IDA16

The Demand for IDA16 Resources and the Strategy for their Effective Use

International Development Association

IDA Resource Mobilization Department (CFPIR)

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ABBREVIATIONS AND ACRONYMS

AAA	Analytic and Advisory Activities
AIDS	Acquired Immune-Deficiency Syndrome
ADB	Asian Development Bank
AFR	Africa Region
AfDB	African Development Bank
ARD	Agriculture and Rural Development
CAS	Country Assistance Strategy
CEIF	Clean Energy Investment Framework
CPS	Country Partnership Strategy
DAC	Development Assistance Committee
DP	Development Partner
DPL	Development Policy Lending
DFID	Department for International Development of the United Kingdom
DPO	Development Policy Operation
EAP	East Asia and Pacific Region
ECA	Europe and Central Asia Region
EU	European Union
ESW	Economic and Sector Work
EFA/FTI	Education For All/Fast Track Initiative
FDI	Foreign Direct Investment
FY	Fiscal Year
GAP	Gender Action Plan
GEF	Global Environment Facility
GFRP	Global Food Crisis Response Program
GNI	Gross National Income
HDN	Human Development Network
HNP	Health, Nutrition and Population
HIV	Human Immuno-deficiency Virus
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technologies
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
ISN	Interim Strategy Paper
LCR	Latin America and Caribbean Region
LAC	Latin America and the Caribbean
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MDTF	Multi-Donor Trust Fund
MNA	Middle East and North Africa Region
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PREM	Poverty Reduction and Economic Management Network
PBA	Performance-Based Allocation
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
SAR	South Asia Region
SARS	Severe Acute Respiratory Syndrome
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
UN	United Nations

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EXECUTIVE SUMMARY

i. **The IDA16 replenishment is taking place in a difficult and uncertain external environment and with only 5 years left until 2015, the target date for reaching the Millennium Development Goals (MDGs).** Many donor governments are facing significant fiscal challenges which are resulting in adjustments in domestic and international programs, including in official development assistance (ODA). At the same time, IDA countries have recently been affected by multiple crises - ranging from the food crisis to the recent global economic downturn - that have adversely impacted their progress towards meeting the MDGs.

ii. **Against this backdrop, IDA must scale up efforts toward the achievement of the MDGs, while helping to address additional challenges linked to crisis response and climate change.** IDA's country-driven model and core strengths make it uniquely positioned to effectively support development efforts of recipient countries. IDA's platform role and un-earmarked resources ensure that its support is tailored to national development priorities and strengthens country ownership and systems. Its multi-sectoral perspective helps clients integrate sectoral and thematic priorities in their programs, while its support for systems and capacity of governments and key stakeholders helps them scale up priority interventions. The predictability and scale of IDA's financial resources have achieved high levels of satisfactory development outcomes, including through: its performance-based system for allocating resources across countries; its results focus at the country and project levels; its integration of finance and knowledge in projects; and its convening power.

iii. **A continuing focus on managing for results and implementation of the WBG internal reforms will underpin IDA's contribution to the aid effectiveness and results agenda during IDA16.** Managing for results will remain at the core of the WBG and IDA. This will include the use of results-framework in country assistance strategies (CASs) and continued improvement in IDA's results measurement system. On-going internal reforms will further enhance IDA's operational effectiveness and results focus**.** Notably, investment lending (IL) reform's emphasis on risk-based management and implementation support will improve government's ability to implement investments, including through the strengthening of country systems. Continued progress on decentralization of staff and decision making to the field offices will bring IDA's knowledge and expertise closer to the clients and facilitate aid coordination.

iv. **Given the current extraordinary circumstances, Management is presenting a range of potential scenarios rather than recommending a specific "ask" and financing scenario (as was done for IDA15)**. The scenarios provide a broad range of options from keeping IDA 16 flat in real terms relative to IDA 15 to incrementally higher scenarios which allow for progress to be made with regard to scaling up IDA to meet the MDGs as well as to address additional needs under IDA16 related to expected country arrears clearances and reactivations, extension of the post-conflict and re-engaging countries exceptional allocation phase-out, the proposed permanent Crisis Response Window, a scale up of regional projects and a special reconstruction allocation for Haiti following the recent earthquake.

v. Guidance is sought from IDA Deputies on the following questions:

A. Do Deputies agree that the financing scenarios present a suitable range within which to discuss the needs of IDA countries during the IDA16 period?

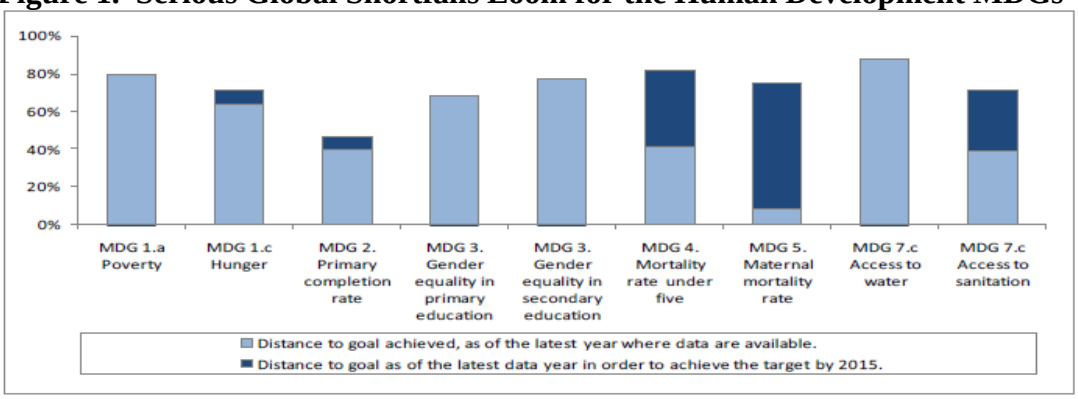
B. What are their views on the level of support for core IDA programs and the provision of financing for other identified activities, namely the appropriate option for extending the length of the phase-out for exceptional allocations provided to post-conflict and re-engaging countries; ex ante funding levels for the CRW; proposed special allocation for Haiti; and the scaling up of support for regional projects?

I. THE GLOBAL DEVELOPMENT CONTEXT FOR IDA COUNTRIES

A. REGAINING MOMENTUM TO ACHIEVE THE MILLENNIUM DEVELOPMENT GOALS

1. **With only five years remaining before the deadline to reach the MDGs, there is an urgent need to redouble efforts to make progress on them.**[1] Prior to the recent food, fuel and economic crises, most countries had made progress on their MDGs in comparison with their starting points in 1990. However, this progress was brought to a halt, and in some cases reversed, with these crises. Their impact is expected to be long-lasting with poverty rates falling more slowly than they would have without the crisis. Sub-Saharan Africa's poverty rate is expected to be 38 percent by 2015, rather than 36 percent it would have been without the crisis. Even with the progress made before the crises, many IDA countries were still struggling to close the gap to reach the MDG targets and large shortfalls remain. While progress has been strong on poverty reduction and good on gender parity in primary and secondary education and reliable access to improved water, progress has been less encouraging on gender parity in tertiary education and other targets for empowerment of women. Of greatest concern are the human development goals where progress is slow on child and maternal mortality, primary school completion, nutrition, sanitation and full and productive employment, especially for women. Figure 1 presents the status of what has been achieved globally in reaching MDG targets and gaps remaining to be closed.

Figure 1. Serious Global Shortfalls Loom for the Human Development MDGs*



Source: Staff calculations based on World Development Indicators database.
Note: * Based on available data as of 2009, which can range from 2005 to 2009.

2. **From a regional perspective, Sub-Saharan Africa (SSA) continues to lag the most on achieving the MDGs given its lower starting point**. Despite experiencing very rapid growth and reduction in poverty, it is the only region unlikely to meet the poverty MDG.[2] South Asia is on track to achieve the MDG on poverty, but is off track on most of the other MDGs. East Asia,

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1 See 2010. World Bank-IMF Global Monitoring Report 2010.

2 Thirty-five percent of the population in Sub-Saharan Africa, or 366 million people, will be living on less than US$1.25 per day by 2015 (Global Monitoring Report 2010).

Latin America and Europe and Central Asia are doing better on progress but have concentrations of poverty due to income inequality and are also not on track to meet the human development MDGs. Finally, progress has been slowest in fragile and conflict-affected countries which have close to a fifth of the population of low-income countries but more than a third of poor people.

3. **In addition to the challenges of meeting the MDGs, IDA countries also face challenges** related to: (i) managing recurrent severe crises that threaten to reverse progress in development outcomes; and (ii) addressing the impact of global warming and climate volatility, both of which would require additional resources.

B. TRENDS IN OFFICIAL DEVELOPMENT ASSISTANCE

4. **While the bulk of development finance comes from domestic resources, donor financing plays a crucial role and donors made specific commitments to increase their aid to help accelerate progress in achieving the MDGs**.[3] At Gleneagles, donors pledged to increase aid from around US$80 billion in 2004 to nearly US$130 billion in 2010, at constant 2004 prices. On the basis of current 2010 budget proposals and latest GNI figures, the overall expected ODA level for 2010 is estimated at US$108 billion, with the ODA/GNI ratio rising over the 2004-10 period from 0.26 percent to 0.32 percent. The shortfall of US$18 billion (in 2004 dollars) against the 2005 commitments[4] particularly impacts Sub-Saharan Africa which is likely to receive only about US$11 billion of the US$25 billion increase envisaged at Gleneagles.[5]

5. **Despite the global financial crisis, ODA flows have continued to increase in real terms, albeit at a slower pace**. Total net official development assistance (ODA) as reported by OECD's Development Assistance Committee (DAC) rose slightly in 2009 in real terms (0.7 percent) to US$119.6 billion, representing 0.31 percent of DAC members' combined gross national income. Debt relief, which had been especially high in 2005 and 2006, fell sharply. Excluding debt relief, the rise in ODA in real terms was 6.8 percent. If debt relief and humanitarian aid are excluded, bilateral aid for development programs and projects rose by 8.5 percent in real terms, as donors continued to scale up their core development projects and programs. Most of the rise was in new lending (20.6 percent), and grants also increased (4.6 percent, excluding debt relief).

6. **Many donor governments are facing significant fiscal challenges that will require adjustments in domestic and international programs, including in official development assistance (ODA).** While facing these fiscal constraints, keeping up ODA commitments will be crucial for IDA countries. The recovery in low-income countries remains fragile and a decline in concessional assistance could seriously jeopardize development prospects. IDA countries need additional funding in the form of programmable aid to support their core development programs, recover from the recent crises and increase their efforts to reach the MDGs and their long-term development targets.

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[3] References to Gleneagles G8 and Millennium+5 summits' communiqués in 2005.
[4] Once the effects of reduced GNI are taken into account.
[5] OECD Estimates, April, 2010.

C. TRENDS IN IDA'S ASSISTANCE

7. **In line with the broader trends in ODA, IDA commitments levels have also increased progressively over the last three replenishments periods (Table 1)**. Commitments are projected to rise from SDR 15.0 billion during IDA 12 to a SDR27.7 billion for the IDA15 implementation period. Sub-Saharan Africa has continued to account for the largest share of the commitments, close to 50 percent under each of the replenishment periods and South Asia has accounted for an average of 30 percent of the resources with the other regions receiving the balance.

Table 1: IDA's Commitments (SDR billion)

	Total IDA12		Total IDA13		Total IDA14		Total IDA15	
	FY02-04		FY03-05		FY06-08		FY09-11	
	Actual		Actual		Actual		Projected*	
Africa	7.2	48%	8.3	47%	10.6	49%	13.9	50%
South Asia	3.9	26%	5.6	32%	6.2	29%	9.1	33%
East Asia and the Pacific	1.8	12%	1.7	10%	2.7	12%	2.9	10%
Europe and Central Asia	1.1	7%	1.2	7%	0.9	4%	1.0	4%
Latin America and Caribbean	0.6	4%	0.5	3%	0.5	2%	0.5	2%
Middle East and North Africa	0.3	2%	0.3	2%	0.6	3%	0.3	1%
Total	**15.0**	**100%**	**17.5**	**100.0%**	**21.4**	**100%**	**27.7**	**100%**

* The difference between the projected IDA15 commitments of SDR27.7 billion in this table and the original IDA15 envelope in Table 2 is due to a carry forward of SDR 434 in donor arrears and withholding from prior replenishments.

8. **Disbursements also continued to keep pace with the increase in lending**. Disbursements for investment operations increased from US$7.3 billion during IDA12, US$23.37 billion (IDA13) and US$26.67 billion (IDA14). Disbursements are projected to rise to US$31 billion during the IDA15 period. This reflects both the large increases in the IDA commitments as well as improvement in implementation of investment operations. IDA's disbursement rate[6] for investment operations increased to 24.2 percent in FY09, up from the annual average of 23.6 percent during IDA13-14 and is expected to be higher in FY10.

9. **Overall portfolio quality has also been improving**. The quality of projects at entry has improved over the past five IDA replenishment periods. Projects rated "satisfactory"[7] at entry increased from 78.4 percent during IDA11 to 88.9 percent during IDA14. Projects exiting the portfolio that were rated "satisfactory" by IEG at completion increased from 64.4 percent to 75.6 percent during IDA14 and IDA15.[8] Efforts are also underway to strengthen reporting on Analytic and Advisory Activities (AAA).

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6 Calculated as the ratio of IDA investment disbursements in a fiscal year to IDA's undisbursed investment amount at the start of the fiscal year.

7 "Satisfactory" includes the ratings of "highly satisfactory", "satisfactory" and "marginally satisfactory".

8 Review of the IDA15 projects based on a partial sample.

10. **Beyond these short-term input oriented measures, IDA has also measured results both at the country level as well as for agency effectiveness**. IDA's focus on quality and country-level effectiveness led it to become the first international financial institution to introduce a results measurement system (RMS) to systematically track key country level outcomes and IDA's contributions to those outcomes. The RMS provides an accountability framework to demonstrate results from resources invested and plays a learning function to enhance project design and target resources on approaches that work. It measures both development effectiveness (Tier 1) and agency effectiveness (Tier 2). While IDA contributes to country development outcomes (Tier 1 indicators), it does not seek attribution for these results; it does, however, help countries strengthen their management for results in their PRSPs and sectors strategies and enhance their statistical capacity. IDA countries have made progress in all of the 14 development outcome indicators in Tier 1, although progress has been uneven across the countries.[9]

11. Tier 2 indicators focus on IDA's agency effectiveness. IDA has strengthened its results focus and monitoring. It has mainstreamed results-based CASs (RBCASs) since 2005 and has included two indicators related to RBCASs in Tier 2.[10] By the end of March 2010, a total of 60 IDA RBCASs had been prepared, for 52 IDA-eligible countries—some countries are preparing "second generation" RBCASs. The CAS Completion Report (CASCR) was introduced in 2002 to capture lessons from previous CASs to use in the formulation of new CASs. This self-assessment is independently evaluated by the Independent Evaluation Group (IEG).

12. IDA has also strengthened measurement of outputs in key sectors. Core sector indicators were introduced in 2002 that allow the aggregation of results achieved in education, health, water supply and sanitation, and transportation sectors. Preliminary data are encouraging and show that on-going IDA14 and IDA15-financed projects have already made important contributions in these four key sectors.[11]

13. Beyond the levels of assistance which IDA has provided and its continuing focus on results, IDA is uniquely positioned as a development partner due to its core strengths discussed in the next section.

D. IDA'S COMPARATIVE ADVANTAGE IN DELIVERING AID

14. **Development outcomes are inherently multi-sectoral and the country-based development model is the best approach to capturing these synergies**. Achieving the MDGs requires concerted action across sectors. For example, improving girls' secondary education has,

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[9] 2010. The IDA16 Replenishment Implementation Framework Report.

[10] These are: (i) enhancing the quality of CAS Results Frameworks by strengthening the emphasis on results in the corporate review process, and (ii) monitoring self-ratings in the CASCRs and their independent evaluation by IEG.

