IDA steers its own resources into activities which complement those of other donors. IDA usually takes the lead in issues which are of special political sensitivity such as adjustment programs and social sector policies, and limits its involvement in areas where there is strong donor support and lesser policy implications, such as in telecommunications. Fourth, parts of IDA programs rest on the need for long-term continuity in institution-building. A good example is IDA's support for road maintenance in Africa.

2.31 At the time of writing this paper, detailed programs are only available for the first two years of IDA9 (FY91 and 92). The comparison of the sectoral breakdown of these programs with the IDA8 period supports the view that for the most part the significant shifts are taking place within sectors, in the content and focus of program and project design, rather than between sectors. The Bank Group is now present in most sectors in most active borrowing countries. The form this presence takes varies. In the very smallest IDA borrowers this may be reflected in multi-sectoral operations or by grafting elements of other sector programs onto an agricultural sector credit for example. In large countries most sectors will be represented by operations at frequent intervals.

2.32 In one respect, however, the sectoral comparison between IDA8 and IDA9 is important. As indicated earlier, there is evidence of a shift towards human resource related activities. This is likely to be achieved by reallocating funds out of the infrastructure sectors and economy-wide activities. This shift, shown in Table 2.1, is present in both the Africa and Asia programs.

2.33 With one important exception, lending instruments are not the subject of allocation,
but rather reflect decisions on how to achieve objectives. In the 1970s, ceilings were set on the share of non-project lending in order to protect the investment-project financing character of the Bank Group. With the increasing prominence of adjustment lending in the 1980s, there has been similar concern to ensure that quick-disbursing balance of payments support should complement the Bank Group's investment financing, not supplant it. For IBRD, the ceiling is set by reference to portfolio and capital availability considerations; for IDA, by the implications for the encashment of donor contributions.

As a consequence, the IDA8 Deputies recommended that adjustment lending not exceed 24 to 30 percent of the total.

2.34 The balance between adjustment lending and investment lending is not expected to change during the IDA9 period. Small declines in the share of adjustment lending in Africa are expected to be offset by small increases in Asia. The overall share of both structural and sectoral adjustment lending is expected to be maintained at around 25 percent.
III. COUNTRY AND REGIONAL ALLOCATIONS

A. IDA's Allocation Criteria

3.1 IDA commitments are allocated for individual country programs, on the basis of country size, per capita income, performance and creditworthiness. Changes in country status vis-a-vis these criteria lead to changes in allocations.

3.2 Country size is an important determinant of IDA allocations. For much of IDA's history there has been a ceiling on the share of the largest recipients. There has been concern that the two, three or four largest borrowers could preempt so much of IDA's resources as to lessen its global character. This group has at various times included Bangladesh, China, India, Indonesia, and Pakistan. The IDA8 Deputies recommended that a ceiling of 30 percent of the total replenishment resources be placed on the allocation for the two largest borrowers, India and China. This continued the past practice of low per capita allocations to these countries. At the other end of the scale is the "small country bias," i.e. in smaller countries a relatively large program is needed for continuity of IDA involvement in key sectors.

3.3 Per capita income dominates the determination of country eligibility for IDA. The eligibility ceiling was set at a per capita income of $250 in the early 1960s, which translates into $940 in 1987. In the late 1970s, however, constrained IDA availabilities meant that the poorest countries could not be adequately funded if all countries below the ceiling were to receive IDA resources. In addition, countries in the lower-middle income group (between $580 and $940 in 1987) were able to obtain commercial funding in the late 1970s and early 1980s. For this reason IDA's management has used an informal "operational cut-off" of $580 in 1987 for allocating IDA. With the group of IDA recipients thus limited to a group of very poor countries, relative poverty within this group has become a lesser consideration in IDA allocations than in the past.

3.4 Performance has become particularly important in IDA allocations with the increase in support for adjustment programs. The performance criterion is now applied through a consideration of four separate elements: macroeconomic management; long-term management including institutional development, incentive frameworks, natural and human resource management, etc.; poverty alleviation policies and programs; and the willingness and capacity of the government to undertake a policy dialogue with IDA and other agencies on these issues. The adoption of an adjustment program requires progress in all four of these areas and at the same time the success of the program depends in large part on adequate financing. This has motivated the very substantial premium which is attached to adjustment in IDA's current allocations.

