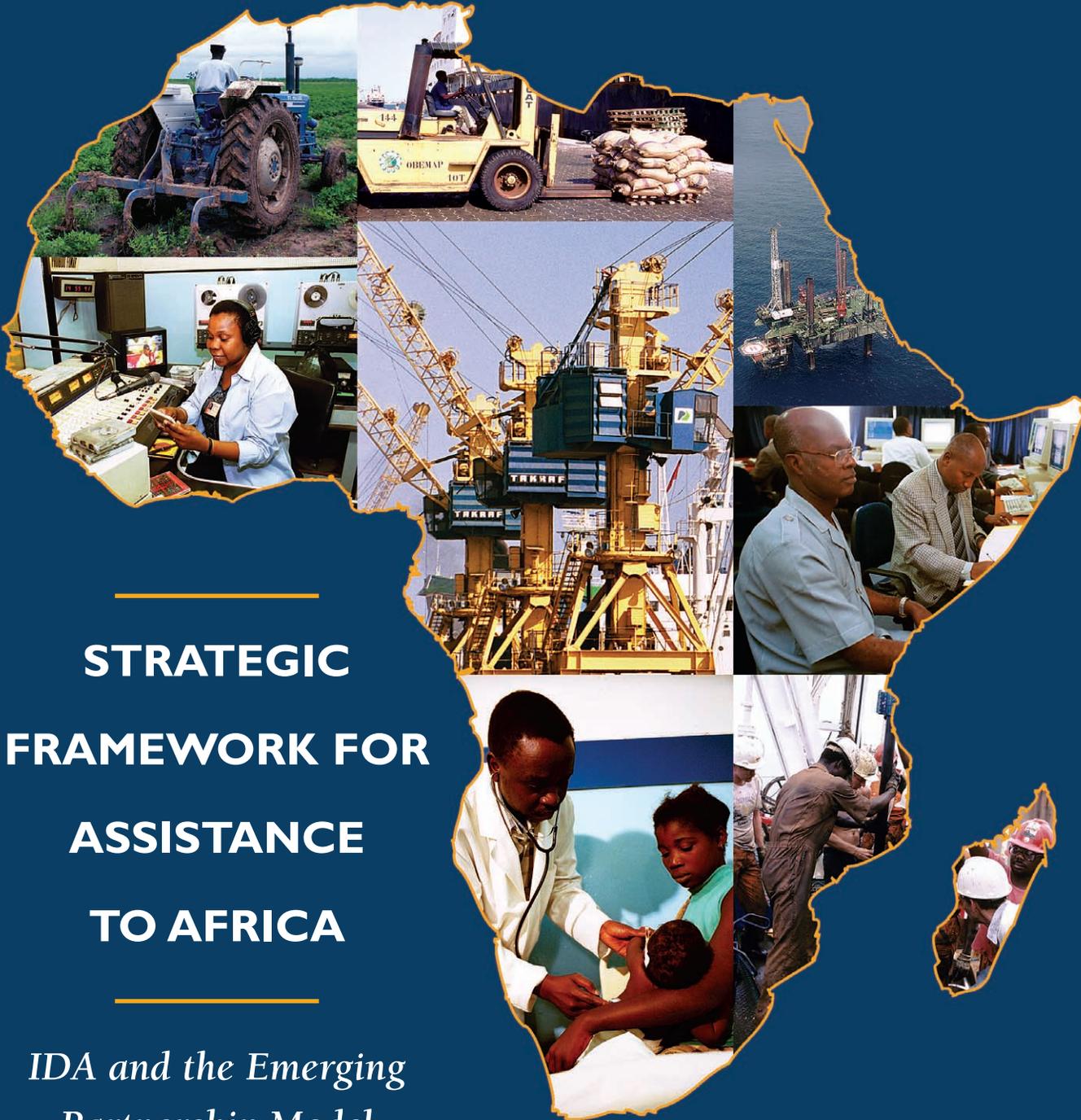


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# STRATEGIC FRAMEWORK FOR ASSISTANCE TO AFRICA

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*IDA and the Emerging  
Partnership Model*

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The Africa Region



**Strategic Framework  
for Assistance to Africa  
IDA and the Emerging  
Partnership Model**

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# Contents

<b>Foreword</b>	<b>vii</b>
<b>Acknowledgments</b>	<b>ix</b>
<b>Abbreviations and Acronyms</b>	<b>xi</b>
<b>Executive Summary</b>	<b>xiii</b>
<b>1 Introduction</b>	<b>1</b>
Context for the Strategy	3
IDA’s Strategic Approaches to Africa’s Development	
Challenges	5
Recent Changes in IDA’s Operating Environment	9
Trends in IDA’s Lending and Analytical Work and	
Knowledge Management	12
Assessments of IDA’s Performance	17
<b>2 Lessons Learned</b>	<b>21</b>
Substantive Lessons	21
Operational Imperatives	27
<b>3 The Pillars of the Strategy: Sharpening IDA’s</b>	
<b>Strategic Focus</b>	<b>31</b>
Pillar One: Improving Governance and Reducing Conflict	32
Pillar Two: Investing in People	48
Pillar Three: Increasing Growth and Enhancing	
Competitiveness	56

<b>4 Pillar Four: Implementing the Emerging Partnership Model and the Results Agenda</b>	<b>77</b>
Mainstreaming the Emerging Partnership Model	77
Moving to Results-Based Assistance	91
<b>5 Conclusions</b>	<b>101</b>
What's Different about the Strategy?	101
Risks and Constraints	102
Moving Forward	104
<b>Tables</b>	
1.1 IDA Grant Eligibility under IDA-13	12
3.1 African Poverty, Aid Flows, and Cattle Subsidies, 2001	63
4.1 CPIA Rankings, December 2002	81
4.2 How PRSCs Are Different from Traditional Adjustment Lending	87
5.1 Key Benchmarks for Strategy Implementation	105
<b>Figures</b>	
1.1 Background: An Emerging Strategy of Assistance in Africa and Major Sectoral Themes	4
3.1 The Four Strategic Pillars	32
3.2 The Postconflict Model	34
4.1 Emerging Partnership Model: Client Typology Continuum	82
4.2 Emerging Partnership Model: Forms of Support	84
4.3 Possible Evolution of PRSCs over Time	88
4.4 The Four Pillars and the MDGs	94
4.5 Economic and Sector Work Array	96
<b>Boxes</b>	
1.1 The Millennium Development Goals	10
1.2 The Enhanced Heavily Indebted Poor Countries HIPC Initiative	11

1.3	Client Surveys	18
2.1	Growth–Poverty Elasticity in Africa	22
2.2	Working with the New Partnership for African Development	24
2.3	The Strategic Partnership with Africa	29
3.1	Postconflict Strategy: The Democratic Republic of the Congo	35
3.2	IDA’s Multicountry Engagement in the Great Lakes Region	36
3.3	Low-Income Countries under Stress: The LICUS Strategy for Somalia	37
3.4	Capacity Building in Procurement and Fiduciary Management	41
3.5	Building Expenditure Accountability Capacity: Some Emerging Lessons	42
3.6	Tracking Public Spending: A Catalyst for Better Governance	43
3.7	Toward a More Strategic Approach to Capacity Building in Africa	47
3.8	Water Supply and Sanitation: The Action Plan for the Africa Region	51
3.9	Community-Driven Development	52
3.10	The Multicountry AIDS Program for Africa	55
3.11	A Summary of International Finance Corporation’s (IFC) Strategic Initiative for Sub-Saharan Africa	60
3.12	An Integrated Approach to Private Sector Development	61
3.13	Main Features of the Regional Integration Assistance Strategy (RIAS) for West Africa	65
3.14	The Nile Basin Initiative	66
3.15	Linking Environment and Poverty Reduction: Madagascar	74
4.1	Africa’s International Bank for Reconstruction and Development Countries	83



## Africa and the World: At a Glance

	Sub-Saharan Africa		World 2001
	1970	2001	
<b>Total population (m)</b>	<b>289</b>	<b>674</b>	<b>6,130</b>
<b>Population growth (annual percent)</b>	<b>2.6</b>	<b>2.3</b>	<b>1.3</b>
<b>Total GDP (US\$ billion; 1995 constant)</b>	<b>177</b>	<b>382</b>	<b>34,490</b>
<b>GNI per capita (Atlas, current US\$)</b>	<b>210</b>	<b>460</b>	<b>5,120</b>
<b>ODA per capita (US\$)</b>	<b>4</b>	<b>21</b>	<b>...</b>
<b>Urbanization (percent total population)</b>	<b>17</b>	<b>35</b>	<b>47</b>
<b>Primary school enrollment (percent gross)</b>	<b>51</b>	<b>79<sup>a</sup></b>	<b>102<sup>a</sup></b>
<b>Immunization rate (percent; DPT)</b>	<b>...</b>	<b>53</b>	<b>74</b>
<b>Access to clean water (percent)</b>	<b>25<sup>b</sup></b>	<b>55<sup>c</sup></b>	<b>79</b>
<b>Export value (US\$ billion; 1995 constant)</b>	<b>49</b>	<b>113</b>	<b>9,536</b>
<b>Life expectancy at birth (years)</b>	<b>44</b>	<b>47</b>	<b>67</b>
<b>Agricultural yields (cereals; kilogram/hectare)</b>	<b>776</b>	<b>992</b>	<b>3,124</b>

...Not available.

GDP, gross domestic product; GNI, gross national income; ODA, official development assistance; DPT, diphtheria-pertussis-tetanus vaccine.

a. 1999 data.

b. 1975 data based on available data from 18 countries.

c. 2000 data.

Sources: African Development Indicators; World Development Indicators; UN Food and Agricultural Organization.

# Foreword

*“We have moved Africa to the top of our development agenda at the World Bank.”*

—James Wolfensohn, President

**M**AKING HEADWAY AGAINST POVERTY IN AFRICA—HOME TO 34 OF the world’s 48 poorest countries—represents IDA’s most important and visible challenge. This will not be accomplished through “business as usual.” Over the past few years it has become increasingly clear that development must be owned and driven by Africans and supported by donors through coordinated, scaled-up programs. Building on previous collaborative studies, IDA’s work has evolved rapidly in the direction of supporting country and regional development programs through more effective mechanisms of engagement, including the delivery of assistance through an enhanced partnership model. The *Strategic Framework for Assistance to Africa* sets out our vision for IDA going forward. It considers both the substantive focal areas for IDA’s involvement and also how IDA should work, stressing results within the partnership model. While it is primarily to guide our own operations, we see its external dissemination as part of a wider process of engaging with clients and partners and increasing public information and transparency.

*Callisto Madavo*  
Vice President, Africa Region  
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Washington, D.C.



# Acknowledgments

**T**his document was prepared by the Strategy team: Alan Gelb (chief economist, Africa Region), Pamela Cox (operations director, Africa Region), Grace Yabrudy (lead specialist, Africa Region, and task manager), and Todd J. Moss (consultant). Other members of the team included Ann Karasanyi, Susan Nazzaro, and Marie Florence Elvie. The Strategy evolved over more than a year, as a result of extensive consultation with Africa Region staff, other Bank staff, external advisers, clients, partners, and representatives of civil society in the Region.



# Abbreviations and Acronyms

AAP	Assessment and action plan
ACBF	African Capacity Building Foundation
AERC	African Economic Research Consortium
AFR	Africa Region, World Bank
AIDS	Acquired immune deficiency syndrome
APL	Adaptable program loan
CAS	Country assistance strategy
CDD	Community-driven development
CDF	Comprehensive Development Framework
CFAA	Country financial accountability assessment
CPAR	Country procurement assessment report
CPIA	Country policy and institutional assessment
CWIQ	Core Welfare Indicators Questionnaire
DDR	Disarmament, demobilization, and reintegration
DEC	Development Economics
DECDG	Development Economics Data Group
ECOWAS	Economic Community of West African States
EFA	Education for All
ESW	Economic and sector work
GDP	Gross domestic product
GNI	Gross national income
HIPC	Heavily indebted poor countries
HIV	Human immunodeficiency virus
IBRD	International Bank for Reconstruction and Development
ICA	Investment climate assessment
IDA	International Development Association
IF	Integrated Framework
IFC	International Finance Corporation

IFMIS	Integrated financial management information system
IMF	International Monetary Fund
LICUS	Low-income countries under stress
MAP	Multicountry HIV/AIDS Program
MAPP	Multicountry Agricultural Productivity Program
MDGs	Millennium Development Goals
MDRP	Multicountry Demobilization and Reintegration Program
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, small, and medium enterprise
NEPAD	New Partnership for Africa's Development
NGO	Nongovernmental organization
NPV	Net present value
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluation Department
PBA	Performance-based allocation
PER	Public expenditure review
PREM	Poverty Reduction and Economic Management
PROPARCO	La Société de Promotion et de Participation pour la Coopération Économique
PRSC	Poverty reduction support credit
PRSP	Poverty reduction strategy paper
QAG	Quality Assurance Group
REC	Regional Economic Community
RIAS	Regional integration assistance strategy
RPED	Regional Program on Enterprise Development
SASE	Selective accelerated salary enhancement
SME	Small and medium enterprise
SP	Sector Program
SPA	Strategic Partnership with Africa (previously, Special Program for Africa)
STATCAP	Statistical Capacity Building Program
SWAP	Sectorwide approach
UEMOA	Union Économique et Monétaire de l'Afrique l'Ouest
UNDP	United Nations Development Programme
WBI	World Bank Institute
WSS	Water supply and sanitation
WTO	World Trade Organization

# Executive Summary

**T**HE STRATEGIC FRAMEWORK FOR ASSISTANCE TO AFRICA (HEREAFTER “the Strategy”) lays out the strategic framework for the International Development Association’s (IDA) work over the next several years. Primarily an internal document to help IDA define core priorities and future directions for its work in Africa, its goal is to provide strategic direction rather than a rigid template. The Strategy is not an entirely new framework but instead grows out of IDA’s evolving response to developments within the region, changes in the enabling environment for official development assistance (ODA), and lessons of experience. The Strategy evolved over the past year, as a result of extensive consultation with Africa Region staff, other Bank staff, external advisers, clients, partners, and representatives of civil society in the Region.

Making headway against African poverty represents IDA’s single most important and visible challenge. “Can Africa Claim the 21<sup>st</sup> Century?” set out four pillars for IDA’s current strategy for Africa: reducing conflict and improving governance; investing in people; increasing economic growth and enhancing competitiveness; and improving aid effectiveness. The Strategy seeks to clarify IDA’s role within these four pillars, consolidate recent changes, and chart future priorities.

The Strategy identifies 12 substantive lessons that are taken into account: fighting poverty is the goal; economic growth is necessary; development is multifaceted; diversity demands flexibility; ownership is the key to sustainability; the global environment matters; capacity remains a critical constraint; human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) is more than a health issue; gender and sustainability are development issues; states need to work

together; shocks are the norm; and Africa's concentration of developmental challenges is unique.

The Strategy also identifies six operational lessons that are critical if this ambitious agenda is to be realized within the evolving global context: be selective; work better with partners; move toward programmatic support; devise and scale up innovative approaches; define and monitor results and evaluate performance; and streamline business processes.

Based on these lessons, the Strategy asks two central questions: What are the core areas for IDA's engagement in Africa, given its comparative advantage? How should it work, given this agenda and the new approach toward development assistance? In defining IDA's comparative advantage, the Strategy considers IDA's central strengths: its multilateralism, its global experience and expertise, and its financial resources.

**Pillar One: Improving Governance and Reducing Conflict.**

IDA will continue to build on the postconflict and low-income countries under stress (LICUS) models. IDA will work to strengthen demand for good governance by working with clients to enhance accountability and budget and financial management, disseminate information, and improve the quality of statistics. IDA will also scale up support for capacity building now, but more strategic thinking and innovation in this area are required to sustain progress in the medium and long term.

**Pillar Two: Investing in People.** IDA will emphasize strengthening service delivery systems to enable the effective use of resources from diverse sources. IDA will also support decentralized service provision and empowerment through community-driven development (CDD) approaches and scale up successful programs. IDA will work with clients to help build integrated systems for social protection and risk mitigation. Lastly, IDA will provide strategic leadership and advocacy in a few selected areas, such as HIV/AIDS and Education for All (EFA).

**Pillar Three: Increasing Growth and Enhancing Competitiveness.** IDA will work with clients to improve investment climates and boost trade and exports. IDA will encourage the incorporation of regional, gender, and rural issues into country assistance strategies (CASs). IDA will support major investments in water, energy, and transportation and will work in an integrated manner with the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) to promote private sector development and increase access to private finance. There are opportunities here to support and collaborate with the New Partnership for Africa's Development

(NEPAD).

**Pillar Four: Implementing the Emerging Partnership Model.**

Centering on the poverty reduction strategy paper (PRSP) process and anchored in the Comprehensive Development Framework (CDF) principles, the Emerging Partnership Model emphasizes more effective partnerships based on client ownership, dependable financial flows to governments, coordinated donors and harmonized processes, and links to results. Under the model, all donor support would be aligned with national budget cycles and would include an annual PRSP review. The model uses a client typology based on the IDA performance ratings and aligns IDA's forms of support to match client absorptive and management capacity. Programs will evolve flexibly with the improving capacity and track record of clients and will provide incentives to move along the continuum. The highest performing clients would be candidates for poverty reduction support credits (PRSCs), which are segmented by sector and whose annual tranches would vary on the basis of performance.

**Moving to Results-Based Assistance.** The Strategy proposes three levels of measurement: IDA's own activities in policy dialogue, programs, and partnerships; final country outcomes; and an intermediate set of indicators that measure policy and program effectiveness. The Strategy proposes to further the results agenda by pushing toward result-based CASs and mainstreaming statistical capacity as a core sector. The Strategy also sets benchmarks relating to each of the four pillars for monitoring the success of its own implementation.

**Moving Forward.** The next step is to align IDA operations with these priorities by using the Strategy to assist the discussions of CASs and regional assistance strategies (RASs) and the implementation of training and communications to ensure the successful implementation of the Strategy. This document will be disseminated widely, including to Bank staff, clients, other partners, and the media and general public.



# 1

## Introduction

**T**HE STRATEGIC FRAMEWORK FOR ASSISTANCE TO AFRICA (HEREAFTER “the Strategy”) lays out the strategic framework for the International Development Association’s (IDA) work over the next several years.<sup>1</sup> Primarily an internal document to help IDA define core priorities and future directions for its work in Africa, the goal of the Strategy is to provide strategic direction, not a rigid template. The Strategy is not an entirely new framework but rather grows out of IDA’s evolving response to developments within the region, changes in the enabling environment for official development assistance (ODA), and lessons of experience.

Despite pockets of success and some progress in increasing incomes since the mid-1990s, Africa is still home to 34 of the world’s 48 poorest countries. Other regions have seen poverty levels decline dramatically over the past four decades, but Africa, on average, has fallen farther behind and remains the world’s great development challenge. Average annual incomes are only US\$460 per person. Excluding South Africa, the average is just US\$300—a paltry US\$0.82 per day. Few countries are on track to meet many of the Millennium Development Goals (MDGs). Africa is the major test of the international community’s determination to defeat global poverty.

Similarly, making headway against African poverty represents IDA’s single most important and visible challenge. In response to Africa’s poor performance—as well as the evolution in development thinking and

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1. The Strategy was written by the Africa Region following consultations with sector families, country teams, other Bank staff, external experts, representatives of donors and clients, and members of the private sector and other civil society groups.

***The Strategy identifies IDA’s core roles—those areas where it brings the most experience and comparative value—and where IDA should concentrate its future efforts***

major economic and political changes globally and within Africa—IDA has made several past efforts to chart a new vision for assisting African development. As a result, IDA’s emphasis has shifted significantly over time, and its strategic approaches have evolved. Most recently, a collaborative study by the Bank and several African institutions—“Can Africa Claim the 21<sup>st</sup> Century?”—set out four pillars for IDA’s current strategy for Africa:<sup>2</sup>

- Reducing conflict and improving governance.
- Investing in people.
- Increasing economic growth and enhancing competitiveness.
- Improving aid’s effectiveness.

IDA has been working to align its operations with these four strategic pillars. This Strategy does not seek to reinvent the pillars but, rather, will lay out the strategic framework for IDA’s work in Africa, as well as set benchmarks for assessing future performance. As a first step, this report first describes the context from which the Strategy has emerged: IDA’s evolving approaches to Africa, recent changes in the environment for ODA, trends in IDA’s portfolio and analytical work, and assessments of IDA’s performance. Section 2 reviews lessons learned from development experience—from both successes and failures in Africa and other regions. It identifies 12 substantive lessons and 6 operational issues that must be embedded in any future strategy. On the basis of these lessons, the report then tries to answer two central questions: What are IDA’s core roles in Africa, given its comparative advantage? How should it work, given this agenda and the evolving approach toward development assistance?

The ever-widening development agenda and growing demands to work in new areas have created a risk that IDA could diffuse its efforts and lose its strategic focus. Based on broad consultation, the Strategy identifies IDA’s core roles—those areas where it brings the most experience and comparative value—and where IDA should concentrate its future efforts. Section 3 outlines these areas of strategic emphasis in each of the first three pillars. This is not a catalog of IDA’s wide-ranging

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2. World Bank, UN Economic Commission for Africa, Global Coalition for Africa, African Economic Research Consortium, African Development Bank. 2000. *Can Africa Claim the 21st Century?* World Bank, Washington, D.C.

activities or a compilation of country strategies; rather, it provides broad strategic direction for the region's work over the next 3 to 5 years.

Similarly, IDA needs to work differently as development practice begins to entrench the notions of country ownership, global partnership, and linkage to results. Section 4 addresses Pillar 4 on improving aid effectiveness by outlining how IDA will implement the Strategy through the Emerging Partnership Model and moving to results-based assistance. IDA accounts for less than a quarter of total ODA provided to Africa, with the rest coming from more than 20 other partners. In looking forward, IDA needs to take into account both the wide range of clients and the large role of other development partners. In terms of results, the challenge for IDA is how best to work within a framework that emphasizes client leadership and “contribution” rather than “attribution,” which will enable progress toward better monitoring of development outcomes and encourage clients by strengthening and making more transparent the links between performance and IDA allocations.

A concluding section summarizes what is different in the Strategy, addresses risks and constraints, sets out next steps, and lists key benchmarks for implementing the Strategy.

***Africa is at a crossroads,  
facing an increasingly  
differentiated future***

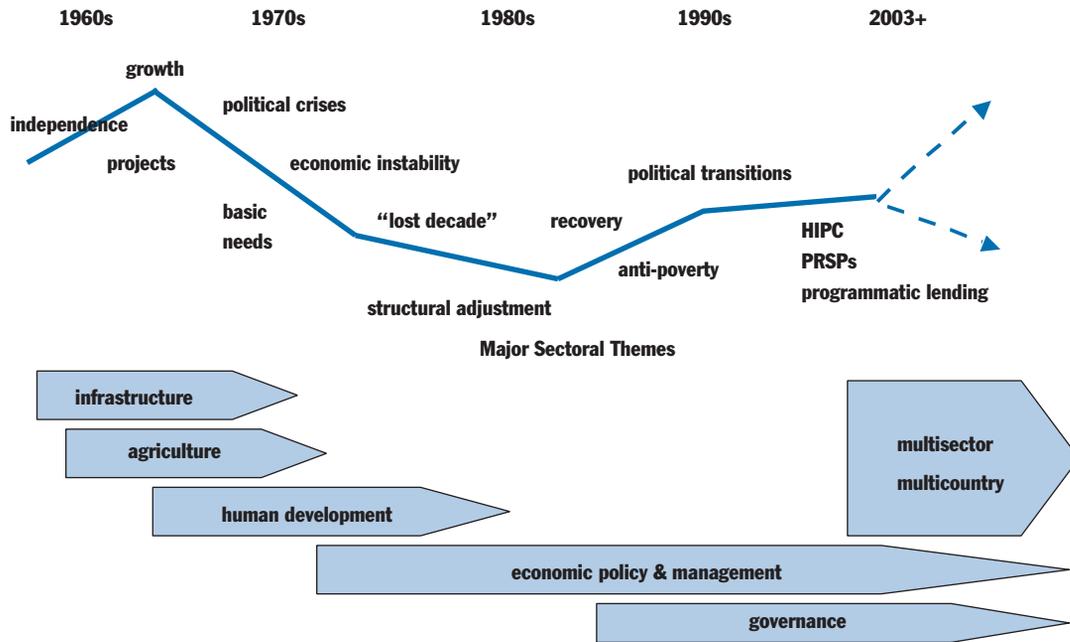
## Context for the Strategy

**A**FRICA CONTINUES TO PRESENT THE WORLD WITH ITS MOST FORMIDABLE development challenge. Of the 32 countries in the world with the lowest levels of human development, 24 are in Africa. While other regions have seen poverty levels decline dramatically over the past four decades, Africa has fallen further behind.<sup>3</sup>

The 1960s were a period of growth and optimism in Africa. But in the 1970s, following the oil and interest rate shocks and, in many countries, the severe deterioration of governance and poor economic management, African economies began to nosedive (figure 1.1). The 1980s were lost years for many African countries, as was the first half of the 1990s. Incomes fell, poverty increased, and in many countries institutions deteriorated. For a number of countries that were not enmeshed in

3. For more extensive discussion, see *Can Africa Claim the 21st Century?* chapter 1.

**Figure 1.1 Background: An Emerging Strategy of Assistance in Africa and Major Sectoral Themes**



**Note:** HIPC, heavily indebted poor countries; PRSP, poverty reduction strategy paper.

conflict and had undertaken macroeconomic and structural reforms, the second half of the 1990s saw stronger performance and, on average, income per head rose slightly. More than a dozen countries sustained growth of about 5 percent or higher after 1995. Another favorable development in the 1990s was the rise in political participation and demand for accountability.

The new century, however, has seen widening divergence between countries. Some have continued to grow, reduce poverty, and consolidate their political transitions, but others have deteriorated. Africa is therefore at a crossroads, facing an increasingly differentiated future. Some countries are well placed to face their development challenges and are on their way to sustained economic growth and reintegration into the world economy. Others are likely to struggle with an interlocking set of problems that will result in erratic performance and failure to substantially reduce poverty. A third set of countries may face an even worse future—rising conflict, a long-term downward economic spiral, disintegration of

the social fabric, and eventual state failure.<sup>4</sup> These divergent scenarios present particular challenges for IDA as it seeks to develop appropriate responses to the varied needs of its clients.

## IDA's Strategic Approaches to Africa's Development Challenges

OVER THE PAST FOUR DECADES, IDA HAS PARTICIPATED IN THE EVOLUTION of global thinking on development and has undergone a continual process of review, reformulation, and reassessment. This process has been reflected in shifting emphases in the program and the use of new mechanisms to deliver resources. In addition to changing political and economic factors, both globally and within Africa, the failure to secure sustained economic growth and poverty reduction on the continent has itself been a driving force for many of these innovations. This section summarizes IDA's strategic approaches to Africa over the past 40 years and reviews trends in IDA's portfolio and analytical work, in terms of quantity, quality, and sectoral emphases. Finally, this section notes some of the internal and external assessments of IDA's performance.

The immediate postindependence era was a time of optimism in Africa, with a large planning and investment role envisioned for the state (figure 1.1). In the 1960s, IDA's primary interventions in Africa were to finance large infrastructure projects, such as the Akosombo Dam in Ghana. These projects were intended to spur these emerging nations to take off; instead, they remained largely enclave projects within wilting colonial economies. In the mid-1970s, the focus shifted to human development investments, which helped to increase several key indicators, such as life expectancy, and mobilized a successful international effort to combat river blindness.

But it became increasingly clear that these targeted investments could not be separated from the broader impact of economic instability, stagnation, and poor implementation. The oil price shock of 1973, the debt crises, and growing political volatility increased pressure on Africa's fragile economies. Integrated rural development programs attempted to support growth and included not only agriculture but also related projects in sectors

*Donors could not buy sustainable reforms and enclave projects, even if successful, would not solve the overall deterioration in development indicators*

4. These three groups correspond roughly to countries in the upper, middle, and lowest thirds of the rankings by the Bank's country policy and institutional assessment (CPIA).

***By the 1990s it was also clear that Africa was being marginalized in the world economy, with declining world export shares, falling terms of trade, and rising indebtedness***

such as transport and health care. The results were, again, disappointing because wider policy distortions, macroeconomic crises, weak management, and deteriorating institutions undermined most of the potential gains.