[11] Examples include: over 1 million additional primary level teachers ; over 600,000 additional classrooms; 8 million people accessed a basic package of health services; 412,000 health personnel trained; 7.9 million children received Vitamin A, over 12.6 million children immunized; 3,793 km of rural roads and 1,891 km of non-rural roads constructed or rehabilitated; 11,600 community water points constructed or rehabilitated; 334,000 new piped household water connections and another 157,000 rehabilitated.

beyond the direct benefits of educating girls, important spillovers to future health, nutrition and population outcomes. Similarly, improving rural water supply has, beyond the direct benefits of improving health outcomes, an impact on girls' education as they spend less time fetching water and attend school instead. Lastly, the success of efforts to reduce the maternal mortality rate depends on the capacity of the heath system in the country to deliver quality care as well as factors in other sectors such nutrition, girls' education, good roads and available transport for accessing timely health care. In order to ensure that these multi-sectoral linkages are appropriately captured, the country-based development model is the most effective approach for achieving results. The country-based model consists of three main strands: (i) nationally-owned development strategies (in most IDA countries, these are the Poverty Reduction Strategy Papers – PRSPs); (ii) donor alignment around country-driven goals, with increased use of country systems wherever feasible and efforts to increase aid predictability; and (iii) mechanisms of mutual accountability encompassing both donors and governments in recipient countries. The interplay of these three strands strengthens domestic policies and systems in recipient countries, unites donors around clear development goals, and sets out a mutual accountability framework for all stakeholders.[12]

15. **IDA's country-based development model and core strengths make it uniquely positioned to support recipient countries in their development efforts**. IDA's core strengths include:

- un-earmarked resources which allow flexibility to adapt to country circumstances and to remain engaged over the long-term;
- predictable financial resources of significant scale[13] achieving high levels of satisfactory development outcomes including through its performance-based system for allocating resources across countries;
- platform role in supporting government led efforts and strengthening country systems and capacity in national, sectoral and thematic programs;
- global knowledge base from the World Bank Group that supports its policy advice and the integration of finance and knowledge in its projects;
- multi-sectoral perspective in designing programs that integrate sectors and themes including through multi-sectoral operations;
- global reach combined with local presence in most of the IDA countries;
- ability to transfer knowledge from IBRD countries and across IDA countries;
- convening power at national, regional and global levels and ability to act as a first mover;
- as a multilateral institution, it provides financial leverage for development resources both directly and through being part of the World Bank Group (WBG). IDA's

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[12] See 2007. IDA15 Replenishment. *The Role of IDA in the Global Aid Architecture*: *Supporting the Country-Based Development Model*; and 2007. The IDA15 Replenishment. *IDA's Role in Enhancing Country-Level effectiveness: Strengthening Harmonization and Alignment*.

[13] It is the largest ODA provider in recipient countries financing between 5-20 percent of core development programs. Refer to IDA15 Replenishment. *The Role of IDA in the Global Aid Architecture*: *Supporting the Country-Based Development Model*.

investment in a country (or those undertaken by IFC or MIGA) can also signal to investors that the country is making progress and is open for business, thus generating private sector flows; and

- IDA also plays an important role in global partnerships seeking solutions to development challenges and leveraging and managing funds from other sources.

16. While there is always room for improvement, IDA's effectiveness has been consistently validated not only through the self-evaluation and the work of the Independent Evaluation Group but by external studies as well. For example, a 2008 article by Easterly and Pfutze ranked IDA as the number one donor using best practices in aid in their evaluation of 40 multilateral and bilateral donor agencies, and DFID ranked it as the most effective multilateral development institution.

17. **Going forward, IDA must significantly scale up efforts toward the achievement of the MDGs, while helping to address additional challenges linked to recurrent severe crises and climate change**. This focus is fully consistent with the WBG's long term strategic priorities as outlined by Post Crisis Directions Paper, which identifies five key priorities for the new decade: (i) redoubling efforts to meet the MDGs; (ii) fostering multi polar growth in developing countries; (iii) providing cooperative models and global collective action; (iv) promoting an environmentally and socially sustainable development; and (v) managing risks and anticipating potential shocks and new crises. IDA's support is an integral part of the Bank's work along these broad strategic priorities.

18. **The focus on managing for results and WBG internal reforms will underpin the Bank's contribution to aid effectiveness and the results agenda during IDA16**.[14] Managing for results will remain at the core of the WBG and IDA. This includes the use of results-frameworks in country assistance strategies (CASs) and continued improvements in IDA's results measurement system. Further, building on the progress made thus far, on-going internal reforms will enhance IDA's operational effectiveness and results focus. Notably, investment lending (IL) reform's emphasis on risk-based management and implementation support will improve the ability of governments to implement investments, including through the strengthening of country systems. Continued progress on decentralization of staff and decision making to the field offices will bring IDA's knowledge and expertise closer to the clients and facilitate aid coordination.

II. IDA'S REGIONAL AND SECTORAL STRATEGIES FOR IMPLEMENTING IDA'S CORE PROGRAM DURING IDA16

19. **IDA customizes its support to each of the 79 IDA countries through the development of a Country Assistance Strategy (CAS)**. The CAS supports national development strategies and priorities and provides the framework of assistance for the whole WBG, including IFC and MIGA, during a period of 3 to 5 years. The CAS outlines IDA's resource envelope, the instruments of assistance (investment lending, policy lending and analytic

[14] See The IDA16 Replenishment Implementation Framework Report.

work) and the specific sectors and areas of focus based on IDA's comparative advantage and what other donors are doing. The CAS includes a results-monitoring framework and highlights partnership arrangements with donors and other stakeholders in line with the Paris Declaration of Aid Effectiveness and the Accra Agenda for Action.

20. **While each CAS focuses on the country's priorities, there are some common themes across CASs for areas in which IDA's support will continue during the IDA16 period**. Most CASs support the overall goal of helping countries achieve sustained growth and improve delivery of services to the poor while strengthening governance. Many CASs include cross-cutting issues such as environmental strategies and interventions for climate adaptation and mitigation; gender disparities, and governance. Crisis response is also being included in recent CASs as countries increasingly focus on the importance of risk management. In addition, many CASs are addressing the challenges and opportunities provided by regional integration.

A. REGIONAL STRATEGIES

21. Based on the support identified in the underlying CASs, the Bank regional vice presidencies have prepared strategies which summarize the key areas of sectoral and thematic focus which will constitute the IDA core program for the IDA16 period (see Annex 3 for more details).

22. **Sub-Saharan Africa**. Until the onset of the global economic crisis, Sub-Saharan Africa was experiencing rapid economic growth and improvements in human development indicators. Taking into account lessons from the 2009 progress report on the Africa Action Plan,[15] the region seeks to use the Bank's knowledge, lending and convening power to assist the countries in accelerating progress towards the MDGs during IDA16. The Region will focus on: (a) competitiveness and employment through scaling up the infrastructure program, improving the business climate and enhancing access to finance with a sharper focus on women and youth; (b) reducing vulnerabilities by strengthening safety nets, adaptation to climate change and strengthening institutions to build resilience to political upheavals; and (c) governance and capacity building by strengthening public expenditure management, civil service and judicial reforms, and improving health service delivery on the supply side (see Box 1), while strengthening the capacity of non-executive parts of the government, including Parliament, civil society and the media, for social accountability.

[15] The Africa Action Plan was prepared in 2005 and revised in 2007.

Box 1. Strengthening Drug Distribution Systems to Reduce Child Mortality from Malaria in Zambia

Even with large-scale bed net distribution and other preventive measures, malaria – a treatable disease – is still a leading cause of death in Zambia. The 2008 Zambia National Malaria Indicator Survey reported that just 7% of children in rural areas under the age of five received the most effective pediatric malaria drug within 24 hours of starting a fever. While parents often do not find drugs in rural public health centers, boxes of critical medicines can gather dust for weeks at district storage facilities. To find solutions, the Bank, DfID, and USAID joined forces to try out new drug distribution methods in 16 districts. The results, released in April 2010 in Lusaka, are encouraging. With private sector techniques used to strengthen the drug supply chain, pediatric malaria drugs are now available in 88% of public health centers in the pilot districts—close to double the rate in control districts.

If the these improvements are scaled up across all districts and supply chains are strengthened nationwide, an estimated 27,000 children could be saved – just from malaria-related deaths – in Zambia by 2015. This could reduce the country's child mortality from malaria by up to 37%. The pilot study also found that with the improved supply chain, malaria preventives for pregnant women became available in 84% of public health centers in the pilot districts (compared to 39% in control districts). "In the past, we used to get a lot of prescriptions without access to actual medication," said Mwansa Kasonde from Kasama, "They would tell us to go and buy from drug stores whose price was exorbitant. These days, we are able to get free medication then and there from our nearest health facility."

Source: World Bank, "Stronger Drug Supply Chains Can Save Thousands of Children in Zambia and Beyond," http://www.reliefweb.int/rw/rwb.nsf/db900SID/EGUA-84PS78?OpenDocument.

23. **South Asia**. The South Asia Region (SAR) has consolidated progress made in poverty reduction and in particular in reaching some MDGs, with tangible and recognizable advances made with regard to education and gender. However, the areas of child and maternal mortality, and environmental protection and sustainability have lagged behind targets. If growth is sustained and inclusive, faster progress can be made in the lagging MDGs and many of the countries in the region have the potential to move towards Middle Income Countries (MICs). However, the region remains susceptible to governance weaknesses and is facing increased security and violence in many countries. In this context, IDA assistance will be critical to support transition to peace for affected countries and overall long term development for the region. The SAR regional strategy continues to focus on three pillars. The first pillar aims to sustain growth and fostering inclusiveness to ensure that the high growth translates into reduced number of poor. Support under this pillar focuses on: lagging regions; better targeted social protections and safety nets; financial sector; high impact infrastructure (see Box 2); and human development. The second pillar will support strengthening governance and regional integration through promotion of regional trade; cooperation in water resources; strengthening economic management; improving services; and reintegrating communities. The third pillar supports the response to climate change and strengthening natural resource management through support for: increased agricultural productivity; protections of global commons; catalyzing new financing; addressing environmental health; and reducing pollution.

24. **East Asia and Pacific**. The EAP strategy aims to help address underlying long-term challenges which include: growing infrastructure and service delivery needs from rapid urbanization; aging populations in some countries and labor market expectations of large youth populations in others; commodity price volatility; risks from environmental degradation, natural disasters and climate change; growing inequality; gender gaps in the labor market; and

institutional capacity and governance challenges. The region's four pillar strategy focuses on: helping the countries move up the value chain and achieve rapid, inclusive, sustainable growth; support the poorest and fragile states and regions achieve peace, stability, inclusive growth and poverty reduction; strengthen assistance for global public goods; and support knowledge exchange, regional cooperation and the global role of regional institutions.

Box 2: New All-Weather Roads Boost Rural Incomes in India

In 2000, about 40% of India's 825,000 villages lacked all-weather roads. The existing network of some 2.7 million km of rural roads suffered from years of neglect, under-funding, and a lack of maintenance. Over the years, IDA supported a number of rural roads projects with IDA's major support being to the Rural Roads Program which was launched by the Indian Government in 2000 to connect 180,000 villages. Under this multi-donor program, some 375,000 km of new roads are being constructed and another 372,000 km improved at an estimated cost of US$34 billion. IDA contributed US$300 million to the Rural Roads Project, which also received US$100 million from IBRD.

The IDA roads project has had wide-ranging impacts on the rural communities:

- **Incomes soared** by 50 to 100 percent on average.
- **Agricultural production improved:** Farmers received better prices for their products by accessing markets directly and cutting out middlemen, and spoilage of perishable produce was reduced. Improved seeds, fertilizers, and veterinary services increased. Yields of paddy almost tripled and cash crops were introduced in previously isolated areas.
- **Literacy improved by 10% and the gender gap narrowed** as it was easier for girls to go to school.
- **Land prices increased by some 60 to 80%** on average.
- **Access to jobs** improved and new businesses started up, diversifying the rural economy.

Though IDA's financial contribution was modest relative to the overall size of the program, it helped bring about a paradigm shift in the way rural roads in India are mapped, designed, and monitored. Cost-effective engineering designs were introduced, reducing the unit costs of building roads by 15-20%. Community participation in the road-building process was required. New environmental codes were applied. About 18,000 engineers were trained and 400 district laboratories established significantly improving the implementation of the rural roads program. A master plan for a core rural roads network was laid down along with a computerized data base for the entire country so that rational and transparent criteria are used for making investment decisions. Independent monitors check the quality of engineering design, road construction, and procurement and financial management practices. A project for US$1.5 billion is under preparation to further scale up this support.

Source: IDA at Work. 2009. http://go.worldbank.org/JRKRCR0H50.

25. **Latin America and the Caribbean**. The LAC region strategy aims to address the needs of its diverse client countries. Support to Haiti will focus on recovery, reconstruction and development following the devastation of the recent earthquake. Other countries (Guyana, Nicaragua, Bolivia, Honduras and the Organization of Eastern Caribbean States) will be supported to strengthen: the business environment, environmental sustainability (especially dealing with natural disasters and global climate risk), quality of social services including health and education; social safety nets; governance, macroeconomic stability, job creation; improved public service provision; competitiveness and infrastructure. IDA will also support deepened regional integration for the OECS countries.

26. **Europe and Central Asia**. This region's strong economic performance was seriously affected by the global economic crisis—the region experienced the largest reversal in economic growth in 2009 and is expected to experience the lowest growth in GDP in the next few years. The crisis unveiled underlying weaknesses - large savings deficits, lagging reforms in the social sectors and deterioration in competitiveness - which had previously been masked by capital inflows, high growth rates and high commodity prices. Many countries in the region also continue to face a fragile and post-conflict environment. Within this environment, IDA plays a critical role in supporting and catalyzing aid for priority development activities in the ECA region. IDA's priorities going forward will focus on three areas: increasing competitiveness through increased diversification, developing a conducive business environment, strengthening public/private partnerships, and improved transport and energy infrastructure; human development by ensuring efficiency of public expenditure for human development and supporting priority social infrastructure and building institutions and policies in education, health, social protection and improving the lives of IDPs; and strengthening sustainable development (particularly rural livelihoods where most of the poor live) and mitigating the impact of climate change.

27. **Middle East and North Africa**. Yemen and Djibouti, the two IDA countries in the region, are faced with challenges of widespread poverty, rapid population growth, lack of energy resources for Djibouti and depleting oil reserves for Yemen, little diversification of their economies, poor infrastructure, limited water supplies and low levels of human development. The region's assistancefocuses on helping: create opportunities for growth; target the poor and vulnerable; strengthen governance, manage risk and prepare for crises; promote collective global action in trade and infrastructure; and promote harmonization of standards and regulations in service provision.

Box 3: Powering Up Rural Development in Vietnam

During the second half of the 1990s, energy demand in Vietnam grew at a rate 30% faster than GDP. The IDA-supported Rural Energy Project (US$150 million of the total project cost of US$216 million) was designed to extend the electricity grid to 395,000 households in 671 communes and 32 provinces; build government capacity to maintain a viable power sector in the long term; and apply alternative energy sources in areas not reached by the electricity grid. IDA also helped design a 10-year Master plan for rural electrification that brings government, user and donor resources into one program while improving program management. IDA also supported setting up of technical standards for rural networks. Expectations were surpassed as about 2.7 million people in some of the poorest rural areas of Vietnam gained access to a reliable electricity supply for the first time in their lives. They reported higher incomes, improved health conditions, better quality education, less time spent on housework and more business development opportunities. Specifically,

1. **Electricity access increased**: the project connected 976 communes (555,327 households) to the national power grid, a 45% jump in commune access and a 40% rise in household access. The government's broader rural electrification program increased access from 50.7% of rural households in 1996 to 90.7% in 2005 and 94.5% by the end of 2008.
2. **Higher incomes** were reported by more than 30% of men and 29.8% of women in recently electrified rural households.
3. **More micro-business and jobs:** a 2006 impact study showed that 17.5% of households were operating a business out of their homes, representing a major increase of new small businesses and jobs in newly electrified areas.

Improved health and education: health clinics reported better conditions for diagnosis and treatment and improved communication on community health, and children are studying more due to access to lighting at night.

IDA support is expected to continue with the Third Rural Energy Project (planned to start in 2011), to complete the grid by bringing coverage to isolated or scattered households and communities in mountainous areas and on islands.

Source: IDA at Work. 2009. http://go.worldbank.org/R4KJDL2BA0.

B. SOME KEY SECTORAL/THEMATIC STRATEGIES

28. **Sectoral/thematic strategies include country/regional focus while also addressing global issues**. While the choice of sectors is determined at the country level, the Bank has sector strategies to shape sectoral focus at country, regional and global levels. The following section presents summaries of selected sector strategies.[16]

29. **Infrastructure**. Many IDA countries still have major gaps in infrastructure which plays a critical role in poverty reduction and achieving the MDGs.[17] The Sustainable Infrastructure Action Plan outlines the WBG's approach which includes the need to address the core access agenda in transport, energy, water, information and communication technologies, effectiveness through cross-sectoral approaches to address climate change mitigation and adaptation, private public partnerships, rural-urban integration, focus on social and environmental objectives in addition to economic/financial viability, and ensuring affordability through strong governance and leveraging WBG financing. Investment needed for infrastructure is estimated at 7 to 9 percent of GDP per year for developing countries, while only about half this amount is being provided. IDA has consistently supported basic infrastructure services, notably energy, transport and water. During IDA15, infrastructure accounted for 38 percent of total commitments providing an important contribution in closing the infrastructure gap and supporting private sector development. Projections for IDA16 are in the same range.