3.5 Performance also relates to the ability of a country to make efficient use of IDA resources -- its absorptive capacity. In a number of countries IDA's programs are constrained by institutional and administrative weaknesses. In others, programs are larger because of the availability of high return projects and the capacity to implement them.

3.6 Creditworthiness determines the relative shares of IBRD and IDA in overall country programs for those IDA-eligible countries also able to borrow from IBRD. IDA's policy statements define creditworthiness as the ability to service new external debt at market interest rates over the long-term. Conversely, a lack of creditworthiness implies a need for concessional resources as part of a sustainable financing package for a country's development program. As far as the countries with per capita incomes between the $940 formal eligibility ceiling and the $580 operational cut-off are concerned, the paper on IDA eligibility
discusses their worsening creditworthiness during the 1980s.

3.7 The application of these criteria is a matter of judgement. While calculations are prepared as a basis for comparison, the allocation decisions are not, and cannot be, mechanical. The application of the criteria in the IDA8 and IDA9 periods is discussed below.

B. Country Program Allocations in IDA8 and IDA9

3.8 IDA8 commitments during FY88-90 are expected to total SDR 11.7 billion. Of this, SDR 10.6 billion represents donor resources and SDR 1.1 billion is commitments against reflows from IDA recipients. The allocation of these commitments by region, country, sector and lending instrument is shown in Figure 3.1. Allocations in IDA8 reflect the situation of the universe of IDA recipients in relation to the criteria outlined above and the guidance of the IDA8 Deputies that 45-50 percent of donor resources should be allocated to sub-Saharan Africa. Changes in the IDA9 period will largely reflect changes with regard to the performance and creditworthiness criteria. It is convenient to look at changes with respect to these criteria in three broad categories of countries: sub-Saharan Africa; the Asian IBRD/IDA blend countries (China, India and Pakistan); and other recipients.

Adjustment in Africa

3.9 IDA8's focus in Africa is to support adjustment efforts. This has been achieved by concentrating IDA's resources on the adjusting countries and by marshalling donor cofinancing through the Special Program for Assistance. IDA has substantially reallocated its funding to help governments to finance the transition costs of economic restructuring. IDA's capacity, in concert with the IMF, the European and African Development Funds and the donor community, to provide timely and adequate funding of adjustment programs has been a major factor in supporting African governments. IDA's enhanced support for adjustment has provided a basis for meaningful linkage of donor cofinancing. It has also permitted the Association to maintain a balanced program in that quick-disbursing loans have supplemented rather than displaced traditional investment lending.

3.10 As Table 3.1 shows, IDA commitments to 21 countries in Africa (up from 8 four years ago) which are undertaking adjustment are roughly double on a per capita basis than those of comparable size not yet doing so. A number of other countries need to undertake adjustment and will require substantial support if they do so. Africa's resource needs during the IDA9 period are thus closely linked to the prospects for sustaining current adjustment programs and for starting or resuming programs in other countries. There are reasons to be optimistic about the capacity of the current adjusters to sustain their programs. These include the scale of financing now available and the evident improvements in performance in a number of countries with advanced adjustment programs relative to those which have either not started or are at an early stage.

3.11 But there is another side of the coin. A rapid supply response in Africa can result from the initial adjustment measures. Agricultural producers using existing technologies have responded quickly to price incentives, as evidenced in Ghana and Togo, for example. The next phase of adjustment may well be more difficult, because it relies on new technologies, the upgrading of institutional and infrastructure capacity, and a better trained workforce. For a number of adjusting countries, IDA will need to maintain a substantial level of activities but to shift the composition of these at the margin out of quick-disbursing credits into sector and project programs which promote the second stage supply response which these countries will need in order to continue to grow.