The 1981 Berg report emphasized the need for better economic management.<sup>5</sup> The focus of IDA shifted toward policy-based lending, which tied structural reforms to quick-disbursing IDA credits, in part to provide counterpart funds to distressed governments. In 1987, IDA formed the Special Program for Africa (SPA; later renamed the Strategic Partnership with Africa) to encourage donors to cofinance adjustment. This phase had some successes, including widespread recognition among policymakers of the importance of macroeconomic stability, large strides in trade and price liberalization, and a wave of privatizations. These policy changes, supported by technical and financial assistance, enabled the recovery of a number of countries, such as Ghana and Uganda. For many, however, policy change was partial and management inconsistent.<sup>6</sup> Although there was evidence that better-managed countries had higher growth rates and better social indicators overall, results were uneven and disappointing.<sup>7</sup> It was increasingly clear that donors could not buy sustainable reforms and that enclave projects, even if successful, would not solve the overall deterioration in development indicators. By the 1990s it was also clear that Africa was being marginalized in the world economy, with declining world export shares, falling terms of trade, and rising indebtedness. Some of the early group of more successful reformers were failing to sustain accelerated growth rates, while conflict and human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) were emerging as special threats to Africa's development.

The Bank's 1989 report, "From Crisis to Sustainable Growth," emphasized wider issues of state failure in Africa, stressing governance in addition to policy changes.<sup>8</sup> Partially drawing on lessons of East

5. See World Bank. 1981. "Accelerated Development in Sub-Saharan Africa: An Agenda for Action." Washington, D.C.

6. See Devarajan, S. D., and others. 2001. "Aid and Reform in Africa." World Bank, Washington, D.C.

7. African Development Bank in cooperation with the World Bank. 2002. "Achieving the Millennium Development Goals in Africa: Progress, Prospects, and Policy Implications." African Development Bank, Abidjan.

8. See World Bank. 1989. "From Crisis to Sustainable Growth—Sub-Saharan Africa: A Long-Term Perspective Study." Washington, D.C.

Asia's developmental success and a growing literature on institutional economics, IDA began to integrate governance issues and institutional reforms into country assistance strategies (CASs). Initially, the approach was limited, emphasizing technocratic civil service reform programs with only modest success.<sup>9</sup> It should be noted that neither project lending nor policy-based lending operations could directly address wider governance issues. The former focused on the effectiveness of specific projects and the use of resources provided by IDA itself. The latter involved conditionality on policies, but not conditions related to the use of counterpart funds or general budget revenues. The stress on macroeconomic management may have led to stronger central banks and finance ministries but, despite a high share of technical assistance in ODA (about US\$3 billion, or one-fifth of ODA), institutions and capacity in Africa remained weak or continued to deteriorate.

The Bank's 1994 report, "Adjustment in Africa," reemphasized the need for sound macroeconomic and structural management, and was seen by some as a throwback to the Berg report.<sup>10</sup> However, this period also saw several successes for IDA. These successes included support for Mozambique's transition from conflict to peace, growth and poverty reduction, and the successful partnership against onchocerciasis. In addition, innovative delivery mechanisms, such as the Malawi Social Action Fund, enhanced service delivery, bringing the benefits of development assistance more directly to poor communities.

Nevertheless, as recognized in the 1996 study, "A Continent in Transition," Africa and IDA were entering a phase of rapid change.<sup>11</sup> Throughout the 1990s, IDA's programs both deepened—by directly addressing capacity constraints and ownership incentives—and broadened—by moving toward more programmatic vehicles. In particular, Sector Programs (SPs) sought to coordinate assistance around coherent policy and budget frameworks to improve the effectiveness with which all (not just IDA) resources were used. The political opening in Africa opened windows of opportunity for wider dialogue over CASs and poli-

***PRSPs have increasingly become the central organizing process for client antipoverty strategies***

9. For reviews of civil service and associated programs in Africa, see Girishankar, N., and others. 1999. "Civil Service Reform: A Review of World Bank Assistance." World Bank, Washington, D.C.

10. See World Bank. 1994. *Adjustment in Africa: Reforms, Results, and the Road Ahead*. New York: Oxford University Press.

11. See Cleaver, K., and others. 1995. "A Continent in Transition: Sub-Saharan Africa in the Mid-1990s." World Bank, Washington, D.C.

***HIPC, which started in 1996 and was enhanced in 1999, reduced debt service flows with the objective of freeing additional budgetary resources for pro-poor spending***

cies, raising the emphasis on transparency and on involving civil society in poverty reduction strategies.<sup>12</sup> At the same time, the IDA allocation formula was progressively revised, with more weight being given to poverty and social components, institutions, and governance.

By the late 1990s, a development agenda had converged around the principles of the Comprehensive Development Framework (CDF), country ownership, partnership, and results-based poverty reduction, while also stressing the need for debt relief and higher ODA flows.<sup>13</sup> To meet these challenges, IDA, in partnership with the International Monetary Fund (IMF) and others, initiated the heavily indebted poor countries (HIPC) initiative and the poverty reduction strategy paper (PRSP) process. HIPC, which started in 1996 and was enhanced in 1999, reduced debt service flows with the objective of freeing additional budgetary resources for pro-poor spending. This increased the emphasis on monitoring and tracking public spending. PRSPs have increasingly become the central organizing process for client antipoverty strategies, widening space for country ownership and the participation of civil society, and facilitating more fruitful external partnerships. At the same time, the MDGs have set specific targets to be achieved by 2015. More broadly they have focused attention on results and Africa's lagging performance relative to other regions.

IDA's current strategy for Africa is based on "Can Africa Claim the 21<sup>st</sup> Century?" That study, completed jointly by the Bank and a number of African institutions in 2000, established four pillars to underpin accelerated development in Africa: (a) reducing conflict and improving governance, (b) investing in people, (c) increasing competitiveness and diversifying economies, and (d) improving aid effectiveness and reducing aid dependence.

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12. This period saw wider consultation on CASs and even adjustment operations. See World Bank, Africa Region, Office of the Chief Economist. 1997. "Higher Impact Adjustment Lending (HIAL) Report, Africa Region." Washington, D.C.

13. See World Bank. 2003. "Toward Country-Led Partnership: Multi-Partner Evaluation of the CDF." Operations Evaluation Department. Washington, D.C.

## Recent Changes in IDA's Operating Environment

IDA IS CURRENTLY WORKING TO BETTER ALIGN ITS OPERATIONS WITH these four strategic pillars. At the same time, a number of changes in development practice within IDA and in the broader ODA environment are shaping IDA's approach. Sections 3 and 4 set out the vision for IDA's future, but first it is worth noting these key changes on which the Strategy builds.

**MDGs focus on results.** The MDGs emerged from a growing international effort to focus attention on development issues and the particular problems of poverty that linger in many parts of the world. The MDGs set eight broad goals for improving standards of living, along with specific global targets to be reached by 2015 (see box 1.1). The MDGs have been vitally important as a key focal point for pro-poor advocacy and as a catalyst to mobilize new efforts and resources for development assistance. Perhaps most important for IDA, the establishment of quantitative targets underlines a strong emphasis on outcomes.

**PRSPs become the mechanism of development partnership.** The World Bank, IMF, and other development partners introduced PRSPs in December 1999, and they have quickly become the organizing framework for development planning at the country level and a condition for HIPC. The PRSP process, which builds on the principles of the CDF, offers greater opportunity for countries to frame their own development agendas through a consultative process and to set priorities that can then be used to shape aligned programs of donor support. Most important perhaps, PRSPs offer a mechanism for bringing donors and clients around a shared agenda and business plan. Preliminary evaluations suggest a broadly favorable view of the PRSP process, which has opened up space for a more inclusive discussion of development strategies. But PRSPs are still, in general, strategic visions rather than operational plans, and donor practices (including those of the Bank) need to change even further to provide a meaningful response.

**HIPC highlights resource use.** The HIPC initiative was intended to assist countries facing unsustainable debts and allow resources used for debt service to be channeled instead toward development purposes (box 1.2). The initiative focused attention on the prerequisites for such assistance, especially the formulation of sound development policies and public finances. Most important, HIPC has forced a spotlight on the reli-

*The PRSP process, which builds on the principles of the CDF, offers greater opportunity for countries to frame their own development agendas through a consultative process and to set priorities that can then be used to shape aligned programs of donor support*

### Box 1.1 The Millennium Development Goals

1. **Eradicate extreme poverty and hunger.**
  - Halve the proportion of people surviving on less than one dollar a day.
  - Halve the proportion of people who suffer from hunger.
2. **Achieve universal primary education.**
  - Ensure that boys and girls alike complete primary schooling.
3. **Promote gender equality and empower women.**
  - Eliminate gender disparities at all levels of education.
4. **Reduce child mortality.**
  - Reduce by two-thirds the mortality rate of children under five years of age.
5. **Improve maternal health.**
  - Reduce by three-quarters the maternal mortality ratio.
6. **Combat HIV/AIDS, malaria, and other diseases.**
  - Halt and reverse the spread of HIV/AIDS.
  - Halt and reverse the spread of malaria and tuberculosis.
7. **Ensure environmental sustainability.**
  - Integrate sustainable development into country policies.
  - Reverse the loss of environmental resources.
  - Halve the proportion of people without access to potable water.
  - Significantly improve the lives of at least 100 million slum dwellers.
8. **Develop a global partnership for development.**
  - Increase official development assistance, especially for countries applying their resources to poverty reduction.
  - Expand market access.
  - Encourage debt sustainability.

ability of public budget and financial management, putting the onus back on clients to use new resources more effectively and creating new roles for IDA in terms of assisting in this process.

**IDA creates new instruments.** In response to these changes and some of the lessons learned, IDA has created new instruments to meet some of these needs. Over time it has added flexible instruments and approaches such as adaptable program loans (APLs), sectorwide approaches (SWAPs), and Multicountry HIV/AIDS Programs (MAPs). The first Poverty Reduction Support Credit (PRSC) was approved for

### Box 1.2 The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative

In September 1999, the World Bank and IMF announced a major expansion of the HIPC initiative. The earlier 1996 initiative changed in two broad ways: first, it supports deeper, broader, and faster debt relief; and second, it explicitly links debt relief to poverty reduction programs and reforms.

To achieve the first goal, the enhanced initiative includes the following changes:

- Countries qualify for debt relief when the ratio of the net present value (NPV) of debt to exports reaches 150 percent; previously, this ratio was 200–250 percent.
- Debt relief will begin from the decision point, with irrevocable relief to be delivered at the completion point; previously, relief from multilateral debt service began only at the completion point.
- The length of the interim period—the period between the decision point and the completion point—will be based on the achievement of key development actions rather than on a predetermined period of time.

In the effort to link debt relief to poverty reduction, the enhanced initiative:

- Grounds debt relief on poverty reduction strategies that are contained in each country's PRSP.
- Monitors the use of resources freed through debt relief, with special attention to how they are used to further the poverty reduction program and its results.

As of September 2003, seven African nations had reached their completion point under the enhanced HIPC initiative:

	Reduction in NPV terms (US\$ million)
Benin	265
Burkina Faso	553
Mali	538
Mauritania	622
Mozambique	2,023
Tanzania	2,026
Uganda	1,003

An additional 17 African countries have reached their decision point as of September 2003.

Uganda in March 2001. The PRSC is a single tranche credit offering general programmatic support based on priorities set out by the government in the PRSP. PRSCs are predicated on stringent budget management standards and financial safeguards but are designed to increase flexibility for recipients and shift some of the implementation responsibility from IDA to clients.

IDA grants were also introduced with the IDA-13 replenishment for specific targeted uses and for countries facing particular challenges to development—namely, conflict, AIDS, and unsustainable debt. Under

the IDA-13 guidelines, grants are available for any national HIV/AIDS projects, reconstruction projects after natural disasters, postconflict recovery, and for the very poorest countries and those most vulnerable to debt (see table 1.1).

*There has been a concerted effort by IDA to improve self-assessment, the quality of both the portfolio and economic and sector work (ESW), and knowledge transfer and sharing at all levels*

## Trends in IDA's Lending and Analytical Work and Knowledge Management

OVER THE PAST DECADE, THERE HAS BEEN A CONCERTED EFFORT BY IDA to improve self-assessment, the quality of both the portfolio and economic and sector work (ESW), and knowledge transfer and sharing at all levels. The Wapenhans report catalyzed a major portfolio restructuring and greater attention to quality that led to an improvement in indicators.<sup>14</sup> The story for ESW is similar. Prior to 1997, there was no systematic assessment of ESW quality. Once formal measurements were introduced, the general quality was considered low but has been rapidly and steadily improving over the past five years. The challenge now will be to build on the progress made so far in a way that actually produces sustainable results in a shorter time period.

In line with priorities of the 1960s and 1970s, IDA's portfolio in Africa was heavily weighted toward large infrastructure projects and direct provision of social services. In the 1980s, the portfolio both grew and shifted toward adjustment lending. During the course of that decade, IDA saw its involvement in Africa soar, with operations in 36 African

**Table 1.1 IDA Grant Eligibility under IDA-13**

Category	Amount eligible
HIV/AIDS project/program	100% in IDA countries, 25% in blend
Postdisaster reconstruction	100% in IDA countries
Postconflict reconstruction	Up to 40% of IDA allocation
Poorest (per capita income <\$1/day)	Up to 23% of IDA allocation
Poorest, plus debt vulnerable	Up to 40% of IDA allocation

**Source: IDA. 2002. "Additions to IDA Resources: Thirteenth Replenishment—Supporting Poverty Reduction Strategies." Washington, D.C.**

14. See Wapenhans, W. 1992. "Effective Implementation: Key to Development Impact." World Bank, Washington, D.C.

countries and nearly a tripling of total commitments over the period, peaking at more than US\$3 billion in fiscal year (FY)92.

By the mid-1990s, with disappointing growth rates and only partial policy reform, the commitments leveled off and then began trending downward to US\$1.7 billion in FY97. These declines were due to a number of factors: a resurgence of political instability on the continent that curtailed several large programs; the need to restructure the portfolio to address its poor quality; slower than expected progress in performance and policy indicators; shortfalls in client absorptive capacity; and lack of flexibility in redeploying resources across programs and countries. Following specific attention to these items, commitments rose again, reaching an all-time high of US\$3.75 billion in FY02. Disbursements have also risen, to more than US\$3 billion so far in FY03, but effort will be needed to sustain this trend.

**Sectoral distribution.** In terms of sectoral distribution, the portfolio mirrored both the widening development agenda and shifting priorities. The onset of structural adjustment saw a steady increase in policy-related lending from the late 1980s, peaking in the early 1990s. Most operations addressed a range of policy issues, but the overall focus evolved from an initial emphasis on macroeconomic stabilization and trade liberalization, through financial sector reform and privatization, to later emphasis on public sector and budgetary reform and social sector policies.

At about that same time, commitments in the health, education, and social protection sectors began to accelerate, indicating a more deliberate antipoverty focus. The early 1990s also saw a rapid increase in operations directed toward the financial and private sectors, although commitments in the former sector have waned considerably since the 1996–97 Asian financial crisis. In the social sectors, poor sector policies and weak institutions slowed implementation, requiring extensive portfolio restructuring and reducing the flow of new commitments during the periods of 1995–96 and 1998–2000, with commitments increasing since that last period.

Not all sectors have seen growth, however, as IDA's funding emphasis has changed. In the 1970s, the rural sector and transportation received the bulk of IDA resources; combined, they accounted for nearly 80 percent of commitments in the mid-1970s. From that peak, both have steadily declined in relative importance, each sector eventually falling to less than 10 percent of the total portfolio. In absolute terms, funds committed to the rural sector have fallen by more than half over the past decade, with transportation falling by nearly that much. To some extent,

*In terms of sectoral distribution, the portfolio mirrored both the widening development agenda and shifting priorities*

***There was a sustained and directed effort to restructure the portfolio and improve quality at entry and supervision, leading to substantial improvements and better alignment of the Africa Region with the Bank average portfolio quality indicators***

this has been offset by the rural component of multisectoral operations such as community-driven development (CDD) and social funds.

There has recently been strong growth in multisectoral operations in the Africa region. The MAP, which began in September 2000, has so far had \$500 million allocated in each of FY01 and FY02. CDD has also received more focus, and lending in FY03 included 33 investment projects with CDD-related components. Programmatic support in the form of PRSCs to support PRSPs has been approved for Uganda, Burkina Faso, Tanzania, and Ghana. The PRSCs support multiple sectors, including economic and budget management, education, health, and others. The share of quick-disbursing support has averaged 35 percent of new annual commitments over the past 10 fiscal years (FY92–FY02). This share increased from FY98 to FY00, reaching a peak of approximately 50 percent of new annual commitments during that period. Within the project classification, the share of sectoral investment programs has increased from 6 percent in FY92 to about 19 percent of total commitments in FY02.<sup>15</sup>

**Portfolio quality.** The quality of the Africa region’s portfolio has traditionally lagged behind other regions, although there have been many encouraging signs of improvement in the past 10 years. Following the 1992 Wapenhans report, however, there was a sustained and directed effort to restructure the portfolio and improve quality at entry and supervision, leading to substantial improvements and better alignment of the Africa Region with the Bank average portfolio quality indicators. This positive trend in quality indicators has continued but remains fragile. On the positive side, improvements include:

- The portfolio proactivity index increased from 62 percent in FY97 to 88 percent in FY01 (but dropped to 78 percent in FY02—six percentage points lower than the Bank average).
- The portfolio realism indicator saw a steady increase from 68 percent in FY97 to 87 percent in FY00 (but dropped to 71 percent in FY02—one percentage point lower than the Bank average).
- In FY99, the gap between the percentage of projects with a satisfactory outcome for the region and the rest of the Bank was 22 percent;

15. See World Bank, Africa Region. 2003. “SPA–2002 Sector Program Tracking: Draft Report.” Washington, D.C.

by FY02, after a review of 30 projects exiting the portfolio, Africa Region disbursements had a 90 percent satisfactory (or better) rating from the Operations Evaluation Department (OED), whereas the rest of the Bank's rating was at 87 percent.

- Quality at entry assessed by the Quality Assurance Group (QAG) increased from 58 percent in 1997 to 89 percent in FY02.
- The quality of supervision assessed by QAG climbed steadily from an average of 60 percent in FY97 to 82 percent—in line with Bank averages—in FY02.
- The share of commitments at risk in the region fell from 42 percent as late as FY97 to 25 percent in FY02.

***The percentage of operations rated as likely to be sustainable has steadily improved over the past decade***

In FY02, several of these portfolio performance indicators—including realism and proactivity—were marked by a downturn (a Bank-wide phenomenon). This can partly be attributed to performance changes in countries where operations had to be suspended or vastly changed during this period (for example, support to Kenya, Nigeria, Togo, and Zimbabwe). The Africa Region portfolio's level of risk is stabilizing at about 25 percent, and is better aligned with the OED evaluations. As a percentage of the active portfolio, the “risky country” and “macromanagement problems” remain the top two risk factors in the region: the former decreased slightly from 48 percent in FY97 to 45 percent in FY02; the latter decreased substantially from 42 percent in FY97 to 26 percent in FY02.

Other portfolio performance indicators are still lagging in the Africa Region when compared with performance across the rest of the Bank. The percentage of operations rated as likely to be sustainable has steadily improved over the past decade, but the average for FY01–FY03 is still only 58 percent, compared with a Bank-wide average of 83 percent for the same period. For FY01–FY03, the percentage of disbursements rated as having a substantial institutional development impact was 35 percent, compared with a Bank average of 54 percent. However, it is important to remember that for both indicators, the Africa region has made substantial improvements from the figures of FY91–FY95.<sup>16</sup>

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16. The average for likely sustainability was 26 percent in FY91–95. For institutional development, it was 36 percent for the same period.

***The Africa region has made steady strides toward realizing the vision of a “knowledge Bank”***

**Trends in IDA’s analytical work.** Data on the composition and quality of IDA’s economic and sector work are less extensive than those on the credit portfolio. Analytical work came under stress in the mid-1990s, in part because of the emphasis given to portfolio restructuring and also because of the staff-time demands of new initiatives, notably HIPC. Coverage was inadequate and, as shown by QAG assessments, quality levels were far below those for the rest of the Bank.

During the past four years, efforts began to close the knowledge gap, with increasing coverage of core ESW for active countries and an increase in sector work. With an initial focus on quality management, ratings improved in FY00 and have been further enhanced in the past two years. This increased attention to analytical work also coincided with the heightened demand for ESW as a result of the PRSP process.

Since FY00, the ESW program in the region has seen many positive results:

- In delivery, the region’s ESW reports jumped from 54 in FY00 to 99 in FY01, with the average preparation time decreasing from 14.4 months in FY01 to 12.5 months in FY02.
- In coverage, there has been a significant catching up in core diagnostic ESW reports, particularly for country financial accountability assessments (CFAAs), country procurement assessment reports (CPARs), and public expenditure reviews (PERs).
- In quality, QAG ratings show a marked turnaround beginning in FY00, with further enhancements in the past two years. Compared with a Bank-wide 92 percent satisfactory rating, Africa’s sample of ESW obtained a 94 percent rating. In fact, the quality of ESW in the region has improved across the majority of indicators, in terms of Bank processing, relevance, internal quality, and dialogue. The only indicator that deteriorated during this period is the likely impact indicator, which decreased from 100 percent in FY00 to 66 percent in FY01.

**Knowledge management and dissemination.** The Africa region has made steady strides toward realizing the vision of a “knowledge Bank” by taking steps to learn from and help clients enhance their own capacity to integrate knowledge into development activities. Knowledge sharing and learning behaviors began gaining ground in 1995, when the region began investing in innovative tools and initiatives to help staff and clients share

and learn more efficiently and effectively. In terms of enhancing the quality of operations, knowledge sharing and learning efforts were instrumental in helping the region turn around its portfolio and register the significant improvements mentioned above. Several innovations have been implemented with regard to the Bank's knowledge work in the Africa Region:

- *Live Database.* This system has now become a primary data source not only for the Bank but also for other partners and clients. It has enhanced regional data analysis capabilities. The African Development Indicators provide data on more than 500 indicators to both internal and external stakeholders.
- *Global Distance Learning Network.* The use of this network is helping build client capacity to harness information and communications technology for development. The African Virtual University—launched in 1997 and funded by the Department for International Development, the Canadian International Development Agency, the European Union, the Carnegie Foundation, and the Kingdom of Morocco—has provided more than 3,000 hours of instruction to students and professionals in 17 African countries.<sup>17</sup>
- *Household Survey Databank.* This system aims at better understanding and monitoring of poverty in Sub-Saharan Africa by enhancing the capacity of the national statistical agencies in survey data management. The system provides a centralized location for census data from Sub-Saharan Africa, and teams from the databank have held workshops on data dissemination and management. The databank includes some 400 surveys.

***To refine the agenda and improve the effectiveness of operations, IDA listens to its clients and its critics***

## Assessments of IDA's Performance

**D**ESPITE IDA'S GROWING INVOLVEMENT IN AFRICA AND A SERIES OF successful projects, the overall record is mixed. In only few cases have past development strategies resulted in widespread poverty reduction or rapid sustained growth. To refine the agenda and improve the effectiveness of operations, IDA listens to its clients and its critics, as well

17. See Gorjestani, N. 2002. "Innovations in Knowledge Sharing and Learning in the Africa Region." World Bank, Washington, D.C.

as to partners through fora such as the SPA. This has allowed IDA to remain at the forefront of the development community in terms of innovation and adaptation.

**Public views.** Criticism from the public and many official bodies has tended to fall into two broad categories. On the one hand, many non-governmental organizations (NGOs) and some donors argued that IDA has driven the policy agenda and has been too rigid with clients, excessively wedded to market solutions, overconcerned about macroeconomic variables, underconcerned about the social impact of reform, and narrow in its view of the development process. More recently, this first criticism has evolved to accept IDA's move toward a wider development agenda but still holds that IDA (together with the IMF) is overly influential in setting the policy agenda and still inflexible.

On the other hand, other critics argue that IDA (in common with most other donors) has been insufficient in discriminating among clients, ineffectual in promoting reforms, and inadequate in supporting private enterprise. Accordingly, they suggest that IDA, through its various programs and interventions, has unintentionally undermined private markets and capital, contributing to long-term aid dependency. In this view, the Bank has overstretched its mandate and should radically narrow its range of activities.

**Client surveys.** According to client survey results, feedback is increasingly positive about IDA (box 1.3). But clients are also of the opinion that IDA should do more, be more flexible, and demand fewer conditionalities. Survey results show IDA's effectiveness—both in focusing on their country development priorities and in giving appropriate priority to poverty reduction—steadily improving (since 1995), but clients rate the Bank's impact on poverty among the 10 least effective of

#### Box 1.3 Client Surveys

The Africa Region pioneered the use of client surveys in 1995, and they were adopted Bank-wide in 1998. The client surveys are designed to collect, measure, and assess the views of World Bank clients and partners about the quality of the Bank's assistance, in terms of the importance of the Bank's various activities to them and the Bank's effectiveness in those areas. Respondents are drawn from a wide cross-section of partners, including senior government officials, implementing agency staff, representatives of civil society (including NGOs and the private and financial sectors), and representatives of bilateral and multilateral agencies. Since 1995, the Africa Region has completed a total of 35 surveys in 21 countries.

all Bank activities. High marks are awarded to IDA's staff and their skills, and clients generally express a positive view of IDA's analytical work and project design. Although clients believe that the Bank is increasingly listening to them, they say that IDA needs to be more realistic about individual country situations and show greater flexibility toward changing country circumstances.<sup>18</sup> Although client ratings for the Bank's local capacity-building activities have improved, clients do not believe that the overall impact has been commensurate with IDA's efforts in this area. They also believe that the Bank should develop a more effective strategy to communicate its poverty reduction mission, activities, and procedures to all stakeholders outside government circles.

**OED reviews of IDA.** The Bank's own internal, independent assessments confirm an upward trend in performance but still point to major areas needing improvement. The OED review of IDA 10-12, covering 1994–2000, found that IDA had made many important contributions to borrowers' development efforts, but had not adapted enough to the changing agenda and environment.<sup>19</sup> Its successes included support for improved economic management, higher social sector expenditures, expanded access to basic infrastructure, heightened attention to public sector reform, increased data and analysis on poverty, and expanded stakeholder participation. At the same time, however, OED argued that IDA could have had a greater developmental impact over this period if it had moved more quickly to address governance and institutional issues, better supported rural and private sector development, put more attention on capacity building, and been more strategically selective in program and instrument choice.

**Views of IDA's deputies.** In the "IDA-13 Report," donors explicitly endorsed the continuation of the IDA-12 policy framework and supported the implementation of the PRSP process.<sup>20</sup> In this and many other respects, IDA-13 reinforced continuity in our work. However, the report also called for a number of changes in the way IDA does business:

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18. See World Bank, Africa Region. 2002. "Africa Region—Client Survey 2001–2001." Draft Report, Operational Quality and Knowledge Services. Washington, D.C.
19. See World Bank. 2002. "IDA's Partnership for Poverty Reduction: An Independent Evaluation of Fiscal Years 1994–2000." Operations Evaluations Department. Washington, D.C.
20. See IDA. 2002. "Additions to IDA Resources: Thirteenth Replenishment—Supporting Poverty Reduction Strategies." Washington, D.C.

- *Improve the analytical underpinnings of IDA's work.* Donors asked that each CAS be underpinned by poverty and social impacts of major reforms. They also called for the completion of core fiduciary ESW and the initiation of investment climate assessments (ICAs) in many of the IDA countries.
- *Focus on results-based measurement and monitoring.* Donors agreed on a set of indicators in certain sectors as well as ESW inputs to be met for IDA countries in two steps, by spring 2003 and spring 2004. They also asked IDA Management to develop the results management system further during IDA-13, building on PRSP and CAS processes.
- *Use grants.* By expanding the availability of grants for countries and programs in particular categories, the concessionality of overall IDA financing will increase. There will also be special emphasis on effectiveness and strong linkage to performance.

In many ways, the IDA-13 recommendations, while challenging, reinforce the directions the Region has already taken and will further improve IDA's effectiveness in our client countries.

# 2

## Lessons Learned

**I**DA'S MORE THAN FOUR DECADES OF EXPERIENCE IN AFRICA, ALONG with a growing body of empirical studies and lessons drawn from other donors, have resulted in a substantial list of lessons learned, both substantive and operational. IDA's future strategy must be informed by, and grow out of, these lessons.