30. **Agriculture** dominates as the sector with the highest share of GDP and people employed in several IDA countries. Recently, agriculture development has accelerated due to improvements in policy, increased public spending and renewed strategic cooperation in the international community. IDA is one of the largest providers of resources for agricultural development with its investments in agriculture increasing substantially to US$1.87 billion in FY09 following the food price crisis. The greatest beneficiaries of support have been the Sub-Saharan Africa and South Asia regions.[18] Crises responses included inputs for agricultural production. The Bank's Agriculture Action Plan for FY10-FY12 seeks to support countries to: (a) increase productivity through the use of new technology; (b) link farmers to markets—including supporting the Doha round of global trade negotiations, investments in rural roads, strengthened producer organizations, improved market information, and access to finance; (c) reduce risk and vulnerability including safety nets; (d) facilitate rural non-farm income by improving rural investment climates, upgrading skills, and expanding rural infrastructure; and (e) enhance environmental services and sustainability including better management of livestock,

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[16] The list of sector strategies is not comprehensive; details are provided in Annex 4. Information on other sectors not included in this section can be found in the "IDA at Work" website. Link to IDA Website: go to: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21205382~menuPK:83993~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

[17] The population with access to water supply in rural areas in Sub-Saharan Africa is 44 percent, to electricity 26 percent and to sanitation in rural areas 43 percent. In South Asia, access to electricity is 52 percent and to water and sanitation in rural areas is 22 percent. Access to mobile telephone per 100 people is 14 in Sub-Saharan Africa, 15 in Asia and 35 in East Asia. 2008. World Bank Group Sustainable Infrastructure Plan for FY09-11.

[18] In response to the food crisis in 2008, the Bank initiated the rapid financing facility, "World Bank's Global Food Crisis Response Program", for the countries with the greatest need. It is supported by funds from Australia, Russia and the European Union.

rangeland, ecosystems and support to overcoming barriers to entry in carbon markets. The Bank also plays an important role in various efforts aimed at strengthening coordination and investing in key international public goods, including cross-border infrastructure development and systems for development of shared resources such as rivers and lakes.

31. **Education**. The Bank is one of the largest sources of assistance for education to low income countries. Since 1995, IDA funding for education has averaged US$922 million per annum reaching a record US$1.65 billion in FY09. IDA has committed about half its education funds to support primary education, thereby helping countries work to achieve universal primary education and eliminate gender disparities. Its priorities include: quality learning for all; skills and knowledge that contribute to economic growth and competiveness; and education systems that attain results. IDA support has focused on laying a foundation through training teachers, updating curricula, building schools, delivering textbooks and improving education governance and school management. The Bank hosts the Education for All Fast Track Initiative (FTI) and manages the US$1.54 billion FTI Catalytic Fund and the US$ 115 million Education Program Fund which supports 35 countries.[19] The FTI is a results-based partnership focused on delivering primary education to children in developing countries based on country commitment, increased aid, improved aid effectiveness and donor coordination. As primary access, enrollment and completion increase and the labor market demands a better skilled workforce, IDA will need to help countries meet the growing demand for secondary and tertiary education. Some countries will also need support to reach gender parity at secondary and tertiary levels. An updated education sector strategy for the Bank is under preparation.

32. **Health**. IDA has been a steady partner for countries in their efforts to improve the health of their populations. In financial terms, IDA has become a relatively small player in directly funding health programs given alternative sources of funding available. However, it plays a strategic role in providing funding for health systems strengthening to enable countries make effective use of aid from other sources and it also funds critical areas of health programs not covered by other sources of funding, thus complementing their support. The Health, Nutrition and Population Strategy guides IDA's work in the health sector. It calls for IDA to support country-driven programs that will demonstrate results on the ground, and to concentrate financing on IDA's areas of comparative advantage.[20] These include: health system strengthening and governance, health finance reform, and targeted assistance and insurance mechanisms to protect the poor from health risks and economic shocks such as the recent global economic crisis. IDA will continue to provide selective support to major disease programs with the aim of complementing the funding from governments and donors for HIV/AIDS and malaria through the World Bank's Malaria Booster Program. It will also support countries to address two key areas critical for the health related MDGs: nutrition and reproductive health. IDA will also continue to use its convening role, knowledge and lending to provide leadership in

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[19] Fourteen of the countries have either achieved or are on track to meet the universal primary completion goal, 21 countries—mainly in SSA—face major obstacles and require increased and sustained donor support to get them speed up towards the MDG goal.

[20] 2009. World Bank. IDA at Work. Health: Supporting Country Health Systems in a New Global Context. p. 2.

international health partnerships.[21] IDA will also help to strengthen partnerships at regional and country level. See Annex 4 for additional details on sectoral strategies and examples of results from IDA investments.

33. **Private Sector Development**. Private sector development (PSD) is central to strategies for reducing poverty. The WBG PSD strategy focuses on fostering investment climate reforms; strengthening financial systems; supporting private firms, including micro, small, and medium enterprises (MSMEs); promoting private participation in the delivery of social and infrastructure services; and supporting regional integration. The WBG promotes improvements in the investment climate through diagnostic work,[22] policy dialogue, and provision of lending and advisory services to help governments implement regulatory and structural reforms and better measure results. It also supports policy and institutional reforms. Two main specialized diagnostic instruments in the financial sector measure the costs of excessive regulation and serve as the basis for financial sector assistance strategies.[23] The Consultative Group to Assist the Poor (CGAP) has been providing focused assistance to improve access to financial services for the poor.

34. The WBG strategy will continue to evolve in light of this and other developments expected from the core agenda of investment climate and infrastructure which will remain a top priority in IDA countries, and as demand for long term growth issues such as knowledge and innovation will increase. It will also need to adjust to new challenges expected with respect to the private sector role in climate change adaptation and mitigation. The strategy will also need to help countries adjust their job creation to demographic changes. A new WBG PSD strategy is due in 2012, by which time recovery from the crises will be clearer and further progress made in defining global approaches to new challenges.

35. IFC increased its share of the number of investment projects in IDA countries from 32 percent in FY05 to 50 percent in FY09. This growing emphasis on IDA countries expanded opportunities for operational collaboration: in FY08 5 joint investment projects were committed, but this increased to 16 in FY09. As of May 2010 an additional 13 joint investment projects are estimated to be committed in FY10, with an additional 17 in early stages of development. During the IDA15 period, Management has continued efforts to improve coordination between IDA and IFC. These include: (i) establishment of the IDA/IFC Secretariat to develop more effective ways to leverage the Bank Group's instruments, resources, and skills in support of

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[21] UNAIDS where the Banks is a co-sponsoring agency, the Global Fund for AIDS, Tuberculosis and Malaria Global Fund) as a board member and trustee for the fund, the International Health Partnership, the Global Alliance for Vaccines and Immunization, Roll Back Malaria; the Partnership for Maternal and Newborn Child Health, the Advanced Market Commitments and the Affordable Medicines Facility for Malaria.

[22] Three main diagnostic tools used in IDA countries include: (i) the standardized firm level survey (enterprise survey); (ii) the Doing Business (DB) report; and (iii) investment climate assessments (ICAs).

[23] The Financial System Assessment Program (FSAP) and the Corporate Governance Reports on the Observance of Standards and Codes (ROSCs) and Insolvency and Creditor Right ROSCs. The WBG also supports analytical and policy work on the relationship between the trading environment and developments through implementation of the Integrated Framework Program, aimed at helping governments identify constraints to trade and the potential to expand and diversify the exports of IDA countries. Technical assistance and other follow-up work is often funded by a multi-donor Financial Sector Reform and Strengthening (FIRST) Initiative.

private sector development in IDA countries;[24] (ii) an increase in joint advisory activities and jointly financed projects including a joint program that delivers integrated packages including reforms of secured lending and financial information infrastructure frameworks to broaden micro, small and medium enterprise (MSME) access to finance; (iii) at the strategy level, preparation of joint CASs and other specific strategies;[25] (iv) harmonization of guidelines and procedures including investment processing procedures, issuance of procurement policy and PPP procurement guidelines, increasing alignment of Bank and IFC trust fund policies, and issuance of social and environment guidelines for jointly financed projects; (v) the development of the WBG Dashboard (an aggregated database of Bank and IFC portfolio and pipeline data); and (vi) coordinated field level presence - country offices are now co-located in 71 percent of locations where both organizations are present.[26]

36. **Governance**. Strengthening governance and fighting corruption are critical for poverty reduction. During the IDA16 implementation period, the Bank will support IDA countries strengthen their capacity to enhance governance and reduce corruption in line with the WBG strategy.[27] It will work at country, operational and global levels to enhance and integrate governance and anticorruption measures, deploying the full range of WBG activities to assist countries in achieving demonstrable results for sustained poverty reduction. This will include support for strengthening public management and governance in sectors (infrastructure, education, extractive industries, education and health, among others); increasing transparency in decision making; and involving beneficiaries and other stakeholders in policymaking and oversight. The WBG will also ensures the highest fiduciary standards in Bank-financed operations by preventing opportunities for corruption through improved project design, greater disclosure, enhanced participation and strengthened monitoring and supervision.

III. RESOURCING IDA16

37. The IDA16 replenishment will help countries sustain their work undertaken during the IDA15 implementation period as they step up efforts to recover from the recent crises and address the medium- and long-term development goals of achieving the MDGs and improving the well-being of their populations.

A. IDA COUNTRIES' FINANCING NEEDS

38. **Scale up of Core IDA Funding**. The IDA15 funding supported 79 IDA-eligible countries to address key priorities for FY09-11 based on CASs for each country. Increasing this core funding will be needed to help these countries step up efforts toward meeting the MDGs, support their recovery from the recent crises and address climate resilience into IDA-financed

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[24] *World Bank–International Finance Corporation Collaboration in IDA Countries: Second Progress Report*; IDA-IFC Secretariat; May 2010.

[25] They include among others: a joint regional private sector development strategy for the East Asia and the Pacific region; a joint climate change strategy in Vietnam; and a joint strategy on facilitating private investment in solar energy in India.

[26] See companion paper, "IDA16 Implementation Framework Report".

[27] See 2007. World Bank. *Strengthening World Bank Group Engagement on Governance and Anticorruption*.

projects. Gender is a cross-cutting theme, and during the IDA16 implementation period, the Bank will be strengthening gender mainstreaming in its support and helping countries ensure that the benefits of growth and poverty alleviation accrue equally to both women and men. The regional and sectoral strategies and action plans that would underpin the use of IDA16 resources were discussed in Section II. As in previous replenishments, subject to performance, about 50 percent of IDA resources would be allocated to Sub-Saharan Africa.

39. Within this core program there would be limited resources for helping countries address the impact of climate change. As noted separately in the Special Themes paper, IDA is strengthening its systems for measuring results from and financing towards the impact of climate change, particularly for adaptation. At the same time, given that IDA financing for climate change related activities has begun during the IDA 15 period and given that incremental costs for climate proofing of IDA projects (around 6 percent or approximately US$800-900 million per year) are significant, there is considerable need to increase financing for climate change related activities within the core IDA program.

40. **Post-conflict and Re-engaging Countries**. In response to the need to avoid a substantial decrease in allocations for post-conflict countries, during the IDA15 Replenishment the phase-out period for exceptional allocations was increased from three to six years resulting in ten years of support for post-conflict countries (Afghanistan, Angola, Burundi, Côte d'Ivoire, Democratic Republic of Congo, Republic of Congo, Eritrea, Liberia and Timor-Leste) which would have otherwise exited the window during IDA15.[28] Similarly, the phase-out period for re-engaging countries (Haiti, Central African Republic and Togo) was extended from two to three years (for a total five years of exceptional allocation). During IDA16, only two countries (Côte d'Ivoire and Liberia) would continue to receive exceptional allocations if there is no further extension of the phase out period. The extension of the phase-out is important because it increases allocations for these countries where higher levels of IDA support continue to remain necessary.

41. For IDA16, management is proposing two options for consideration by the IDA Deputies: (1) extend the length of the phase out uniformly for all post-conflict countries by two years and for re-engaging countries by one year, where the estimated financial cost during IDA16 is about SDR330 million; (2) extend the phase out period for individual countries based on a case-by-case assessment against specified criteria,[29] in which case the required financing would be smaller than under the first option—this assessment would be conducted and a determination made in the context of each IDA replenishment negotiations. The scenarios presented in the next section reflect the upper bound assessment and, if IDA Deputies endorse the case-by-case approach, Management will present an updated estimate at the third IDA16 replenishment meeting.

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[28] See. IDA 2009. *IDA's Exceptional Allocation: A Review of the Implementation Experience with Lengthened Phase Out.*

[29] For additional details, see companion paper *"IDA's Performance Based Allocation System: Review of the Current System and Key Issues for IDA16."*

42. **Regional Projects**. The IDA Regional Program has grown significantly between the IDA13 and IDA15 periods.[30] The program was scaled up from SDR304 million in IDA13 to over SDR1.2 billion during IDA14.[31] In IDA15, SDR1.2 billion was made available to leverage the national country allocations to promote regional integration. As of March 30, 2010 total commitments for IDA15 reached SDR0.8 billion, including contributions from country IDA allocations. Sub-Saharan Africa has accounted for the greatest share of the commitments (99 percent) and 13 of the 14 regional operations approved during IDA15 (including 3 for additional financing). Seventy-six percent of the funds have been committed for regional infrastructure projects in water management, roads networks, trade facilitation and energy access.

43. During IDA15, a special focus has been placed on the implementation of the IDA regional portfolio and encouraging results can be noted. Following up on the recommendations made in papers and reviews by IEG and QAG and reflected in the IDA15 MTR,[32] Management took steps to accelerate implementation of IDA regional projects.[33] As a result, disbursements of the regional projects increased with US$84.5 million disbursed in FY09 and US$135.2 disbursed as at the end of March 2010 in-FY10. The disbursement ratio increased from 5.4 percent at the time of the IDA15 MTR to 8.5 percent at the end of March 2010 for the Sub-Saharan Africa region projects.

44. The demand for funding for the regional initiatives has substantially increased, including in the regions other than Sub-Saharan Africa. In their recent Regional Strategy Update to the Board in early March 2010, both the EAP (including for the Pacific islands) and SAR regions included regional collaboration and integration as one of the key elements of their strategy going forward.[34] In parallel, there has been a significant ramping up of the project pipeline, especially in South Asia with three regional projects in the pipeline supporting infrastructure and wildlife conservation; in ECA where two regional operations are being developed to support hydro-meteorological services in Central Asia and a risk insurance facility in Southeast Europe; in the LAC for a risk insurance facility and for the Caribbean where four projects are currently under preparation supporting integration in power, ICT and financial sector; and in Sub-Saharan Africa where the demand for additional regional resources remains strong. ECA and South Asia regions are also exploring a cross-regional project. This strong pipeline indicates that IDA15

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30 The IDA Regional Pilot Program provides two-thirds of the cost of regional projects with the remaining one third of funds provided through the IDA allocation of the individual country.

31 This includes regional IDA funds complemented by the country allocations.

32 2009. IDA. IDA15 Mid-Term Review of the IDA Regional Program; IEG (Independent Evaluation Group). 2007. *The Development Potential of Regional Programs: An Evaluation of World Bank Support of Multicountry Operations.* Washington, DC: World Bank. http://siteresources.worldbank.org/EXTREGPROPAR/Resources/reg_pgms_full.pdf; QAG (Quality Assurance Group). 2008. "Quality at Entry in FY06-07 (QAE8)". May 2008 http://siteresources.worldbank.org/INTQAGNEW/Resources/QEA8FINALSynthesisReport.pdf

33 Management actions included improving the regional programs' strategic alignment with CASs, strengthening the results focus and analytic underpinnings of regional operations, and emphasizing quality control at the design stage as well as support during project implementation.

34 As a result of increased activities, the SAR region has recently appointed a Regional Director for Regional Integration to oversee the preparation of its regional programs becoming the second region after the AFR Region to do so.

regional resources should be fully committed by the end of FY11 and that there is significant excess demand over and above the allocations proposed in the scenarios presented below. Furthermore, as part of its package of support for regional operations, IDA will also continue the pilot approved at the IDA15 Mid-Term Review to provide direct grant financing to regional organizations to ensure successful implementation of the regional programs

45. **Crisis Response Window**. Management seeks additional ex-ante funding for a mechanism that would provide a more systematic response by IDA to requests from client countries following major, unexpected crises.[35] Details of the Crisis Response Window (CRW) are contained in the IDA16 accompanying paper *"A Proposal for a Permanent Crisis Response Window in IDA"*. IDA is one of the leading agencies in providing funding for disaster management, reconstruction and recovery efforts. However, in the past IDA has responded through ad hoc resource mobilization efforts by reallocating funds within the countries portfolios, front-loading existing allocations or through exceptional allocations or ad hoc trust funds and facilities. As indicated in the IEG's evaluation of World Bank assistance for natural disasters, the reallocations, while helpful, present a "tax" on countries resources and divert funding away from their long-term development goals and poverty reduction efforts, supported through the PBA. The proposed CRW would allow timely support in the case of exceptional crises, additionality (i.e., minimizing the diversion of resources from long-term development objectives), mainstreaming support through IDA and reducing the need for ad hoc, parallel funding during times of crises, and greater transparency and predictability.[36] The CRW could be funded through a combination of ex ante and ex post funding, with an overall ceiling of 5 percent of total IDA16 replenishment resources. The scenarios detailed below present options for ex ante paid-in contributions. Should additional resources be required, for example to address the impact of a severe economic crisis, these resources could be provided through the possible financing mechanisms indicated in the CRW proposal. Resources to reimburse the bridge-financier would need to be provided in the context of the IDA17 replenishment.