3.12 For countries whose adjustment programs are in mid-course the current mix of activities continues to be appropriate. Occasional back-tracking will occur -- the program in Zaire, for instance, has encountered implementation difficulties -- but many of these governments have already paid the political price involved in correcting some of the major distortions and reducing the economic rents associated with them. Unless
Figure 3.1: Projected IDA8 Allocations (SDR 11.7 Billion)

By Region

By Country

By Sector

By Lending Instrument
there are major external shocks in the form of commodity price changes, there is every reason to expect that adjustment programs in these countries will be able to be sustained so long as the current level of real resource flows for this group is continued.

3.13 The major uncertainty for both IDA and the donor community arises in countries which need to adjust but are not doing so. It is difficult to predict how many will begin adjustment programs before the end of the IDA9 period. They include some of the largest countries in Africa (Ethiopia and the Sudan—which also has substantial arrears to the IMF) and some countries which will need debt workout programs, including the settlement of arrears to the IMF, IBRD and IDA (Liberia, Sierra Leone and Zambia).

3.14 Given their size, the key determinants of additional IDA9 needs to support adjustment in Africa will be the prospects in Ethiopia, Sudan and Zambia. If these and other countries were to adopt adjustment programs and if these programs were to be funded on the same basis as countries of comparable size, the aggregate increase in resources needed for this purpose in the IDA9 period would be about SDR 1 billion in IDA8 terms. This includes also the expected new program for Angola.

3.15 It is important to note again the distinction between adjustment lending and IDA’s support for adjustment programs. Quick-disbursing lending for African adjusting countries is expected to account for up to 40 percent of total IDA8 lending for Africa. The level for IDA9 will depend on the factors cited above, with a relative decline in the first category of countries being potentially offset by the possibility that new countries will come into adjustment. In all these countries however, it would be appropriate for IDA to maintain the program directions discussed in Section II, and in particular increase its support for sustainable development programs in the areas of human resources and the environment.

3.16 Two other important changes from IDA8 should be mentioned. The first is the additional requirements of Nigeria. This is a matter of both potentially improved performance and its deteriorating creditworthiness. Nigeria resumed IDA borrowing in FY89, when a devaluation of the naira on top of declining oil revenues and the destruction of its other exporting sectors brought its GNP per capita well below IDA’s operational cut-off. The IDA8 allocation of SDR 150 million is not commensurate with Nigeria’s size and comparable IBRD/IDA
blend lending to large Asian countries for two reasons. First, Nigeria was not factored into the eighth replenishment and a substantial allocation would have been at the expense of other programs. Second, there was concern about Nigeria's relatively poor track record since the oil boom and a consensus that it should reestablish its credentials in the course of IDA8. If it does, an IDA9 allocation consistent with other IBRD/IDA blend countries would be about SDR 650 million in IDA8 terms and would provide the basis for comprehensive Bank Group support for the reform program and for infrastructure and human capital development. IDA9 projects are planned for agriculture, health, population, education, and rural infrastructure. A second important new source of demand for IDA resources is Angola, with a per capita income of about $400, it is expected to become a member of the Association and to join the group of recipient countries during the IDA9 period.  

3.17 The needs of Angola, the new adjusting countries and the addition to the Nigeria program would represent a demand on IDA resources of approximately SDR 1.5 billion in IDA8 terms. If the total allocation for Africa were to remain unchanged at the IDA8 level, this would imply a reduction in the average annual per capita allocation for other adjusting countries in Africa from SDR 7.6 to 5.0.

**Economic Reform and Poverty Reduction in the Asian IBRD/IDA Blend Countries**

3.18 IDA's focus in the IBRD/IDA blend countries will be to support programs of economic reform and poverty reduction. There are five countries with per capita income levels below IDA's operational cut-off, which are judged creditworthy to receive all (Indonesia) or part (China, India, Nigeria and Pakistan) of their Bank Group funding on IBRD terms at present. In principle the allocation process for these countries has two stages. First a decision needs to be made on the size of the Bank Group program in these countries, based on the overall resource needs, creditworthiness for IBRD borrowing and the scale of Bank Group funding needed for programs and projects to assist reform and poverty reduction efforts in these large countries. Second, the share of IDA funding within the total program needs to be determined.