### Substantive Lessons

**F**IGHTING POVERTY IS THE GOAL. FIGHTING POVERTY IS THE CENTRAL goal of development assistance. This involves both increasing growth rates to reduce poverty and improving human development indicators. The MDGs and other efforts to mobilize resources for ODA and catalyze global efforts are predicated on this goal. ODA, and in particular IDA, have been reallocated toward better-managed countries with greater ability to use resources to produce results. Political support for debt reduction in low-income countries was spurred by the concern that resources be shifted from debt service to poverty-reducing expenditures.

**Economic growth is necessary.** Meeting the first MDG goal of halving absolute poverty by 2015 would require a typical country's economy to grow at a minimum of 7 percent. But recent average economic growth rates have only been about 3 percent—barely exceeding population growth. Therefore, the heart of IDA's efforts to reduce African poverty must be the restoration of higher levels of economic growth. Over time, there have been swings in emphasis between economic growth and more socially oriented programs. More recently, the

antipoverty agenda and debt-relief initiatives have led to a shift toward the latter. But the unavoidable reality is that without considerably higher rates of economic growth, there is little hope for achieving any improvement in the standards of living, much less coming close to any of the MDGs. With the people of 30 African countries earning *average* incomes of less than US\$1 per day (and those in 40 countries averaging less than US\$2 per day), redistribution alone is simply not a viable option. Evidence suggests that African growth has, on average, been significantly pro-poor (see box 2.1), but growth levels have been too low.

**Development is multifaceted.** There is no magic bullet for accelerating African growth rates or encouraging economic development.<sup>1</sup> But both of these outcomes are multifaceted processes requiring a range of environmental conditions and inputs. This implies recognition of the interdependence of all elements of development—social, structural, human, governance, environmental, economic, and financial. As such, IDA and other development partners must evolve from a practice of

### Box 2.1 Growth–Poverty Elasticity in Africa

Worldwide evidence suggests that the relationship between growth and poverty reduction is variable but that, on average, sustained overall growth usually results in falling levels of poverty. Not all countries in Africa have adequate data to assess the relationship between growth and poverty reduction, but with the increasing coverage of household surveys more evidence is becoming available. It suggests that similar results apply: when growth is sustained and when it leads to overall increases in consumption, poverty usually declines. Conversely, countries where output has fallen or failed to keep up with population have usually seen poverty increase. On average, the poverty headcount ratio falls by 0.8 percentage points for every 1.0 percent increase in mean private consumption. But not many countries in Africa have seen growth sustained at sufficiently high levels to have a major impact on poverty.

This relationship between growth and poverty reduction does not hold in every case. For example, a severe worsening of the terms of trade can offset the impact of moderate growth of GDP per head. Even strong growth concentrated in urban sectors can leave rural poverty largely unchanged, as in the case of Madagascar, and remote groups may not share in the benefits of even substantial growth, as in Ghana and Uganda. Some countries have seen increasing urban unemployment despite growth. Indeed, a focus on growth does not mean that distribution can be neglected, particularly in countries with high inequality; neither can the problems posed by severe weather, terms of trade, and other shocks. These can reduce growth and lower consumption from a given level of GDP, and pose special difficulties for vulnerable groups near the margin of subsistence. However, it is difficult to see good prospects for long-term poverty reduction in Africa without sustained growth. For most countries, growth of about 5 percent is needed, with unchanged distribution, to prevent an increase in the number of the poor, while 7 percent growth would be needed to achieve the poverty-reduction MDG.

1. It is beyond the scope of this section to reflect the extensive debate on factors responsible for Africa's low growth rate. A range of factors appears to be responsible, with differing emphasis in different countries. For a review, see "Can Africa Claim the 21<sup>st</sup> Century?"

compartmentalizing approaches by sector (or subsector) and instead work across sectors and traditional silos. Multisectoral approaches, which will increasingly characterize IDA's programs, will be essential to the achievement of the MDGs.

**Diversity demands flexibility.** Not only do Africa's 47 countries confront diverse kinds of problems and issues, but they also face vastly differing economic and political trajectories. Indeed, there appears to be a trend toward greater divergence among African countries. Yet, donors have been accused of treating African countries the same, and IDA too has been perceived as pursuing cookie-cutter approaches to African development. A common criticism of structural adjustment lending in the past has been that IDA inadequately adapted economic models to particular country circumstances. IDA now recognizes that rigid approaches to development assistance do not work and that the diversity of Africa must be reflected in a varied range of policy advice, strategies, and instruments. IDA recognizes that greater flexibility to tailor strategies to local circumstances and changing conditions is essential.

**Ownership is the key to sustainability.** The frequent failure of conditionality to induce policy change has led to an understanding that economic strategies and development priorities must be client driven to be sustainable. In addition, studies suggest that external attempts to direct aid to particular uses rarely achieve the desired results because of the fungibility of resources. These ideas taken together strongly indicate that sustained ownership by aid recipients of both policy change and responsibility for the development process itself is imperative. Related to the concept of ownership, the impetus for development must lie with the political leadership in African countries. Better governance and viable development strategies cannot emerge if they are driven largely by external actors. Because many African countries face complex, deeply rooted problems that may call for difficult reforms, strong leadership and political will are required at the highest level. The establishment of the New Partnership for Africa's Development (NEPAD), with its explicit recognition that African leaders hold the responsibility for development of the continent, is a step in that direction. The partners, including the Bank, ought to strongly support NEPAD wherever possible (box 2.2).

**The global environment matters.** Leadership and ownership by Africans are not enough. Changes in Africa must be mirrored by meaningful changes in the global environment that allow well-performing

*IDA recognizes that greater flexibility to tailor strategies to local circumstances and changing conditions is essential*

### Box 2.2 Working with the New Partnership for African Development

NEPAD was adopted in July 2001 by African heads of state as the development plan for the African Union. It represents a commitment at the highest levels to good governance and poverty reduction. NEPAD is, in the first instance, a compact between Africa's governments and their peoples. It aims to accelerate sustainable development and reduce poverty by building political momentum and cooperation among African governments and development partners. It includes a number of initiatives: the creation of an African peer review mechanism to promote good governance and increase accountability; an enhanced focus on conflict resolution and prevention; programs in areas such as human development and environmental protection; support for the private sector and increased investment; and a strategy to negotiate a new relationship with the international community, including increased levels of aid, access to markets, and debt relief.

In approaching these issues, NEPAD aims to work at Africa-wide and regional levels, even though much of the implementation of individual programs may be at the country level. In particular, it works through Africa's Regional Economic Communities (RECs) to improve coordination and enhance integration, particularly in areas where cooperation among Africa's many small economies is essential for achieving results. These areas include trade policy, trade facilitation and negotiating skills, multicountry infrastructure, watercourse and environmental management, transmission corridors for HIV/AIDS, and certain aspects of technology and higher education. NEPAD's programs have been discussed with development partners in a number of fora, including the G8 and the SPA. As part of the process of increasing the "African voice," the SPA moved to include NEPAD as a member in early 2003. This provides a continuous forum for NEPAD to engage on an operational level with Africa's development partners.

The Bank fully supports NEPAD, and has been actively engaged with it since its inception. NEPAD's goals overlap extensively with those of the Bank, so that the issue is how best the two can be mutually supportive. The Bank recognizes that NEPAD is an African-owned and African-led initiative. The Bank sees its role as a source of technical advice as well as a funder of viable development projects endorsed by NEPAD. NEPAD, in turn, can help shape projects and processes supported by the Bank and accelerate their implementation by building political commitment among the member countries and the consensus needed to move forward on multicountry programs.

In the area of multicountry infrastructure, the Bank has been collaborating with the African Development Bank and other partners in the preparation of the Short-Term Infrastructure Plan. As part of its Regional Program pipeline of US\$200 to US\$300 million annually, the Bank is actively involved in project preparation or financing for at least half of the "Top 20" prioritized projects under the plan, including power pooling in Southern, Eastern, and West Africa; regional land and air transport networks and transport corridors; and the management of water resources, including the shared river basins such as the Nile Basin Initiative. Such programs have the potential for increasing investment as well as for crowding in the private sector: the first-stage costs of projects discussed with NEPAD in early 2001 totaled US\$20 billion. Other areas of intensive involvement include a multicountry approach to improving agricultural research and productivity (the Multicountry Agricultural Productivity Program [MAPPP]), trade policy, and environmental management. In working with Africa's RECs, the Bank has also supported harmonization and prioritization with NEPAD's agenda. The Economic Community of West African States (ECOWAS), for example, has appointed a regional NEPAD coordination point as well as a NEPAD coordinator for each member country. The Bank is working with other donors to create a flexible multidonor trust fund to support capacity building for regional organizations. As NEPAD's programs become operational in other areas, the Bank will expand its range of support.

The Bank has also engaged with the United Nations Economic Commission for Africa, the designated lead institution in the area of governance, to support the implementation of the African peer review mechanism. This has involved sharing the Bank's country and comparative work in such areas as public expenditure management and the observance of codes and standards. The Bank will also share its CPIA rating system with NEPAD as the process of disclosure moves forward (see section 4).

African countries to realize their comparative advantage. Most important among the needed changes is the reduction of distortions in agricultural trade, particularly those caused by massive subsidies in the industrial world, such as the global cotton market.

**Capacity is a critical constraint.** African countries face a critical

shortage of skills and institutions to support the development process. Africa's skills base is notably weak. Three-quarters of the 32 countries classified by the United Nations as having low human capacity are in Africa. The mobility of skilled Africans exacerbates this problem. Low levels of capacity have severely limited the effectiveness of local institutions to play development roles and use resources productively. Indeed, the utilization of greater resources necessary to meet the MDGs will not be possible without a major effort to strengthen public institutions and increase absorptive capacity. But capacity building means more than creating skills; it is about developing supportive incentive structures and working conditions that can attract and retain talent.

**AIDS is more than a health issue.** HIV/AIDS is clearly the number-one health threat for Africa. The numbers are staggering: 20 million dead, 30 million infected, and 12 million orphaned. Average life expectancy has declined by 20 years in some countries, mainly because of the pandemic. But the impact of HIV/AIDS goes well beyond health and affects nearly every aspect of development. The breadth of the pandemic (more than three-quarters of Africans live in countries where prevalence exceeds 5 percent) and its concentration among the skilled and working-age population means that HIV/AIDS is a uniquely destructive threat to development as a whole. HIV/AIDS is destroying the already modest skills base, increasing vulnerability to other diseases and to drought, and undermining social support systems. This trend has major implications for the public and private sectors, for capacity building, and even for social cohesion. As the costs of dealing with HIV/AIDS mount, more resources will be required, and dependency on external assistance over at least the next decade is likely to increase rather than decline.

**Gender and sustainability are development issues.** The Bank has increasingly incorporated gender and environmental concerns into its work, on the basis of growing evidence that integration of these issues has strongly positive developmental and cross-sectoral effects. Promoting the education of women, for example, not only improves the skills and productivity of the work force as a whole but also results in lower levels of infant mortality and positively affects the health of older children. In private sector development as well, increasing women's access to assets has been shown to be effective in fighting poverty. HIV/AIDS transmission also has a strong gender dimension, and empowering women can be an important factor in the fight against the disease.

Economic growth in Africa has always depended on its natural

***The breadth of the pandemic and its concentration among the skilled and working-age population means that HIV/AIDS is a uniquely destructive threat to development as a whole***

***Water management in particular is a critical development issue that cuts across several sectors, such as health, agriculture, infrastructure, and industry***

resource base and will continue to do so in the future. This includes not only directly harvestable resources, such as wood and fish, but also livelihood “support systems.” Sound environmental and natural management is connected not only to agricultural production, but also to rural livelihoods, local governance, and long-term economic growth. The erosion of resources such as soil fertility, fresh water, and forests can have devastating effects on local economies, especially on the poor. Conversely, the integration of long-term sustainability into development planning and improved natural resource management by central government, in cooperation with local communities, can have strongly positive developmental effects. Water management in particular is a critical development issue that cuts across several sectors, such as health, agriculture, infrastructure, and industry.

**States need to work together.** The artificiality of Africa’s colonial boundaries and the cross-border nature of many issues facing the continent mean that—perhaps more than in any other region—African countries must work together. Africa also contains many small economies and 15 landlocked states, so that joint action and collective responsibility are essential to creating viable economies of scale and a supportive climate for development. The Bank and many of its partners, including African governments themselves, have tended to approach developmental issues on a national basis. But because many problems (for example, conflict, disease) or issues (for example, trade, infrastructure) that affect Africa’s development do not adhere to national borders, it makes little sense to approach them as if they do. Regional integration and multicountry initiatives must therefore promote common responses to common challenges.

**Shocks are the norm.** African countries have been affected by so many shocks that they are no longer extraordinary. Over the past decade, African countries have repeatedly been hit by erratic weather (drought, floods), terms-of-trade shocks (commodity price drops, imported oil increases), and political crises (coups, conflict).<sup>2</sup> African rainfall variability is roughly twice that of temperate regions, which adds to the fragility of predominantly agricultural economies. The frequency of shocks, the vulnerability of its population, and the long-term conse-

2. See Collier, P., and J. Dehn. 2001. “Aid, Shocks, and Growth.” Policy Research Working Paper No. WPS 2688. World Bank, Washington, D.C. Available at [http://econ.worldbank.org/files/2468\\_wps2688.pdf](http://econ.worldbank.org/files/2468_wps2688.pdf).

quences of these factors suggest that systems for responding to such events need to be fully integrated into development strategies.

**Africa’s concentration of development challenges is unique.** Many of the key development problems identified in Africa—pervasive poverty, weak and conflict-prone states, and poor human development indicators—are shared by poor countries in other regions. Yet, nowhere else is there a concentration of development challenges on the scale of Africa’s. This “bad neighborhood effect” can be self-reinforcing, undermining what might otherwise become pockets of economic success. Indeed, many development problems that once were worldwide in scope have become increasingly localized in Africa, making the continent a unique developmental challenge, with long-term implications for global progress and stability.

*Nowhere else is there a concentration of development challenges on the scale of Africa’s*

## Operational Imperatives

**F**OR IDA TO IMPLEMENT ITS STRATEGY IN AFRICA MORE EFFECTIVELY, several operational imperatives must be heeded.

**Be selective.** After recognizing the diversity of its clients, the importance of ownership, and the widening of the development agenda, IDA needs to systematically identify its own strengths and the various needs of its clients, and then engage on a selective basis. This needs to be consistent with the idea of encouraging developmental outcomes and also using aid resources most efficiently. Several new research studies have found that development assistance can have a positive impact on growth and poverty reduction if used within conducive policy environments, but that it is not effective in the context of poor policies and weak institutions.<sup>3</sup> Other studies, along with a long history of IDA’s experiences with policy-based lending and a mixed record of reform implementation, make a strong case for greater selectivity and rethinking of the way IDA engages with clients. Performance-based allocation (PBA) of IDA and the emergence of the low-income countries under stress (LICUS) strategy

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3. See, in particular, Dollar, David, and Craig Burnside. 1998. “Assessing Aid, What Works, What Doesn’t and Why.” World Bank, Washington, D.C.
  4. World Bank. 2002. “Linking ODA Support to Country Performance: Third Annual Report on IDA’s Country Assessment and Allocation

*The main challenges now are to ensure conditions for programmatic support to be effective and to clarify how PRSCs are to be implemented*

are good starts, but IDA will need to move toward a more transparent system linked to the evolving relationship between donors and clients.<sup>4</sup>

**Work better with partners.** The plethora of donors active in Africa has often complicated aid coordination and substantially raised transaction and management costs. As just one of many development partners—and the source of only 25 percent of all ODA to Africa—IDA recognizes that it needs to work better with clients, other donors, and civil society. Accepting the principles of ownership and partnership has meant a radical change in the relationship between donors and recipients. The PRSP process has emerged as the central mechanism for broadening consultation, especially through the inclusion of civil society groups (see below). At the same time, using the SPA forum and the Organisation for Economic Co-operation and Development’s (OECD) Development Assistance Committee, IDA has been working with other donors to streamline and harmonize procedures, but much still needs to be done.

**Move toward programmatic support.** As part of the drive for greater ownership and flexibility, plus reductions in the high transaction costs of ODA, IDA recognizes that it needs to move toward greater programmatic lending while continuing to support a range of lending modalities. This trend appears to be a natural progression out of the shift from narrow projects to broader sectoral approaches. PRSCs have been introduced as a programmatic instrument, designed as annual tranches and synchronized with national budget cycles. The main challenges now are to ensure conditions for programmatic support to be effective (both indirectly to sustain political support for ODA and directly to improve developmental outcomes) and to clarify how PRSCs are to be implemented.

**Devise and scale up innovative approaches.** The complexity of Africa’s development challenges frequently demands innovative instruments, including ones that cut across sectors or national borders. Multisector CDD programs have been developed to expand IDA’s reach into local communities in support of decentralization, fiscal reform, and supporting successful local initiatives. Two HIV/AIDS MAPs are examples of recent multicountry approaches to address urgent cross-border

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Process.” Washington, D.C.; World Bank. 2001. “OED IDA Review: Review of the Performance-Based Allocation System, IDA 10-12.” Washington, D.C. For more on PBA and the CPIA scoring system, see section 4 below.

### Box 2.3 The Strategic Partnership with Africa

The sixth phase of the SPA will run from January 2003 until December 2005. The SPA brings together multilateral and bilateral donors dedicated to providing effective development assistance to Africa. The SPA also includes the UN Economic Commission for Africa and NEPAD.

The agenda for the sixth phase responds to the changing nature of the aid environment with the advent of NEPAD, a broad consensus on the MDGs, and the recognition of the need for increased development assistance for Africa in support of PRSPs. The key areas of focus for SPA-6 are:

*Resource mobilization.* All flows will be monitored, with a special emphasis on quick-disbursing assistance and on flows to countries with PRSPs. There will also be a focus on the link between country performance and aid allocation.

*Quality of assistance.* The SPA will support improvements in donor practices and promote assistance that is responsive, reliable, efficient, accountable, and aligned with PRSPs.

*Partnership.* The SPA will support the increased partnership agenda for African development by establishing stronger links with African institutions and encouraging increased African involvement and representation within the SPA.

issues, while there are also a growing number of regional projects (see box 2.2). IDA needs to continue to think about how best to encourage resourceful and inventive thinking and how to give teams the flexibility and resources for ambitious scaling up.

**Monitor results and evaluate performance.** Accurate information about current development status and changes over time is a prerequisite for learning by doing and having greater impact. Demand for accountability of development assistance resources is also increasing, at both the national and global levels. IDA recognizes that in this context it needs to better define its objectives in terms of development outcomes and be able to identify where its programs have been successful. Although the Bank already evaluates exhaustively its own projects and procedures, there is a growing imperative for a more direct linkage between ODA, including IDA lending and projects, and development outcomes.

**Streamline business processes.** Because of changing environments, the evolution of new instruments, and the transaction cost burden on clients, IDA must change the way it works. To increase its responsiveness, IDA has progressively decentralized: The ratio of staff in the field has reached 43 percent, with the number of tasks managed from country offices on the rise. Investments in training and recruitment have also helped staff to better work across sectors and in new environments. Lastly, there is a Bank-wide recognition that policies and procedures need to be simplified, with an ongoing effort to harmonize donor procedures, and internally streamline, including a reduction in paperwork.<sup>5</sup>

5. See World Bank. 2003. "Rome Declaration on Harmonization." Wash-



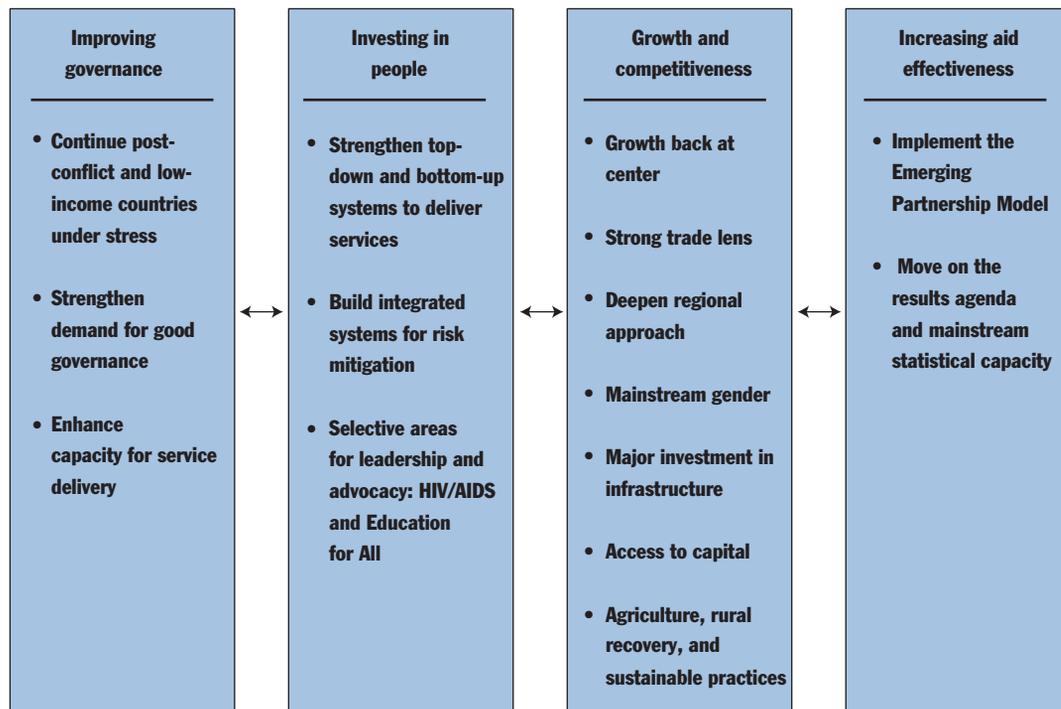
# 3

## The Pillars of the Strategy: Sharpening IDA’s Strategic Focus

**W**HILE THIS DOCUMENT LAYS OUT IDA’S STRATEGY FOR AFRICA on the basis of the four pillars established in “Can Africa Claim the 21<sup>st</sup> Century?” this section outlines the main strategic thrusts of *what* IDA should emphasize across the first three pillars. The intent is not to catalog all activities in each area, since at the country level IDA’s program will respond to the thrust of the PRSP. It is rather to incorporate the broad substantive lessons learned and highlight focal points that reflect IDA’s areas of advantage and where it can complement the efforts of clients and other partners. The fourth pillar, answering the question of *how* IDA needs to work within the emerging aid relationship, is set out in section 4. That section addresses how IDA will incorporate the six operational imperatives into its work to improve the implementation of the strategy outlined in the first three pillars. Future priorities are noted at the end of each section.

Dividing development issues among the pillars is a useful framework for organizing strategic priorities. But it is also recognized that development is multifaceted and that these pillars are inherently interdependent. The quality of governance cuts across all sectors and infiltrates every

**Figure 3.1 The Four Strategic Pillars**



aspect of development. HIV/AIDS affects every facet of development, depleting human capital and capacity, absorbing scarce public and private resources, raising labor costs to firms and farms, and slowing growth. Similarly, improving health is not simply a matter for the health sector; neither is improving education solely the purview of the school system. In approaching development through these pillars, IDA also will bear in mind main areas of interdependence among them.

### **Pillar One: Improving Governance and Reducing Conflict**

**I**DA INTERPRETS GOOD GOVERNANCE PRIMARILY FROM A DEVELOPMENT perspective. The interests of the state should reflect the developmental priorities of its citizens. Mechanisms of accountability are

effective, including through a functioning rule of law. Such conditions can prevail under a variety of political arrangements, but they require transparency and open institutions, including access to timely and accurate information and statistics. IDA's programs in this area concentrate on helping to make the state more effective in terms of supporting economic growth and reducing poverty; this, in turn, requires that citizens be empowered to participate in development.

The rise of the governance agenda in development priorities has been recent but rapid. This partly reflects the suppression of explicit consideration of governance during the global rivalries of the Cold War. Trends in Africa over the past decade have also encouraged the emergence of the governance agenda. This is reflected in the recognition of the costs of conflict, a growing demand from African populations for accountable government following the spread of multiparty elections, and rising public resentment against the blight of corruption.

IDA supports countries' efforts to increase both the demand for good governance and their capacity to provide it. The focal points for IDA's concentration are:

- Implementing evolving postconflict strategy and LICUS engagement (see below), and
- Encouraging good governance by focusing on expenditure accountability, improved public service delivery, and transparency; within this context, more strategic thinking is required on how best to help build capacity.

### **Continue Postconflict Reconstruction and the LICUS Strategy**

The impact of conflict in Africa has been devastating. At the end of 2002, Africa was afflicted by 3 wars and 14 violent conflicts. Some 15 million Africans are internally displaced, and 4.5 million have sought refuge in neighboring countries. Tens of millions of Africans have lost their lives either directly or indirectly as a result of war and violent conflict over the past decade, many because of disease and malnutrition exacerbated by conflict. Conflict casts a long shadow over Africa, deterring investment throughout the region because of the shared reputational risk.

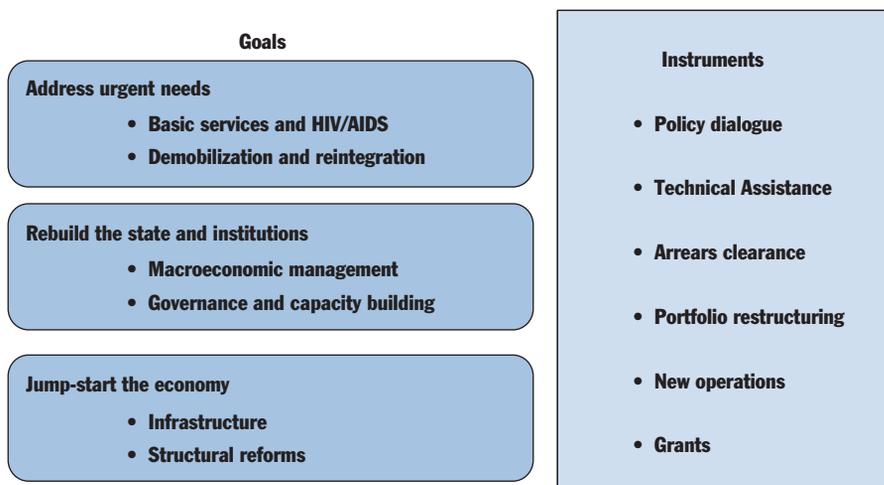
The prevalence and costs of conflict have caused IDA to become increasingly involved directly in postconflict reconstruction and indi-

*The prevalence and costs of conflict have caused IDA to become increasingly involved directly in postconflict reconstruction*

rectly in conflict prevention. IDA’s involvement started in the mid-1980s on an ad hoc basis, but over the past years it has systematically expanded its postconflict activities to more countries and across more sectors.<sup>1</sup> Seven African countries have been designated as “postconflict,” qualifying them for grants and special IDA allocations.<sup>2</sup> More broadly, by late 2002 IDA had 95 projects with commitments of approximately US\$6.6 billion—more than 40 percent of the total portfolio—under implementation in conflict-affected countries in Africa.

Working with international partners, IDA has primarily focused on its areas of comparative advantage: addressing urgent needs, rebuilding the state and its basic institutions, and jump-starting the economy (figure 3.2). For instance, IDA has been supporting large-scale social and economic infrastructure rehabilitation (in the Democratic Republic of Congo and Eritrea), the demobilization and reintegration of ex-combatants (in Guinea-Bissau and Ethiopia), community-based reconstruction

**Figure 3.2 The Postconflict Model**



1. The conceptual underpinning of IDA’s approach is set out in Michailof, S., M. Kostner, and X. Devictor. 2002. “Post-Conflict Recovery in Africa: An Agenda for the Africa Region.” Africa Region Working Paper No. 30. World Bank, Washington, D.C.

2. This list is subject to change, but the original grant guidelines included Angola, Burundi, Democratic Republic of Congo, Eritrea, Guinea-Bissau, Republic of Congo, and Sierra Leone.

(in Rwanda, Sierra Leone, and others), the restoration of macroeconomic management capacity (in Angola and Republic of Congo), and employment generation projects (in Burundi and elsewhere). (For more information on strategy in a specific country, see box 3.1 on the Democratic Republic of the Congo.) Research into the causes of conflict suggests that many are rooted in the nontransparent allocation of resource rents and sustained by illicit use of natural resources.<sup>3</sup> As part of its focus on strengthening the state, IDA works with clients to create transparent mechanisms for revenue collection and allocation that discourage disputes and political instability.