46. **Special Reconstruction Allocation for Haiti**. Financing is needed during the IDA16 period to assist Haiti rebuild following the devastating earthquake that struck the country in January 2010 and killed 300,000 people, displaced almost 2 million people, eradicated a decade of poverty gains and devastated Port-au-Prince where 65 percent of Haiti's GDP was generated. The scale of the destruction was unprecedented for the poorest country in the Western Hemisphere. The post-disaster needs assessment put the scale of damage and losses at around US$7.9 billion or 120 percent of Haiti's 2009 GDP.[37] Recovery and reconstruction is expected to cost US$12.1 billion over the next three years. The international community has pledged US$5.5 billion in support of the country over the next 2 years. However, financing gaps remain for the re-establishment of government's basic functions (buildings, equipment, capacity), infrastructure investments, and to cover budget expenditures. Following the earthquake the World Bank Group has committed additional resources from the IDA pilot Crisis Response Window, Trust Funds and lines of credit from IFC for US$210.5 million for the remainder of the

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[35] IDA 2010. *"Enhancing IDA's Capacity to Respond to Severe Crises."* p. 2.

[36] IDA 2010. *"Enhancing IDA's Capacity to Respond to Severe Crises."* p. 2.

[37] The assessment was coordinated by the World Bank, the EU, the UN and the Inter-American Development Bank (IDB).

IDA 15 period. These resources are being used to support immediate reconstruction needs (critical infrastructure, re-establishing core government functions and human development needs). Also, effective May 21, 2010 the remaining debt of US$35.9 million owed by Haiti to IDA was cancelled through contributions from 13 donors. Recovery will take many years, but the IDA 16 implementation period is identified as crucial in re-launching growth and maximizing the benefits of reconstruction. The level of funding required is more than what could be provided under the current IDA allocation system and Management recommends a special allocation of SDR329 million to support Haiti's reconstruction under some of the scenarios presented below.[38] This allocation could be provided as part of the permanent Crisis Response Window or as a stand-alone allocation. This support would focus on efforts to improve governance (essential to ensure the effective use of larger aid flows), restore crucial infrastructure (roads, bridges, electricity), rebuild housing (the most damaged sector and greatest human need), as well as strengthen community reconstruction and ensure the continuation of education. IDA will also require funding to fill the huge capacity gaps and constraints which severely hamper reconstruction and, in the medium term, development.

47. **Arrears Clearance and Re-activating Countries**. Four countries (Myanmar, Somalia, Sudan and Zimbabwe) have been in protracted arrears and could become eligible for exceptional IDA support for arrears clearance.[39] The total arrears to IBRD and IDA from these countries amounted to SDR1.3 billion at end-March 2010. Given the high uncertainty about their re-engagement, it is assumed that potentially only Sudan and Zimbabwe may become eligible for exceptional IDA support for arrears clearance during the IDA16 period (FY12-14), with the cost estimated at SDR884 million.[40] While this provisioning represents the entirety of the arrears owed by the two countries as of end-March 2010, the actual amount will be affected by the timing and the countries' capacity to finance arrears clearance. For the IDA16 scenarios, it is estimated that about SDR770 million will be required for these arrears clearances (for more details see the companion "IDA's Performance Based Allocation System" paper). Since the arrears clearance funds are handled outside the PBA envelope, at the end of IDA16, if the funds allocated during IDA16 will be in excess of the actual costs, the remaining funds will be carried over into IDA17. If the set-aside funding will be less than the required amount, the amount of the shortfall will be included in the arrears clearance request in the IDA17 replenishment.[41,42] In addition to arrears clearance, the two countries would receive about SDR300 million in exceptional IDA allocations to support their reactivation and recovery during the IDA16 period.

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38 This would replace the regular PBA funding during the IDA16 period.

39 Refer to "IDA's Performance Based Allocation System: Review of the Current System and Key Issues for IDA16", IDA16 Replenishment Paper.

40 Both Sudan and Zimbabwe are assumed to re-engage at the beginning of IDA16 (i.e., FY12). Sudan's estimated arrears to IDA (as of April 1, 2010) are SDR383 million. Zimbabwe's arrears (as of April 1, 2010) are SDR88.9 million to IDA, and SDR411.9 million to IBRD.

41 IDA June, 2007. "*Operational Approaches and Financing for Fragile States.*"

42 Details of the approach to arrears clearance are contained in the IDA15 paper on, "*Further Elaboration of a Systematic Approach to Arrears Clearance.*" IDA. June 2007. See also, "*Report from the Executive Directors of the International Development Association to the Board of Governors. Additions to IDA Resources: Fifteenth Replenishment. IDA: The Platform for Achieving Results at the Country Level*." Approved by the Executive Directors of IDA on February 28, 2008.

B. FINANCING SCENARIOS

48. **Given the current extraordinary circumstances, Management is seeking the guidance of IDA Deputies by presenting several potential scenarios rather than recommending a specific "ask" and financing scenario (as was done for IDA15)**. The replenishment of IDA16 is taking place in a difficult and uncertain external environment. Many donor governments are facing significant fiscal challenges that will require adjustments in domestic and international programs, including in official development assistance (ODA). At the same time, there are large needs for IDA countries, including for post crisis recovery, redoubling efforts towards the MDGs, climate change, and fragile and conflict affected countries. The scenarios provide a broad range of options from keeping IDA16 flat in real terms relative to IDA15 to incrementally higher scenarios which allow for progress to be made with regard to scaling up IDA to meet the MDGs as well as to address additional needs under IDA16.

49. **Under all scenarios, the financing framework originally agreed for IDA15 of SDR27 billion is adjusted for graduations, arrears clearance and inflation as follows**: (i) the indicative allocation of SDR140 million for Azerbaijan during IDA15 is deducted as it is expected to graduate at the end of IDA15; (ii) the amount for donor financing of arrears clearance in IDA15 of about SDR770 million is subtracted from the IDA15 replenishment amount and the amount for donor financing of arrears clearance expected to take place in IDA16 (about SDR770 million) is added to the IDA15 replenishment amount, at the same level as in IDA15; and (iii) the baseline is adjusted for inflation using the three-year annual average SDR inflation over the IDA15 period of 5.7 percent. Several blend countries on their way to graduation have been set back by the global crisis and will need to receive continued funding under IDA16.[43,44]

50. **Each scenario presents a different combination of increase in core IDA scale up and additional financing needs.** The potential scenarios detailed in Table 2 below present elements for a discussion by Deputies on allocating potential additional resources over and above the IDA15 replenishment. Specifically, the table presents the following five scenarios (in SDR amounts; the same table in US$ amounts is presented in Annex 1):

- Scenario 1 would maintain the IDA16 replenishment flat at the same level as in IDA15 in real terms;
- Scenario 2 would allow IDA to finance: the extension of the phase-out for post-conflict and re-engaging countries, partial ex ante financing for the CRW for future crises and the proposed special allocation for Haiti. This scenario would not allow for any increase in the core funding or a scale up of the regional projects.
- In addition to the elements covered under Scenario 2, Scenario 3, 4 and 5 would allow for the scaling up of about 5, 9 and 13 percent of core IDA resources over IDA15. These resources would enable IDA to help address additional financing needs of client countries

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43 See IDA. 2007. *The Demand for IDA15 Resources and the Strategy for their Effective Use*.

44 The following countries are currently classified as blends: Armenia, Bolivia, Bosnia and Herzegovina, Cape Verde, Dominica, Georgia, Grenada, India, Pakistan, Papua New Guinea, St. Lucia, St. Vincent and the Grenadines, Uzbekistan and Zimbabwe.

for stepping up efforts towards meeting the MDGs; continue to support their recovery from the recent food, fuel and financial global crises; and strengthen climate resilience in IDA countries and better mainstream gender. Support would be focused on the priorities already outlined above that aim to foster sustained growth and improved services delivery and governance leading to poverty reduction and better outcomes as reflected in MDGs and other development indicators.

- Scenario 4 would also provide resources for the scale up of regional projects of 1 percent over IDA15 and increased resources for the ex ante financing of the proposed Crisis Response Window. The additional resources would enable IDA to respond to the growing demand for regional projects in IDA countries. Scenario 5 would provide for a scaling up of regional programs of about 2 percent over IDA15.

Table 2: IDA16 Potential Scenarios (SDR million)

		Scenario 1		Scenario 2		Scenario 3		Scenario 4		Scenario 5	
		% of original IDA15 envelope	SDR million	% of original IDA15 envelope	SDR million	% of original IDA15 envelope	SDR million	% of original IDA15 envelope	SDR million	% of original IDA15 envelope	SDR million
I.	**Original IDA15 Envelope**		**27,347**		**27,347**		**27,347**		**27,347**		**27,347**
II.	**Adjustments**										
	a) Adjustment for inflation (5.72%)	5.7%	1,564	5.7%	1,564	5.7%	1,564	5.7%	1,564	5.7%	1,564
	b) Arrears clearance (net)[1]	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0%	0
	c) Allocation changes due to graduation & projected re-activation	0.6%	160	0.6%	160	0.6%	160	0.6%	160	0.6%	160
	Total Adjustments	6.3%	**1,724**	6.3%	**1,724**	6.3%	**1,724**	6.3%	**1,724**	6.3%	**1,724**
III.	**Special Needs for IDA16**										
	d) Extension of phase-out	0.0%	0	1.2%	330	1.2%	330	1.2%	330	1.2%	330
	e) Permanent Crisis Response Window	0.0%	0	1.1%	300	1.1%	300	1.8%	500	1.8%	500
	f) Special reconstruction allocation for Haiti	0.0%	0	1.2%	329	1.2%	329	1.2%	329	1.2%	329
	h) Additional regional projects scale up	0.0%	0	0.0%	0	0.0%	0	0.9%	250	1.8%	500
	Total Special Needs	0.0%	**0**	3.5%	**959**	3.5%	**959**	5.2%	**1,409**	6.1%	**1,659**
IV	**Core IDA Scale-Up**	-0.6%	**-160**	0.0%	**0**	5.4%	**1,484**	8.7%	**2,371**	12.9%	**3,527**
V	**Increase over Original IDA15 Envelope (II+III+IV)**	5.7%	**1,564**	9.8%	**2,683**	15.2%	**4,167**	20.1%	**5,504**	25.3%	**6,910**
VI	**Total IDA16 Financing Needs (I+II+III+IV)**		**28,911**		**30,030**		**31,514**		**32,851**		**34,257**

1. IDA15 arrears clearance funds are netted out of the original IDA15 envelope, while estimated IDA16 arrears clearance costs are added to IDA16. Because the IDA15 arrears clearance funds were approximately equal to the estimated IDA16 requirements for arrears clearance of SDR770 million, a net amount of zero is shown.

IV. ISSUES FOR DISCUSSION

51. **IDA countries face a major challenge in trying to build on past achievements to accelerate their progress towards the MDGs**. While they have made significant progress, this has been insufficient to meet the targets. Furthermore, their progress has been slowed by the recent food, fuel and financial crises and they also are faced with other growing challenges such as the need to address climate change though adaptation and mitigation. Fragile states face the greatest challenges in closing the gaps to the MDG targets. IDA countries also need to ensure that the benefits of development accrue equally to men and women by paying attention to gender integration as well as equally among different income groups. The levels of growth and improvements in the well-being of the populations that were being experienced across IDA countries demonstrate that, with the necessary resources, they will be able to accelerate the pace of development. The IDA16 replenishment will be critical for providing the opportunity for these countries to reach the MDGs.

52. **Over the last 50 years, IDA has continued to remain an important development partner in countries where it operates**. In addition to the importance of the quality and scale of its own financing, it plays an important platform role in supporting countries in improving overall aid effectiveness. A robust IDA16 replenishment will be crucial in allowing IDA to continue to play its central role in supporting the country-based development model.

53. **The views of Deputies are sought on the following questions:**

A. Do Deputies agree that the financing scenarios present a suitable range within which to discuss the needs of IDA countries during the IDA16 period?

B. What are their views on the level of support for core IDA programs and the provision of financing for other identified activities, namely the appropriate option for extending the length of the phase-out for exceptional allocations provided to post-conflict and re-engaging countries; ex ante funding levels for the CRW; proposed special allocation for Haiti; and the scaling up of support for regional projects?

Annex 1. IDA16 Possible Scenarios (US$ million)

		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
		US$ million	US$ million	US$ million	US$ million	US$ million
I.	**Original IDA15 Envelope**	**41,690**	**41,690**	**41,690**	**41,690**	**41,690**
II.	**Adjustments**					
	a) Exchange rate adjustment[1]	-75	-75	-75	-75	-75
	b) Adjustment for inflation (5.72%)	2,380	2,380	2,380	2,380	2,380
	c) Arrears clearance (net)[2]	0.0	0.0	0.0	0.0	0.0
	d) Allocation changes due to graduation & projected re-activation	244	244	244	244	244
	Total Adjustments	**2,549**	**2,549**	**2,549**	**2,549**	**2,549**
III.	**Special Needs for IDA16**					
	d) Extension of phase-out	0.0	502	502	502	502
	e) Permanent Crisis Response Window	0.0	457	457	761	761
	f) Special reconstruction allocation for Haiti	0.0	500	500	500	500
	h) Additional regional projects scale up	0.0	0.0	0.0	380	761
	Total Special Needs	**0.0**	**1,459**	**1,459**	**2,144**	**2,524**
IV	**Core IDA Scale-Up**	-244	0.0	2,258	3,608	5,367
V	**Increase over Original IDA15 Envelope (II+III+IV)**	**2,305**	**4,007**	**6,266**	**8,300**	**10,440**
VI	**Total IDA16 Financing Needs (I+II+III+IV)**	**43,995**	**45,697**	**47,956**	**49,990**	**52,130**

1. This reflects the difference in the conversion of the original IDA15 envelope from the IDA15 reference exchange rate of SDR=US$1.52448 to the preliminary IDA16 exchange rate of SDR1=US$1.52173.

2. IDA15 arrears clearance funds are netted out of the original IDA15 envelope, while estimated IDA16 arrears clearance costs are added to IDA16. Because the IDA15 arrears clearance funds were approximately equal to the estimated IDA16 requirements for arrears clearance of SDR770 million, a net amount of zero is shown.

Annex 2. Regional Strategies for Effective Use of IDA16 Resources

1. IDA's assistance is provided on the basis of a Country Assistance Strategy for each country in line with the country-based approach. The Bank's operational regions develop an overall management strategy based on the country strategies. The regions also identify opportunities for cross-border solutions to sub-regional development challenges which can be addressed through regional projects involving several countries. Below are presented the summaries of the regional strategies for the medium term, including the IDA16 period.

A. Sub-Saharan Africa Region

2. **Context.** Until the global economic crisis, Sub-Saharan Africa had experienced relatively rapid economic growth for a decade, with GDP growth averaging 5 percent a year, and accelerating to 6.2 percent in 2007. The growth was widespread: 22 non-oil-exporting countries had average annual growth between 1998 and 2008 higher than 4 percent. Poverty had declined at roughly 1 percentage point a year, with the share of Africans living below US$1.25 a day in 2005 estimated at 50 percent. The HIV/AIDS prevalence rate was stabilizing, 60 percent of the children were completing primary school and child mortality was falling in 24 countries. The growth and poverty reduction was due to an increase in external resources (aid, debt relief, private capital flows and remittances), higher commodity prices, a buoyant global economy and improved economic policies—the median inflation rate in the mid-2000s for instance was half that in the mid-1990s.

3. The food, fuel and global economic crisis challenged this hard-won progress. With private capital flows, remittances, commodity prices, export demand, and tourist arrivals declining, the region's GDP growth rate fell from 4.6 percent in 2008 to 1.7 percent in 2009. This is estimated to throw 8-10 million more people into extreme poverty and result in an additional 30-50,000 infants, most of whom will be girls, dying from malnutrition. The prudent economic policy response of African policymakers and front-loaded resources from IDA, the African Development Bank and other donors resulted in a milder recession than it otherwise would have been, and growth is expected to rebound to 4.5 percent this year.