3.19 There are a number of reasons why a part of the programs of China, India, Nigeria (discussed earlier) and Pakistan is funded through IDA. First, their low average income per capita establishes a case for providing an additional implicit resource transfer through IDA's large grant element to assist in more rapid growth. Second, huge numbers of their populations continue to live in absolute poverty. Rapid growth is required for effective poverty reduction. Third, targeted interventions to reduce poverty need to be designed and carried out, and governments are understandably reluctant to borrow on commercial terms to finance these projects for the environment and the social sectors when the time-frame for recovering the benefits may be well after the timing of servicing the debts incurred. Fourth, the level of borrowing needed in these countries to accelerate or maintain growth could cause problems of maintaining orderly debt servicing over the longer term if it were entirely on commercial terms. Fifth, the scale of IBRD funding which would be implied by the desired program level would imply inappropriate levels of exposure for the Bank and limit its capacity to continue to provide adequate support down the line.

3.20 These considerations do not lead to a very precise judgement about the appropriate blend of IDA/IBRD in country programs during the IDA9 period. A broad assessment is needed as to whether the current blend is consistent with the long-term role which the Bank Group can and should play in each country.

3.21 In China, the reform effort, having completed a very successful first phase, now faces a difficult set of "second generation" issues and problems. Now that so many areas of economic decision-making have been decentralized, China must work on developing the set of instruments and incentive signals necessary to ensure that macroeconomic balance is combined with efficient micro-level decisions. The fragility of the reform and its vulnerability to inflation and loss of control over the economy -- which could trigger a reaction among anti-reform elements -- are

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2/ Namibia, also expected to join the World Bank Group, is likely to exceed the IDA per capita income eligibility ceiling.
Box 3.1: Bank Group Support for Poverty Alleviation in India

The Bank Group's most comprehensive effort to support poverty alleviation is now underway in India - which has a per capita income under US$300 and 330 million people (41 percent of the total population) living in absolute poverty. Despite sustained economic growth, the proportion of the population in absolute poverty has not declined and their total number has thus increased.

The Bank's program now has two major poverty alleviation emphases. First, the Bank is continuing existing efforts to support growth and efficiency, but strengthening them to include a narrower targeting of food and other subsidies and the reallocation of public sector resources to provide easier access to nutrition, health, family planning, and education services, particularly for women. Such interventions are now routinely analyzed as part of project preparation and are incorporated wherever appropriate. Second, over 25 percent of future Bank Group lending will be for projects and major project components to benefit the poor directly. This lending will include support for the better delivery of social and infrastructure services to the poor, e.g. the Rural Water and Sanitation (FY91), Second State Roads (FY92), and Third Nutrition (FY93) projects. It will also include increased support for area development in India's poorer regions, e.g. the Agricultural Extension Development (FY91), Second National Water Management (FY92), and Madhya Pradesh Composite Irrigation (FY93) projects. In addition, free standing poverty alleviation projects, based on the provision of assets to the poor, are under preparation for the first time. The First Poverty Alleviation Project, scheduled for FY91, may be accelerated if ongoing analytical work advances adequately, and will be followed by a second project scheduled for FY92.

increasingly apparent. Yet there is ample room for optimism in the pragmatism of China's leadership and the momentum of the reform. In these circumstances the continued support of the international community remains essential. With it, there is every prospect of China graduating from IDA within a decade or so.

3.22 The Bank Group's assistance, including IDA8 lending of about SDR 1.7 billion, is similarly moving into a second phase. Until now, it has concentrated on activities at the project level, providing a transfer of knowledge and technology through the discipline of project analysis, preparation and implementation. In the process the Bank has built up a detailed understanding of the Chinese system which is enabling it to play a broader role in assisting the government in addressing such issues as poverty alleviation, environmental protection, enterprise reforms, regional disparities and economic integration. This role may well require the Bank Group to increase its involvement at the sector level. Five areas have been defined for the focus of Bank Group activities during the IDA9 period. The first will be institutional change, including the separation of economic and administrative functions and the further decentralization of decision-making throughout the economy. The second will be financial sector reform, centering on the development of financial institutions. The third will be improvements in the planning and analysis of investment projects critical to reform in agriculture, industry and infrastructure. The fourth will be continued support to alleviate poverty, especially in the poorest regions. Finally, pricing policy and the development of indirect levers of macroeconomic management, such as monetary and fiscal policies, are fast becoming priorities.