In helping to bridge the gap between humanitarian and development assistance, IDA needs to respond fast to windows of opportunity. Within less than two months of a peace agreement, assessment missions were carried out in Eritrea and Angola. In Burundi and Sudan, IDA has been actively engaged in its areas of comparative advantage, preparing for postconflict engagement and economic recovery even before the signing of formal agreements. It is essential that IDA retain the capability to react quickly to maximize its impact and play a positive role in the tran-

### **Box 3.1 Postconflict Strategy: The Democratic Republic of the Congo**

**Over the past two years, the Democratic Republic of the Congo has begun to emerge from a long and devastating conflict. Rebel groups, supported by the armies of Rwanda and Uganda, had been clashing with government troops, supported by the armies of Zimbabwe, Namibia, and Angola, for three years. The war, compounded by the corruption and mismanagement that preceded it, has taken a heavy toll on the Democratic Republic of the Congo. Approximately 3 million people have died and 16 million are starving or malnourished out of a population of 55 million. Infrastructure has suffered from extensive physical damage, institutions have crumbled, and the economy has collapsed. It will take time and concerted efforts to overcome this legacy, but the progress that has been made in the past two years bodes well for the future.**

**The transitional support strategy for the Democratic Republic of the Congo, presented in July 2001, outlines the process by which the Bank aims to support the country in the process of reconstruction. The strategy is organized into three phases, moving from initial actions to deeper involvement as the Democratic Republic of the Congo recovers from the effects of the conflict. The first phase is to address urgent needs, by supporting social service delivery and social infrastructure, HIV/AIDS activities, and the demobilization and reintegration of ex-combatants. The second phase aims to help rebuild effective public institutions and policies and includes a capacity-building component. The third stage of the postconflict strategy focuses on jump-starting the economy through policy dialogue, reconstruction of essential infrastructure, assistance to agriculture, incentives for private investment, and CDD.**

3. See Collier, P., and A. Hoeffler. 2002. "Greed and Grievance in Civil War." Policy Research Working Paper No. WPS 2355. World Bank, Washington, D.C. See also World Bank. 2003. "Breaking the Conflict Trap: Civil War and Development Policy." World Bank Policy Research Report. Washington, D.C.

***A modified system has been developed to enable higher IDA flows to postconflict countries for a limited period of time***

sition to peace.

IDA will not become directly involved in explicit conflict prevention. However, in supporting broad-based postconflict recovery or encouraging countries to work together to achieve a common goal, IDA is indirectly engaged in such activities (see box 3.2 and box 3.14 on the Nile River Basin initiative later in this section). IDA's analytic work is also indirectly related to conflict by examining propoor growth dynamics, the distributive effects of growth, and the relationship to conflict.<sup>4</sup> IDA will also continue to focus on areas where it has strong capacity and brings value relative to other global partners involved in conflict prevention. For example, IDA may support programs to strengthen budget management and oversight that include the security sector, as well as demobilization, but it has neither the comparative advantage nor the mandate for security sector reform.

Despite their huge resource needs, under the normal performance-based system for allocating IDA resources, postconflict countries would receive only small allocations. A modified system has been developed to

#### **Box 3.2 IDA's Multicountry Engagement in the Great Lakes Region**

IDA has led the preparation of the Multicountry Demobilization and Reintegration Program (MDRP), which provides a comprehensive framework for disarmament, demobilization, and reintegration (DDR) efforts in the region, establishes a consistent mechanism for donor coordination and resource mobilization, and serves as a platform for national consultative processes for the formulation of national DDR programs. The MDRP covers nine countries involved in or affected by conflict in the greater Great Lakes region: Angola, Burundi, Central African Republic, Congo, Democratic Republic of Congo, Namibia, Rwanda, Uganda, and Zimbabwe. Potentially 350,000 ex-combatants will be demobilized and reintegrated under the MDRP, including former members of national armies, members of irregular armed groups, and child soldiers. Overall program costs amount to an estimated US\$500 million, of which approximately US\$150 million will be IDA resources. The remaining \$350 million is being provided as donor grants. The MDRP brings together more than 40 partners from national governments and organizations, donor governments, UN agencies, and international financial institutions. The role of IDA is to manage the MDRP Secretariat, administer the multidonor trust fund, and cofinance national programs.

4. See Collier, P., and A. Hoeffler. 2002. "Greed and Grievance in Civil War." Policy Research Working Paper No. WPS 2355. World Bank, Washington, D.C. See also World Bank. 2003. "Breaking the Conflict Trap: Civil War and Development Policy." World Bank Policy Research Report. Washington, D.C.

enable higher IDA flows to postconflict countries for a limited period of time.<sup>5</sup> Resources are allocated on the basis of postconflict indicators (including reconciliation, domestic security, damage assessment, and absorptive capacity) rather than the normal allocation system. IDA has also made use of new instruments, such as the first IDA-12 pre-arrears-clearance grant to the Democratic Republic of the Congo. Under IDA-13, additional grant resources are available for postconflict reconstruction after arrears clearance.<sup>6</sup> But unfinished issues remain, and the region has initiated a learning process at a recent conference in Maputo.

IDA also faces the related issue of how to engage in countries that face extreme problems of governance. Such countries are frequently affected by conflict (for example, Somalia, Sudan), but not all are (Zimbabwe, Togo); in some cases, the level of conflict and destruction has not been judged as sufficient to warrant the conflict label (Central African Republic). In these cases, the recent LICUS strategy, which may complement a postconflict approach, involves defining points of engagement for establishing a dialogue and building a foundation for closer work in

### **Box 3.3 Low-Income Countries under Stress: The LICUS Strategy for Somalia**

**Somalia, one of the poorest countries in the world, has been without a functioning national government for more than a decade. Following the collapse of the Siad Barre regime in 1990, Somalia plunged into a period of chaos characterized by the destruction of public institutions as well as most of the economic and social infrastructure. These conditions place Somalia at the extreme bottom end of the performance continuum.**

**In response, the Bank has recently developed a LICUS strategy for re-engagement based on a few limited entry points.<sup>8</sup> Formulated jointly with the UN Development Programme (UNDP) and discussed with the umbrella Somalia Aid Coordination Body, the strategy provides a framework for assistance to Somalia and lays the groundwork for broader engagement in the future. The four entry points are:**

- **Support for national policy dialogue, including poverty data monitoring and analysis.**
- **Assistance for meat and livestock certification to re-establish exports.**
- **HIV/AIDS action program.**
- **Capacity building, especially in health care and livestock research.**

5. See IDA. 2001. "Adapting IDA's Performance-Based Allocations to Post-Conflict Countries." Washington, D.C.

6. See IDA. 2001. "Grants and Conditionality in IDA13." Washington, D.C.

7. See World Bank. 2002. "World Bank Work in Low Income Countries under Stress: A Task Force Report." Washington, D.C.

8. UNDP/World Bank. 2002. "LICUS Strategy Concept Note: Somalia." Washington, D.C.

***IDA will progressively develop re-engagement strategies based on increased analytical work, capacity building, and small demonstration projects***

the future (box 3.3).<sup>7</sup>

IDA will continue to apply the LICUS approach in countries with particularly weak policies and institutions. For the most severe LICUS where IDA has had little engagement in recent years, IDA will progressively develop re-engagement strategies based on increased analytical work, capacity building, and small demonstration projects. These re-engagement strategies will be carefully monitored for lessons learned and effectiveness. In the more stable LICUS where IDA has an active lending program, LICUS strategies will continue to focus on improving sociopolitical analysis, increasing the selectivity of CASs to match capacity limitations, building domestic capacity to generate and manage reform, and developing innovative mechanisms for service delivery.

### **Future Priorities**

- Continue to build on the postconflict model, as in the Democratic Republic of the Congo and Sierra Leone. As part of the effort to rebuild the state, focus on transparent budget and financial management systems, especially in countries with natural resources that may be a potential source of conflict.
- Continue LICUS engagements, with careful monitoring for lessons and effectiveness.
- Recognize the need for increased analytical work in conflict, post-conflict, and LICUS.
- Forge close relationships with partners with political mandates and capacity in security-related issues, including the African Union and Regional Economic Communities, the G-8, and NEPAD, to help strengthen the coordination between political and economic approaches.

### **Strengthen Demand for Good Governance and Enhance Capacity for Service Delivery**

Good governance rests on a foundation of capacity—of workable public institutions that are capable of attracting, retaining, and organizing the requisite human resources and holding them accountable for performance. For much of the 1990s, the principal focus of efforts to help build African capacity for better governance was narrow and technical, focusing predominantly on the *supply side* of public management—training,

organizational change, pay policy, and expatriate technical assistance. The broader, *demand-side* incentives through which politicians and public officials were held accountable for their actions were neglected. This led to a mixed record. Despite levels of technical assistance estimated at about US\$3 billion annually, there is little evidence of broader improvements in the capacity of public administration in Africa.

With the end of the Cold War and the opening of African political systems, the opportunity has arisen to be bolder in incorporating the demand side into initiatives to help build capacity for good governance.<sup>9</sup> The objective is to help build more transparent, accountable, and credible state institutions through participatory processes. This is a daunting task, particularly for new democracies in multiethnic countries, but it is seen as essential if African governments are to evolve toward stable, developmental states. A growing consensus is emerging globally that views building capacity for good governance as a long-term process that takes place on three cross-linked levels—individual, institutional, and societal—and is rarely amenable to seeking quick results through shortcuts. A central element of this consensus is that governance capacity develops and takes root where incentives—both monetary and nonmonetary—are favorable and dwindles or drains where they are perverse. As with the effectiveness of overall development assistance, ownership, local championship, commitment, and strong leadership are seen as prerequisites for the sustainable development of capacity for good governance.

The growing vibrancy of African participatory governments offers grounds for optimism that African ownership of the demand-side agenda of economic governance is strengthening. This process is not only limited to central government. Many countries, including Ethiopia, Ghana, Madagascar, and Uganda, have launched into extensive processes of decentralization, so that activities in this area reach down into the functioning of municipal and community-level governments and the intragovernmental assignments of resources and responsibilities.

Key to the new capacity-building agenda is a focus on initiatives that nurture both the demand and supply sides of economic governance.

**Key to the new capacity-building agenda is a focus on both the demand and supply sides of economic governance**

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9. The new IDA approach for strengthening governance was prefigured in World Bank. 1997. *World Development Report: The State in a Changing World*. New York: Oxford University Press, and in World Bank. 2000. "Reforming Public Institutions and Strengthening Governance: A World Bank Strategy." Washington, D.C.

***IDA will continue to emphasize expenditure accountability reforms because of their cross-cutting nature and the direct impact on the quality of service delivery***

Areas in which this broader approach holds special promise include strengthening the technical and oversight systems that shape how public resources are used and more broadly improving the transparent flow of information on public purposes, actions, and results. In some countries, enhancing mechanisms for service delivery provides an especially practical entry point for improving economic governance.

**Strengthen expenditure accountability systems.** Improving national systems of expenditure accountability has emerged as a vital, and especially promising, area for engaging simultaneously both the supply and demand sides of capacity building. IDA will continue to emphasize expenditure accountability reforms because of their cross-cutting nature and the direct impact on the quality of service delivery. In addition, this area will be crucial to improving confidence in public sector management by external partners as ODA shifts toward more budget support.

This work has traditionally focused on the process of policy and budget formulation. In recent years there have been major advances in the transparency and accountability of the ways in which these initiatives are conducted through PRSPs, the Medium-term Expenditure Framework, and participatory budgeting initiatives. At least as important for economic governance, the expenditure accountability agenda has also expanded to include a focus on budget execution and reporting—that is, on the comprehensiveness, accuracy, timeliness, and availability of information on how public monies are used, plus capacity for oversight.

This new thrust reflects both the openness of African countries (which brings parliamentary and citizen oversight to center stage) and the increased effort to transfer donor resources to African countries on a more flexible basis (through HIPC, PRSCs, and other forms of programmatic lending). The fiduciary focus has therefore shifted away from exclusive attention to the use of resources provided through IDA's programs and toward the use of all resources and the procurement of all goods and services by development programs supported by IDA. Indeed, the weight placed on this area in IDA's allocation formula has also risen through the inclusion of governance variables in the CPIA and an additional governance factor.

Although IDA has long supported capacity building in the area of expenditure accountability through analytical work (PERs, procurement reviews) and policy-based and project credits, the efforts have now intensified. Analytical work in this area has greatly increased, including

### Box 3.4 Capacity Building in Procurement and Fiduciary Management

Capacity building in public procurement has always been an important part of the Bank's technical assistance effort in the Africa Region, but focused initially on improving procurement *under Bank-financed projects*. Gradually, it became clear that capacity building was not only a matter of creating capable procurement staff but also of reforming the national procurement systems. As of 1998, using the new country procurement assistance report (CPAR) format, the Bank and borrowers moved jointly from "ad hoc" project procurement assistance to improving national procurement. This resulted in upgrading national procurement regulations to international standards (for example, Benin, Chad, Ghana, Guinea, Kenya, Mali, Uganda), the preparation of national standard bidding documents and contracts, and the beginning of an improved control of the use of national funds. However, in spite of this new focus, a study in 2001 indicated that only 11 of the 47 countries of the Africa Region demonstrated substantial progress in national procurement reforms and capacity. Obviously, more needed to be done, especially because the Bank was progressing toward budgetary support lending in PRSCs. These essentially decouple disbursement from the procurement process and, therefore, require the existence of minimal conditions for a reliable procurement and fiduciary management capability.

Several measures were taken to meet the needs of the new lending strategy. First, the World Bank's Africa Region (AFR) procurement function was decentralized with the creation of regional coordinating units (Côte d'Ivoire, Ghana, Madagascar, and Uganda, including 30 procurement experts selected nationally, based in the various Country Offices in the Africa Region). This enables a closer dialogue with the borrowers and permits better follow-up on procurement reform and capacity building. Second, the number of "new format" CPARs was intensified, with some 15 CPARs scheduled for FY04–05. Third, the Africa Procurement Observatory was created to review borrower progress in procurement reform quarterly and to make a half-yearly assessment of where capacity needs to be strengthened. Fourth, in some first PRSCs (Uganda, Burkina Faso, Ghana), reform and capacity-building programs are built-in and progress will need to be positive for future programmatic lending. Fifth, the Africa Region and the African Development Bank have joined forces in training national procurement staff and supporting Regional Procurement Reforms (West African Economic and Monetary Union and the Common Market for East and Southern Africa). These regional organizations are critical partners, because they overview and encourage national procurement capacity programs and document harmonization and efficiency and transparency improvements. Lastly, the Region cooperates closely with the World Trade Organization (WTO) and OECD initiatives for procurement capacity building in Africa and also to bring in bilateral donor support.

through CFAAs and CPARs (box 3.4). These exercises form a central part of core diagnostic ESW. Analytical work to assess expenditure accountability is increasingly being conducted jointly with IDA's development partners. Further efforts are needed to fully integrate work on public expenditure, accountability, and procurement. The lending portfolio to support expenditure accountability also continues to grow, and increasingly incorporates lessons from an earlier generation of projects in this area (see box 3.5). New or ongoing IDA operations to help build expenditure management and accountability capacity are under way in Angola, Congo-Brazzaville, Ghana, Kenya, Madagascar, Malawi, Tanzania, and Zambia. These operations focus not only on the financial management systems within public bureaucracies, but also on building oversight capacity, including parliamentary oversight committees, supreme audit institutions, and civil society watchdog organizations.

The World Bank Institute (WBI) has supported IDA's efforts by aligning many of its core offerings to support capacity to implement a strengthened budget cycle and providing programs geared for parlia-

### Box 3.5 Building Expenditure Accountability Capacity: Some Emerging Lessons

Improving expenditure accountability capacity within African countries has emerged as a priority of AFR's operational and analytical work. HIPC baseline expenditure tracking assessment and action plans (AAPs) were carried out in 26 countries in 2001–02. Updated annually—with benchmarks and ratings agreed among government, the Bank, and the IMF—AAPs provide a solid basis for monitoring progress of African countries in strengthening their capacities for budget formulation, execution, and reporting.

Over the past three to five years, the Africa Region has also learned valuable lessons on implementing holistic expenditure accountability projects. One key set of lessons relates to establishing integrated financial management information systems (IFMIS) and supporting accountability institutions. IFMIS components have historically been plagued by cost overruns, significant delays, and less-than-expected impact. Through a process of assessing lessons learned, a number of IFMIS are now operating in Africa (with the most advanced found in Burkina Faso and Tanzania), and new IFMIS are being designed with cross-country knowledge sharing. The HIPC AAP process provides feedback on the impact of IFMIS on a country's ability to access financial data, institute internal controls, and track expenditures.

A second key emerging lesson is the importance of complementing technical inputs on the supply side of expenditure accountability, with efforts to build capacity on the demand side of the process. Malawi's Financial Management Technical Assistance Project, for example, includes support for the national audit office, parliament (public accounts and budget committees), and the anticorruption bureau. Components in operations under preparation in Ghana and Tanzania also include support for civil society expenditure watchdog organizations. With these recent innovations, Bank operations now support the totality of a country's budget cycle, not just the bureaucratic supply side of the process.

ments and journalists. The African Capacity Building Foundation (ACBF), as implementing agency of the Partnership for Capacity Building in Africa, has expanded its mandate to include capacity building for improved financial management, as well as oversight capacity on the part of both parliament and civil society organizations.

**Improve service delivery.** A focus on improving service delivery offers another practical way of linking the demand and supply sides of capacity building. This requires a combination of governance arrangements that empower users with oversight, public information that gives them the means to give effect to this power, and public administrative systems that are responsive to the new decentralized arrangements.<sup>10</sup>

Within individual sectors, there have been a number of promising experiments that illustrate the potential power of the approach. Uganda was a pioneer in implementing decentralized support for primary education (see box 3.6), and its experience is one of the cornerstones of the *World Development Report 2004*. Similar approaches are being implemented in progressively more African countries. IDA can help countries

10. World Bank. 2003. *World Development Report 2004: Making Services Work for Poor People*. New York: Oxford University Press.

**Box 3.6 Tracking Public Spending: A Catalyst for Better Governance**

Drawing on IDA's operational experience in Uganda, Development Economics (DEC), the Bank's research arm, has mounted a major initiative to track the link between public expenditure flows and performance at the service delivery front line. An initial round of analysis tracked what fraction of nonwage recurrent expenditures allocated to education actually found their way to schools. For Uganda, Tanzania and Ghana, normally considered among the better African performers, the results were 22, 43, and 50 percent, respectively. The Ugandan Ministry of Finance began to disburse funds directly to school principals, and communities were informed of these disbursements. Soon after announcements of allocated funds were posted publicly (typically on school doors), reported receipts at the community level quickly rose to close to 100 percent of allocations. This approach is being implemented in more African countries.

*Intensified efforts on the data front will yield improvements in service delivery only if the public administrative system is both accountable and capable of responding*

monitor service delivery through the use of Public Expenditure Tracking Surveys and the Core Welfare Indicators Questionnaire (CWIQ). The CWIQ survey implemented in Ghana reported the views of 30,000 households on service delivery within three months and is now being replicated in several other countries.

Intensified efforts on the data front will yield improvements in service delivery only if the public administrative system is both accountable and capable of responding. As part of the broader movement toward programmatic lending, AFR has been developing a new, multisectoral, operational approach for providing resources to help build capacity for improved service delivery. The approach typically comprises: (a) country-level clarification of the institutional arrangements for service delivery (balance between centralized versus decentralized, public versus private, and so on); (b) support for individual ministries, departments, and agencies to develop restructuring and capacity-building plans (including service delivery benchmarking surveys, agency-level service delivery charters, and performance agreements for top managers); and (c) programmatic provision of finance to ministries and agencies to implement their approved capacity-building plans. The approach has proceeded furthest in Tanzania with 58 ministries, departments, and agencies participating and 15 having completed service delivery charters. Based on progress thus far, about US\$20 million will be provided over the next 18 months to finance the capacity-building plans of the participating agencies. IDA is supporting similar programs in five other countries: Burkina Faso, Ethiopia, Guinea, Mozambique, and Uganda. One early lesson

*IDA cannot impose solutions to disagreements among interest groups, but it can play a facilitative role by providing analyses and encouraging transparency*

of experience is that this programmatic approach works best in countries where there is a clear vision at the country level of what should be the structure of state institutions, and a robust process for screening the quality of restructuring and capacity-building proposals against that vision. Absent these elements, the risk is high that the programmatic resources are classified as all-purpose “slush funds.”

Pay provides an especially difficult conundrum for efforts to attract and retain the capacity for improved service delivery. Across much of Africa, pay within both the public and private sectors is so low that in some key areas, in particular health, capacity is progressively deteriorating with the out-migration of skilled professionals. Ghana, for example, now has half the number of doctors it had at independence, even as its total population has more than tripled over that period. Both fiscal and political constraints have hampered efforts to address the problem through pay increases for skilled workers. Tanzania has again been the most innovative with its pilot selective accelerated salary enhancement (SASE) program. Implemented in three sectors, the SASE program rewards ministries and agencies that successfully implement their restructuring and capacity building with salary increases for prescreened high-end employees. Benin has also been especially innovative in its embrace of contract employment relationships for teachers outside of standard civil service terms and conditions of employment. Nevertheless, this issue will likely remain a difficult one for governments and will require more creative thinking.

**Mobilize the power of public information.** Public information is an important aspect of both the expenditure accountability and service delivery approaches to capacity building outlined above. Yet, the role of information is much broader, and IDA can make an especially valuable contribution in its dissemination. With development policies driven by sovereign clients, IDA cannot impose solutions to disagreements among interest groups, but it can play a facilitative role by providing analyses and encouraging transparency. To do this, IDA needs to make greater efforts to assess the effects of major policy alternatives (such as those relating to trade, public spending, and so on) on different socioeconomic groups. This calls for increased attention to mainstreaming Poverty and Social Impact Analysis in IDA’s work program and to strengthening statistical systems (see section 4). IDA also needs to reach out to two key constituencies within Africa—civil society and parliaments—including a special effort to increase information and economic understanding of

the media. This requires working closely with partners and the WBI to increase awareness of the costs of corruption.<sup>11</sup> Surveys of citizens and business (see Pillar Three: Increasing Growth and Enhancing Competitiveness later in this section) can help to strengthen service standards for firms and prioritize policy reforms to help constrain the scope for corruption.

Although IDA's dialogue with government on the structural and social agenda provides a vehicle for the issues raised by analytical work and surveys to enter the policy debate, this is not a substitute for countries' internal capacity to analyze development policy options and their implications. As the PRSP process matures, it is essential that countries develop their capacity to undertake analytical work as part of taking the lead in dialogue with donors. The ACBF has played an important role in building African capacity to engage in economic policy analysis and design. The African Economic Research Consortium (AERC) also has greatly strengthened economic capacity. IDA can contribute to this deepening of African ownership of the economic policy agenda by continuing the recent trend toward conducting analytical work jointly with local institutions and drawing as much as possible on local research and policy networks, including through progressively assigning work on PRSP implementation and assessment to local independent institutions as their capacity increases.

**More strategic thinking is required in capacity building.**

Despite this emerging capacity-building agenda, considerable questions remain. Technical assistance to Africa from all sources has grown to some US\$3 billion annually, but there has been little evidence of widespread improvements in the capacity of public administration in Africa. To be sure, there has been some progress in building capacity in certain areas. For example, after decades of adjustment, many central banks and ministries of finance appear technically stronger than before. The ACBF has supported the emergence of a number of effective public policy think tanks, and the AERC has greatly strengthened economic capacity. However, in some key sectors, in particular health, as men-

*Low capacity threatens progress toward the MDGs, and the importance of the issue is heightened by the trend toward fiscal and administrative decentralization*

11. See Hellman, J., and D. Kaufmann. 2001. "Confronting the Challenge of State Capture in Transition Economies." *Finance & Development* 38 (3). See also Kaufmann, D., A. Kraay, and P. Zoido-Lobaton. 2003. "Governance Matters III: Governance Indicators for 1996–2002." World Bank Policy Research Working Paper 3106. Washington, D.C.

***The shift toward capacity-saving programmatic lending is predicated on progressively stronger capacity in recipients***

tioned earlier, capacity is progressively deteriorating with the out-migration of skilled professionals. Low capacity threatens progress toward the MDGs, and the importance of the issue is heightened by the trend toward fiscal and administrative decentralization. Lower levels of government are closer and hopefully more accountable to their constituents than central government, but they typically have even lower capacity than the center.

Adding to this uncertainty, there is still considerable debate, within IDA and the global development community, on how to implement effective capacity-building programs. In the African context, capacity saving can be one important component, because of the high demands on scarce capacity created by present uncoordinated systems of assistance and onerous donor regulations. IDA's work in strengthening the partnership agenda around the PRSP is especially crucial because the shift toward capacity-saving programmatic lending is predicated on progressively stronger capacity in recipients. Nevertheless, since capacity is not only a critical constraint, but also an area where confidence among donors is relatively weak, more strategic thinking and innovation are clearly required. A working group made up of managers and staff from the Africa Region and other parts of the Bank, including WBI and Poverty Reduction and Economic Management (PREM), has been set up to focus on this challenge. This group is tasked with the objective of developing a framework for incorporating capacity building more systematically in CASs, ESW, and other analytical work, and lending products in the Africa Region (see box 3.7). In this context, IDA will work more closely with clients and international partners to devise more effective technical assistance.

### **Future Priorities**

- Integrate analytical work on public expenditure, financial management, and procurement.
- Develop and disseminate comparative information on economic governance standards, building on HIPC tracking.
- Work toward stronger statistical systems, including through rapid surveys of service delivery and expenditure tracking.
- Encourage realistic costing of capacity building and retention in sector programs, including assessments of pay policy and support for out-of-the-box options capable of overcoming the fiscal constraints to

### Box 3.7 Toward a More Strategic Approach to Capacity Building in Africa

Despite substantial donor support over a long period, capacity remains a binding constraint to development. Growing expectations of African governments, such as implementing PRSPs and achieving the MDGs, add to the imperative of creating capacity. With this background, a working group was convened and endorsed the consensus emerging from capacity-building experience among all partners in development. This consensus points to the importance of focusing local and donor policies, practices, and incentives not just on training and technical assistance, but, more importantly, on the retention and effective utilization of capacity at the individual, institutional, and societal levels.

Beyond this new focus on the demand side of capacity, the working group identified a growing list of promising new approaches in public expenditure accountability and frontline service delivery, as well as of concrete results at the sectoral level. The Africa Region is taking up the challenge to operationalize these lessons and to scale up from sectoral successes.

For most African countries, meeting this challenge will begin with a development of a home-grown capacity-building strategy as a key element of the PRSP. The content of these action plans will necessarily vary from country to country but would include a focus on assessing needs, achieving results, and adapting policies to show commitment to retaining and utilizing capacity effectively. The Africa Region is working with its development partners to ensure that adequate financing will be available for credible capacity-building plans and to align and harmonize donor practices to support the implementation of these strategies. Because countries differ in their starting points in terms of political commitment, consensus for change, and institutional capacity, the Africa Region proposes a three-country typology in which different approaches would shape IDA's capacity-building intervention strategies and instruments:

- a. In countries where the starting points are strong, a demand-driven programmatic approach will likely be workable with an emphasis on: improving incentives to attract and retain capacity; restructuring and capacity-building plans at the ministry, agency, or local government level; provision of programmatic finance for qualifying plans, implemented at the lowest appropriate level; gradual pay and focused civil service reform; and monitoring of results to adjust plans and funding.
- b. In countries where the basis is less established, a narrower set of interventions will likely be more effective. These might emphasize: expenditure accountability with particular focus on budget formulation, execution, and reporting; support for service delivery; seeking observable results to strengthen stakeholder pressure for state accountability; and identifying opportunities to shift resources and accountability downwards.
- c. For LICUS and postconflict countries, the approach will be opportunistic, seeking results primarily in service delivery through a focus on: expenditure reporting and transparency; islands of opportunity with potential for short-term results and for catalyzing longer-term change; and following LICUS principles of political feasibility, selectivity, and early results.

To implement this approach, the Africa Region has selected eight pilot countries covering all three categories. In doing this work, staff will place greater emphasis on the analysis of the political and institutional context for capacity with the help of a set of governance progress indicators; monitor change and analyze the process of change with a focus on “what” changes and “why”; support the development of learning and knowledge infrastructure; and utilize learning programs and research from WBI, other World Bank units, and other partners.

capacity retention.