4. Even without the crisis, and despite the progress of the past decade, Sub-Saharan Africa still faces many development challenges, given its relatively weak starting point. Its private investment rate is only 15 percent (half that of Asia), due to an infrastructure deficit and constraining business regulations. Economic growth has not been sufficient to absorb the 7-10 million entering the labor force every year. A skills deficit hinders Sub-Saharan Africa's ability to compete in the global economy. Opportunities for African entrepreneurs, especially women, remain constrained by limited access to information, innovation, and adequate tools to create viable businesses. Agriculture, crucial to reducing poverty, is not increasing its productivity fast enough. Because of its high dependence on rain-fed agriculture, Sub-Saharan Africa may be the continent worst hit by climate change. The delivery of basic services continues to fail poor people, with high degrees of teacher absenteeism in schools and money often failing to reach frontline service providers. Cutting across all these factors, Sub-Saharan Africa's fundamental problem is weak governance and public-sector capacity, not just in the large number of fragile and conflict-affected countries, but also in difficulties in securing political consensus for

"second-generation" pro-poor reforms and their implementation in areas such as infrastructure, business regulation, agriculture and basic service delivery.

5. **Progress.** IDA's strategy for Sub-Saharan Africa is guided by the Africa Action Plan (AAP), developed in 2005 and revised in 2007 to focus on eight flagships and three cross-cutting themes. The September 2009 progress report of the AAP found that progress has been broadly satisfactory in four of the flagships (private sector, agricultural productivity, energy, roads), the result of the mutually reinforcing effects of policy and institutional reforms by governments and scaled-up external assistance. For example, supported by IDA and IFC analytical work and advisory services, in 2008 29 countries completed 67 Doing Business reforms, with 14 countries reducing the time to export. Policy reforms and scaled-up resources to agriculture—the Bank alone committed US$1.5 billion in FY09—contributed to 13 countries increasing their agricultural productivity faster than 3 percent a year for the past several years. For energy, about US$4 billion in concessional and non-concessional resources will add 15 gigawatts of power generating capacity (about one quarter of the current capacity) to Africa.

6. While there has been good progress in HIV/AIDS and malaria, much more needs to be done to strengthen health systems, which remain under-funded, under-staffed, ill-equipped and poorly managed. In the other flagships, more progress and attention is needed in (i) building skills for a competitive environment, especially at the secondary and tertiary levels; (ii) improving women's economic empowerment, where some targets have been met (25 countries have signed and ratified women's rights charters for example), but women's participation in high-productivity activities remains limited, and continuing to reduce gender gaps in education and maternal mortality; and (iii) increasing water supply and sanitation—most African countries are unlikely to meet the MDGs in safe water and sanitation, due to weak institutional frameworks and massive investment needs.

7. Finally, progress was mixed in three areas: (i) building a transparent and accountable state, with low and declining CPIA indicators for public management and institutions, but some traction with the Governance and Anticorruption (GAC) strategy; (ii) increasing attention to environmental management, where the strategy had to be revised to adapt to climate change; and (iii) building an effective development partnership, where some parts of the aid effectiveness agenda are working better than others.

8. **Strategy**. In light of Africa's recent growth and poverty reduction, the recent crises and the lessons from the 2009 Progress Report on the AAP, the Region's strategy seeks to use the Bank's knowledge and IDA financial resources, as well as its convening power, to maximize our assistance to Sub-Saharan African countries in accelerating progress towards the MDGs. The strategy will be organized along three main themes.

9. ***Competitiveness and Employment***. The strategy aims at addressing the bottlenecks to investment, especially in infrastructure, constraining business regulations and access to finance, with a sharper focus on women and youth. A scaled-up infrastructure program will apply a mix of policy and investment, including public-private partnerships with the IFC and the use of IDA guarantees, to support transport, water, energy and ICT. Policy support will aim to create a conducive environment for private sector investment and to help subnational entities, such as

cities, manage the delivery of infrastructure services such as water and sanitation. The main contribution of infrastructure to employment will be to lower production costs and improve competitiveness of agriculture and industries. Where possible, the investments will use labor-intensive technologies. Energy and water infrastructure contribute to the empowerment of women by saving them the time costs of collecting firewood and water. The infrastructure program is closely linked to the region's climate change strategy —in terms of adaptation (irrigation, water management, coastal protection) and mitigation (renewable energy).

10. To improve the business climate and access to finance, the strategy will target small and medium enterprises with knowledge assistance— to enterprises and to governments to improve the regulatory environment—and financial assistance in the form of credits to financial institutions that on-lend to SMEs. Technical assistance to entrepreneurs, especially women, will be stepped up. The employment strategy will concentrate on increasing the productivity of the informal sector which accounts for 70-80 percent of the labor force. This would include targeted public goods (such as infrastructure services) and targeted employment and training programs for young people. On the supply side— the strategy will improve the skills of Africans so that they can compete in the global marketplace through secondary and tertiary education and vocational training, to increase the chances for the 7-10 million young Africans entering the labor force every year to find productive employment.

11. ***Vulnerability and Resilience to Shocks***. The recent food, fuel and financial crises have brought into sharp relief Africa's need to strengthen safety nets that protect the poor and vulnerable from such shocks. The strategy aims to scale up these safety nets in a way that maintains cost-effectiveness and avoids political capture. Africa is also facing a major threat from climate change. The strategy of adaptation to climate change is one of increasing the use of irrigation and water management. African countries also frequently face political crises, such as post-election violence or coups d'état. These often reflect weak institutions for building national consensus. The strategy will explore how to help strengthen such institutions.

12. ***Governance and Capacity-building***. Noting that many of Africa's remaining challenges—be it a weak investment climate or poor service delivery or civil conflict—have their roots in weak governance, a major part of the strategy will be devoted to help improve governance and the capacity of the public sector to implement policies. The strategy will continue to strengthen the "supply side" of governance (public expenditure management, civil service and judicial reforms), health service delivery and efforts to improve women's access to property and land. Support will also be increased to the demand side of governance by building social accountability into IDA-financed programs and projects, and strengthening the capacity of non-executive parts of government, including the Parliament, and civil society and the media.

13. In addition to these three thematic areas of the strategy, there are two types of client groups that deserve differential treatment. The first is the large number of ***fragile states*** (almost half of the countries in the region). The strategy will focus on more selectivity in IDA interventions and greater capacity support (including greater decentralization of staff and decision making authority to these countries).

14. The second client group are the beneficiaries of ***regional projects*** and solutions. Many of Sub-Saharan Africa's infrastructure and other problems require a regional approach to their solution. However, these solutions have proved to be somewhat elusive, as countries are often unwilling to give up their sovereignty and the implementing agencies—the regional economic commissions—sometimes lack capacity. The strategy will be to strengthen the institutional setting for regional cooperation (the "software") while financing some of the investments ("the hardware").

15. To deliver on this ambitious strategy, the Sub-Saharan Africa region will make some operational changes. In light of the changing aid architecture, the region will continue to apply selectivity based on the Bank's comparative advantage and the countries' absorptive capacity. For instance, in countries where there are resources for health (from the various vertical funds), IDA will respond to governments' requests to help strengthen health systems and manage the health program. More generally, the Bank's knowledge resources will be used to increase the countries' absorptive capacity. In fragile states, limited IDA resources will be leveraged to crowd-in other resources from donors, trust funds and private sector investment.

16. Secondly, the region will increasingly decentralize its staff, especially to, or near, fragile states, so that these countries will receive the just-in-time knowledge and implementation support they require. As a first step, the region has increased the number of Country Directors covering fragile states and will be setting up a "Fragile States Hub" in Nairobi in the coming fiscal year.

B. South Asia Region

17. **Context**. With strong and continued support from IDA, the South Asia Region (SAR) has consolidated progress made in poverty reduction and in particular in reaching some MDGs, with tangible and recognizable progress made with regard to education and gender. However, the areas of child and maternal mortality, environmental protection and sustainability have lagged behind targets. The region remains susceptible to governance weaknesses and is facing increased security and violence in many countries. In this context, IDA assistance will be critical to support their transition to peace and long term development.

18. **Progress**. Almost all SAR countries have showed progress on achievement of universal primary and secondary education. In particular, India, Maldives and Sri Lanka showed encouraging gains. In India, between 2003 and 2009 the number of out of school children declined from 25 to 8.1 million. The region has also made progress in promoting gender equality and empowering women. Most countries are on track (except Afghanistan) with regards to MDG targets on the elimination of gender disparity in primary and secondary education. In India, the gender gap shrunk and the share of the scheduled castes and tribes in total enrolments is now in line with their respective share in population. There is also strong progress on some MDG health related indicators like the lowering of tuberculosis deaths, and the decline in the incidence and prevalence of tuberculosis. There was also good progress in the region in the number of cured tuberculosis cases.

19. However, while high growth in the region has led to declining poverty rates, this has not been fast enough to reduce absolute numbers of poor people. This also suggests the serious challenges of making growth more inclusive. Among all regions, SAR still has the largest concentration of poor with over 1 billion living under US$2 a day. While the region has showed acceleration in the rate of poverty reduction, all countries except Pakistan are lagging on achieving projected progress on halving the proportion of people living below a US$1 per day. Bangladesh, Nepal and India have had insufficient progress while Sri Lanka is seriously off target.

20. The MDG indicators related to infant and maternal health remain weak. Insufficient progress has been made on reducing child mortality under 5, and Afghanistan is seriously off track and India, Pakistan, Sri Lanka and Bhutan have made insufficient progress. Maternal mortality targets are unachieved (only Sri Lanka has been able to achieve committed targets). Also, the proportion of births attended by skilled health professionals is off track in the region.

21. Environmental sustainable development remains a challenge. On the positive side, there has been a tangible decline in the ozone depleting substances across the region. There have also been significant improvements in the proportion of terrestrial and marine protected areas. On the other hand, there have been decreases in the proportion of land covered by forests in Afghanistan, Bangladesh, Pakistan and Sri Lanka. Carbon dioxide emissions have also increased across the region.

22. The region remains susceptible to governance weaknesses and is facing increased security and violence in many countries (for instance in Afghanistan and Pakistan). The development paths of many countries will be determined by their ability to transit out of conflict to peace and security. While there are hopeful signs that this is happening, IDA assistance will be critical to support the transition to peace and long term development. Many SAR countries have also become increasingly vulnerable to natural disasters and external shocks (food, fuel and financial crises in recent years) as well as to the adverse impact of climate change.

23. **Strategy.** It should be noted that except for India, all SAR countries, to various degrees, will remain heavily dependent on aid in the foreseeable future, with little access to external capital market financing. But in the longer term, if the strong growth record is sustained and inclusive, many SAR countries have the strong potential to move towards Middle Income Countries (MIC) status. However, this medium and longer term prospect also brings with it attendant challenges in many dimensions, particularly with regard to achieving environmentally sustainability and inclusive growth, accelerating the rate of reducing extreme poverty in the hope of eliminating it by one generation's time, reducing vulnerability of poor populations to climate vagaries and dependence on depleting natural resources. All these challenges will continue to require attention and support from the international community, including the WBG.

24. There is a strong rationale for continued and enhanced IDA support to SAR countries during the IDA16 period. SAR will, based on its recently updated regional strategy, continue to pursue the three strategic pillars of inclusive growth, enhancement of better governance and regional integration, better response to climate change and natural resources management. The region intends to focus on assisting SAR countries on ***achieving the MDGs***, including education,

health, water and sanitation, but also with more emphasis on gender and malnutrition. The region also plans to step up support in providing ***social safety nets*** focusing on the poor and vulnerable, also to help them address the impact of crises and disasters.

25. SAR will also continue to provide significant support for ***infrastructure*** to enhance inclusive and pro-poor growth. It will increase assistance to targeted interventions as rural electrification and water/irrigation, as well as community based livelihood support. It will also substantially increase support ***for mitigation of, and adaptation to, natural disasters and climate vulnerabilities*** for the poor.

26. SAR's regional strategy also seeks to enhance the demand for ***governance and accountability***, strengthening institutions and improving fiduciary and implementation capacities of client countries. Based on the Bank's comparative advantage on policy advice and dialogue and its convening power, the region will continue to provide more relevant development platforms for working together with other development partners to further enhance aid effectiveness and resources pooling, particularly in post conflict countries through instruments such as the Multi-Donor Trust Fund (MDTF) and SWAps.

C. East Asia and Pacific Region

27. **Context and Progress**. The East Asia and Pacific Region (EAP) has some of the fastest growing low-income countries that are making progress in reducing poverty (e.g., Vietnam, Laos, Cambodia). Aid is particularly effective in these countries and absorptive capacity is growing. EAP is also the second largest region with fragile situations (7 countries). It has also the specific challenges of small islands (see brief on Pacific islands).

28. All countries were affected by the global financial crisis and experienced either a slowdown from the previous high growth or a significant domestic crisis. Economies that experienced a slowdown in growth are expected to have emerged from the crisis by the time of IDA16 (e.g., Vietnam, Laos). However, the countries that experienced a deeper crisis (e.g. Mongolia, some of the Pacific islands) will still be struggling with some of the consequences of these crises during the IDA16 period. All low-income countries in EAP are lagging in terms of HD-related MDGs.

29. **Strategy**. The region will assist IDA countries to address growing infrastructure and service delivery needs from rapid urbanization; sustain economic growth through better investment climate (e.g., trade integration, education, financial sector liberalization) to meet labor market expectations of large youth populations; improve fiscal policy and management in commodity-exporting countries in light of increased commodity price volatility; assist countries manage the risks from environmental degradation, natural disasters (typhoons, earthquakes, droughts, winter), and climate change; invest in improving service delivery and reach better HD outcomes; and enhance institutional capacity

30. The EAP Region has also identified some cross-cutting priorities in its Strategy Update: (i) support to governments in defining their governance priorities and shaping governance strategies (ii) gender – while there are few EAP countries where there are large gender disparities

in MDGs, there is a need to address some of the cultural dimensions of gender and the large gender gaps in labor markets; and (iii) climate change.

Below are a few specifics on some of the IDA countries in EAP.

31. ***Laos.*** Laos has experienced high growth in the past few years. It was affected by the global economic crisis, in part through lower FDI in natural resources. Some of the challenges it faces include limited economic integration and its lagging on MDG outcomes. In response to the economic crisis, the Bank increased its support for Laos. Some of it was in the form of budget support but also in the form of accelerated investment projects (in infrastructure, social protection, agriculture). Laos is proving that it has a higher absorptive capacity than its current IDA allocation. Its portfolio is performing well. A CAS is under preparation. Laos has good in-country donor coordination.

32. ***Mongolia.*** Mongolia was strongly affected by the economic crisis due to the drop in commodity prices. It also experienced extreme wintery conditions around the same time. The entire lending program for FY09-FY10 has been re-directed towards supporting the government in its response to the crisis. Bank support came mostly in the form of development policy lending operations that were closely coordinated with the IMF, the ADB and other bilateral donors. Most investment projects that were under preparation and that aimed at addressing longer term development priorities (e.g., infrastructure, environment, natural resources) have been carried over to IDA16. A new CAS will be developed in late FY11/early FY12.

D. Europe and Central Asia Region

33. **Context and Progress**. IDA has played a highly successful role in the Europe and Central Asia (ECA) region. As a whole, IDA countries in ECA have been strong performers and IDA has helped these countries achieve higher than average growth rates. As a result, a number of countries have been on a solid graduation path. In IDA14 there were 12 IDA recipients in ECA. Three of these – Albania, Serbia and Montenegro – graduated in the transition to IDA15. Azerbaijan will graduate in the transition to IDA16.

34. Nevertheless, the region experienced a larger reversal in economic growth in 2009 than any other region and is expected to continue to experience low rates of economic growth in the next few years. This can be traced to the countries' trade links to Europe and Russia, heavy reliance on remittances, and limited economic diversification. Poverty reduction slowed or halted, unemployment rose, deficits grew as part of countercyclical spending, and debt levels increased. The need for more effective social assistance programs was unmasked by these developments. Improvement in the infrastructure and the skill base of the labor force in IDA countries in ECA will be critical to getting these countries back onto a growth track.