3.23 In the case of India the picture is much more mixed. India has recently broken free of the straitjacket of low rates of growth of the past thirty years, which did not permit any significant reduction in the numbers of the poor. Yet it is too early to say that a sustainable higher growth plateau has been reached. The higher growth rate has been
Table 3.2: India: Debt Indicators (Percent)

<table>
<thead>
<tr>
<th></th>
<th>1980/81</th>
<th>1985/86</th>
<th>1987/88</th>
</tr>
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<tbody>
<tr>
<td>Total debt service</td>
<td>8</td>
<td>21</td>
<td>28</td>
</tr>
<tr>
<td>ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD's share in debt</td>
<td>12</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IBRD's share in total</td>
<td>5</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>DOD</td>
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</table>

bought at the cost of worsening debt indicators and the necessary liberalization of the economy remains partial and tentative.

3.24 The core of the Bank Group's support for India in the IDA9 period will have three elements. First, lending for sustainable development, including a free-standing environmental rehabilitation project, and direct poverty alleviation -- see Box 3.1. Second, enhanced support for continued private sector development and policy reform for industry, trade, energy and finance through a variety of vehicles including sector investment programs, project lending, financial intermediaries and, where appropriate, through quick-disbursing adjustment loans or components. Third, continued investment lending, with particular attention to the efficiency of investments, capacity-building, and modernization -- and including important new initiatives such as industrial energy conservation and watershed management.

3.25 The dilemma facing the Bank Group in India is between the need for a substantial program to support investment to improve efficiency, private sector development and poverty reduction, and the serious risk of such a program on the basis of the current average lending terms. Many of these investments will not yield results in a short time frame. In particular some of the programs for poverty alleviation, human resource development and safeguarding natural resources, despite having high economic returns, will not generate the financial resources (both foreign and domestic) to service debt incurred to finance them.

3.26 India has had increasing recourse to non-concessional borrowing to finance its development needs. Table 3.2 shows India's increasing overall debt service burden, within which the IBRD share is rising rapidly.

3.27 To help India alleviate poverty and build up the savings needed to service future debt, there is a strong case for increased concessional funding, including from IDA, in the next several years. The IDA8 lending program for India is SDR 1.9 billion. This represents an average blend of one dollar of IDA to every $2.40 of IBRD, with an average interest rate of 5.65 percent and a grant equivalent of 31 percent. While the case for an additional SDR 1 billion allocation to India during the IDA9 period appears to be strong, the implication would be a major reallocation of resources away from other IDA recipients.
Box 3.2: Indonesia Compared to Nigeria and India

Indonesia is not currently borrowing from IDA but can readily be compared to two IBRD/IDA blend borrowers, India and Nigeria. All three have a per capita income below the operational cutoff for IDA eligibility. However, Indonesia, which has maintained good economic management in the face of an adverse external environment, has remained fully creditworthy for borrowing on nonconcessional terms. The debt indicators of both India and Nigeria have declined, and they therefore require a blend of IBRD and IDA resources to soften the terms of their borrowing.

<table>
<thead>
<tr>
<th>-selected indicators (1987)</th>
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</thead>
<tbody>
<tr>
<td><strong>Per capita income (US$)</strong></td>
</tr>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>Nigeria</strong></td>
</tr>
<tr>
<td><strong>India</strong></td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
</tr>
</tbody>
</table>

g/ After rescheduling.

Like Nigeria and India, however, Indonesia has a rapidly growing population, much of which lives in poverty. Indonesia is more vulnerable to changes in the external environment than India which relies less on exports, and has a much broader export base. Manufacturing exports are 67 percent of India's exports versus only 25 percent of Indonesia's. Indonesia, like Nigeria is sensitive to external changes particularly the price of oil. Both suffered following the 1986 crash in oil prices. Indonesia, however, successfully expanded its non-oil sector while Nigeria did not. Indonesia's challenge, then, is to further diversify its export base, while bringing more and more of the poor into the mainstream of the development process. Its debt service burden, much higher than both Nigeria and India at 33 percent of exports in 1987, imposed by the hard terms at which it is borrowing makes it even more vulnerable to external or internal imbalance while it is achieving this goal. An increase in concessional finance could improve the chances of success.