- Scale-up IDA support for capacity building to enhance expenditure accountability, transparency, and service delivery.
- Work better with other parts of the World Bank Group and global

partners in devising and implementing capacity-building initiatives.

## Pillar Two: Investing in People

**Outcomes in social sectors have often borne little relationship to inputs**

INVESTING IN PEOPLE IS THE SECOND PILLAR OF IDA'S STRATEGY IN Africa. As the world's poorest region, Africa remains far behind in human development indicators. These are not only important signposts of current living conditions but also bear on the prospects for long-term economic growth. In the 1960s and part of the 1970s, many African countries widened access to essential social services and saw significant improvements in many indicators. However, this progress did not prove sustainable as economic and political crises took a high toll, weakening economies and institutions and deteriorating service delivery systems. Many countries saw substantial reversals in the 1980s, and only some began a slow recovery in the early 1990s. The HIV/AIDS pandemic has also put massive pressure on all of these indicators.

Few African countries will achieve many of the MDGs by 2015, and in many countries the trendline for health-related areas is in the wrong direction. Since the International Conference on Financing for Development in Monterrey in March 2002, a growing international effort has focused on increasing resource flows for human development. However, resources are not the only problem. Outcomes in social sectors have often borne little relationship to inputs.<sup>12</sup> As shown by the experience of IDA itself, absorptive capacity also needs to increase in many countries to enable effective resource use.<sup>13</sup> This involves both strengthening sector policies and top-down programs and supporting bottom-up approaches that empower individuals and local communities.

A second aspect of investing in people is the need for improved systems of social protection. Recent experience and better information have

12. Cross-country comparisons show a weak relationship between inputs and outputs in the social sectors: see World Bank. 2003. *World Development Report 2004: Making Services Work for Poor People*. New York: Oxford University Press.

13. For a recent study examining resource needs and MDGs at the country level, see World Bank. 2003. "Supporting Sound Policies with Adequate and Appropriate Financing: Implementing the Monterrey Consensus at the Country Level." Washington, D.C.

heightened awareness of the adverse impact of trade, weather, and other shocks on Africa's vulnerable population and the long-term costs imposed by severe short-term economic stresses.

IDA has three areas of strategic focus for investing in people:

- Strengthen frameworks and delivery systems to accelerate progress toward the MDGs, including through an appropriate balance between top-down and bottom-up approaches to boost absorptive capacity.
- Help develop integrated macro-micro systems for social protection and risk mitigation.
- Emphasize selected areas of strategic leadership and advocacy, including infectious diseases (especially HIV/AIDS) and the EFA initiative.

***Without efforts to strengthen core delivery systems, “disease-specific” campaigns such as those against HIV/AIDS, malaria, and other infectious diseases will have less impact and less sustainability***

### **Strengthen Delivery Systems**

In the early 1990s, IDA's approach to the social sectors began to change from a project emphasis toward establishing viable delivery systems, including cross-sectoral linkages and confronting the special needs of new emerging crises.<sup>14</sup> IDA's sector reform efforts focus largely on four components: (a) improving sector policies; (b) strengthening financial management and costing; (c) decentralizing service delivery, capacity building, and training; and (d) assisting line ministries to integrate sectors into multisectoral budgetary programming to underpin the operationalization of the PRSP. Without efforts to strengthen core delivery systems, “disease-specific” campaigns such as those against HIV/AIDS, malaria, and other infectious diseases—while valuable in focusing attention and soliciting resources—will have less impact and less sustainability.<sup>15</sup>

This emphasis on delivery systems seems especially appropriate given IDA's strengths relative to those of other development partners. A proliferation of donor agencies and numerous NGOs is involved in the social sectors, providing grant financing rather than IDA credits and with resources only partly reflected in country budgets. Although this is a source of less expensive resources, it also fragments sector planning and

14. World Bank. 2003. *World Development Report 2004: Making Services Work for Poor People*. New York: Oxford University Press.

15. McLaughlin, Julie. 2003. “Accelerating Progress toward the Health MDGs: Incorporating Lessons Learned from Development.” Africa Region. World Bank, Washington, D.C. Processed.

***IDA has comparative advantage in one key strategic area in the social sectors: strengthening frameworks for service delivery***

taxes scarce capacity. In addition, HIPC is providing almost US\$1 billion in debt service relief, of which some \$800 million is being allocated for poverty-reducing spending, largely in the social sectors. IDA is only one of many funders in the social sectors, and its resources are more costly than many other sources. IDA will continue to finance programs in the social sectors, but its role will shift toward filling gaps left by other donors.

IDA has comparative advantage in one key strategic area in the social sectors: strengthening frameworks for service delivery. This involves working with clients and partners to develop robust and effective delivery systems, which are based on sound sector policy (including, where appropriate, opportunities for private provision), well integrated into the budget, and able to relate inputs to results on the ground. Programs will also need to consider realistic costs associated with the need to build and retain capacity, especially in the health sector. Reviews of sector programs suggest that most have some distance to go in these areas. This suggests that IDA may not field its own social sector projects in every active country, but it does require strong IDA engagement with clients and partners in terms of sector dialogue and systemic reforms. As part of its work on world trade and investment, IDA may also provide a special policy focus on critical sectors such as pharmaceuticals.<sup>16</sup> Where IDA does fund social programs, it will increasingly need to work with other donors through “common pool” funding vehicles or PRSCs.

This trend has started already in education and water. The next step is to broaden the approach to other key service sectors. In the area of education, IDA has costed the MDG primary education goal in 33 countries. Seventeen education sector reviews are either complete or in process. IDA’s water supply and sanitation (WSS) strategy for Africa has analyzed the status of WSS reforms across 17 countries as part of the process of identifying investment and capacity needs (see box 3.8). A least-cost estimate of reaching WSS goals by 2015 is US\$30 billion. IDA’s portfolio in this area is almost US\$900 million.

A second trend in IDA’s approach has been an increasing emphasis on CDD programs that deliver resources and services directly to the front line and support decentralized service provision, including through NGOs and the private sector. Almost half of all new projects in FY03

16. See, for example, World Bank. 2003. “Initiating Memorandum for the World Bank’s Pharmaceutical Policy Note.” Washington, D.C.

### Box 3.8 Water Supply and Sanitation: The Action Plan for the Africa Region

Access to safe water and sanitation underpins many of the MDGs, and there have been significant strides toward reform in this sector. The MDG for water and sanitation seeks to halve the proportion of people without sustainable access to safe drinking water by 2015 and without access to basic sanitation by 2020. To attain these goals, the number of people served will have to double in the next 15 years (from 350 million to 700 million). Despite sector reform under way in 22 countries in Africa, there is still much work to be done to meet these goals.

The Bank's action plan for the WSS sector aims to support those countries that seek to reform with the hope of achieving the MDG. Through the vehicle of NEPAD, African nations would establish a water and sanitation promotion and monitoring unit, as well as a steering group of regional sector leaders that would become key interlocutors with the Bank and other donors. Countries committed to the guidelines and reforms set out by these bodies would commit to WSS reform, a program that will then become an integral part of the PRSP, CAS, and donor dialogue for that country. Uganda is an example of a country that has incorporated WSS priorities into its CAS and PRSP structures.

The Bank's role differs at each stage of the plan, from coordination and dialogue on the regional level to programmatic support at the country level for more directed investments in both rural and urban water supply. The WSS strategy recognizes the important differences between rural and urban water supply, and the actions that are recommended reflect this difference. For rural water resource management, a decentralized, demand-responsive, and community-managed approach is most effective, whereas for towns and cities an approach that includes autonomous water boards and professional operators is required.

include social funds or other CDD-related components. IDA is progressively mainstreaming community-based programs into its operations, but it has a long way to go in the process of scaling up successful cases to increase coverage and impact. It needs to consolidate programs (in some countries, it has multiple projects all delivering resources to the community level) and strengthen frameworks for monitoring results.

### Future Priorities

- Work with clients and partners to ensure that all active countries have realistic, costed service delivery programs. These programs should link inputs and outcomes, be integrated into medium-term budget frameworks, and contain comprehensive financing plans. Encourage and participate in common pool funding in response to identified financing gaps. Work with partners to mobilize finance.
- Support effective decentralized mechanisms for community empowerment and service provision. Integrate these programs within country programs, strengthen the results frameworks, and scale up successful cases.

***Most Africans are highly vulnerable to risk, whether from illness or death of a breadwinner, droughts or floods, governance or conflict-related factors, or large changes in terms of trade***

### Build Integrated Systems for Social Protection and Risk Mitigation

### Box 3.9 Community-Driven Development

The goal of CDD is to empower communities to shape their future by delivering resources directly to the local level along with the authority to use the resources to improve living standards. As a complement to support for central government and top-down plans, CDD represents not just a new approach but a new vision. The core dimensions of CDD are to:

- Empower communities and local governments.
- Realign the role of central government.
- Improve accountability for resources and build capacity.

In the past, the realization of these ideas frequently met resistance from an inability of central government agencies and donors to respond to local priorities or take advantage of local skills. However, political changes have inspired a new interest in decentralization and community participation. Local governments offer a permanent institutional structure and a mechanism to identify and respond to local demands and priorities, making the current climate favorable for scaling up CDD projects in Africa. Of 79 current operations in the region, 33 projects (42 percent) now have CDD components.

***In addition to reducing risk, IDA's programs should help countries to develop a two-pronged approach to mitigating and coping with risk***

Most Africans are highly vulnerable to risk, whether from illness or death of a breadwinner, droughts or floods, governance or conflict-related factors, or large changes in terms of trade. HIV/AIDS is increasing this vulnerability by undermining traditional social insurance arrangements and creating large numbers of orphans. Shocks may be temporary, but when severe they also have adverse long-term effects, for both households and overall economic performance, and severe revenue fluctuations can also have adverse effects on the quality of government spending. IDA's strategy for social protection in Africa suggests how reducing risk and vulnerability needs to be introduced into the design of development approaches and projects, for example, in the water sector (see also Pillar Three below). It also suggests approaches to mitigating risk and helping Africa to build (or frequently rebuild) coping capacities.<sup>17</sup>

In addition to reducing risk, IDA's programs should help countries to develop a two-pronged approach to mitigating and coping with risk—again, balancing top-down and bottom-up mechanisms. At the macro level, this can include the use of quick-disbursing funds to buffer fiscal and balance of payments gaps, whether in the form of supplements to policy-based operations (for example, a credit provided to seven vulnerable oil importing countries in FY00) or emergency lending in response to floods (Mozambique in FY00). The transition toward variable annual

17. See World Bank. 2001. "Social Protection Sector Strategy: From Safety Net to Springboard." Washington, D.C.

programmatic support through the PRSC for many of the high-performing countries (see section 4) will add another degree of flexibility for adjusting resource flows in response to external macroeconomic shocks. In this area, IDA will need to work closely with partners, in particular the IMF.

Nevertheless, some countries lack effective mechanisms for translating macroeconomic or budgetary buffering into effective support for households directly affected by shocks. Macroeconomic support therefore needs to be linked, back to back, with mechanisms to channel resources directly to poor and vulnerable populations. These can include social and community-level programs (such as the Malawi Social Action Fund) that can be scaled up in response to emergencies. Other examples include programs to strengthen and build on traditional social safety nets (for example, vouchers for orphans adopted by other families) and programs targeted to especially vulnerable populations, such as the elderly, children, the very poor, and those in dry or environmentally fragile areas. To implement such a system smoothly, IDA will need to build risk more systematically into its country-level programming, strengthen macroeconomic monitoring and information systems, and extend the coverage and flexibility of community-level support. In some cases (such as the food security problem in southern Africa), greater cooperation among neighboring countries can help to diversify risk. IDA can play a role in helping countries to develop and implement such approaches while not undermining private market institutions during emergencies.<sup>18</sup>

***Macroeconomic support therefore needs to be linked, back to back, with mechanisms to channel resources directly to poor and vulnerable populations***

## **Future Priorities**

- In assessing and providing a rationale for infrastructure investments, particularly in water, include the risk mitigation perspective.
- Work toward comprehensive food security programs, at both the national and regional levels.
- Work with the IMF and national statistical systems to enhance monitoring and warning systems and to ensure that flexible programming can provide more effective cushioning of shocks at the macroeconomic level.
- For each active country, identify and support at least one program

18. See World Bank, Africa Region. 2002. "From Action to Impact: The Africa Region's Rural Strategy." Washington, D.C.

with the capacity to deliver emergency relief to a wide range of the population and to target it effectively.

### **Areas of Strategic Leadership and Advocacy: HIV/AIDS and EFA**

#### ***AIDS policy is development policy***

IDA can also play a leadership role in addressing a few selected development issues. IDA's comparative advantage here is its involvement in social policy and budget management and its convening power to mobilize global partners around a shared agenda. Highlighting these areas increases their visibility while committing IDA funds can serve as a challenge, to clients and partners alike (and also to IDA itself), to accelerate program implementation. Clearly, such areas must be selected with care, because identifying too many high-profile priorities makes them no longer priorities.

**The immediate threat to Africa: HIV/AIDS.** With 20 million Africans dead, 30 million infected, and 12 million orphaned, HIV/AIDS looms as the prime threat, together with conflict, to Africa's development. HIV/AIDS is far more than a social catastrophe; it is a full development catastrophe, with long-run implications for savings, investment, and growth. AIDS policy is therefore development policy. IDA's role has evolved from analysis to advocacy to working with partners (in particular the Joint United Nations Program on HIV/AIDS), to a coordinated response, and to funding and implementing multisectoral programs. The credibility of IDA's leadership is critically dependent on its willingness to lead in providing resources, and two multisectoral AIDS projects have allocated US\$1 billion to finance countries' anti-AIDS programs (see box 3.10). Accelerating the implementation of the MAP components is essential and will require both a strengthening of effort by IDA and a sustained commitment by client countries.

**Building for the future: EFA.** Primary enrollment rates still average only 78 percent in Africa, with coverage below 60 percent in at least 16 countries. The quality of the education is often low. Gender disparities in education also persist, with female illiteracy just over 50 percent in about 30 countries. Low education levels limit participation in development and the achievement of a number of MDGs. On the political side, a literate citizenry is also an essential component of an informed electorate and in creating demand for good governance.

### Box 3.10 The Multicountry AIDS Program for Africa

Most nations in Africa have strategic plans for combating the spread of the HIV/AIDS pandemic. Despite pockets of success, however, the virus continues to spread and endanger progress toward poverty reduction and economic development. These programs have failed for several reasons, including inadequate leadership and financing, slow disbursements, lack of support directly channeled to communities, and a limited focus on the health sector.

In response to these challenges, the Bank has developed the MAP for Africa. The MAP has been rolled out in two stages. During the first stage (MAP1), the Bank committed US\$500 million to 14 countries in just over a year. The second stage (MAP2) replenished the program with another US\$500 million. In total, MAPs have been approved in 24 countries for a total of US\$848 million.

The overall development objective of the MAP is to dramatically increase access to HIV/AIDS prevention, care, and treatment programs, with emphasis on vulnerable groups (such as youth, women of childbearing age, and other high-risk groups). The specific development objectives of each individual country project, as stated in the national strategic plans, provide the basis for this program and are agreed upon at the time of appraisal of the national projects. A key feature of the MAP is direct support to community organizations, NGOs, and the private sector for local HIV/AIDS initiatives.

Kenya is one of the best-performing MAPs to date. Disbursements have been on schedule from the beginning and a large share went directly to communities. Kenya also hosted a Joint HIV/AIDS Program Review, which involved all donors and more than 100 stakeholder groups, facilitating donor coordination in the effort to fight HIV/AIDS.

Despite these elements of success in Kenya and other MAP countries, problems remain. Disbursements are too slow relative to the needs of the countries. Successful HIV/AIDS projects require government commitment at the highest level and strong partnerships with civil society, and creating these partnerships can take some time. The lessons from the first installment of the program are being incorporated into MAP2 in an effort to directly tackle the challenges and expand the successes. The Bank is committed to fighting HIV/AIDS in Africa for the long term, and is thus actively learning for second-generation efforts.

IDA commitments to education in Africa have stabilized at about US\$200 million for the past decade, with some notable successes. Mauritania, for example, has seen a steep rise in enrollment rates, to greater than 90 percent. Seeking to replicate this success more widely, increases in education commitments are expected in FY03 and beyond, with a focus on primary education, secondary mathematics and science, and an overdue push to revitalize higher education systems. However, the main force behind this wave of new commitments will be the rapid scaling up of the fast-track EFA initiative. EFA, in which IDA is a key partner with other international organizations, aims to provide quick-disbursing funds to help achieve the goal of universal primary education by 2015 and to close the gender gap by 2005.

In addition to providing funding, IDA's role will be to continue to help clients cost programs, develop models for scaling up, and assist in integrating education into budget processes and planning. Systematic

***In addition to providing funding, IDA's role will be to continue to help clients cost programs, develop models for scaling up, and assist in integrating education into budget processes and planning***

19. Mingat, Alain, Ramahatra Rakotomalala, and Jee-Peng Tan. 2002. "Financing Education for All by 2015: Simulations for 33 African Countries." World Bank, Washington, D.C.

***The Bank's comparative advantage in this partnership includes assisting with the implementation of programs***

assessment of education sector performance is already under way. Three education sector reviews have been completed, and 14 more are in process. The Bank recently undertook a costing exercise to determine the level of external funding necessary to achieve universal primary education in 33 African countries by 2015.<sup>19</sup> In total, the financing gap is in the range of US\$1.6 billion to US\$2.1 billion annually. Although this is below the costs indicated in other estimates, the EFA program remains only partially funded.

**Other special areas.** IDA has developed partnerships to fight other diseases, including through its cooperation with the World Health Organization and the Gates Foundation. The Bank is an active participant in the Global Fund to Fight AIDS, Tuberculosis, and Malaria, a public–private partnership established to attract, manage, and disburse new resources. The Bank's comparative advantage in this partnership includes assisting with the implementation of programs. Swaziland, for example, has recently received US\$54 million from this fund and requires strengthened delivery systems. Drawing on the experience with HIV/AIDS and the successful experience with fighting onchocerciasis, IDA now needs to help develop other approaches toward specific infectious diseases in ways that complement, rather than weaken, efforts to strengthen overall health delivery systems.

### **Future Priorities**

- Work with clients to develop effective programs that complement, rather than compete with, efforts to improve the capacity of health and education systems more broadly.
- Actively advocate for enhanced attention and finance to especially critical areas at global and national levels. EFA is currently in danger of becoming an empty promise and losing credibility.
- Take a leadership role and develop strong partnerships, including through cofinancing programs with partners and global funds. Where needed, deploy IDA to challenge clients and partners.

## **Pillar Three: Increasing Growth and Enhancing Competitiveness**

**E**NHANCING COMPETITIVENESS AND ENCOURAGING ECONOMIC DIVERSIFICATION have to be important components of any growth strategy for Africa, especially given the small size of African economies, their continued reliance on a handful of commodities, and the marginalization of Africa in world trade. IDA has a key role to play in these areas.<sup>20</sup> Many donors have withdrawn from active engagement in directly growth-related sectors, especially infrastructure and private sector development, instead preferring to concentrate largely on social sectors. This, together with IDA's long engagement in the area of structural policy and reforms, argues for a leading role in helping countries to frame appropriate policies, institution building, financing investments, and encouraging public-private partnerships—areas where other donors may be less active.

These activities are made more urgent by the fact that PRSPs and CASs typically assume high growth rates, often about 6 percent, or more than double the historical regional average. But they often fail to include specific plans for how to accelerate to these higher rates. In particular, they do not focus sufficiently on the rate of private investment, which for most countries in the region has tended to be low, and on how to increase it and raise domestic savings. Some of the preconditions for higher and sustainable growth have been discussed above: peace, a functioning public sector able to provide sound macroeconomic management and enforce the rule of law, and investments in a healthy and skilled work force. But by themselves, these preconditions are often insufficient for rapid growth.

Business surveys show the need to address other factors as well: high investor risk perceptions, often stemming from poor relations between the private and public sectors; severe infrastructure bottlenecks and other factors raising business costs; and lack of access to finance.

***Many donors have withdrawn from active engagement in directly growth-related sectors, especially infrastructure and private sector development***

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20. See Biggs, T., and others. 1994. "Africa Can Compete: Export Opportunities and Challenges for Garments and Home Products in the U.S. Market." Discussion Paper No. 242. World Bank, Washington, D.C.; World Bank. 2000. "Promoting Sound, Accessible, Development Oriented Financial Sectors in Africa." Washington, D.C.; World Bank. 2002. "From Action to Impact: The Africa Region's Rural Strategy." Washington, D.C.; World Bank. 2002. "Integrating Gender in the World Bank's Work: A Strategy for Action." Washington, D.C.; and World Bank. 2001. "FPSI Strategies for Africa." Washington, D.C. Processed.

***A new, outward-looking generation of African entrepreneurs is beginning to emerge***

Africa's economic structure—a modest total market segmented into tiny national markets relying on only a handful of products—also makes it more difficult to create an environment conducive to rapid growth. But every constraint is also a potential opportunity. Better access to services can both directly improve the lives of the poor and enhance African competitiveness, which helps to create growth and employment. There is an increasing role for the private sector in the provision of both infrastructure and social services, even as the public sector will remain responsible for much investment and a supportive regulatory framework. Increasing trade and stimulating a recovery in Africa's rural sectors could be turned into engines for wider growth.

More specifically, to realize the goals of the third pillar, IDA must concentrate on several key areas:

- Improve the investment climate.
- Emphasize trade and exports as a lens for competitiveness.
- Deepen regional approaches.
- Mainstream gender perspective.
- Make major investments in infrastructure.
- Widen access to finance.
- Support agriculture and rural recovery by integrating sustainable practices.

### **Improve the Investment Climate**

Africa is seen as a high-risk environment by both foreign and domestic investors. The sources of risk are many and include the prevalence of conflict and macroeconomic instability. But even in countries where risk is not an overwhelming problem, investment is constrained by concerns over policy consistency, excessive bureaucratic obstacles or corruption, and a lack of confidence in legal protections. Formal business sectors, especially indigenous ones, were weak in most African countries at the time of independence, particularly private sector institutions providing business development services, knowledge, and training. With clientelistic and often personal links between businesses and governments, as well as nationalization in some countries, strong business sectors and effective business–government consultative processes did not develop. With the opening of African economies over the past decade, this has begun to change, and a new, outward-looking generation of African entrepreneurs is beginning to emerge.

**Analytical work.** IDA has encouraged analysis and research on firms and business conditions in Africa, including through the Regional Program on Enterprise Development (RPED), which has carried out surveys in 13 African countries over the past decade. These surveys have identified factors influencing firm behavior and performance, as well as regulatory-, infrastructure-, and governance-related obstacles to business. Until recently, RPED surveys were primarily research exercises; this, however, has now changed. Surveys and associated ICAs have recently been completed or are under way in seven countries. They are now carried out as collaborative exercises involving government agencies, local business and trade associations, and local policy researchers, and they feed into consultative processes and policy dialogue. Management of the RPED has also been integrated with that of DEC’s research on the global investment climate, to facilitate comparative work on competitiveness. Analytical work has been extended to include deeper coverage of critical supply chains, especially those necessary to link agriculture to domestic urban and foreign markets. Other analytical work includes the Foreign Investment Advisory Services, investment promotion assistance from the Multilateral Investment Guarantee Agency (MIGA), and comparative indicators on the cost and time of doing business.

**Support to public–private consultation.** PRSP processes need to include private sector consultations, enabling businesses to air their concerns with government and provide input on national developmental priorities. IDA has been directly active in encouraging the private sector to influence policy, working with business associations such as the West African Enterprise Network, as well as associations representing informal businesses. More recently, IDA, together with the IMF, has supported the establishment of Investment Councils, bringing together governments with local and foreign investors in Ghana, Senegal, and Tanzania. Several IDA projects have supported the establishment or strengthening of national-level apex entities representing the private sector (for example, the Private Sector Foundation in Uganda) or of key sectoral associations especially for export sectors.

**Public–private partnerships.** Better public–private cooperation can help to exploit the potential of development expenditures for private sector growth and improved service delivery. Successful examples include road maintenance funds (for example, in Ghana), where transparent management and the prospect of timely and regular payment have stimulated the growth of a domestic maintenance industry. Local

***Better public–private cooperation can help to exploit the potential of development expenditures for private sector growth and improved service delivery***

### Box 3.11 A Summary of International Finance Corporation's (IFC) Strategic Initiative for Sub-Saharan Africa

The emerging consensus in Africa and in the development community is that private sector–led development must play a larger role in meeting Africa's development challenge. The IFC Strategic Initiative is a critical element of the World Bank Group strategy and reflects:

- IFC's continued high priority on Africa.
- The need for faster economic growth in Africa led and driven by a stronger and vibrant private sector to meet MDGs.
- The consensus private sector development agenda for Africa, including improvement of the investment climate, infrastructure, financial markets; developing competitive export industries; and focusing on small and medium enterprises (SMEs).
- IFC's comparative advantage in knowledge and experience in supporting SMEs, in developing financial institutions, and in financing infrastructure.
- IFC's lessons learned from its experience in Africa.

Since 1998 IFC has been implementing a comprehensive regional strategy;<sup>21</sup> some aspects have worked well and others have been less successful. This new IFC Strategic Initiative represents an adjustment to the elements that did not work before, a realignment to changes in the environment, and a recognition of IFC's comparative advantages—where they exist and where they do not. The new Strategic Initiative focuses on three main areas:

- Enhanced support to SMEs in the region.
- Proactive project development to support IFC direct investments.
- More active engagement in improving the investment climate.

The initiative incorporates input from informal consultations and discussions with the World Bank, African executive directors, member governments, the international and African private sector, and other stakeholders.

**Source:** IFC. 2003. "Strategic Initiative for Sub-Saharan Africa." Washington, D.C.

water distribution in Senegal offers another example of the potential of even modest private sector investment in infrastructure and community-level programs. Most activities involving exploration or use of natural resources (as in mining, energy production, or tourism) also call for public–private partnerships.

**Rule of law.** Legal reform and contractual enforcement is another area in which IDA can assist Africa in improving the business climate. IDA's work so far on legal and judicial reform in Africa has emphasized a broad SWAP emphasizing the reform of laws and regulations and the functioning of the justice sector. IDA can help this process by bringing to bear the Bank's comparative experience on the economic and development impact of legal and regulatory reform, as well as acting as an

21. IFC. 1998. "Operations and Strategy in Africa." Washington, D.C.

### Box 3.12 An Integrated Approach to Private Sector Development

Any strategy for promoting growth in Africa will need to contend with the region's low rate of private investment, which lags all other regions of the globe. In addition, given the turbulence and uncertainties of the global marketplace, promotion of growth and competitiveness in Africa will need to be based on an integrated approach to private sector development. IDA's private sector development strategy is characterized by:

**Trade and regional integration.** Regional integration is one means of providing greater market opportunities for private sector producers. IDA's approach has three distinct dimensions: (a) trade and investment facilitation, involving implementation of customs union and introduction of common standards; (b) harmonization of legal and regulatory frameworks, facilitating free movement of people, goods, services, and capital; and (c) the efficient and integrated provision of key logistical services, such as transport, power, and communications. This involves the alignment of all instruments supporting infrastructure service delivery (hardware assets, logistical support, institutions and framework, human capital, and so forth). In effect, this means that individual countries need the provision of a minimum infrastructure platform that allows their productive capabilities to be efficiently deployed.

**A responsive business model to changing global conditions.** While there is increasing recognition that the private sector is the most efficient means of delivering services, the recent slowdown of global economic activity has led to a reduction of private investor appetite for financing of infrastructure projects and has generated a need for increased concessional finance in this sector. IDA therefore is introducing more innovative approaches to the role of the private sector in infrastructure and privatization. A key element of the new approach is the concept of public-private partnerships, which facilitate the private delivery of publicly funded services and seek to ensure that the efficiency gains of private participation are widely distributed. Regarding privatization, the traditional approach of direct sale of assets is giving way to more flexible and pragmatic approaches, through use of concessions, leasing, or contractual management arrangements that bring in the benefits of privatization to varying degrees, while being easier to implement and sustain.