35. IDA's response to the food, fuel and economic crises was quick in the ECA countries. IDA15 extended emergency support on food and fuel in Tajikistan and Kyrgyz Republic. It mobilized funds quickly and effectively for Armenia which became the first IDA Fast Track country. In many of the IDA countries, the immediate response was focused on budget support, social services and assistance, and small scale infrastructure projects that could generate

immediate employment. These have produced tangible achievements in a difficult period. However, more support is needed to help these countries back on the growth track. Continued IDA support will therefore be needed during the IDA16 period for eight IDA countries. They fall into three main groups:

- Four blend countries: Armenia, Georgia, Bosnia and Herzegovina, and Uzbekistan. While these countries have limited access to IBRD funds, they have also been among the most strongly affected by the global economic crisis. The hardest hit was Armenia, which experienced a 14 percent fall in GDP in 2009. Georgia was hit hard in both 2008 and 2009 - first the August 2008 war and then the global crisis. Bosnia and Herzegovina continues to struggle with post-conflict fragility, compounded by the global crisis which is estimated to have entirely reversed the 2000-2009 gains in poverty reduction. Further, Armenia, Georgia and Bosnia and Herzegovina have frontloaded their IBRD exposure and other commercial borrowing, and this has increased their debt levels and will limit IBRD access during the next few years. Uzbekistan is currently a notional blend country but is scheduled to resume some IBRD borrowing in FY11. Nevertheless, its creditworthiness is precarious. As a consequence, these countries will need continued access to IDA 16 to ensure adequate Bank Group support and to keep the debt stock from accumulating unsustainably.

- Four IDA-only countries: Two in Central Asia (Kyrgyz Republic and Tajikistan), Moldova and Kosovo. They are not currently creditworthy for IBRD and their financing needs to reach the MDGs and basic infrastructure rehabilitation far outstrip their current IDA allocation. They have qualities akin to fragile states (political or policy uncertainty, weak institutions, ethnic or regional tensions). Nevertheless, their capacity to absorb IDA resources is improving and higher levels of IDA funding for them could be effectively utilized. Moldova is expected to become a blend country during the IDA 16 period.

36. **Strategy.** In order the address the most pressing issues arising from the post-crisis environment, three main areas will underpin IDA's strategy in ECA.

37. ***Increasing competitiveness to achieve faster growth***. As noted, most of the IDA countries in ECA have been hit hard by the global crisis and economic recovery is expected to be slower than in other regions. A key factor in this, unveiled by the crisis, was the lack of diversification and strong drivers of growth. Thus, going forward, IDA will work with the poorest countries in ECA to increase diversification and develop a more conducive business environment. IDA will also help to strengthen financial intermediation to increase private savings and investment. Progress on the governance and public institution-building agenda will be an essential element in achieving results and yielding faster more inclusive growth.

38. ***Building human development while advancing fiscal adjustment***. During the crisis, many of the IDA countries in ECA provided counter-cyclical spending with the support of the international community. However, these countries must now begin to reduce their fiscal deficits while maintaining adequate support for the social sectors, e.g., education, health and social protection. Part of the solution will be to improve the way in which social spending is extended, and ensure that public expenditures produce targeted results efficiently in terms of

human development and priority infrastructure. It will also require exploring additional use of public-private partnerships.

39. ***Strengthening sustainable development and mitigating the impact of climate change.*** About half of the poor in IDA countries in ECA live in rural areas and if IDA is to have a strong impact on their lives it must be focused on improving rural livelihoods. At the same time, the IDA countries in ECA are also rated as some of the most vulnerable to climate change. This vulnerability is particularly acute for areas dependent on mountain snow melt for water and irrigation. Furthermore, many of the IDA countries are particularly vulnerable to natural disasters (floods, earthquakes, drought). IDA will therefore need to strengthen its programs to help address these issues during the IDA16 period.

40. IDA will support IDA countries in ECA through aid coordination, lending, analytic work and regional cooperation.

- ***Aid Coordination.*** Overall assistance to the IDA countries in ECA represents a very small percent of global aid (under 3 percent) and is dominated by international institutions - the EC, IDA, EBRD and ADB. The role that IDA therefore plays in the ECA region is critical to ensure a basic level of assistance for development, to catalyze aid through policy dialogue and donor meetings, and to help direct this limited aid to the highest priority development activities through cofinancing or parallel financing arrangements. IDA is currently playing a leadership role, with the EC, in coordinating assistance in both Bosnia and Herzegovina and Kosovo.. In Georgia, the Bank led a post-conflict Joint Needs Assessment (JNA), co-chaired a donor conference with the EC which garnered pledges of US$4.5 billion, and is now leading the follow-up work to ensure these pledges are realized and results assessed and monitored. In addition, IDA has chaired or co-chaired periodic consultative group meetings in Kyrgyz Republic, Tajikistan and Moldova. IDA has also piloted one of the first Joint Country Support Strategies (JCSS) for the Kyrgyz Republic. Many IDA financed projects, in particular development policy operations, have attracted significant cofinancing. In particular, IDA is working with Russia to cofinance and augment IDA operations through the newly created US$9 billion EurAsEC Anti-Crisis Fund targeted at some of the poorest ECA countries. IDA will also support several countries in achieving increased integration with the EU, either as potential candidate countries or the Eastern Partnership.

- ***Lending.*** In ECA, development policy lending accounts for around 20-40 percent of IDA and investment lending about 60-80 percent. Annual development policy lending anchors IDA programs in Georgia, Armenia, Moldova, Tajikistan and Kyrgzy Republic. A critical issue during the IDA16 period will be to assist these countries in implementing a post-crisis strategy to reduce deficits and ensure effective public expenditure prioritization. At the same time, some decrease in policy lending is anticipated as economies recover by the end of the IDA16 period. For investment lending, IDA is expected to continue to focus on key development issues – infrastructure (particularly roads and energy necessary to build competitiveness), human development, water supply, agriculture and building public institutions. A growing area of involvement is expected to be climate change: adaptation, mitigation, as well as support for renewable energy and disaster risk planning. IDA countries

in ECA also have a proven strong track record of implementing projects effectively, and most have disbursement ratios in excess of 20 percent.

- ***Analytic Work.*** The quality of IDA's analytic work is highly appreciated by both governments and donors. IDA's poverty diagnostics, public expenditure work, Country Economic Memorandums, and fiduciary (procurement and financial management) work all help to underpin key reform efforts in ECA countries. Education, health and roads maintenance reviews in many IDA countries will help projects achieve their targeted results. Additional attention will be given to innovative mechanisms to increase the impact of analytic work, such as a proposed High Level brainstorming session in Armenia with senior Government officials, international experts and Bank staff. This country level analytic work will be complemented by agenda-setting regional flagship reports on subjects such as climate change, energy and skills.

- ***Regional Cooperation.*** While most of the activities in IDA countries will remain country specific, given the relatively small size of individual countries in the region delivering the core strategy will also require IDA to focus more on sub-regional issues. These cover a range of issues including water and energy, transport, trade, and social inclusion. A key example is water and energy resources in Central Asia, which involve both IDA countries in ECA as well as in South Asia (Afghanistan and Pakistan). Poor upstream countries including Tajikistan and Kyrgyz Republic have water resources that they can turn into hydro-electric power and exports, while downstream countries need water for irrigation. The region would also explore regional approaches in the trade and transport areas. Strengthening transport links in Central Asia, the South Caucasus and the Balkans will be particularly important, though these links can be support by both country specific operations as well as regional ones. Another potential area would be disaster risk insurance as many of the smaller IDA countries in ECA are highly prone to such risks and can benefit from pooling their efforts to create insurance markets for the people in their countries. The Bank Group is uniquely placed to mobilize all parties, including private partners, in supporting sub-regional solutions to overcome the lack of confidence among the parties, assume adequate treatment of environmental and social safeguards and mobilize the requisite investment financing. At the same time, conflicts affecting Armenia, Georgia and Moldova continue to impose limits on integration.

E. Latin America and Caribbean Region

41. **Context and Strategy.** There are nine IDA countries in the Latin America and Caribbean (LAC) region: (i) one re-engaging fragile state (Haiti); (ii) the core IDA countries (Bolivia, Honduras, Guyana, and Nicaragua; and (iii) the small island countries (Dominica, St. Lucia, Grenada, and St. Vincent and the Grenadines). LAC has front-loaded IDA projects to meet increased demand resulting from the food, fuel and economic crises and natural disasters.

42. ***Haiti***, the poorest country in LAC, has weak institutional capacity and limited infrastructure. This situation worsened following the devastating earthquake that hit the country in January 2010. The country needs strong, sustained donor financial and technical assistance. Donor coordination and the need to prioritize interventions are critical to effectively support

Haiti. The unprecedented scale of this disaster calls for a level of response above and beyond what normal IDA financing parameters would allow. The Post-Disaster Needs Assessment (PDNA) jointly coordinated by the World Bank, the EU, the UN and the IDB, put damage and losses at around US$7.9 billion, or 120 percent of 2009 GDP. Recovery and reconstruction needs are estimated at around US$12.1 billion over the next three years. The World Bank Group has responded strongly and rapidly, by committing an additional US$210.5 million for the reminder of the IDA15 period. This includes a US$65 million (from the IDA pilot Crisis Response Window and the IDA Natural Disaster Emergency Window), US$35.5 million from Trust Funds and lines of credit from IFC aimed at restarting businesses (US$60 million). These resources are being used to support immediate reconstruction needs. The US$65 million Emergency Project is rebuilding roads and bridges and helping establish core government functions, and address human development needs.

43. Other IDA countries in LAC (Guyana, Bolivia, Nicaragua and Honduras) face a number of key issues: (i) achieve high and sustainable growth; (ii) make progress on poverty reduction; and (iii) improve governance. These countries have limited access to finance without IDA and IDA plays an important role in terms of leveraging funds from other donors.

44. ***Guyana*** has made significant headway in laying the foundations for macroeconomic stability and higher pro-poor growth, yet several challenges remain. The main objective of the CAS is to contribute to the Government's PRSP focus of accelerating and sustaining growth through two main pillars: (i) strengthening environmental resilience and sustainability; and (ii) improving education quality and social safety nets. For the first pillar, the CAS aims at contributing to an improved Government's ability to reduce exposure to natural disasters and global climate risk, and to pilot forest areas that will be protected and sustainably managed by local communities.[45] On the second pillar, the CAS aims at contributing to achieve an improved quality of education through reform of teacher training and better service delivery, improved institutional capacity of the Government, and ability to deliver an enhanced social protection program. In addition, the government has highlighted its increased focus on equity and empowerment of women (Guyana has the lowest female participation rate in the labor force in the region, and the widest gender participation gap).

45. ***Bolivia*** is one of the poorest countries in LAC and has a high level of inequality. Uneven distribution and poor quality of social services – particularly health and education – have disproportionately affected indigenous and rural populations. Poverty declined from 66.4 percent in 2000 to 60.1 percent in 2007. Despite the country's progress in reducing poverty, promoting inclusion is yet to show deeper, sustainable results. Efforts are needed to reach most of the MDG targets by 2015. It is estimated that achieving the goals on basic education, child/maternal mortality, and water/sanitation would require an extra 1.7 to 2.8 GDP points in

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[45] Guyana has one of the world's highest levels of forest cover per capita and is a leading player in the forestry – land use and land use change – discussions under Kyoto. It is highly vulnerable to climate change and natural disasters. The sea level rise also poses an important challenge to Guyana's geography, ecology and economy. Guyana has prepared a National Sector Policy for sea and river defense and has an ongoing pilot project for mangrove cultivation and management.

expenditure per year. This will require financial support that currently cannot be fully met by internal resources. Since 2000, a notable increase in climate-related disaster situations has been observed in Bolivia. Recent natural disasters – such as El Nino-2007 and La Nina in 2008 –hit Bolivia severely. The Government recognizes the seriousness of this challenge and is taking steps to address it.

46. The pillars for the Bank's Interim Strategy Note (ISN) and upcoming CPS are: (i) good governance; (ii) job creation through growth; (iii) social protection and improved public service provision; and (iv) sustainable development and infrastructure. Bolivia is a blend country though its creditworthiness to receive IBRD funds is currently being evaluated. If Bolivia is judged to be IBRD creditworthy, it would begin the process of graduation; otherwise it would use its full IDA allocation. It is anticipated that IDA 16 resources would be in the form of investment lending. Although decreasing as a percentage of GDP, official development aid to Bolivia remains a key contributor to the country's development efforts. There is strong interest in pushing forward the implementation of the Paris Declaration on Aid Effectiveness, and the Bank is assuming a greater role in donor coordination.

47. ***Nicaragua.*** The current Country Partnership Strategy (CPS) for Nicaragua is aligned with the Government's Economic and Financial Program (EFP) and is built around four pillars: (i) reactivating the economy, stimulating productivity and competitiveness (to combat hunger, malnutrition and poverty); (ii) human capital development (to improve social equity and opportunity); (iii) infrastructure and sustainable development; and (iv) strengthening governance and accountability (by modernizing and professionalizing state institutions and promoting citizen participation). Despite a number of external shocks over the CPS implementation period (food and fuel crises, A(H1N1) flu epidemic, the global economic crisis, the "el Nino" induced drought, and Hurricane Ida) and the impact of these shocks on macroeconomic aggregates and on performance at the sector level, macroeconomic management has remained broadly satisfactory and the government has kept a pro-poor focus. The CPS also identified Nicaragua's susceptibility to disasters caused by adverse natural events as a risk. The Bank is continuing to support disaster risk management efforts through the Central America Probabilistic Risk Assessment (CAPRA).

48. ***Honduras.*** The economic growth of the 2001-2009 period was accompanied by significant poverty reduction. Extreme poverty fell from 44 percent in 2001 to 36 percent in 2008. However, this achievement is under serious threat following the global economic, climate-related and political crises of 2009. Growth is estimated to have contracted by 2 percent in 2009 from 4 percent in 2008; remittances declined from 20 percent to 17 percent of GDP; FDI is estimated to have fallen from 6.3 percent to 3.5 percent of GDP; and net international reserves plummeted from US$2.4 million to US$1.4 million. The Bank is working with the newly elected government to prepare an ISN. A centerpiece of this assistance will be a Conditional Cash Transfer program aimed at 600,000 of the poorest families.

49. ***Small Island Countries.*** The OECS countries are highly indebted small states that generally lack access to financing. In addition, they are vulnerable to natural disasters. The impacts of climate change are already being felt with hurricanes, droughts and other natural disasters having cost these countries between 1-9 percent of GDP every year since 1970. In the

last 25 years, Dominica, Grenada and St. Lucia have been struck by single hurricanes that damaged more than 80 percent of housing stock and destroyed more than 67 percent or more of GDP. The World Bank is a long-standing partner in the Caribbean Climate Change agenda, having financed climate adaptation studies and investments in disaster response and vulnerability reduction for over 15 years. IDA continued support to the OECS countries is also needed since the economic crisis has had a severe impact on their economies and the recovery is expected to be slower than in the rest of LAC due to a slowdown in tourism and in remittances, and to unfavorable initial macroeconomic conditions and limited fiscal space for countercyclical fiscal policy.

50. OECS countries are moving to deepen their regional integration and have taken the initial steps to form an Economic Union. The draft OECS Regional Partnership Strategy (CAS) promotes a regional approach to lending. The IDA regional allocation will continue to be instrumental to continue supporting strengthened regional integration. Under IDA15, OECS countries have accessed IDA regional funds and demand for these resources under IDA16 is expected to continue.

F. Middle East and North Africa Region

51. **Context and Progress.** The Middle East and North Africa (MNA) Region includes two IDA countries, Djibouti and Yemen. These countries have shown steady progress, especially on the macroeconomic front, for the last five years. However, both countries are unlikely to attain most of the MDGs by 2015. Yemen ranks 140 out of 182 countries in the 2009 UNDP Human Development Index and progress in human and other development indicators, while steady, has been too slow to assure attainment of the MDGs by 2015, with the possible exception of universal primary education. The structural and long-term development challenges facing Yemen have undermined the efforts of the State, as well as other stakeholders, in improving peoples' livelihoods. Yemen's population growth remains very high. Sharp imbalances between the available water resources and consumption lead to increasing depletion of groundwater reserves. Enrolment in basic education is improving, and government efforts in this area are showing promise. But rates of child malnutrition (50.6 per cent) and maternal mortality (365 for 100,000 live births) remain unacceptably high, and unemployment is on the rise, due to insufficient job creation. Infrastructure is weak, with improving electricity coverage (59 per cent), access to safe water (36 per cent), and telecommunications (4.4 landlines per 100 inhabitants and 11.2 cellular per 100 inhabitants).

52. In Djibouti, some progress has been made in improving living standards in recent years, as noted in the PRSP. Although dropout and repetition rates remain high, net primary school enrollment has grown significantly to 66.2 percent, up from 34.7 percent in 2002. The elimination of gender inequality in school enrollment is on track, with a Gender Parity Index (ratio of girls to boys) of 0.70 at the primary level and increased female literacy. Infant and child mortality rates have improved, and malnutrition (as measured by the proportion of underweight children under the age of five) has fallen to 26 percent. Access to potable water has increased to 96 percent of the population in Djibouti-Ville; water access in rural areas has improved, but still remains low at 52.5 percent.