3.28 The government of Pakistan's policy agenda is to sustain growth through adjustment. Pakistan requires a new cycle of investment -- both physical and human -- to support long term development. Future growth will not be sustainable without significantly higher levels of gross investment than those of the last decade. Public investment will need to be complemented by growing private sector investment, as the private sector assumes a larger role in economic growth. The key elements of the agenda are reducing the budget deficit, strengthening the external account, improving
public resource allocation, and implementing structural reforms.

3.29 The Bank Group will undertake an extensive program at the sector and project level to support these objectives. Continued policy-based sector adjustment lending will focus on financial market and trade liberalization and on reducing administrative controls, improving operational efficiency in transport and energy, and increasing the involvement of the private sector in agriculture, industry and energy. Direct project lending will focus on poverty alleviation, human resource development and the elimination of infrastructure bottlenecks. Because of constraints on IDA resources the share of IBRD in the Pakistan program has risen from 43 percent in FY82, the first year of IBRD borrowing, to 59 percent in FY88. This is happening at the same time as Pakistan's overall debt service ratio has risen from 18 percent in 1982 to 28 percent in 1988. As with India, there is a strong case for an additional IDA allocation for Pakistan.

3.30 Despite its relatively low per capita income of $450, Indonesia (170 million people) has been sufficiently creditworthy not to borrow from IDA; it is, of course, one of the IBRD's largest borrowers, currently accounting for 8.5 percent of the IBRD portfolio. On many measures, however, Indonesia is comparable to India and Nigeria (see Box 3.2). On balance the judgement that Indonesia is sufficiently creditworthy not to qualify for IDA is a difficult one to sustain (and is not consistent with the practice of the Asian Development Fund from which Indonesia receives soft money). At present, the level of IDA funding which Indonesia would require for a program which is more than tokenism (SDR 1 billion) over the IDA9 period is difficult to justify on the basis of reallocations from existing programs which are already stretched thin.

Challenges in Other IDA recipient countries

3.31 During much of the IDA8 period, programs for IDA-only countries in Asia, the Middle East and Latin America have been allocated relatively small amounts of resources. This was because the share of IDA of this group of countries was restricted to 20-25 percent as a result of pre-allocations to sub-Saharan Africa, China and India (see Box 3.3). Progress in the other recipient countries has been mixed. Bolivia's adjustment is well-advanced. Laos is undertaking a dramatic program of reform. Bangladesh, Sri Lanka, and Nepal have made some progress with their structural adjustment programs; other potential recipients, Afghanistan, Kampuchea and Vietnam, have not yet mounted viable development programs. It is of course difficult to predict to what extent these countries will be claimants for new or expanded funding in the context of IDA9.

3.32 During this period, political unrest and natural disasters have had a devastating effect on the economies of Bangladesh and Sri Lanka. Floods and political unrest have taxed the resources of Bangladesh, already hard-pressed to cope with development problems that are acute by any standard, from high levels of extreme poverty, to the complex environmental issues posed by annual flooding and to the need to accelerate agricultural and industrial growth. Bangladesh is addressing these long-term development problems through efforts to increase food grain production, exploit its natural gas resources, and expand exports from the promising beginnings registered in textiles and fisheries. Prudent macroeconomic management provides a good basis for future progress, both in terms of investments and continuing structural reforms.

3.33 Given its large population living in extreme poverty and its stable economic policy without major market distortions, Bangladesh could utilize larger IDA resources very productively. Sectoral adjustment lending could account for up to 40 percent of IDA lending especially to support industrial policy changes, to encourage private sector initiatives and to continue policy reforms in agriculture and energy. Large resources are also needed to support investments in agriculture, energy and transport. Lending to assist the poor will aim at rural employment creation, family planning, health, water supply and education. IDA could also be called upon to play a more active role in still nascent efforts to develop a coordinated approach to flood control. As
in Africa, the achievement of an enlarged program in Bangladesh will require expanded technical assistance to build implementation capacity at the sector and project level.