**World Bank Group coordination.** IDA is working with other members of the World Bank Group to blend appropriate instruments to mitigate private sector risk, particularly in infrastructure financing, where capital costs are high and investments relatively lumpy. This involves a combination of products, including partial-risk guarantees provided by IDA, political risk guarantees by MIGA, and the mobilization of financing from external participants by IFC. IDA is currently also promoting risk mitigation at the regional level, through facilitating wider availability of export credit coverage for cross-border trade through the private insurance sector. This is being done through a Regional Trade Facilitation Project covering a group of seven countries (Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda, and Zambia). In addition, CASs that involve the participation of the various members of the World Bank Group allow IDA to bring various instruments and activities together in order to maximize synergy and leverage impact on the economy.

**Enterprise development.** IDA's new approach also focuses on enterprise development, particularly covering the SME and microenterprise sector, with a view to promoting a strong supply response. A key element of this strategy is the promotion of firm-level and factor productivity through enterprise learning and skills development programs. This involves facilitating technological change and access to global opportunities, as well as industry-led skills development programs, such as technical and vocational education and training. A proposed micro, small, and medium enterprise (MSME) initiative will blend US\$130 million of IDA resources with US\$50 million from IFC and will be piloted in eight countries.

advocate for reform and assisting governments and partners in identifying cross-sectoral linkages. In this area, IDA will work closely with partners who can provide sustained institution-building support, including, when appropriate, twinning between countries with a similar legal heritage.

### Future Priorities

- Work to ensure effective high-level consultative processes between government and a wide spectrum of the business community in all

**The Bank has taken  
a lead in lobbying  
for a genuinely  
prodevelopment  
Doha Round**

active countries, including private sector participation in the PRSP process.

- Accelerate ICAs over the next five years, in a manner that develops local capacity to underpin consultation; benchmark countries' performance and competitiveness in critical business-related areas, including supply chains, policies, and key infrastructure and other services; work toward subregional assessments; and extend benchmarking to global competitors.
- Strengthen relationships with partners to assist in the design and implementation of legal and judicial reforms over the long term.
- Within the World Bank Group, work more closely with IFC and MIGA toward a more integrated approach.

### **Emphasize Trade and Exports as a Lens for Competitiveness**

Africa has been marginalized in the world economy. Its share of world exports declined from over 3.5 percent in 1970 to about 1.5 percent by the end of the 1990s—a decline that represents a staggering income loss of US\$68 billion *annually*, equivalent to 21 percent of regional GDP. Despite some successes, trade performance continues to be weak both because of domestic factors (trade policy, trade facilitation, “behind-the-border” issues) that have both constrained traditional exports and limited diversification, and because of trade barriers and heavily distorting subsidies in major markets. Weak export performance has also been a major factor in raising concerns over debt sustainability.

Trade reform was prominent on IDA's agenda in the 1980s but became less so with the general shift toward the social sectors and public expenditure management. Nevertheless, in the context of growing global attention associated with the Doha Trade Round and important initiatives such as the Africa Growth and Opportunity Act and Everything But Arms, the Bank is again taking a more prominent stance, especially through taking a leading role in implementing the integrated framework (IF) exercise. The IF is an international initiative undertaken by a consortium of international organizations and bilateral donors to assist developing countries in their integration into the international economy. Africa is the principal focus of this initiative because Africa accounts for three-quarters of the eligible countries.

At the corporate level, the Bank conducts research and other analytical work, advocacy, and capacity building. The Bank has taken a lead in lob-

**Table 3.1 African Poverty, Aid Flows, and Cattle Subsidies, 2001**

	GNI per capita	Net ODA per capita
Sub-Saharan Africa	\$461	\$20
excl. South Africa	\$300	\$21
	Subsidy, per head of cattle <sup>a</sup>	ODA disbursements to SSA per capita
Switzerland	\$1,560.28	\$0.21
Norway	\$1,313.16	\$0.41
Japan	\$1,296.93	\$1.26
European Union	\$435.76	\$7.76
United States	\$151.63	\$2.04
Canada	\$130.53	\$0.27
Australia	\$9.14	\$0.03
New Zealand	\$1.63	\$0.01

GNI, gross national income; ODA, official development assistance; SSA, Sub-Saharan Africa.

a. Includes both dairy and beef cattle.

Sources: World Bank, *African Development Indicators*; OECD; UN Food and Agricultural Organization; Center for Global Development.

bying for a genuinely prodevelopment Doha Round and for eliminating agricultural subsidies, which at US\$350 billion per year are 25 times ODA flows to Africa (see table 3.1). To support these initiatives, the Bank is carrying out an extensive program of analytical work on trade-related issues, including the recent “Global Economic Prospects” reports; a *Handbook for WTO Negotiators*; the “Policy Research Report on Globalization Growth and Poverty”; and the “Joint World Bank-IMF Report on Market Access for Developing Countries” released for the 2002 annual meetings.

IDA has analyzed trade regimes in several African countries and is extending this to trade facilitation and supply chain issues. In several countries it is supporting programs to accelerate strategic exports, including through special arrangements such as export-processing zones. IDA will need to intensify this work, starting from an assessment of the potential of the country (landlocked versus coastal, resource endowed versus resource poor, and so forth) and extending progressively from the country to the subregional level. IDA will also focus on particular commodities, such as cotton. Together with WBI, PREM, and DEC, the Africa Region is also actively engaged in helping to build capacity in Africa for trade analysis and negotiation.

## Future Priorities

***The small size of most African countries and the proliferation of cross-border development issues provide strong arguments for a broad and aggressive “deep integration” agenda***

- Accelerate the IF studies and complement with work on key countries that are not least developed countries but are critical for regional trade and growth (for example, Côte d’Ivoire, Kenya, Nigeria, and South Africa). Follow up with plans for assistance with monitorable indicators.
- Encourage trade to be used as a lens in growth-related areas of the PRSP process, including through adequate support by donors.
- Continue aggressive advocacy at the corporate level, including for reforms in agriculture subsidies, a truly developmental Doha Round, and improvements in the African Growth and Opportunity Act and Everything But Arms initiatives in areas such as widened product coverage and liberalized rules of origin. Collaborate more closely with WTO.

### **Deepen Regional Approaches**

Despite ample political rhetoric, regional integration has made only slow progress in Africa. However, driven by liberalization, the growth of private activity (including cross-border investments), and most recently, NEPAD, the pace has accelerated. Africa’s integration agenda is distinctive. Intra-regional trade accounts for only about 10 percent of total African trade. Most studies of the directly trade-related aspects of integration suggest a modest impact, and also a risk that the more developed parts of the continent might reap most of the benefits.

However, the small size of most African countries and the proliferation of cross-border development issues provide strong arguments for a broad and aggressive “deep integration” agenda. This agenda would include convergence of macroeconomic policies, including fiscal, monetary, and exchange rate policies; harmonizing legal and regulatory frameworks; and improving scale and competition through the integration of markets for goods, finance, labor, and infrastructure services. Regional approaches are also needed in other areas of cooperation, such as trade negotiation; infectious diseases, which recognize no boundaries (malaria, HIV/AIDS, and transport corridors); environmental degradation; the management of certain natural resources, especially water and forests; the development of large infrastructure investment, such as power pools; and of higher education where economies of scale can be achieved in developing regional centers of excellence. These issues are widely recognized and are core elements in the NEPAD program.

The potential gains are enormous. For example, hydropower from Inga in the Democratic Republic of the Congo could supply the growing electricity needs of all Southern Africa for the next seven years at a cost of 2 cents per kilowatt-hour. Regional issues are, however, rarely highlighted in PRSPs, even those for the many landlocked countries closely dependent on neighbors. In response, West African regional organizations have initiated a process to develop a regional PRSP that will present in a more explicit way the implications of regional strategies on national programs and will identify the cross-border issues that require specific and collective attention (box 3.13).

IDA's programs and allocations are primarily determined on a country basis, but the regional dimension is increasing. The first regional strategy, for the Southern African Development Community, was completed in 1997. More recently, IDA began to strengthen the organization of its regional activities, and a focal point for regional integration was established in 2000. Working with UEMOA, ECOWAS, and Communauté Economique et Monétaire de l'Afrique Centrale, regional strategies for West and Central Africa have been produced, and similar work is in process for southern and East Africa. Work programs set out in these strategies have three main components: (a) analytical and policy

### Box 3.13 Main Features of the Regional Integration Assistance Strategy (RIAS) for West Africa

**Subregional context.** Regional integration in West Africa primarily concerns 15 countries—Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo—with a combined population of about 240 million people and an average per capita income slightly above US\$300 with half of the population living in absolute poverty. The region is politically and economically highly fragmented, comprising small, undiversified economies. The Bank works with two main regional institutions: the ECOWAS based in Abuja and the Union Economique et Monétaire of West Africa (UEMOA) based in Ouagadougou.

**World Bank RIAS.** The Bank's strategy aims to support deep integration by helping countries create an environment for a more efficient and competitive private sector. The strategy focuses on convergence and harmonization of economic and sector policies; achievement of internal free trade and establishment of an ECOWAS-wide customs union; harmonization and enhancement of cross-border payment systems; infrastructure services (air and land transport, telecommunications, energy) with appropriate regulatory bodies; and a nondiscriminatory framework to promote private investment.

**Status.** Since the discussion of the RIAS by the Board, regional integration has gained new momentum as a result of two main factors: (a) The NEPAD initiative endorsed by the heads of state during an ECOWAS Summit in 2002; and (b) an increased response from donors. Regional integration has progressed on several fronts, including consolidation of the UEMOA customs union, revival of the ECOWAS Secretariat as a leading NEPAD agency, closer relations between the two institutions, and development of a regional PRSP. Several IDA operations are under preparation, including the West Africa power market, West Africa gas pipeline, regional capital market development, and air transport. However, Côte d'Ivoire's political crisis has had major implications for the neighboring economies and affected the pace of regional integration.

work on cross-country trade- and investment-related areas (including an experimental PRSP in West Africa); (b) critical multicountry infrastructure investments, such as power pooling, road transport, and payments systems, and (c) capacity building for the regional economic communities themselves.

IDA has been increasing its regional projects, including one to support trade facilitation covering seven East African countries. The pipeline, which stands at US\$200 million to US\$300 million annually (see box 2.2 on NEPAD), includes power pooling in East and Southern Africa, power and gas in West Africa, and support for implementing the Yamassoukro Declaration on liberalizing air transport. A special multi-country project is the Nile Basin Initiative (see box 3.14). IDA can finance regional projects by splitting them into country components, but is still constrained in supporting regional approaches especially where

### Box 3.14 The Nile Basin Initiative

The Nile Basin Initiative, launched in February 1999, is an extraordinary example of cooperation in the management of international river basins. The Nile, at almost 7,000 kilometers, is the world's longest river. The basin covers 3 million square kilometers and is shared by 10 countries: Burundi, Democratic Republic of Congo, Egypt, Eritrea, Ethiopia, Kenya, Rwanda, Sudan, Tanzania, and Uganda. Historically, tensions have arisen because the populations who share the basin all rely to a greater or lesser extent on the waters of the Nile for their basic needs and economic growth. For some, the river is perceived as central to their survival.

The countries of the basin are characterized by extreme poverty, widespread conflict, and increasing water scarcity in the face of growing water demands. About 150 million people live in the basin today; this number will double to more than 300 million in 25 years.

The countries of the Nile Basin have made a conscious decision to use the river as a force to unify and integrate—rather than divide and fragment—the region. Together, they have launched the Nile Basin Initiative, led by a Council of Ministers of Water Affairs of the Nile Basin, with the support of a technical advisory committee, and a secretariat in Entebbe, Uganda. The initiative is a regional partnership within which the participating countries have united in common pursuit of the sustainable development and management of the Nile waters. The strategy is guided by a shared vision: “to achieve sustainable socio-economic development through the equitable utilization of, and benefit from, the common Nile Basin water resources.” The program includes basinwide projects to lay the foundation for joint action, and two subbasin programs of cooperative investments that will promote poverty alleviation, growth, and better environmental management. The initiative enjoys the strong support of many donors through an International Consortium for Cooperation on the Nile, within which there is a consultative group chaired by the World Bank.

The Nile Basin, as a shared resource, creates opportunities for both strife and cooperation. Water development strategies crafted without consultation with any of the other basin nations can cause the unnecessary degradation of natural resources as well as increase tension between the countries. Cooperation, however, can increase total river flows and economic benefits, generating gains that can be shared among the countries. Over the past 30 years, various subgroups of the Nile countries have engaged in cooperative activities. However, the inclusion of all countries in a joint dialogue opens up new opportunities for realizing win-win solutions. It also holds the promise for potential greater regional integration, both economic and political. This initiative represents a commitment to regional cooperation and provides the institutional framework to promote this cooperation with strong ownership, shared purpose, and support from several donors. The initiative also represents a broader trend toward regional solutions to common problems and joint efforts to share in the benefits gained from regional strategies.

these include International Bank for Reconstruction and Development (IBRD) countries (for example, as in HIV/AIDS transmission corridors) or one or more critical, yet nonperforming, country. Change in IDA policy is imperative here and efforts are under way to realize this.

### Future Priorities

- Develop and implement regional strategies, including at least one major physical and regulatory infrastructure project per subregion.
- Continue to deepen regional work with the main regional organizations under the NEPAD framework and other partners, notably the European Union.
- Ensure that the regional dimension is well taken into account in both national PRSPs and CASs.
- Take a lead, together with key partners, in establishing a flexible capacity-building facility, to support NEPAD's implementation through the regional communities.
- Work to develop more effective mechanisms for using Africa's IDA allocation for regional projects, including possibly a regional allocation.

***When women and men have relatively equal access to opportunity, economies tend to grow faster***

### Mainstream Gender Perspective

Gender equality is an issue of development effectiveness. New evidence demonstrates that when women and men have relatively equal access to opportunity, economies tend to grow faster, the poor move more quickly out of poverty, and the well-being of men, women, and children is enhanced.<sup>22</sup> The untapped growth potential of Africa's women is enormous. However, gender inequalities and restrictions on women's rights result in lack of access to assets, resources, legal systems, and often even the goods they produce. Gender is also an important aspect of the MDGs, including poverty, health, and education indicators.

The Africa Region's gender strategy focuses on four entry points: (a) gender and HIV/AIDS; (b) gender and poverty; (c) engendering economic policy; and (d) gender and law. A central component of IDA's gender work is analytical, such as the strategic country gender assessments, which have been completed in three countries, with eight more

22. World Bank. 2002. "Integrating Gender into the World Bank's Work: A Strategy for Action." Washington, D.C.

***Africa's infrastructure demand of some US\$18 billion per year is larger than total ODA flows***

scheduled for next fiscal year. The Africa Country Gender Database allows systematic collection and dissemination of gender-related data. The region has been working to mainstream gender-related issues into operations by identifying priority gender-responsive actions and implementing those actions in CASs.

### **Future Priorities**

- Continue analytical work, including acceleration of Strategic Country Gender Assessments.
- Continue the emphasis on the gender dimensions in the HIV/AIDS MAP.
- Encourage systematic inclusion of gender-oriented poverty analyses in country PRSPs.
- Support gender-responsive legal reform, as well as expand analytical work into gender and law in postconflict situations.
- Monitor further progress on gender mainstreaming.

### **Make Major Investments in Infrastructure**

Africa's infrastructure deficit remains a major barrier to competitiveness and improved social and living conditions. Transportation costs, for example, are up to three times world levels. Access to infrastructure is also highly unequal—less than half of Africa's population has access to safe water and only one in five people has electricity. Total public infrastructure investment in Africa is now about US\$6 billion per year, roughly half of which is financed by donors. Some estimates suggest that this would have to be tripled to sustain levels of economic growth needed to reach the MDGs.

IDA has a long record of infrastructure investment in transport, energy, and water. It will retain significant presence in these sectors, especially in areas that have seen declining interest by other donors. Infrastructure accounts for a large proportion of IDA's total Africa portfolio and will remain the largest single area of investment. IDA has doubled its commitments in infrastructure, which are now up to US\$1.5 billion annually, or almost half Africa's allocation. Without setting formal targets, IDA is likely to sustain or even raise this level.

Despite IDA's commitment to infrastructure, Africa's needs are beyond the scope of donors and governments to finance. Africa's infrastructure demand of some US\$18 billion per year is larger than total

ODA flows and is 12 times greater than IDA's current infrastructure commitments each year. Vastly increased private investments are vital to complement public flows, especially for major urban and trade-related infrastructure. This is a formidable objective, especially given the withdrawal of private involvement from the sector. Africa has successfully attracted foreign investors in telecommunications in recent years, and the challenge is to find ways to replicate that success in other areas. In addition to bringing in financing and expertise, this would also enable a greater share of official and donor funding to go toward improving rural infrastructure. IDA's strategy in this area has been to support reform of the regulatory environment and has included mechanisms to more directly facilitate public-private partnership. In the future IDA will work more closely with other parts of the World Bank, including MIGA and the IFC, which have also identified infrastructure as a strategic area.<sup>23</sup>

Physical "hardware" is not always the first priority. Improving infrastructure services often requires intensive investment in "software"—helping clients to develop sound regulatory frameworks and the capacity to implement them. Such frameworks need to facilitate competition, widen access, and enable Africa to exploit economies of scale and make more efficient use of its natural resource base. IDA will continue its central role in this area. Many of the crucial infrastructure projects in Africa will be multicountry in nature, and IDA can help to facilitate regional cooperation through advocacy and analysis and by playing honest broker among members. As part of the thrust toward decentralization and CDD, IDA can also help to develop capacity to manage improvements in municipal and local infrastructure.

IDA also has a crucial role in supporting high-risk projects that bring large gains, but might not go forward were it not for Bank participation. For example, IDA was a key player in supporting the Chad-Cameroon pipeline. Similarly, drought and floods are an endemic source of risk in Africa, which is subject to high climatic variability yet has little water storage capacity. IDA has therefore supported water supply management systems, including through the construction of major dams such as the Lesotho Highlands project. Hydroelectric power is another area of growing African demand, and IDA should remain strongly involved in projects such as in the proposed Bujagali Falls in Uganda. Such projects are highly controversial

***IDA also has a crucial role in supporting high-risk projects that bring large gains***

23. IFC. 2003. "Strategic Initiative for Sub-Saharan Africa." Washington, D.C.

and face intense opposition from mainly Northern NGOs, seemingly irrespective of the potential benefits to African populations. IDA will continue to support such projects when warranted by their development impact, while applying agreed safeguards.

### **Future Priorities**

- Continue to commit substantial resources to infrastructure and related commitments, at least at the current level, and accelerate implementation.
- Continue to be active in the areas of regulation and capacity building, including supporting regional, municipal, and local infrastructure.
- Assess experience with guarantees and other mechanisms to encourage public–private partnerships with a view to increasing their use.
- Actively pursue high risk–high return projects, including a review of the application of safeguards and ensure that the costs and risks of nonengagement by the Bank are fully recognized in assessing projects.

### **Widen Access to Finance**

Macroeconomic stability and open markets are necessary, but are insufficient for economic growth. Too frequently, entrepreneurs are slow to enter because of continuing high costs of finance and perceived risks. IDA will continue to support policies that encourage and provide opportunities for private sector growth and increasing access to affordable capital for entrepreneurs. In addition to more general improvements in the business climate, policies can include implementing macroeconomic frameworks that reduce excessive domestic public borrowing to lower interest rates; helping to open up procurement processes to provide greater scope for local business, including through decentralized development programs; reforming financial sectors; and innovating mechanisms to directly support private investments.

**Strengthen and deepen the financial sector.** Financial sector liberalization and reform have been a focus for IDA over the past two decades, but their outcome has been mixed. Many financial sectors are stronger than before (though often still fragile), but savings rates and the level of financial services are low in many countries. Access to formal financial services is almost absent in rural areas and often shrinks with

the rationalization of the state banking sector. Competition is often low, resulting in large spreads and a limited range of financial products. Some systems are saddled with large volumes of nonperforming loans, and in many countries public domestic borrowing crowds out private clients. More generally, in almost all countries serious weaknesses in legal and judicial processes limit the growth of private sector credit and raise the costs of finance to borrowers.

The Bank, in cooperation with the IMF, has completed nine financial sector assessment programs for Africa and plans a further five in FY03–05. These cover both issues of stability and service delivery. IDA has also supported financial sector development through encouraging broader financial governance reforms and has provided financial and technical assistance for banking reform. IDA will build upon the lessons learned from international experience in creating sustainable financial institutions to address the variety of needs in Africa. IDA’s financial sector strategy will focus on reforming contractual savings systems, enhancing capacities of financial institutions, and strengthening regulatory arrangements.

In most African countries, the formal financial system serves only a minority of enterprises and households. The bulk of SMEs, micro- and rural enterprises, and households living in the poorer suburbs of the big cities or in the smaller towns and rural areas are regarded as too risky or costly to serve and therefore have little or no access to financial products and services. An array of microfinance institutions and special facilities has been created to support urban and rural microenterprises. Increasing attention is also being paid to the financial needs of SMEs.

**Direct support for the private sector.** IDA has also supported private investment through several mechanisms. These include a few continuing lines of credit and matching grant schemes to encourage firms to invest in knowledge transfer and new processes and explore new markets. Partial risk-guarantee programs have also been used to encourage private participation in infrastructure and to enable banks to relax country limits on trade finance and programs to support small and medium businesses. But, not being standard “lines of business,” these products tend to be slow and unwieldy for private participants. Between 1995 and 2002, IDA’s direct support for the private sector in Africa amounted to more than US\$900 million for 31 projects in 22 countries (more than half of which was in IDA guarantees for two large infrastructure projects, the Azito power project in Côte d’Ivoire and the Chad–Cameroon pipeline). A proposed MSME initiative will blend

***A proposed MSME initiative will blend US\$130 million of IDA resources with US\$50 million from IFC and will be piloted in eight countries***

**Nearly three-quarters of Africa's poor live in rural areas**

US\$130 million of IDA resources with US\$50 million from IFC and will be piloted in eight countries. Other support for the private sector includes business development services and supplier linkages initiatives.

Despite these innovations, IDA faces several questions. How best to support the domestic private sector? Through which “lines of business” can its concessional resources best be leveraged to bring in multiple levels of private financing? How should it partner with IFC and others to develop more effective approaches? The landscape is changing rapidly in this area, with the growth of investment funds and the launch by other partners of programs to provide financing to private firms (for example, Agence Française de Développement’s PROPARCO and new proposals by the European Investment Bank). Over the coming year, IDA will work with IFC and other partners to assess best practice and develop more innovative private sector support initiatives.<sup>24</sup>

### **Future Priorities**

- Continue to support Financial Sector Assessment Programs and other financial analytical work, including a focus on increasing access and service. Facilitate the inclusion of financial sector issues into the PRSP process.
- Assess the effectiveness of current mechanisms for encouraging private investment. Consider innovations and enhancements, including through matching grants or partial-risk guarantees. Monitor pilot projects results carefully, as a basis for scaling up.
- Work with IFC, MIGA, and other partners to develop a seamless set of financial services.
- Expand the risk-mitigating scope of the Regional Trade Facilitation Program to include additional countries.

### **Support Agriculture and Rural Recovery by Integrating Sustainable Practices**

Africa’s rural sector is essential for both the growth agenda and for any strategy to reduce poverty. Nearly three-quarters of Africa’s poor live in rural areas: agriculture accounts for 30 percent of African GDP, 70 per-

24. See IFC. 2003. “Strategic Initiative for Sub-Saharan Africa.” Washington, D.C.

cent of the labor force, and 40 percent of exports. With soil fertility declining and input use lower in many countries, agricultural productivity has stagnated for more than two decades. Many countries have completed a first wave of price and policy reforms, abolishing ineffective marketing boards and state input distribution, and setting the foundation for a market-based recovery in agricultural production. However, institutions are still weak and private entry into marketing and input distribution has been slow, in part because of the uncertainty caused by ad hoc government interventions. In most countries, agriculture is still taxed through trade policy, though less heavily than before, and there is often an urban bias in service provision and investment.

IDA's approach to rural development has changed from supporting large-scale, public sector agriculture programs toward working with a more market-driven rural sector including both farming and off-farm businesses. IDA's strategy for rural development has four main elements.

**Enhancing agricultural productivity and competitiveness.**

Raising agricultural output is important not only for income growth but also for ensuring food security. IDA's approach includes encouraging better technology and improving market conditions for farmers. IDA provides technical and financial support for research and development initiatives, working with the UN Food and Agricultural Organization and African institutions such as the Forum for Agricultural Research in Africa to overhaul and regenerate research capacity and extension in Africa. New initiatives include the MAPP, an approach to strengthen agriculture research and extension, aimed at doubling the resources going to research and development. A parallel focus is on strengthening supply and marketing chains to enable agriculture to reach external markets as well as growing internal urban markets. IDA views agriculture through a trade lens, bringing attention to needed reforms of domestic market conditions, enhancing supply chains and access to global agricultural markets.

**Investing in critical rural infrastructure.** Roads, safe water, and power are critical for improving the competitiveness of agricultural markets, integrating rural economies with both domestic and international markets, and delivering services to rural people. But rural areas have often been neglected in infrastructure development. IDA will continue to support these areas, including through CDD projects.

**Extending social services to rural areas and reducing vul-**

*Roads, safe water, and power are critical for improving the competitiveness of agricultural markets*

**nerability.** Other services in rural areas have often also been neglected. Redressing this neglect requires not only more resources, but also better incentives, for example, for teachers to work in rural schools. Community-based programs can be important here in directly involving communities in their own service provision, while social funds and CDD also can help to mitigate the effects of shocks on vulnerable populations (see above). CDD operations also serve to strengthen the linkage between rural communities and local levels of government, ensuring that decentralization reaches rural areas and contributes to reducing rural poverty.

**Mainstreaming sustainable resource management into development.** The natural resource base on which most of Africa's rural poor depend is under pressure from poverty, population growth, and the absence of appropriate incentives for sustainable management. Soil and watershed degradation, plus the depletion of forests and fisheries, is having a devastating effect on the livelihoods of Africa's poor. In almost all cases, the introduction of sustainable practices, such as maintaining soil fertility, efficient management of water resources and irrigation, and integrated pest management, leads to increased productivity and resource integrity. Improved pest management approaches are also emerging as an essential trade issue as major markets for agricul-

### Box 3.15 Linking Environment and Poverty Reduction: Madagascar

Madagascar has been locked in a downward spiral of poverty and environmental degradation. In a span of 40 years, the population has tripled, GDP per capita has decreased by 35 percent in real terms, and almost half of the forest area has disappeared as a result of slash-and-burn agricultural systems.

Forest destruction and poor land use have significantly damaged Madagascar's unique biological diversity and undermined watershed and soil stability vital to the agrarian economy. Deforestation is causing large losses of topsoil, up to 150 to 200 tons per hectare per year on bare land. Lower agricultural productivity because of soil loss, siltation, and water shortage, as well as lost ecotourism potential, continues to severely constrain growth in GDP.

The World Bank and other donors have been supporting a 15-year Environmental Protection Program to halt this hemorrhage and put in place institutional reforms to mainstream sustainable resource management into the country's development agenda. As part of this program, the Bank recently completed a sector report that showed that the economic benefits of biodiversity conservation far outweigh costs in Madagascar. Sustainable management of a network of 2.2 million hectares of forests and protected areas over a 15-year period would cost US\$97 million (about half of this being the opportunity cost of land conversion) but would result in total benefits of US\$150 million to US\$180 million (about 10 percent to 15 percent from direct payments for biodiversity conservation, 35 percent to 40 percent from ecotourism revenues, and about 50 percent from the watershed protection, mostly in the form of averting the impact of soil erosion on a quarter million hectares of irrigated agriculture).

The study considers the political economy of potential winners and losers and points to the needs for equitable transfer mechanisms between the different groups (for example, through a tax on ecotourism operators). But the main conclusion is that natural resource conservation will help maintain or improve the welfare of at least half a million poor peasants engaged mainly in rice production.

tural products adopt increasingly restrictive requirements regarding pesticide residues. IDA is working with governments to integrate this “Southern environmental agenda,” emphasizing natural resource management in development planning. As part of this, IDA is encouraging governance and budget management reforms that bring resources and decision making to the local level (see box 3.15).

**Water resources require special attention.** Extreme variability in water resources and numerous shared river basins pose significant water resource management and development challenges and are obstacles to growth in Africa’s highly agrarian economies. Rainfall across the continent is exceptionally variable in both time and space, with year-on-year variation often exceeding 35 percent around the mean and frequent droughts and floods. Serious water scarcity is spreading, with 20 countries expected to suffer from water stress in 2025. In addition, Africa faces the challenge of managing its numerous international rivers. Every country in Africa borders at least 1 international river basin, and 15 countries have 5 or more. The cooperative management needed to sustain and develop these basins requires significant technical capacity, investment, and international diplomacy.