53. Yemen and Djibouti face the key challenges of widespread poverty, rapid population growth, lack of energy resources for Djibouti and depleting oil reserves for Yemen, and little diversification of their economies. In addition, Djibouti and Yemen face acute shortage of water reserves, with aquifers feeding major cities expected to dry up within the next 15 to 30 years. These two countries have poor infrastructure, limited human development, including education and health coverage and acute gender issues. Moreover, food insecurity is increasing or recurrent. Finally, both countries are located in an unstable area, where insecurity caused by Al-Qaeda cells in Yemen or lack of central government in Somalia can destabilize the region. The system of governance in both countries needs also to be improved.

54. **Strategy.** Both Djibouti and Yemen have developed their poverty reduction strategies and external financing is required to finance their investment programs. In the case of Yemen, a needs assessment study estimates the external financing requirements at about US$1.8 billion a year, of which US$500 million is the unmet annual financing gap. For Djibouti, the 2008-2011 poverty reduction strategy –the national initiative for social development-- estimates the external financing requirement at about US$290 million per year, of which about US$145 million is the unmet annual financing gap.

55. The Bank is considered a lead donor in almost all sectors in Yemen and has a small IDA portfolio in Djibouti, leveraged with trust funds financing. During the last three fiscal years (2008-2010), the Bank committed US$175 million on average per year (US$155 million in FY08, US$165 million in 2009 and US$205 million in 2010) for Yemen in the areas of education, health, social development, water, urban infrastructure, agriculture, ports development, public sector management and budget support. These resources included a regular IDA commitment and resources for country-executed trust funds (mostly for health, food crisis response, and education). In Djibouti, in addition to IDA15 resources and crisis response window financing, the Bank has mobilized US$10.9 million over the period, i.e., an average of US$3.6 million annually in trust funds, mainly for the sectors of education, urban infrastructure and disaster preparedness and management, and social safety nets.

56. In Djibouti and Yemen, IDA16 resources would be used to finance investment projects in areas where the Bank portfolio has had strong performance, especially for additional financing or repeater projects. In addition, in case the Yemen Government is able to launch a stabilization program, IMF will be supporting this with a financing package and the World Bank could consider development policy lending to support these efforts.

Small Island Countries

Transforming the Pacific Region with the Support of IDA Resources

57. The Papua New Guinea, Timor-Leste and Pacific Islands Department covers eleven countries, seven of which are IDA-eligible: Kiribati, Papua New Guinea (PNG), Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. The region consists of the smallest and most remote communities in the world facing both natural and man-made challenges. These include small, fractured internal markets that inhibit economies of scale and deliver few employment opportunities; prohibitive distances from export outlets, steep infrastructure and service provision costs; undeveloped human capital; and vulnerability to natural hazards and climate change. Kiribati, Samoa, Tonga and Vanuatu receive IDA resources under the small island economy exception, while Papua New Guinea is a blend country and Timor-Leste is a post-conflict country. The Executive Board will shortly be considering a proposal to reclassify the Republic of the Marshall Islands and the Federated States of Micronesia (currently IBRD members) as IDA-eligible, and Tuvalu (the world's second smallest nation by population size) is currently pursuing World Bank membership with the expectation that, if accepted, it might also be IDA-eligible under the small island economy exception. IDA plays a vital role – together with sectoral and Global Programs – in helping to establish a sound platform for multi-donor, multi-sectoral and sector wide approaches.

58. Within their borders, small populations are dispersed at great distances from economic hubs, affecting the provision of much-needed services such as electricity, roads, hospitals and schools. Mounting development challenges are exacerbated by extreme fragility and the legacy of conflict, crime and ethnic tensions. This region contains one of the highest concentrations of fragile states found in the world. Also, the region has an extremely young population, with few opportunities for formal employment, further contributing to instability. The Pacific countries are extremely vulnerable to external shocks and natural disasters they are unable to mitigate - as seen in the recent food, fuel and economic crises – as well as the devastating natural disasters in Samoa and Tonga. Many Pacific island countries are reliant on external relationships in aid, trade, investment and on the remittances provided by those working outside the country. Likewise, countries like Kiribati are in the front-line of climate change, with a pressing need to better adapt to the challenges this presents. With a modest lending program, IDA has already proven instrumental in transforming the lives of Pacific, PNG and Timor-Leste citizens. Continued support is needed to meet the current development challenges and help these countries move closer to the Millennium Development Goals.

59. With the substantial increase in the IDA envelope between IDA14 and IDA15, these countries were able to achieve significant results. These included ushering in a telecommunications revolution which helped people within these remote countries overcome the tyranny of distance. In Samoa, Tonga and Vanuatu, telecommunications work led to an increase in mobile phone access from 6 to 60 percent of the population, connecting citizens to markets, hospitals, schools and families. Likewise, IDA has enabled catalytic work in the energy sectors of Tonga, Samoa and Solomon Islands helping turn the lights on in one of the least electrified parts of the globe. This year IDA funding will be used to transform the lives of more than 20,000 young, disadvantaged people in Papua New Guinea and Solomon Islands through

education and training schemes which aim to unlock the potential of some of the region's most marginalized groups.

60. While all countries have plans to address the MDGs, the realization of such goals has been hindered by the back-to-back crises' affecting the region and realities associated with fragility and geography. The Pacific region is unlikely to achieve all MDGs by 2015. While significant advances have been made in some countries – with some MDGs already having been achieved – the overall picture is offset by reversals in others: Samoa and Tonga are on track to meet six of the targets but both Papua New Guinea and Timor-Leste are assessed as being "off track" on all seven MDGs. The progress made in attaining the MDG's is illustrative of the varying pace of reform taking place throughout the Pacific. While Samoa, Tonga and Vanuatu have reaped the benefits in improved economic performance and human development outcomes, others have fallen behind and need support to catch up. There remains an important role for the World Bank in supporting sector wide reform efforts and in helping to help coordinate development assistance more effectively in order to improve the lives of citizens in the region.

61. The World Bank Group's program in Papua New Guinea is outlined in the Country Assistance Strategy for FY08-11 (and for which a CAS Progress Report has been prepared). The CAS, developed jointly with IFC, is structured around two pillars: 1) promoting and maintaining sound economic and natural resource management; and, 2) improving livelihoods and service delivery, especially for the rural poor. Following a period of unrest in 2006, the World Bank Group's engagement in Timor-Leste is addressed under an Interim Strategy Note (ISN) for FY10-11 presented to the Board in August 2009. Also developed jointly with IFC, the ISN aims to: support the Government in the formulation and implementation of a National Development Strategy; develop capacity to implement the National Economic Strategy; maintain and strengthen social stability; and help deepen the foundations for non-oil growth. The remaining Pacific island countries currently come under the Regional Engagement Framework, a broad strategy identifying thematic priorities across the Pacific, however, a joint IFC-WB ISN for the period FY10-11 has been prepared for the Solomon Islands and will focus on: addressing the surmountable barriers to growth; enhancing the benefits of regional and global engagement; and supporting improved public administration and management.

62. The largest donor in the Pacific region remains Australia with the European Commission, the Asian Development Bank and New Zealand as the other principal development partners. Since the World Bank Group provides a relatively small share of total ODA to the Pacific, the World Bank Group emphasizes four strategic roles in which it has a comparative advantage and which are recognized and valued by both clients and donors. In a region where historical, colonial and other relationships remain influential, the World Bank Group plays an important role as an impartial, "honest broker", able to work equally with Pacific island countries and other development partners. Second, the ability to complement IDA allocations with substantial trust fund resources and the Bank's close collaboration with IFC in the Pacific is reflective of the powerful catalytic role that IDA can play. Third, the World Bank Group's convening power remains much-needed in an aid environment that would benefit from more effective coordination or where reforms or investments with regional dimensions can be very complex and difficult to structure. Finally, the World Bank can utilize lending as an instrument for "bundling" global expertise, financial and knowledge services to promote policy reform.

63. IDA is playing a critical role in the response to the devastating effects of the tsunami in Samoa and Tonga and, more broadly, is working with these countries to mainstream disaster risk reduction and climate change adaptation into development planning and management. In Samoa, the World Bank team was mobilized and on the ground in days of the tsunami impact and worked very closely with government and other donors to prepare a damage assessment and to identify a substantial package of assistance. The World Bank's ability to influence public policy through analysis and technical assistance is exemplified by the involvement of over 9,000 Pacific Islanders in New Zealand's Recognized Seasonal Employer (RSE) scheme that resulted from a sustained World Bank analytical program. Under the scheme, Pacific Islanders have the opportunity to work in New Zealand (and provide remittances to their families) while enabling New Zealand employers (mainly in the horticulture industry) to increase output by an estimated US$150 million.

64. The World Bank Group is assisting Pacific island countries to manage their natural resources (for example fisheries, mining, timber) more effectively and sustainably as well as helping to ensure that the countries receive a more equitable share of the benefits from these resources. As an example, the Bank is currently discussing providing institutional support to a regional fisheries management organization that represents 8 Pacific island countries that together control an estimated 30 percent of the Pacific tuna catch. The World Bank is also working with the governments of Timor-Leste, the Solomon Islands and Papua New Guinea to implement EITI for their oil, gas, mineral and timber resources. The impact of the food and fuel crises has been significant on many Pacific island countries reliant on food and fuel imports, and the World Bank is working to improve food security and export opportunities in the agriculture sector as well as fuel supply chain management and renewable energy generation.

65. In countries where significant capacity constraints remain, carefully targeted investments and analytical work (complemented by intensive implementation support) will remain the principal instruments of engagement. However, the recent food and fuel crises – as well as the delayed effects of the global economic slowdown – have exacerbated fiscal pressures and resulted in increased client demand for development policy lending. The Bank is preparing to move ahead with a limited number of such policy operations (in Samoa, Tonga and the Solomon Islands) but expects these to be modest in size and scope and intended to sustain the progress of clearly articulated reform programs.

66. World Bank Group staff continue to deepen engagement and relationships with regional organizations including the Pacific Islands Forum Secretariat (with whom the World Bank has recently concluded a Memorandum of Understanding setting out areas for intensified formal collaboration) as well as meeting routinely with development partners like Australia, New Zealand, the Asian Development Bank and the European Commission to report on progress and to identify and agree on priorities for coordinated action. The World Bank contributes to SWAPs with examples being those in the Health Sector in Tonga and Samoa, and is an active supporter and implementer of the aid coordination and development effectiveness agenda for the Pacific detailed in the Cairns Compact launched by the Australian Government in 2009.

67. The scaling-up of lending and non-lending activity in the Pacific region has been accompanied by a similar expansion in technical staff in the World Bank Office in Sydney,

Timor-Leste, Papua New Guinea, and the Solomon Islands (opened in 2008). The Department has also established innovative liaison offices in Samoa, Tonga, and shortly, in Vanuatu, where staff are shared by both the World Bank and the Asian Development Bank. As previously noted, all major strategic work (CAS, ISNs, etc.) throughout the region is undertaken jointly with the IFC who has also increased its complement of experienced technical staff in the field. World Bank Group programs in Papua New Guinea and the Solomon Islands (amongst others) have been enhanced as result of this sustained collaboration, as has the World Bank Group's ability to contribute to multi-dimensional areas such as telecoms, private sector development and fisheries management. In the Solomon Islands, the World Bank Group has played a central role in creating consensus around a harmonized donor approach to budget support.

Annex 3. Country Briefs

Uganda

1. Uganda is expected to reach at least three of the Millennium Development Goals (MDGs) by 2015. The country is close to halving poverty, achieving universal primary education and achieving substantial progress in addressing gender inequality. Uganda may even achieve the targets for combating HIV/AIDS, malaria and other diseases. However, Uganda is unlikely to reach the MDGs for maternal health and child mortality. Key constraints include: (i) one of the highest population growth rates in the world; (ii) an unmet demand for family planning services; and (iii) weak service delivery in health.

2. To sustain high growth and structurally transform the economy, Uganda needs to address infrastructure bottlenecks, increase agricultural productivity and value addition, reintegrate northern Uganda, and strengthen its human capital base. A rapidly growing population creates challenges for employment and service delivery. The overarching challenge is to improve governance and value for money for service delivery and infrastructure investments, and to build a clear and transparent institutional framework to ensure that future oil revenues benefit the entire population.

3. **Government priorities.** In February 2010, Uganda's Cabinet approved a National Development Plan (NDP) covering FY2011-2015. The NDP's main theme is "growth, employment and socio-economic transformation for prosperity". It broadens the country's development strategy from poverty reduction to structural transformation to raise growth and living standards. Building on the achievements under the previous series of PRSPs (PEAP1-3), the NDP aims at fostering skilled employment growth and a sectoral shift to higher value-added activities. It gives the government a strategic role in this process by eliminating remaining, persistent barriers to growth and promoting private sector involvement in selected priority areas. The NDP identifies four priority targets: human resource development through health, education and skills building; boosting physical infrastructure, particularly in the energy and transportation areas; supporting science, technology and innovation; and facilitating private access to critical production inputs, particularly in agriculture.

4. **CAS Support.** The World Bank Group's CAS, aligned with Uganda's NDP, provides a framework for World Bank Group support for five years, from FY11-15. The CAS focuses on four strategic objectives and twelve outcomes:

- ***Promote Sustainable and Shared Economic Growth***. There are four outcomes: (i) improved conditions for private sector growth; (ii) improved interconnectivity for regional integration; (iii) increased productivity and commercialization of agriculture; and (iv) increased transparency and sustainability of natural resource management.
- ***Enhance Public Infrastructure***. There are three outcomes: (i) increased access to and reliability of electricity; (ii) improved access to and quality of roads; and (iii) increased access to quality water and sanitation services.
- **Strengthen Human Capital Development**. There are two outcomes: (i) improved access to and quality of primary and post-primary education; and (ii) strengthened health care delivery.

- **Cross-cutting: Improve Good Governance and Value for Money**. There are two outcomes: (i) increased transparency and efficiency of public financial management and public procurement; and (ii) strengthened public sector management and accountability at national and local level.

5. **Lending modalities in the country program**. To achieve CAS outcomes, the World Bank will finance investment lending operations (including regional projects), adjustable program loans, development policy operations, and additional financing to scale up successful interventions. In the CAS for FY11-15, investment lending (including regional projects) will amount to 49 percent of the planned lending program, while development policy operations (including PRSCs) and adjustable program loans will amount to 51 percent. The latter group of operations will support the policy dialogue and reforms in the areas of financial sector development (notably pension reform), local government, and post primary education.

6. **Aid coordination.** More than 40 bilateral and multilateral development partners (DPs) provide aid to Uganda. The World Bank accounted for 19 percent of the US$7.3 billion donor resources disbursed from 2004 to 2008. The United States accounted for 18 percent and the European Commission accounted for 10 percent. The number of small donors creates a challenge for lowering the transaction costs of donor assistance: twelve DPs accounted for 90 percent of ODA over the period; while 30 DPs accounted for the remaining 10 percent.

7. There have been efforts since the 1990s to improve aid coordination. Over the last decade, in line with government preferences DPs have shifted increasingly from project support to budget and sector support. In 2007, 66 percent of disbursed aid was provided as either general budget support or within program-based approaches, up from 50 percent in 2005. The Bank will continue to promote aid coordination and effectiveness during the CAS implementation period. The Local Development Partners' Group (LDPG) is the apex development partner forum in Uganda. Together with its sector/thematic groups it provides a forum for coordination and interfacing with the government, and the Bank will continue its active presence in these groups.

Tanzania

8. Tanzania's poverty reduction strategy (MKUKUTA) identifies three outcomes: (i) growth of the economy and reduction of income poverty; (ii) improvement of quality of life and social well-being; and (iii) governance and accountability. Tanzania has made a lot of progress towards the MDG goals but is unlikely to meet the targets by 2015 for most of them. There has also been progress in the fight against child malnutrition and enrollment in primary and secondary schooling has improved although completion rates have yet to reflect the trend in enrollment. Tanzania is unlikely to meet the MDGs related to poverty, which has declined only modestly in spite of a decade of robust growth. Maternal mortality has remained persistently high. The modest rate of poverty reduction is due to growth occurring in low labor intensity sectors such as mining, while high labor intensity sectors such as agriculture have yet to see a rise in productivity. At the same time growth has been driven by high public spending instead of private demand. Tanzania must thus seek to replace economic growth based on public spending with private sector led growth by addressing several structural challenges. In the short term, focus should be on better incentives for agriculture and the private sector by removing

distortions. In the longer term, Tanzania must address the investment needs in infrastructure, human capital, and extractive natural resources.

9. **Government priorities.** The Government is currently working on a second generation MKUKUTA building on the principles of the first one but with more focus on economic growth and poverty reduction. The Bank will support Government's efforts by channeling resources to those areas which promise most direct and effective betterment for Tanzania's poor, i.e. health, education, agriculture, infrastructure, private sector development, and the GAC agenda.

10. **CAS support**. The Bank has recently completed its CASPR which outlines IDA's support to Tanzania's development priorities for the next year and a half. The focus is largely on infrastructure and human development sectors, while the next CAS due early 2011 is expected to focus on Tanzania's infrastructure development needs (notably power, roads, water, railways), private sector development, agriculture, education, and health.