3.34 Sri Lanka appears to be emerging from a protracted period of civil conflict of widespread insecurity. When normalcy is established, Sri Lanka will require much larger external resources than has been the case in the last few years, for economic reconstruction, growth and poverty alleviation. IDA would support both adjustment and investment. Adjustment lending would include both the restructuring of the public sector and agricultural policy reform. Agricultural lending will also address infrastructure bottlenecks and institutional development in areas such as forestry, extension, credit and irrigation, while the key area of manufactured exports development will be supported through industrial credit and export promotion.

3.35 The adjustment program in Nepal has begun to yield results in terms of growth and export expansion and further operations are needed to support it. Several credits are also expected to support the development of the enormous hydropower potential, Nepal's most promising long-term export prospects. Other project lending will concentrate on agriculture, the environment and human resource development. Programs in Bolivia, Laos and other small countries will continue to require strong support from IDA.

3.36 Similar developments are possible, though far from certain, for other countries that have either borrowed very little or not borrowed at all from IDA in recent years and which were not factored into the size of the IDA8 replenishment. Burma is a large country which can and should undertake programs of economic reform and adjustment. If it does, IDA would be expected to be a major participant in these programs. While it is difficult to predict the speed of rapprochement between Vietnam and the international community, there are indications that the economic dialogue is reaching a new and more productive phase, which would significantly increase the possibility of lending being resumed during IDA9. There are also possibilities of resumed lending to Kampuchea and Afghanistan. Programs for these countries cannot yet be developed. All three would very likely include advice on policy reform, though probably not adjustment lending; quick disbursing program lending to finance imports for reconstruction; and investment lending to rebuild infrastructure, especially in rural areas. In Afghanistan, lending could also support the resettlement of returning refugees. In addition to these Asian countries, significant IDA resources could also be needed if Guyana and Haiti adopt adjustment programs.

3.37 The potential funding requirements of these countries are considerable. Increased allocations to Bangladesh, Sri Lanka and Nepal could require SDR 500 million; increasing the Burma program and establishing fairly modest programs for Vietnam, Kampuchea and Afghanistan (and also Guyana and Haiti) could result in an increase of SDR 1.0 billion in IDA8 terms. The total IDA8 allocation for countries other than Africa, India and China is SDR 2.6 billion. To reallocate SDR 1.5 billion within this amount does not appear feasible, so that if resources are needed for new programs among the countries in this group, they will have to be funded as part of the total allocation process.

C. The Implications for Regional Allocations

3.38 IDA8 introduced, for the first time, a floor on the allocation to a particular region. As noted, the Deputies earmarked 45-50 percent of donor-funded commitments for Africa. Given the ceiling of 30 percent on India and China, by implication therefore, the substantial group of all other borrowers was allocated the residual 20-25 percent. IDA's Board subsequently decided to allocate commitments against reflows in a manner broadly consistent with these guidelines, though not necessarily in identical fashion, so that IDA's management would have the flexibility to respond to special needs such as the recent floods in Bangladesh. The above discussion identified a number of additional claims on IDA resources which are likely to arise during the IDA9 period. The funding of these claims will have implications for the regional allocation of funds in IDA9.
Box 3.3: A Comparison of IDA Lending to Africa and to Other IDA Recipients Excluding China and India

In 1975, each person in low income Africa received on average $0.95 for every dollar of official development assistance received per person in Bangladesh, Bhutan, Burma, Laos, Maldives, Nepal, Sri Lanka, Pakistan, Bolivia, Haiti, the Yemen Arab Republic and the People's Democratic Republic of Yemen; by 1985 this had increased to $2.18 and current projections indicate it will reach $3.24 by the IDA9 period. During IDA8, if per capita allocations were the same for each country, and assuming 30 percent of IDA for China and India, then the other low income countries' share would be 32 percent instead of the likely 22 percent. Yet there is little difference between this group of countries and sub-Saharan Africa (excluding Nigeria) in terms of population size (310 million compared to 296 million in Africa) or per capita incomes ($276 compared to $236 in Africa). Poverty is just as widespread and, with the exception of Sri Lanka, all indicators suggest a very low level of social development. Their economic management is generally good but, aside from Pakistan, they have no ability to service new external debt at market interest rates.