## Future Priorities

- Work across sectors to integrate rural issues more deeply into IDA’s private sector development strategies and PRSPs.
- Continue emphasis on the unfinished agenda of policy and regulatory reforms.
- Follow through on support for agricultural technical research and extension services.
- Extend work on domestic-supplier linkages to include potential for domestic agriculture and agribusiness arising out of the increasing presence of large food and agribusiness distribution chains.
- Ensure that the rural sector shares in increased investment support.
- Scale up successful CDD programs to poor rural communities, and strengthen linkages of communities with local governments.
- Build on good practice, and mainstream sustainable resource management into development planning.



# 4

## Pillar Four: Implementing the Emerging Partnership Model and the Results Agenda

**I**DA, IN COMMON WITH OTHER PARTNERS, FACES TWO MAJOR CHALLENGES for implementing the agenda outlined above: (a) putting into practice the Emerging Partnership Model, centered around the PRSP process, and (b) moving toward results-based assistance.

### **Mainstreaming the Emerging Partnership Model**

**A**FRICA'S RELATIONSHIP WITH ITS PARTNERS IS BEING REDEFINED. Several developments are leading to new principles and an emerging aid model: one based on client ownership; more predictable financial flows; better coordination and harmonization; and strong linkages to results. The Comprehensive Development Framework and the PRSP process demand a more holistic view of development,

**African countries need more dependable and predictable financial flows**

based on economic and social goals, with African countries taking the lead. PRSPs provide the framework for partners within a country, while NEPAD is articulating a development framework for the continent. HIPC tracking has channeled resources to critical poverty-reducing development programs through governments' own expenditure systems rather than through parallel projects. Development partners have also increasingly moved from isolated projects to sectorwide programs and, in some cases, budget support. These trends have increased the focus on donor coordination and harmonization. At the same time, as aid is shifted to broad budget support, African countries need more dependable and predictable financial flows.

What is IDA's comparative advantage within the Emerging Partnership Model, and how can IDA work best to meet client needs? IDA brings three strengths to this partnership. The first is multilateralism. As a global institution, IDA brings a global perspective, drawing from experiences and knowledge throughout the world. As a global cooperative institution, IDA can also contribute its convening power, providing leadership on issues from aid coordination at the country and program level to SWAPs. Second is IDA's technical knowledge, including its analytical and project design capacity. Given IDA's institutional capacity, it is uniquely able to work with a broad range of ministries in client countries, which allows an integrated development approach. Third is IDA's resources. With commitments of US\$3.75 billion in FY02, IDA is one of the largest single sources of finance, even though this constitutes only one-quarter of total ODA to Africa.

As IDA works within this framework, how IDA's effectiveness is measured also needs to change. Until now, IDA's impact has largely been measured through the *projects and programs* it has financed. Current measurement systems internal to the Bank (QAG, project monitoring systems, OED) have primarily focused on judging the success of project-based lending. Yet, two other areas for results also become critical in this model: policy dialogue and partnership. *Policy dialogue* includes both the analytical work done by IDA, as well as other means of advising clients: informal policy notes, policy discussions, and workshops. As IDA moves toward supporting a country's PRSP, there needs to be an increased focus on how IDA is supporting the PRSP process, including the underlying analysis of development issues and solutions. Within the PRSP framework, *partnership* is critical for success. IDA must work more closely with a broader range of development actors: government,

civil society, private sector, and other donors. IDA must seek opportunities to enhance donor cooperation and reduce transactions costs for clients (for example, by harmonizing procedures or pooling funds).

### **Objective: Supporting the PRSP**

The Emerging Partnership Model puts the PRSP process at the center of the development relationship between donors and clients. The model, by using the PRSP as the basis for sectoral engagement and ongoing reviews of future progress, emphasizes more effective aid partnerships based on several principles:

- Client ownership.
- Dependable financial flows to governments.
- Coordinated donors.
- Harmonized processes.
- Linkage to results.

Current practice aims for many of these principles but faces some structural barriers, notably on the lack of coordination both among multiple donors and between donors and governments. In this context, there are already initial moves toward multidonor budget support in many African countries. The Emerging Partnership Model, which builds on this trend, has important partnership goals. All donor support should be aligned to national budget cycles and include an annual PRSP review.

This mechanism would provide donors with a regular account of progress and the role and contribution of ODA. For governments, it provides a fuller picture of all available resources, allowing donor resources to be comprehensively integrated into the national budget and development planning. It also lessens the uncertainty of resource flows and reduces the excessive transactions costs associated with current practices. Transparency becomes a crucial underpinning of the emerging model, both in terms of client–donor relationships, and through the use of open information as a mechanism to verify results and empower citizens and local communities.

The question is how best to operationalize and implement the model, taking into account the diversity of its clients and their needs, and how to contribute toward an enabling environment in which IDA, its clients, and all partners work successfully within the emerging relationship.

***The Emerging Partnership Model puts the PRSP process at the center of the development relationship between donors and clients***

Cameroon's results-based CAS and Ghana's multidonor budget support mechanism are good examples of this in practice.

### **Selectivity and Instrument Choice**

***The countries with CPIA ratings in the top third received on average US\$13.84 per head per year, compared with US\$3.08 in the bottom third***

African countries span a wide spectrum in terms of capacity and performance and require a range of lending and analytical products to support their development programs. In tailoring IDA's support, it is important to take into account this varying capacity to ensure effective use of resources. The annual IDA performance ratings provide a set of indicators related to development effectiveness.

IDA's PBA system uses three measures: (a) the country's CPIA score; (b) portfolio performance (based on annual review of portfolio performance ratings); and (c) a governance factor, itself based on CPIA. The CPIA provides an assessment of a country's macroeconomic, structural, social, and institutional performance on the basis of 20 criteria. The CPIA is not the only assessment of economic and social policies or the quality of governance, but it does provide a good overall indicator of a country's ability to absorb and use resources effectively and is correlated with a number of other measures. CPIA rankings are now made public in the countries in quintiles, and ratings are shared with the concerned countries as part of the policy dialogue (see table 4.1). Starting in 2004, CPIA scores will be more openly available, with IDA country ratings being reported in letter grades for major clusters.

Countries range along a continuum, with the LICUS countries at the left and high-performing countries at the right (see figure 4.1). Countries at the left of the spectrum are judged to have the weakest institutions and policies and the least capacity to absorb high levels of ODA effectively. Those on the far right have the highest performance ratings and the greatest capacity to use aid well. Over FY99–01, the countries with CPIA ratings in the top third received on average US\$13.84 per head per year, compared with US\$7.76 in the middle third, and US\$3.08 in the bottom third. In seeking to increase the efficiency of African economies and their absorptive capacity, an important goal for IDA is to help its clients move toward the upper end of the continuum.

Many of the countries in the lowest tercile of the CPIA are affected by conflict. Such countries are assessed like others in the annual CPIA rating exercise. However, IDA's engagement with a number of postconflict countries is based on the Postconflict Model outlined in the first strate-

**Table 4.1 CPIA Rankings, December 2002**

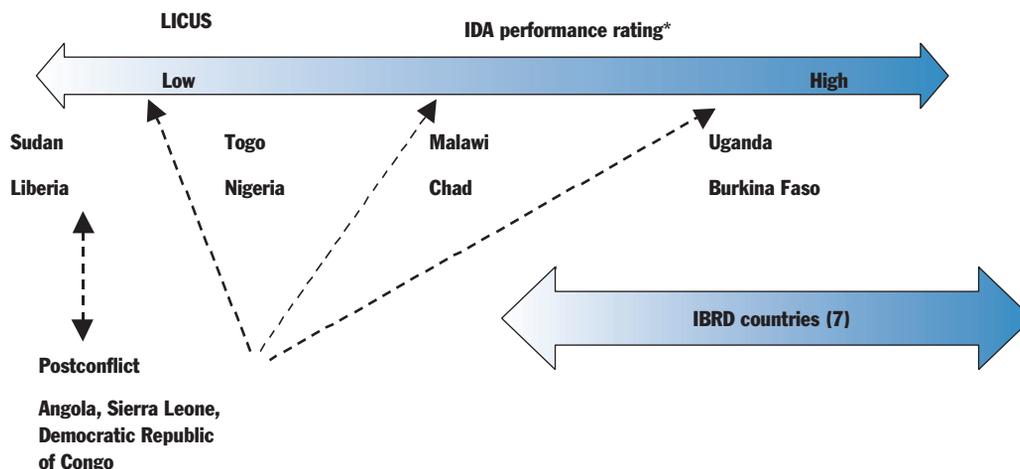
Bottom Third	Middle Third	Top Third
◆Angola	Benin	*Botswana
◆Burundi	Cameroon	Burkina Faso
Central African Republic	Chad	Cape Verde
Comoros	Côte d'Ivoire	Ghana
◆Congo, Dem. Rep. of	◆Eritrea	Mali
◆Congo, Republic of	Ethiopia	Mauritania
Equatorial Guinea	The Gambia	*Mauritius
*Gabon	Guinea	*Namibia
◆Guinea-Bissau	Kenya	Rwanda
♣Liberia	Lesotho	Senegal
Nigeria	Madagascar	*South Africa
São Tomé and Príncipe	Malawi	Tanzania
*Seychelles	Mozambique	Uganda
◆Sierra Leone	Niger	
♣Somalia	Zambia	
Sudan		
*Swaziland		
Togo		
Zimbabwe		

\*IBRD; ◆Postconflict designation by the World Bank; ♣ No formal CPIA, but presumed in bottom tercile.

gic pillar, which includes an exceptional and temporary resource allocation. Within three to five years, these postconflict clients are expected to mainstream into the normal client continuum. The challenge for IDA will be to encourage such countries to mainstream toward the higher end—that is, to emerge out of the postconflict stage as relatively high performers.

Africa's seven IBRD countries span a wide CPIA range (box 4.1). Some, such as South Africa, Botswana, and Mauritius, have records of strong economic management and sophisticated and highly capable institutions. Others, such as Gabon and Swaziland, share many of the institutional characteristics of lower income IDA countries. The Bank's involvement in these countries varies according to their individual situa-

Figure 4.1 Emerging Partnership Model: Client Typology Continuum



\* IDA performance scores encompass CPIA, portfolio, and governance factor.

tion and needs but also takes into account their position in a regional context and their contribution to the development of their neighboring IDA countries.

### Linking Performance to Instruments

IDA's range of instruments (figure 4.2) seeks to match client absorptive and management capacity to desirable engagement levels. Programs should evolve flexibly with the capacity and track record of clients. IDA's objective is also to provide incentives for clients to move upward along the continuum by offering greater client control over programs and resource use at the higher end.

TA, technical assistance; MAP, Multicountry HIV/AIDS Program; CDD, community-driven development; PRSC, poverty reduction support credit; SWAP, sectorwide approach; PSD, private sector development.

**Active countries.** In all active countries, IDA will support HIV/AIDS programs through the MAP. Social funds and CDD-type

#### Box 4.1 Africa's International Bank for Reconstruction and Development (IBRD) Countries

**Who are they?** Africa has seven countries that are not IDA eligible. They include Botswana, Gabon, Mauritius, Namibia, Seychelles, South Africa, and Swaziland. All have per capita incomes above the current IDA maximum of US\$1,435.

**Are they part of this model?** These countries are not included in the Emerging Partnership Model because they do not qualify for IDA credits and are not dependent on concessional finance, but the Bank's engagement with them can still fit into the model on the basis of their individual performances, capacities, and needs.

**Do they matter?** These IBRD countries are important both for Africa and for IDA's work. As a group they account for 40 percent of Africa's GDP. They have important trade and investment linkages to the rest of the continent, and South Africa and Mauritius are important sources of foreign direct investment. Some are playing leadership roles on regional issues and in NEPAD. They also offer models for others. For example, Botswana is lauded for its management of natural resource incomes, while South Africa's model of fiscal and administrative decentralization is being studied by several other countries.

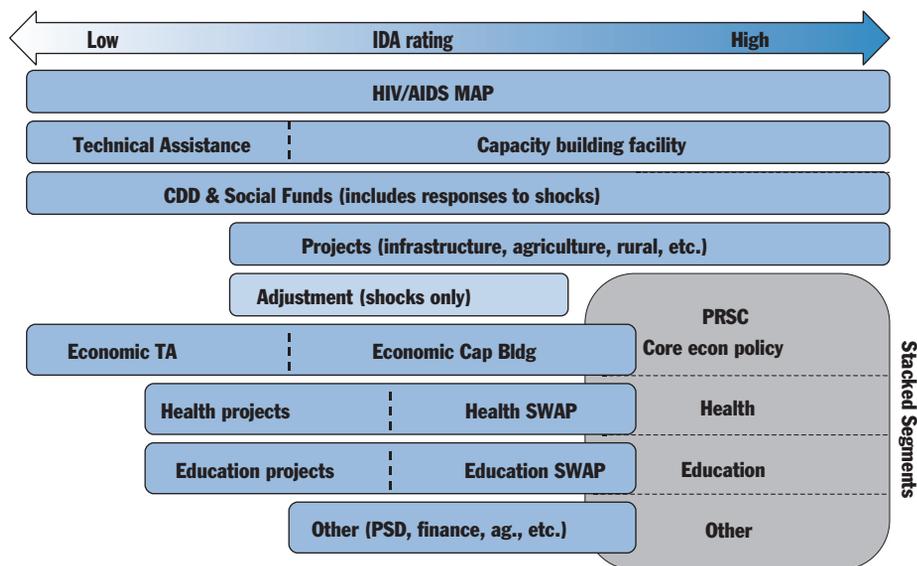
**What is the Bank's role?** Because these seven are not a homogeneous group, the Bank's role differs greatly among them. For those with high levels of local capacity and strong management systems, the Bank emphasizes analytical work and knowledge transfer. Mauritius, for example, has a public expenditure reform project and has been a springboard for analytical work on pension liabilities. In South Africa, the Bank's work includes the area of municipal finance as well as the implementation of Global Environment Facility projects for linking environmental conservation to the management of wildlife and tourism. Other IBRD countries have less capacity and face larger issues of governance and restructuring. In these countries, the main aim of the Bank's work is to support processes of reform that enable countries to benefit more from their own and other resources. For example, Swaziland has been awarded US\$50 million from the Global Fund to Fight AIDS, Tuberculosis, and Malaria but it needs assistance in designing and implementing its programs.

projects, which provide resources directly to communities, are also envisioned for all active countries. These can allow for more effective responses to shocks and also provide an alternative approach to more centralized development programs, to which they can be both a complement and a valuable competitor. The blend of top-down and bottom-up support offered by IDA to a given country should take into account the relative effectiveness of these channels.

**Lower-end countries.** For countries at the low end of the spectrum, engagements will be limited, focusing on selected "entry points." In line with the LICUS strategy, these will usually be modest technical assistance and capacity-building projects to encourage better economic governance, increase country knowledge, and build a foundation for improved management and greater IDA engagement in the future. As countries progress, this engagement can be supplemented by projects in social sectors and basic infrastructure, health, and education, with the idea of building capacity to move further along the continuum.

**High-middle performers.** For these countries, assistance is geared toward building greater capacity in economic management to increase

**Figure 4.2 Emerging Partnership Model: Forms of Support (excluding postconflict)**



absorptive capacity and lay a foundation for growth. Especially in the social sectors, engagement will shift from stand-alone projects to more SWAPs supported by a range of flexible instruments—for example, sector and investment maintenance loans or APLs—helping to coordinate the work of an increasing number of partners. Traditional projects (or possibly guarantees) would continue in some areas, notably those related to large-scale infrastructure and rural projects but also in areas such as financial sector reform and private sector development. Technical assistance will also encourage wider capacity-building activities directed toward longer-term sustainability: improving budget and financial management will be an important part of this. Rather than a host of technical assistance credits, a unified facility could reduce transactions costs, supporting an agreed program of capacity-building assistance closely tied to the program’s objectives. At the country team level, sector and capacity-building programs will all be designed to prepare the country for moving up to the next level of performance (for example, from projects to sector programs, from sector programs to programmatic support). Adjustment lending would continue for this group of countries, helping them to cope with emergencies and external shocks and supporting

essential reforms.

**High performers.** High performers have demonstrated higher levels of economic and social management and capacity and a longer track record of good development policy and implementation. As countries enter this group, they become candidates for programmatic support, which can be delivered through such mechanisms as the PRSC. In these countries, IDA may still maintain some sector programs and will still offer stand-alone projects in certain areas, but the number of separate projects per country would fall, rather than increase, even though the level of IDA's commitments would be higher. Traditional stand-alone adjustment lending is no longer necessary for this group, and the functions served by adjustment lending would be subsumed into part of the PRSC.

The array of instruments appropriate for a given country will vary with the country's capacity and performance. The instruments, themselves, are evolving to meet changing country needs and to incorporate efficiency in design and implementation. Investment operations supporting programs with a long time horizon can often be designed as APLs, with scope for mid-course adjustment to meet defined targets. CDD operations implemented through local governments are supplanting earlier social funds as decentralization moves ahead and local governments become stronger. Major investments in infrastructure increasingly incorporate partnership with the private sector and span geographic boundaries. The experience with multicountry instruments gained from the HIV/AIDS MAP is informing design of a new multicountry intervention to support improvements in agricultural productivity. In use of the full array of instruments, IDA remains committed to traditional interventions where they are most appropriate for the purpose at hand. In the effort to make a varied array of instruments available to countries as circumstances change, one of the most significant recent developments has been the introduction and evolution of the PRSC.

*The array of instruments appropriate for a given country will vary with the country's capacity and performance*

### **Unpacking Poverty Reduction Support Credits**

Although PRSCs were introduced more than two years ago and they

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1. See World Bank. 2001. "Interim Guidelines for Poverty Reduction Support Credits." Operational Memorandum, Operational Policy and Country Services. Washington, D.C.

***The decision to move to a PRSC may depend on country circumstances***

have a set of guidelines, the operationalization of the PRSC is still in process.<sup>1</sup> This section clarifies the role and application of the PRSC, as currently seen in IDA’s Africa strategy. (For details on how PRSCs differ from traditional adjustment lending, see table 4.2.)

**Criteria for PRSC eligibility.** PRSCs are not intended for all of IDA’s African clients. Movement along the continuum from a project to SWAPs and then to a PRSC signifies a growing degree of confidence in national budget processes, combined with a progressive increase in client capacity. Clients have themselves expressed a strong preference for programmatic support, so that, as part of the incentive process, the strategy needs to be clear on the criteria for the PRSC. Under current guidelines, the country should have a full PRSP and the country team should have completed a full set of “core diagnostic” analytical work to underpin the program, which would include poverty assessment, country economic memorandum/development policy review, PER, CFAA, and CPAR. Other criteria include:

- A proven track record of macroeconomic management.
- Reasonable budget and financial management, including financial transparency (at least the publication of the budget and regular audits) and the capacity to track poverty-related spending.
- Working sector-level programs in key service areas to be supported by the PRSC.

The Strategy does not suggest a specific minimum CPIA or IDA performance score as the criterion for a PRSC, because of the inherent limitations of any single indicator. The decision to move to a PRSC may depend on country circumstances that are better left to the judgment of the country teams and their clients. Nevertheless, given the general conditions listed above, it would be expected that PRSC candidates would be on the high side of the ratings spectrum.

**Flexibility through a stack of segments.** PRSCs are annual, single tranche, credits embedded in a rolling programmatic framework. At the same time, the PRSC cannot be simply an instrument for addressing “macro” issues. It requires an appropriate design to ensure that essential sector dialogue and results measurement enter into the monitoring and financing framework. Under this model, flexibility can be introduced by considering the tranche as containing a “stack” of segments. The “core” segment focuses on the implementation of central

**Table 4.2 How PRSCs Are Different from Traditional Adjustment Lending**

	<b>PRSCs</b>	<b>Traditional Adjustment Lending</b>
<b>Initiative</b>	<b>CAS based on core objectives of country-owned PRSP</b>	<b>Development partners in dialogue with government</b>
<b>Focus</b>	<b>Public sector management, governance, capacity building, service delivery, regulatory frameworks</b>	<b>Policy frameworks, sector reform</b>
<b>Stakeholder participation</b>	<b>Broad consultation with government and civil society</b>	<b>Bank dialogue with government</b>
<b>Modalities</b>	<b>Single annual tranche within rolling framework</b>	<b>Multitranche</b>
<b>Performance triggers</b>	<b>Ex-post development outcomes</b>	<b>Ex-ante conditionalities on promised policy changes</b>
<b>Timing</b>	<b>To national budget cycle</b>	<b>Per program arrangements</b>
<b>Response to performance</b>	<b>Adjustment in amounts committed in following PRSC</b>	<b>Stop-start of entire program</b>

macroeconomic and structural policies, as well as general progress in areas related to budget management and public sector reform. As for adjustment operations, the main counterpart for this segment will normally be the ministry of finance. Other segments within the stack provide indicative levels of support for major public services, for example, education or health.

The level of support provided through these segments would depend heavily on the quality of implementation of agreed programs and would rest on a continuing sector dialogue (or multisector dialogue as appropriate) between IDA and the appropriate counterparts including sector ministries. While the PRSC will still be released in a single tranche and fed into the formulation of the next budget cycle, the support provided could vary depending on performance. And these variations could be by individual sector within the stack. In contrast to multitranche adjustment credits, PRSCs will be based on ex-post performance and implementation, not on expected policy changes.

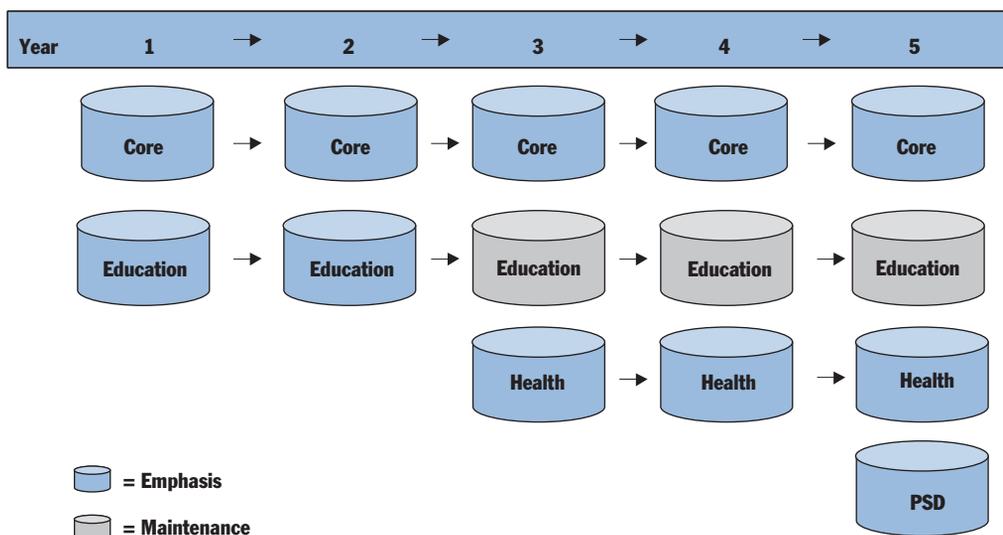
In any model of support, there is an inherent tension between two objectives: varying the level of support according to performance and ensuring that support is stable and predictable enough to underpin a medium- to longer-run development program and expenditure framework. Programmatic support does not create this tension, but it brings it squarely to the foreground. The new PRSC model:

- Allows greater funding continuity and reliability for programs performing well.

- Averts the all-or-nothing dilemmas that have plagued adjustment lending.
- Avoids the difficulties of curtailing financing for a performing sector because of problems in other sectors.
- Creates a mechanism for macroeconomic shock absorption, with assistance levels that can vary annually to help cushion unexpected budgetary shocks (positive or negative).

**Evolution of PRSCs.** The shift to PRSCs will not be all-inclusive from the outset. Each PRSC will have a core economic management component, but the sectoral emphasis may both grow and shift over time. As appropriate, sectors can be brought into the PRSC. For example, a country could have a PRSC that included the core economic policy and education but that ran alongside a health SWAP and private sector development projects for several years. Over time, with good performance and growing donor support, the policy dialogue on and the support to education might revert to “maintenance” levels, while extra effort and resources are directed to new areas (figure 4.3). It is also likely that other donors may take a lead role in financing certain sectors.

Figure 4.3 Possible Evolution of PRSCs over Time



PRSC, poverty reduction support credit; PSD, private sector development.

Regardless of IDA resource transfers, continued policy dialogue and monitoring of results will remain critical in each PRSC sector.

## Implications for IDA

The implementation of this Emerging Partnership Model has important implications for IDA's focus, use of staff time and skills, and resource allocation.

**Focus.** In countries where IDA's support will shift toward PRSCs, there will be increased demand for analytical work, to support diagnostic requirements and to inform policy dialogue. This implies greater coverage and better quality in IDA's ESW, especially on the sector side. The linkage to results also requires that more attention be paid to outcomes and measurement systems.

**Staff time.** For countries moving to PRSCs, staff-time use will shift from an emphasis on project supervision to policy dialogue underpinned by sound analytical work. Similarly, less staff time will be spent on project preparation and more on monitoring and implementation.

**IDA allocations and debt sustainability.** IDA began using performance-based allocation, the explicit linkage between performance scores and the allocation of resources, in 1977. Over the years the PBA system has evolved significantly, with the CPIA ratings gradually incorporating new development thinking, notably the inclusion of governance, portfolio, and environmental factors in the formula. Using this system, IDA has increasingly directed financial support toward countries with higher CPIA ratings (see allocation per head data above). IDA will continue the PBA system, and with better monitoring, outcomes will progressively acquire increasing weight as an indicator of performance.

IDA will also need to take debt sustainability into account as a critical factor in lending decisions. A number of countries, particularly those with small ratios of exports/GDP and those hit by falling prices for key commodity exports, will not be able to absorb their full performance-based IDA allocations in the form of credits without exceeding sustainable levels of debt. IDA has some specific characteristics, relative to other forms of financing, that argue for some more relaxed interpretation of the ratios. For example, because of IDA's extended terms, debt service ratios are low relative to those for other financing of equivalent NPV. Nevertheless, there is a tension between maintaining reasonable

***IDA needs to take debt sustainability into account as a critical factor in lending decisions***

***As the quality of public finance management and utilization increases, aid flows from other sources are expected to increase***

levels of debt sustainability and financing development that will need to be managed in the future. One approach is to make part of IDA available to debt-vulnerable countries in grant form. This is recognized in the Guidelines for the Allocation of IDA Grants, which provides for 18 to 21 percent of IDA-13 to be made available through grants. In particular, debt-vulnerable countries are eligible for up to 40 percent of their IDA allocation in the form of grants (subject to overall availability).

Looking ahead, IDA will need to review and possibly extend this provision, if it wishes to maintain the PBA system and at the same time adhere to prudent long-term projections. Possibilities include using the IDA allocation as a signal to encourage other donors to substitute grants for IDA, or perhaps seeking arrangements that enable other donors to buy down the terms of IDA financing to the level of grants for countries with debt sustainability constraints, thus leveraging their own contributions.

Despite the highly concessional terms of IDA lending (currently 40 years at 0.75 percent and 10-year grace period), IDA loans need to be repaid in U.S. dollars. This means that debt sustainability concerns also place a premium on long-term growth and export growth in particular. These are two focal areas highlighted above for the third pillar of the strategy: improving the investment climate and a strong lens on trade and exports.

**Resource flows.** While this Strategy focuses primarily on ways to increase the quality of development assistance, part of its goal is to increase clients' capacity to effectively absorb larger quantities of assistance in the future. There is now a global consensus, reiterated in Monterrey and by recent G8 meetings, that greater levels of resource mobilization are required in order to make progress toward the MDGs. Resources to fund the development process must increase in all forms: public and private, domestic and international. But so far, the promise of Monterrey has yet to be realized.

IDA has several roles to play in this effort. At the country level, IDA will continue to assist effective mobilization and utilization of domestic public resources through support for fiscal reform, budget management, and expenditure accountability. IDA also encourages better mobilization and utility of domestic private resources through financial sector reform and private sector development initiatives. Third and most obviously, IDA also contributes its own direct lending to support policy reforms, institution building, and service provision, accounting for one-quarter of total ODA flows to Africa. As the quality of public finance management and utilization increases, aid flows from other sources are expected to increase, thereby significantly strengthening the volumes, predictability,

and effectiveness of all aid funding. Lastly, IDA has a role in catalyzing the enabling environment for the effective mobilization and utilization of international private flows, especially toward infrastructure development. IDA has to advocate making the promises of Doha and Monterrey real.

### **Future Priorities**

- Progressively phase in the Emerging Partnership Model across a wide range of countries, including PRSCs as appropriate.
- Underpin the shift with higher ESW deliverables and analytical work plans directed toward results-oriented CASs.
- Increase the transparency of IDA's PBA system, including using the CPIA as an instrument for policy dialogue at the country level to encourage clients to move up the scale.
- Identify knowledge gaps and structure staff training to support the model and acquire the new skills needed.
- Change IDA's processes and policies to catalyze harmonization.

***IDA, as well as others, faces a formidable challenge in moving toward results-based assistance***

## **Moving to Results-Based Assistance**

**I**N MOVING TO RESULTS-BASED ASSISTANCE IDA IS RESPONDING TO TWO imperatives. The first is that of its shareholders, who are increasingly demanding that development support—through ODA in general and IDA in particular—be linked to results on the ground. This push has gained momentum since the formulation by the OECD in 1996 of the International Development Goals, which later evolved into the MDGs. The prominence of these indicators served to highlight how far Africa was lagging despite substantial levels of ODA, and also the limited information available in many countries for assessing effectiveness. A second factor is the need to be more accountable to the people of Africa for the use of resources contributed on their behalf as well as for the success of development programs funded by a blend of their own resources and assistance.

IDA, as well as others, faces a formidable challenge in moving toward results-based assistance, and it has a major effort under way including through moving toward a “results-based” CAS.<sup>2</sup> IDA's own projects have

2. See World Bank. 2002. “Better Measuring, Monitoring, and Managing for Development Results.” Operations Policy and Country Services. Washington, D.C.

***As multiple partners pool resources and blend them with those from the client countries, the impact of specific donors and projects is becoming more difficult to distinguish***

always been thoroughly evaluated, and since 1996 samples of ESW have been assessed by QAG for quality, relevance, and likely impact. OED also performs country assistance evaluations to assess the overall impact of IDA's engagements. Yet, in many countries, a dearth of consistent and timely data prevents a strong focus on outcomes. Baseline assessments of statistical capacity in Africa point to a need for upgrading in many areas.<sup>3</sup>

**What to measure.** Even when outcomes are known, the Emerging Partnership Model stresses “contribution” rather than “attribution.” As multiple partners pool resources and blend them with those from the client countries, the impact of specific donors and projects is becoming more difficult. In this model, the right question is not necessarily “What is IDA's impact?” It is rather “Are the programs supported by IDA performing successfully?” Success, in this context, can encompass a number of dimensions.

- *Results.* Are children learning? Are rural girls more literate?
- *System indicators.* Are teachers turning up at school? Are nonsalary budget allocations actually reaching the schools? Is the education policy framework sound? Did IDA provide useful advice on formulating it?
- *Partnership.* Is the program successfully integrating support from a variety of development partners? Is IDA itself a constructive part of this joint effort?

As programs become increasingly client-led, the focus of evaluation therefore increasingly shifts away from individual donor contributions and toward the performance of commonly funded systems of service delivery and economic and social management. This dimension of performance, in turn, is closely related to the criteria used to allocate IDA itself, through the CPIA.

This highlights the need to focus on two areas. First, how should the assessment of IDA's efforts be made coherent with the emerging framework? Second, what role should IDA play in efforts to improve statistical capacity in Africa?

### **Toward Greater Coherence: The Results-Based CAS and**

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3. See World Bank. 2002. “Building Statistical Capacity to Monitor Development Progress.” Development Economics. Washington, D.C.

## Strengthened CPIA

In considering how IDA should take forward the results agenda for Africa it is useful to focus on three levels of measurement: (a) IDA's own activities, (b) final country outcomes, and (c) an intermediate set of indicators that measure program effectiveness.<sup>4</sup>

**Monitoring what IDA does.** As noted above, IDA brings three things to the table: knowledge and analysis, finance, and convening power. In each of the four pillars of IDA's Africa strategy, its success can therefore be judged in terms of policy dialogue, programs, and partnerships.

- In measuring policy dialogue, the coverage and quality of core diagnostic and other analytical work offer suitable indicators. Systems for assessing these are now in place but could be complemented by greater emphasis on dialogue in client surveys.
- Traditionally, evaluation has focused on programs. While no major changes are foreseen here, increased attention should be paid to disbursements as opposed to mainly commitments as an indicator of resource transfer. A suitable composite weighting to reflect IDA's renewed emphasis on implementation might be 60 percent disbursements and 40 percent commitments.
- The partnership dimension has been less systematically assessed, but client and partner surveys, the SPA process, and the sequence of PRSP implementation reviews offer opportunities to test the waters. As part of the recent CDF evaluation, work is ongoing to develop more standardized monitoring of partnerships.<sup>5</sup> Additional indicators can include the share of programs cofinanced with others, the contribution to pooled resources, the progress on the harmonization agenda, and the degree to which IDA crowds in private coinvestment. Pooling of resources in analytical work is another indicator. More ESW

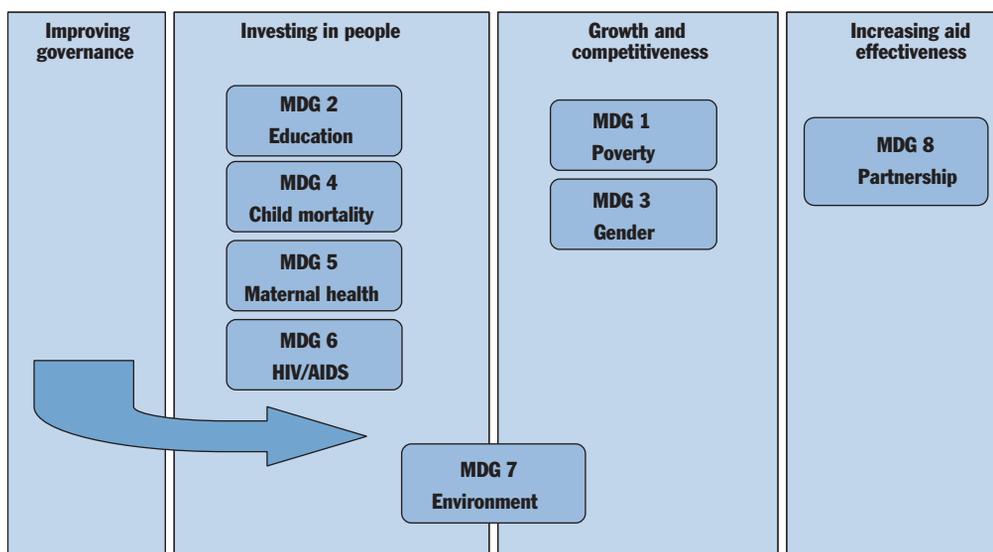
*In each of the four pillars of IDA's Africa strategy, its success can be judged in terms of policy dialogue, programs, and partnerships*

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4. These three levels of measurement are directly related to the short-, medium-, and long-term goals indicated in the Operations Policy and Country Services paper.
  5. World Bank. 2003. "Toward Country-Led Partnership: Multi-Partner Evaluation of the CDF." Operations Evaluation Department. Washington, D.C.
  6. This trend has begun, including through the coordination of donor work on public financial management and the SPA working groups.

should be cofunded than at present, and in the spirit of partnership and avoiding unnecessary replication, IDA should not duplicate studies made by others. Even for core ESW, there is no reason for IDA to repeat work led by others assuming that the standard is satisfactory.<sup>6</sup>

**Monitoring country-level outcomes.** For any given country, outcomes monitored by IDA and in results-based CASs (Cameroon offers a recent example) would include a number of outcomes set out in the PRSP monitoring framework, as well as a set of standardized indicators to improve cross-country comparability. Fifteen indicators have been suggested in the IDA paper on “Managing for Development Results,” most of which are derivative of the MDGs. These indicators can serve as useful pointers to the success of the development policies and programs supported by IDA. Each of the eight MDGs is addressed directly in the four pillars of the Strategy (see figure 4.4). The governance pillar is cross-cutting and affects each of the goals. However, the MDGs cannot serve as definitive program or sector indicators of development effort. Some outcome indicators will change only slowly, and many can be influenced by events beyond the control of the client government. For IDA, the main

Figure 4.4 The Four Pillars and the MDGs



MDG, Millenium Development Goal.

issue arising is the integration of support for statistical capacity building into country programs, which is discussed in the next section.

**Monitoring programs supported by IDA.** As IDA implements the Emerging Partnership Model, it becomes increasingly important to monitor the implementation of the programs that it supports across the four pillars of the strategy. For individual countries, it is important to know whether these are strengthening over time.

As part of the movement toward results-based CASs, country teams would be invited to depart from an assessment of strengths and weaknesses in the CPIA ratings for their country, in the areas of both policy and implementation. This review would encompass the benchmarked areas (outlined below), baseline assessments, lessons from past experience, and an indication of improvements expected over the CAS period. Based on experience, a well-performing country could potentially raise its CPIA ratings by one letter grade (0.5 on the 1–6 scale) over five years.

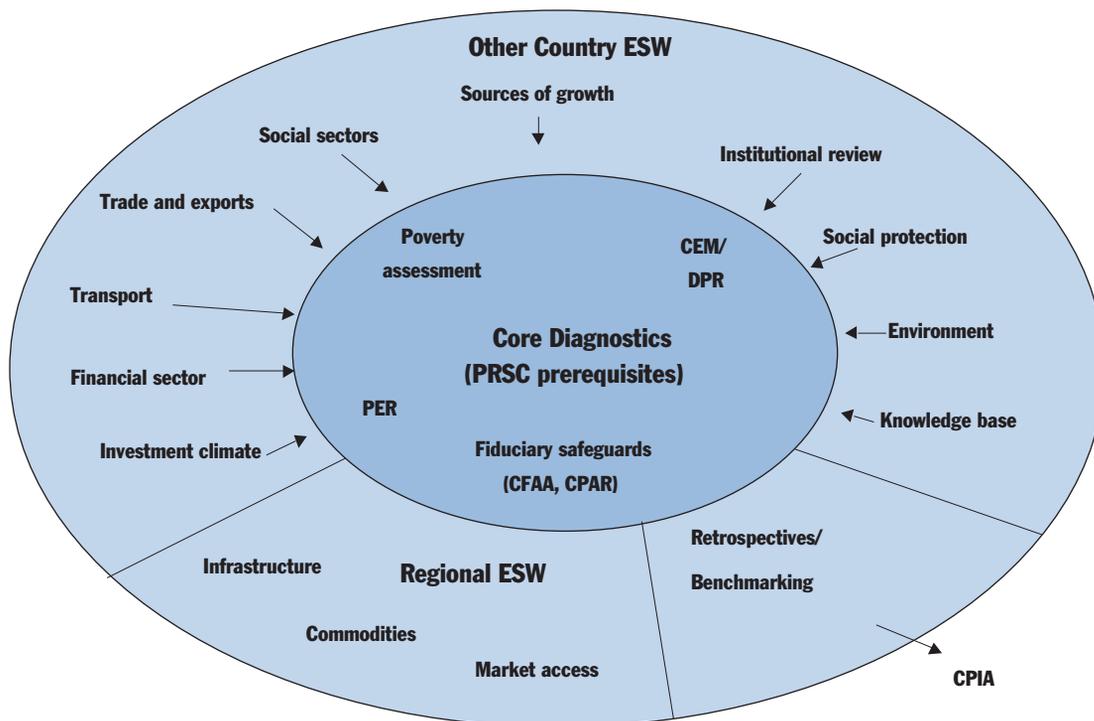
- Building capacity to develop and implement the PRSP and improve performance would be at the core of the CAS. This would help to shape the program of analytical work and lending that would be structured over a three-year horizon.
- The baselines would also feed into the annual CPIA rating exercise, providing a stronger basis for assessments across its major blocks. IDA would periodically review performance and results across countries for these major areas (financial management, service provision, investment climate, and statistics) to ensure learning across countries.
- With greater disclosure of the CPIA for IDA countries, the CPIA, in turn, would become an important vehicle for country dialogue together with the annual assessment of progress in implementing the PRSP. This will require a shift toward active dissemination of the CPIA process and ratings within client countries and a readiness to discuss the rating system more widely, within government and wider civil society.<sup>7</sup>

*The CPIA would become an important vehicle for country dialogue*

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7. This process has already begun through technical workshops held in Africa in October and workshops at the ministerial level in November 2003.

Figure 4.5 Economic and Sector Work Array



**ESW, economic and sector work; CEM/DPR, country economic memorandum/development policy review; PER, public expenditure review; PRSC, poverty reduction support credit; CFAA, country financial accountability assessment; CPAR, country procurement assessment report.**

This process would therefore strengthen links among the results-based CAS, IDA’s analytical work program, and the performance-based IDA allocation system (see figure 4.5). The trend is beginning in some countries, with the more open discussion of the CPIA and the HIPC tracking assessments as components of the dialogue with IDA.

It is also useful to be able to compare performance across countries. Such assessments cannot be made mechanically but require well-informed professional judgment. To enable such assessments, four benchmarking exercises would periodically be made across all active countries:

- *Pillar 1: Quality of public budget and financial management and procurement and transparency.* Assessments of this core area could be

based on the methodology for comparative assessments undertaken for the HIPC tracking exercise, with procurement added.

- *Pillar 2: Effectiveness of service delivery in key areas and impact of CDD.* Benchmarking in this area can build on the 17 education sector reviews completed or in process, as well as cross-country assessments of performance in the water and sanitation sector. It will also serve to increase focus on ensuring a strong results framework for CDD. Benchmarking health systems is a more complex matter, but a number of indicators, including the number of countries with comprehensive HIV/AIDS programs, drug procurement and distribution, and access to health centers, can be used.
- *Pillar 3: Investment climate.* This can build on the growing number of ICAs completed and under way in the region and elsewhere. Information collected through firm surveys and supply chain analysis would be complemented by comprehensive benchmarking of costs, reliability, and access for key infrastructure services. Investment climate benchmarking would need to include comparators outside Africa and might be increasingly implemented on a subregional basis, as economic integration moves forward.
- *Pillar 4: Statistical systems and monitoring capacity.* Benchmarking in this area can depart from a number of baseline assessments carried out by DEC in the process of preparing the Statistical Capacity Building (STATCAP) project (see below).

**Information is an essential component of the results agenda and more generally of good governance**

## **Mainstreaming Statistical Capacity Building**

National statisticians are often dedicated but work under difficult conditions. In Africa in particular, many statistical systems are caught in a vicious cycle. Inadequate resources undermine the coverage, timeliness, and quality of statistics, while the poor quality of statistics, in turn, further reduces demand for information and resources for statistical work. In a recent assessment, data quality was considered to be good in less than a third of African countries. Sustainable improvements to the statistical systems of developing countries—true capacity building—require programs to increase both the demand for and the supply of statistics. Information is an essential component of the results agenda and more generally of good governance.

The weaknesses of many African statistical systems have long been recognized. Capacity-building activities, including training, technical

***The Strategy proposes to further the results agenda by mainstreaming statistical capacity as a core sector in its CASs***

assistance, and sponsorship of surveys and censuses, have helped to improve the availability of important economic and social indicators. But these activities have often been uncoordinated, and their impact has been limited. The new focus on outcome-based development programs and country-owned and -focused strategies encapsulated in the MDGs and the PRSP process provides a major opportunity to address long-standing problems. It also highlights the need to coordinate donor activities while increasing support for statistical capacity building.

These issues have been taken up by the Bank, both in its own work program as well as part of the Partnership in Statistics for Development in the 21st Century (PARIS21).<sup>8</sup> Effective statistical capacity building requires advocacy for the need for better data to underpin development strategies, establishing partnerships with developing countries, mobilizing resources, exchanging information, and supporting country-owned and -developed long-term strategies for statistical development and use. Considerable progress has already been made. In collaboration with DEC, PREM, and WBI, the Africa Region has been involved in a number of initiatives to strengthen both national and regional information systems. Initiatives such as the African Household Survey Databank and the Core Welfare Indicators Questionnaire have helped to improve the effectiveness of data collection systems and the dissemination and analysis of existing survey data. Together with the WBI, special efforts have been made to strengthen regional training centers and activities to support statistical capacity building. A major new effort is now in progress, in collaboration with the African Development Bank and the UN's Economic Commission for Africa to assess capacity and strengthen the collection, analysis, and use of economic data as part of a new round of the International Comparison Program. Together with the IMF, the Bank is encouraging countries to document their statistical systems and improve dissemination by participating in the general data dissemination system.

The Strategy proposes to further the results agenda by mainstreaming statistical capacity as a core sector in its CASs. Key areas where action is still required include improving the incentive framework for data and building demand, both from within and from outside government. A

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8. PARIS21 is a consortium of governments, international organizations, NGOs, and private individuals working together and sharing experience to improve national and international statistics.

comprehensive approach is needed that links the policy dialogue, the focus on results, advocacy for better data, and national strategies for the development of statistical systems together with effective programs that make long-term investments. This approach would strengthen the regulatory and legal framework, build the capacity for management and coordination, and improve data collection, dissemination, and use, in order to inform development policy and improve monitoring and evaluation. The Bank is an important partner in this process because its mandate enables it to address both demand- and supply-side issues.

The Strategy can build on a range of mechanisms, including trust funds to support the preparation of strategies, flexible investment lending through the new STATCAP program, and programmatic support through PRSCs. Yet, changes are also needed to improve coordination with other donor agencies, incorporate data issues more explicitly in CASs, and scale up existing statistical capacity-building work. Mainstreaming statistical capacity building as a sector program in CASs (as in Burkina Faso) can follow the processes developed for other service sectors.

### **Future Priorities**

- Co-manage statistics work with DEC by integrating Operation Quality and Knowledge Services Unit or DEC experts into country teams.
- Develop, or help others develop, “master plans” for statistical improvement for six countries per year and seek agreement on these with clients and development partners.
- Review progress on statistics and monitoring and evaluation within 18 months.
- As part of this effort, increase training on statistical systems and monitoring and evaluation for regional staff.



# 5

## Conclusions

### What's Different about the Strategy?

**T**HE STRATEGY MOVES FORWARD IN A NUMBER OF AREAS:

- *Renewed emphasis on growth.* The Strategy clearly identifies economic growth as central to IDA's goal of poverty reduction. This represents a renewed emphasis on the sources and barriers to long-term economic activity, in contrast to more short-term, direct, antipoverty interventions. Analytically, this includes recognition of the complexity of Africa's growth agenda. Operationally, this will mean an increase in multisectoral projects aimed at increasing productivity and competitiveness.
- *Operationalizing selectivity.* The Strategy has also sought to define and clarify "selectivity" for IDA. There is a tension between taking a holistic approach to development and the need to focus resources and attention on critical areas. Rather than making zero-sum choices of sectors or countries that IDA will support, the Strategy has instead identified IDA's areas of comparative advantage in a world of multiple partners, proposed appropriate roles for IDA, and matched instruments to client capacities. The Strategy therefore stresses an economic management perspective of governance, a systems approach to social services, a broad multisectoral approach to promoting growth, and a partnership model for aid.
- *Areas requiring further strategic thinking.* The Strategy has identified capacity building and private sector development as critical issues for

**The Emerging Partnership Model is distinctly different from current models of assistance**

Africa, but also as areas where IDA needs more strategic thinking on effective approaches. Each of these will require evaluations of promising recent initiatives, creative innovations, and scaling up. Both also demand that IDA work more closely with other parts of the World Bank Group and external partners. The Strategy includes specific benchmarks for moving forward on these two issues.

- *An emerging aid model.* The Emerging Partnership Model is distinctly different from current models of assistance. It creates an explicit client typology based on performance and capacity, with a direct link to instrument choice. The model calls for partnership coordination in support of PRSPs well above current practice, especially the alignment to national budget systems and annual results reviews, strengthening the relationship between performance and aid flows. Lastly, the model proposes three levels of measurement for IDA, substantially raising the standard of accountability.
- *Benchmarks.* The Strategy sets out specific benchmarks for its own implementation, allowing the Region to evaluate the internalization of the Strategy and judge its success (see table 5.1).

## Risks and Constraints

**T**HE STRATEGY FACES RISKS GLOBALLY, WITHIN AFRICA, AND WITHIN IDA.

- *Overly ambitious preconditions.* At the global level, the Strategy proposed—particularly deepening the partnership agenda and moving to the emerging aid relationship—implies substantive changes in the behavior of global partners. In the past, the rhetoric of donor harmonization has run ahead of progress, and there is now the risk that many partners, including IDA, will be unable or unwilling to adjust to this model. This risk has been mitigated by extensive consultation with other donors, particularly through the SPA. It has also been alleviated by adapting the model to allow for partners to play different roles, such as leaving space for projects to continue for donors not yet ready to move to pooled resources or programmatic support.
- *Realization of higher ODA flows.* Another risk at the global level is that an increase in ODA flows may not be forthcoming. Since IDA

accounts for only about one-quarter of all current ODA to Africa, the majority of funds will have to come from other sources. To respond to debt sustainability concerns in some countries, much of this will also need to come in grants. This has two implications for IDA. First, the Bank will need to continue to play a leading role as a global advocate for African development. Second, especially in the new environment, a rise in ODA flows is contingent on better (and measurable) developmental outcomes. This suggests that the results agenda will be particularly critical.

- *Client capacity constraints.* In Africa, the main risk is that the Strategy requires changes beyond the capacity of its clients to deliver. The Emerging Partnership Model depends on progressive improvements in the management capacities of client governments and communities to formulate and implement public policy. Embedding capacity-building components into all of IDA's programming is a logical step to support this trend. But more strategic thinking is required on how best to strengthen capacity.
- *Overtaken by larger trends.* Four “megatrends” in Africa could undermine any progress reaped from the Strategy: failure to halt and begin to reverse the spread of HIV/AIDS, failure to reduce the incidence of conflict, political regression within the emerging democracies, and political and economic developments in regionally critical economies (for example, Nigeria, Kenya, Democratic Republic of Congo, and South Africa). IDA's ability to influence the four megatrends is limited.
- *Failure to change the way IDA works.* Within IDA the Strategy could remain a “paper product,” without affecting the way the region operates. The model also requires a change in the staff culture and skills, as well as the continued ability to attract highly qualified and experienced staff to work on Africa (both at headquarters and in the field). The Strategy process has been taking steps to mitigate these risks, including extensive internal consultation. And the implementation of the results-based CAS will provide a further opportunity to internalize the Strategy's proposals in country operations. The Strategy team has also engaged with Operations Policy and Country Services and other Bank departments to ensure that its proposals are in line with recent and evolving Bank-wide changes. Follow-up work will take place to operationalize the Strategy, with a special focus on training.

***The Emerging Partnership Model depends on progressive improvements in the management capacities of client governments and communities to formulate and implement public policy***

**The Strategy is not static but rather a living strategy that the Africa Region will continue to adapt**

## Moving Forward

- *Next steps.* The Strategy has set out an outline for IDA to sharpen its strategic focus, a framework for working in partnership with clients and other donors, and an agenda for monitoring development effectiveness. The next step is to align IDA operations with these directions, using the Strategy to assist the discussions of CASs and RASs as primary vehicles for moving forward. As the approach becomes more multisectoral and multicountry, the Africa Region will need to consider operational implications, bolstering regional integration and multisectoral teams and strengthening analytical capacity to support PRSPs. Communicating the Strategy and its implications to partners—clients, donors, and civil society—will also be important.
- *A living strategy.* The Strategy responds to a changing environment—an environment that is continuing to evolve rapidly globally, in Africa, and within IDA. The Strategy is not static but rather a living strategy that the Africa Region will continue to adapt in response to changing client needs and global opportunities.
- *Operational implications.* Implementing the Strategy will have at least two main operational implications. First, without necessarily requiring additional funds, the budget will have to be carefully reviewed to ensure the alignment of strategic priorities and future directions with future budget distributions. Second, given the shift to increased policy dialogue and ESW/analytical and advisory activities work, a comprehensive training program needs to be offered to Africa Region staff. In the coming three months, the Region’s Leadership Team will produce follow-up documents, capturing aspects that will require further discussion and action.
- *Monitoring the Strategy’s implementation.* Monitoring and evaluating IDA’s client surveys and ongoing evaluations of lending, analytical work, and country strategies are part of the learning process and the reformulation of future strategies. The Strategy sets benchmarks relating to each of the four pillars for monitoring the success of its own implementation (see table 5.1). The benchmarks will measure the Strategy’s internalization in the Africa Region.

**Table 5.1 Key Benchmarks for Strategy Implementation**

Pillar	Key benchmarks	Target (3–5 years)
1. Reducing conflict and improving governance	Continue engagement in postconflict countries by implementing strategies for rebuilding the state and its institutions, jump-starting the economy, and addressing urgent needs	All major postconflict countries in AFR
	Continue LICUS approach: selected engagement through key entry points	All LICUS in AFR
	Stronger performance, as shown in improved CPIA	Average 0.1 point annual improvement for at least half of AFR
	Use of IDA performance ratings and HIPC assessments in dialogue between country teams and governments	All AFR
	Improved public financial management, per HIPC tracking assessments, plus procurement	At least five countries from “substantial” to “some” upgrading needed
	Joint AFR-WBI task force on capacity building to suggest monitoring framework and joint approach	Within one year
2. Investing in people	Sector reviews and performance benchmarking in key service areas	Education, health, WSS in active AFR countries
	Agreement on national sector strategies and action plans with monitorable intermediate and outcome goals (including in SPs, PRSCs)	Active AFR countries
	CDD integrated into country strategy, rationalized with strengthened results framework; CDD and macro-support integrated into antishock strategy	25 countries
	Progress on HIV/AIDS and EFA	HIV/AIDS integrated in CASs and key sector strategies; MAP projects disbursing on schedule; EFA progress and full funding
3. Increasing economic growth and enhancing competitiveness	Strengthened business–government consultative processes backed up by firm surveys and ICAs to produce prioritized strategies	Five countries per year
	Growth, export, finance, and rural strategies in PRSPs	Five countries per year
	Infrastructure performance benchmarking and commitments of US\$1.5 billion per year	Active countries
	Implementation of strategies in all subregions, including analytical work, lending, and capacity building	West, Central, South, and East Africa, Nile Basin
	Assessment, together with IFC and other development partners, of most effective ways to leverage IDA to support private investment	IFC, MIGA, African Development Bank, plus major development partners: next 12 months
	Mainstreaming in CASs of growth strategy, trade, regional issues, and gender	All forthcoming CASs
4. Improving aid effectiveness	Utilization of PRSP annual review as central donor mechanism for funding following year's budget	At least 10 countries by 2006
	Alignment of donor support for PRSPs to national budget cycle	At least 10 countries by 2006
	Increase regional analytical work in support of PRSPs	50 percent increase within five years
	CAS includes an assessment of strengths and weaknesses in CPIA ratings, and contains benchmarking and results plan, including: (a) progress in key areas—public budget and financial management and procurement, service delivery, investment climate and statistics—and (b) agreed variables for IDA monitoring	All forthcoming CASs
	Review of debt sustainability issues and IDA allocations	Within one year
	CAS mainstreams statistics capacity building	Four countries per year
	Formulation and implementation of programs for training and communications (with Operational Quality and Knowledge Services Unit and the Africa Region's Partnerships and External Communications team)	Within six months





**T**his document lays out the strategic framework for IDA's work in Africa over the next several years. The strategy evolved over more than a year, as a result of extensive consultation with Africa Region staff, other Bank staff, external advisors, clients, partners, and representatives of civil society in the region.

Primarily an internal document to help IDA define core priorities and future directions for its work in Africa, the framework's goal is to provide strategic direction for country and regional strategies, not a rigid template. The strategy is not an entirely new framework but rather grows out of IDA's evolving response to developments within the region, changes in the enabling environment for official development assistance, and lessons of experience.

The strategy asks, "What are the core areas for IDA's engagement in Africa, given its comparative advantage?" and "How should it work, given this agenda and the new approach toward development assistance?" To answer, the strategy identifies four strategic pillars:

- Improving Governance and Reducing Conflict
- Investing in People
- Increasing Growth and Enhancing Competitiveness
- Implementing the Emerging Partnership Model and Moving to Results-Based Assistance.

This publication clarifies focus areas within each of these pillars, progress to date, and specific benchmarks for judging IDA's future success.