The discrepancy in allocations does not in and of itself constitute an argument for increases, but there is growing evidence that programs of the current IDA recipients in the non-African group are being underfunded because of the relative stagnation of ODA flows to them.

3.39 The concessional nature of IDA funding means that demands will inevitably outweigh availabilities and that choices will have to be made among different programs. The resource needs are substantial if IDA is to accommodate new members (Angola), new adjusting countries in Africa (e.g., Ethiopia, Nigeria, Sudan, Zambia), and new or expanded programs in other regions (e.g., Afghanistan, Bangladesh, Burma, Guyana, Haiti, Nepal, Pakistan, Sri Lanka, and Vietnam). These needs could amount to more than SDR 3.0 billion compared to the total IDA8 funding level of SDR 11.7 billion.

3.40 Not all these potential additional demands will materialize. It would be prudent therefore to assume that something of the order of SDR 1.5 billion will be needed to fund these programs during the IDA9 period.

3.41 Two other categories of potential requirements have been cited in the discussion on country allocation and are shown in Table 3.3. Unlike the previous category, these would both represent departures from the guidelines and practices of earlier replenishments. The first is the need to moderate the average terms of Bank Group assistance for India, through an increase in the IDA share of the IBRD/IDA blend on the order of SDR 1.0 billion over the IDA9 period. The second refers to the options put forward in the paper on IDA eligibility. If the countries which fall between the eligibility ceiling and the operational cut-off were to be given access to IDA then the needs would be in a range of SDR 0.8-2.0 billion. It is very difficult to see any scope for reallocating current IDA commitments to make these sums available.

3.42 Given the likelihood of increased pressure on IDA resources in the years ahead, IDA's management will need to allocate resources to balance two concerns. First, IDA
Table 3.3: Indicative Additional IDA Funding Requirements
(SDR billion, IDA8 prices)

<table>
<thead>
<tr>
<th>Region</th>
<th>Current total</th>
<th>Potential additional demands in IDA9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>5.6</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Adjusting</td>
<td>4.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Other adjusting countries</td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>China, India and Pakistan</td>
<td>3.9</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>Other Recipients</td>
<td>2.2</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bangladesh, Nepal and Sri Lanka</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Burma, Afghanistan, Vietnam,</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Kampuchea, Guyana, Haiti</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA-Eligible Countries (above $580 per capita)</td>
<td>0.0</td>
<td>0.8 - 2.0</td>
</tr>
<tr>
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</tr>
</tbody>
</table>

needs to maintain its support for those programs which are ongoing, where governments are showing sustained commitment to adjustment, growth, poverty reduction, human resource development and natural resource management. Second, the opportunity to respond to changes in a country’s situation and support new or expanded efforts to promote development represents a challenge which both the donor community and IDA should take up. The difficulty of maintaining this balance would be minimized by preserving the maximum possible flexibility in responding to new country needs by allocating resources out of those programs where at any given point in time the costs of doing so will be lowest. IDA’s capacity to respond quickly to situations where governments are willing to take up adjustment or face sudden and unexpected difficulties is one of its important strengths and a key role it plays in the international concessional funding system. Given the increased demand for IDA resources, as compared to the past, regional earmarking of funding would make it much more difficult for IDA to respond quickly during the IDA9 period. This argues in turn for flexibility in the allocation of IDA9 resources so as not to limit IDA’s capacity to meet the challenges ahead.
IDA ELIGIBILITY STATUS

CURRENT IDA8 RECIPIENTS*

PROSPECTIVE IDA RECIPIENTS **

* Refers to countries that are expected to receive credits during the IDA8 period as of March 1989.
** Based on eligibility guidelines as of March 1989.
*** Angola's membership application in the IBRD and IDA is currently being processed.