11. **Lending modalities in the country program.** Due to slow progress of reforms, development policy lending has been reduced while investment lending has been increased. A decision with regards to levels of lending and composition will be taken in Tanzania's next CAS. The Bank, with 13 development partners, currently provides budget support amounting to one third of Government's budget. Should this aid modality be reduced, more funds for health, education, and infrastructure could be delivered through investment lending.

12. **Aid coordination**. The Bank is the largest donor in Tanzania, both in terms of financial assistance and human resources. It provides leadership on analytical issues and the overall policy environment, notably in relation to public expenditure analysis, the business environment and on governance issues. The Bank works closely with many development partners, including DFID, JICA, and the European Commission. The Bank is a member of the budget support group and Bank staff is involved in health, education, agriculture, infrastructure, governance, PFM, environment, urban development, social development, and water and sanitation.

13. Tanzania has an elaborate Dialogue Structure agreed among the Government and DPs. The Bank is a very active player in the Development Partner Group (DPG) and many of the 25 sector or thematic working groups. In 2009, the government and DPs undertook extensive consultations on the donor division of labor to improve coordination and policy dialogue. Most major sectors and reform programs undertake joint annual reviews preceding the GBS annual review, and formally adopt sectoral approaches. Eight Bank projects channel funds through Basket Funding to support programs joint with other DPs. Over the three fiscal years FY07-09, 45 percent of total actual disbursement from the country portfolio was made in the form of budget support (PRSCs or other DPL), with the rest through Basket Funding or project financing. Implementation arrangements for the Bank-financed operations are mainstreamed and aligned to national systems.

Ethiopia

14. Ethiopia's key development challenges are: continuing widespread rural poverty and areas of food insecurity; major geographical variations in progress on the MDGs; low levels of

human capital throughout society; poor infrastructure; high vulnerability to climate variation and change; expanding the space for the private sector; and expanding the space for citizen engagement.

15. **Government priorities.** The Government priorities are continued progress towards the MDGs, and sustained high levels of growth led by public sector investments including in rural roads and hydroelectric power. Ethiopia's current poverty reduction strategy is its 2005/06–2009/10 Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Its strategic vision is one of rapid and sustained growth primarily through investments in basic infrastructure and human capital, and through agricultural development. This vision shows continuity with the prior strategy in areas such as infrastructure, human development, rural development, human security and capacity building. However, other elements have been introduced, including a renewed focus on growth, specifically in the areas of private sector and urban development, industry and the commercialization of agriculture. PASDEP also includes a number of interventions to promote commitment to open, transparent and democratic governance. A successor strategy (currently known as PASDEP II) is under preparation.

16. **CAS support.** IDA's lending and non-lending activities support Ethiopia in sustaining high levels of investments in key areas (both physical and human capital as well as institutional capacity building), while addressing priority policy issues. The CAS aims to support Ethiopia in achieving four main strategic objectives, consistent with PASDEP: (i) fostering economic growth; (ii) improving access to and quality of basic service delivery; (iii) reducing Ethiopia's vulnerability; and (iv) fostering improved governance. IFC plans to increase its role and MIGA is exploring new opportunities in Ethiopia.

17. **Lending modalities in the country program.** Since 2005, there has been no development policy lending. In 2008 and early 2009 the Bank explored the scope for supporting a package of structural reforms designed to boost the domestic private sector, but specific agreements have yet to be reached with the government.

Box 1: CAS Priority Areas for Ethiopia

Strategic Objective 1: Fostering economic growth

1.1. Support macro-fiscal stability
1.2. Accelerate the level and productivity of investment in infrastructure in a sustainable manner
1.3. Increase productivity of agriculture
1.4. Strengthen supply responsiveness of industry and services sectors

Strategic Objective 2: Improving Access to and Quality of Basic Service Delivery

2.1 Improve access/coverage of basic services
2.2 Enhance quality of basic services
2.3 Enhance citizens' voice to improve quality of basic services

Strategic Objective 3: Reducing Vulnerability

3.1 Reduce exposure to chronic food insecurity and shocks
3.2 Address environmental degradation and population pressures
3.3 Support greater economic engagement of women and youth

Strategic Objective 4: Fostering Improved Governance

4.1 Improve government effectiveness and quality of public administration
4.2 Enhance the accountability and responsiveness of government
4.3 Increase empowerment and demand for accountability
4.4 Deepen partnerships and aid coordination

18. **Aid coordination.** OECD DAC figures for 2008 ODA disbursements to Ethiopia rank the top donors as: (1) United States (US$811 million); (2) IDA (US$546 million); (3) EC (US$461 million); (4) UK (US$254 million); (5) Global Fund US$144 million); (6) AfDB (US$131 million); and (7) Netherlands (US$114 million). China and India are also major partners with Ethiopia, as increasingly is Saudi Arabia. Among the DAC members, IDA's principal comparative advantages are: (i) analytical depth; (ii) the strength of its dialogue with the government; and (iii) the scale of the IDA program.

19. In Ethiopia, the Development Assistance Group (DAG) established in 2001 fosters information sharing and policy dialogue, and harmonizes donor support to enable Ethiopia to meet the MDGs – see http://www.dagethiopia.org. The DAG comprises 25 donor agencies that coordinate closely in discussions with the government on PASDEP and on sector-wide approaches. The major programs financed by IDA are all multi-donor arrangements, including the Protection of Basic Services Program; the Productive Safety Nets Program; the Public Sector Capacity Building Program; the Roads Sector Development Program; the General Education Quality Improvement Program; and the forthcoming Agricultural Growth Program. Cooperation on these programs includes joint program reviews; harmonized approaches to procurement, financial management and M&E. Many donors choose to channel resources through World Bank-administered trust funds, thus providing leverage for IDA funds.

Nigeria

20. Since 2006, the government has allocated almost US$1 billion from debt relief for MDGs related programs managed by a council chaired by the President comprising of ministers, governors, the chairman of the House and Senate committees for MDGs, NGOs and the donor community. The significant allocation for MDG programs has, however, not yet translated into results and the country is currently off-track in achieving most of the MDG targets. It is unlikely to halve the percentage of people living in poverty and achieve targets set for health, safe drinking water and improved sanitation. While targets for education are likely to be met, disparities remain huge (in both the North East and North West regions net and gross enrollment rates are very low with less than one in every two children of the appropriate age in primary school), and quality and learning outcomes are poor. Sufficient information is not yet available to assess whether the MDG for the proportion of land area covered by forests will be met or not by 2015.

21. The key constraints to achieving the MDGs are: (i) an acceleration of non-oil growth; (ii) reducing the costs (and physical accessibility) of health services which are higher for rural than for urban residents, addressing the cultural factors which lead to lower utilization in the Northern regions, particularly in North West and North East zones, reducing preventable deaths from malaria and diarrhea, increasing vaccination rates and focusing on the inadequate drug supply and equipment in public sector facilities; (iii) lack of teachers or their poor deployment, poor quality of teaching, and an absence of accountability/quality mechanisms; and (iv) poor performance of water utilities and insufficient investments in water networks. The core issue connecting these constraints to achieving the MDGs is governance.

22. **Government priorities.** Key development challenges are: (i) promoting non-oil growth; (ii) supporting human development; and (iii) addressing governance as a separate pillar but also as a core theme that is central to growth and human development. These three broad challenges are aligned with the Government's priorities in its 2020 vision and the seven point agenda.

23. **CAS support.** The Country Partnership Strategy (CPS) for Nigeria covering the period FY10-13 was discussed by the Bank Board on July 28, 2010. The CPS identified three priority areas of non-oil growth, human development and governance. IDA's engagement in stimulating non-oil growth will involve focus on increasing agricultural productivity, both in staples for local and regional consumption, technical and vocational education to address the skills gap and removing constraints to allow firms in manufacturing and service sectors to grow to meet domestic demand. A binding constraint common to the diversification of the economy into agriculture, manufacturing and services is power with only 3,000 MW of generation available against an estimated requirement of 10,000 MW, long power outages, poor quality of supply, and low access to electricity. IDA's support for health will aim to improve access and utilization of health services, reduce incidence of malaria and preventable diseases while support to education will have a particular focus on girls' education in the North, and skills development for youth employment. IDA governance support will focus on: (i) transparency and accountability in the use of public resources; (ii) participation of communities in decision making and oversight of public resources; (iii) governance reforms in high priority sectors to promote diversification of the economy, non-oil growth, private sector participation and human development; (iv) and

capacity development in the public sector. A focus on specific sectors and policies is twinned with flexibility in responding to changing circumstances and an emphasis on effective use of donor trust funds to support IDA lending and non lending activities. A federal level Development Policy Operation for US$500 million was approved with the CPS to support the government's response to the financial crisis and the trust fund portfolio, among the largest in the region, received a best practice award for integration in the strategy.

24. The strategy also for the first time proposed engagement with the Niger Delta. Taking advantage of the window of opportunity created by the very successful Niger Delta Amnesty program, IDA is preparing a project to strengthen capacity for transparency in the management of public resources, for longer term skills development, and for youth employment through public works and community driven development approaches in three core Niger Delta States (Rivers, Delta and Bayelsa).

25. **Lending modalities in the country program.** In line with the CPS focus on governance and the challenges of implementing effective governance, especially at the state level, the CPS, drawing on experience of other countries and in addition to investment lending, proposes use of State Development Policy Operations (SDPOs) in states that have a relatively good track record on public sector reforms, a reasonably strong fiduciary system and low debt levels. Providing reformist states with DPO support could also provide incentives for other states to follow their example, even if the DPO amounts are relatively modest compared to the states' other resources. The first state level DPO to Lagos is in advanced stages of preparation. Investment lending will cover the high priority sectors of health, education, power, agriculture, water, financial sector strengthening and public private partnerships. The areas to be covered are public expenditure management, strengthening of sector institutions, strengthening lower levels of government and other service providers such as schools to manage resources, and improving the regulatory environment.

26. **Aid coordination.** Unlike a number of other countries in Sub-Saharan Africa, donor presence is small in Nigeria and the key donors in the country are AfDB, USAID, DFID and IDA. These four donors account for over 80 percent of Nigeria's development assistance. By agreeing to a single joint strategy and a joint monitoring and evaluation framework for the strategy, donors will strengthen the likelihood of increasing development effectiveness. Other partners have expressed interest in coordinating closely with IDA, including the UN funds, programs and agencies, Japanese International Cooperation Agency, the French Agency for International Development, Canadian International Development Agency and the European Commission. Some of these partners expect to join the partnership during the CPS period.

27. IDA's comparative advantage is combining its resources with those of partners to increase sectoral impact. Within each sector, the donors identify an appropriate division of responsibility based on each agency's comparative advantage; the sector groups meet periodically to coordinate activities. For example, in the transport sector, the AfDB and IDA are co-financing the rehabilitation and maintenance of the federal road linking Nigeria to Cameroon and supporting the government in the implementation of the Rural Travel and Transport Policy; and IDA and AfDB are financing a Rural Access and Mobility Project in different states. In the energy sector, DFID supported IDA's Energy Policy Notes on governance and performance

benchmarks, USAID financed gas policy analysis, and AfDB and the French Development Agency are proposing significant investment with IDA in the power sector. In private sector development, DFID has supported the analysis for IDA's Growth Employment and Markets Project, and has worked with IDA on the investment climate program. In education, DFID, USAID and IDA are currently supporting girls' education in Northern Nigeria, each focusing on different aspects. In health, DFID and IDA are coordinating their response to HIV/AIDs. The Lagos state development policy operation will be twinned with capacity building support from DFID.

Kenya

28. Kenya is on track to achieve some MDGs. It is not likely to eradicate extreme poverty and hunger, as per capita GDP growth rates have been too low and erratic. Free primary education, introduced in 2003, improved access (92.5 percent net enrollment in 2008) and completion rates (79.5 percent). Kenya may reach MDG 2, but there are still about one million primary school age children out of school. With improved gender parity in education, Kenya may also achieve one target of MDG 3. Although preliminary results from the 2008-09 Demographic and Health Survey indicate that the child mortality rate fell from 115 in 2003 to 74 in 2007, and the infant mortality rate from 77 to 52, Kenya is still unlikely to achieve MDG 4. Malnutrition remains a key contributor to half of child and infant deaths in Kenya. Maternal mortality did not improve significantly in the 2000s. By contrast, Kenya is likely to achieve MDG 6, as it has been able sharply to reduce its adult HIV prevalence rate, due in part to successful awareness-raising efforts that have led to less risky behavior.

29. Kenya needs to achieve sustained per capita growth, while also ensuring that growth is shared equitably and is environmentally sustainable. This will involve making critical infrastructure investments (especially in the energy, transportation and water sectors); improving governance and fighting corruption; improving equity and social inclusion; and managing rapid population growth, urbanization as well as environmental challenges. Kenya is growing by 1 million people a year, and the working age population now exceeds dependants, which could mean a demographic bonus if jobs are created at a rate that matches the demand of the growing workforce. To reduce poverty, economic growth needs to rise from current levels (3.6 percent per annum over 2000-09—just about one percentage point above the population growth rate), be sustained over the medium term, and be pro-poor. Poverty fell from 51 percent in 1997 to 47 percent in 2005/06, but remains high in comparison to neighboring countries, and probably increased following the quadruple crisis of 2008-09 (post-election violence, global food and fuel price increases, the global economic crisis, and prolonged drought). Environmental degradation has also reached alarming levels and will constrain development if it is not carefully managed.

30. **Government priorities.** In mid-2008, the Government prepared a new long-term development strategy, Vision 2030, which aims to transform Kenya into a globally-competitive, prosperous, middle-income country within 22 years. The strategy has three pillars: (i) an economic pillar that aims to achieve economic growth of 10 percent per annum; (ii) a social pillar that aims to build a just and cohesive society enjoying equitable social development in a clean and secure environment; and (iii) a political pillar that aims to build an issue-based, people-centered, result-oriented and accountable democratic political system. To operationalize Vision

2030, the Government prepared a more detailed Medium-Term Plan (MTP) for 2008 to 2012. The MTP aimed at a quick recovery from the economic setback of 2008, by implementing macroeconomic and structural policies that would accelerate real GDP growth; fiscal policy that would reduce the fiscal imbalance and anchor debt at 20 percent of GDP; monetary policy that would ensure low inflation; public financial management reform that would strengthen macroeconomic stability and improve public sector performance and service delivery; and financial sector reform that would increase national savings. The MTP also aimed to increase capital inflows and to support investments in growth-enhancing infrastructure, agriculture, and private sector development.

31. **CAS support.** In its new Country Partnership Strategy (FY10-13), the Bank intends to make a catalytic contribution to Kenya's continuing transformation to a middle-income country by supporting the implementation of the MTP, focusing on activities that aim to (i) unleash Kenya's growth potential; (ii) reduce inequality and social exclusion; and (iii) address resource constraints and environmental challenges. Unleashing Kenya's growth potential will involve efforts to improve the business environment; expand core infrastructure, especially in roads, water and electricity (with a view to deepening regional integration); enhance agricultural productivity, with a focus on food security; and strengthen public sector management and sub-national governance. Reducing inequality and social exclusion will involve increasing the access of the poor to basic education, health services and water and sanitation, and improving social safety nets, given Kenya's history of unequally shared development. In addition, the Bank Group will help the Government to improve the management of land and water resources, especially in key water catchment areas, and to address climate-change risks and opportunities, given Kenya's high dependence on rainfed agriculture and its vulnerability to climate change. In line with the Bank's governance and anti-corruption framework, the Bank will promote good governance as a cross cutting theme by helping to build a more capable and accountable government at the national, local and agency level and to strengthen core governance systems in procurement and public financial management.

32. **Lending modalities in the country program.** The Bank's portfolio currently consists of 21 projects with a total commitment of US$1.7 billion. Infrastructure projects in transport, energy, water and ICT account for about 58 percent of commitments; agriculture for 18 percent; and human development for 12 percent. The rest of the portfolio consists of projects on public sector reform, governance, economic policy, and private and financial sector development. Five regional projects cover trade facilitation, information and communications technology, agriculture, and environmental management. The bulk of IDA financing to Kenya under the new CPS will be in the form of investment lending, but a development policy lending series focused on public financial management, business regulation, financial sector reform and demand side accountability is also under consideration.

33. **Aid coordination.** IDA is the largest multilateral donor in Kenya, delivering about US$500 million of new IDA commitments in FY09. The African Development Bank and the European Commission also have large programs, and like the Bank, have a strong focus in the infrastructure sectors. The US is by far the largest bilateral donor (about US$700 million a year), and the UK is the second largest. A Kenya Joint Assistance Strategy (KJAS) (written in 2005-6 and currently being updated) has seventeen donor signatories, including the Bank, and is

centered on three principles: improving social well-being and achieving the MDGs; collaborating more effectively among development partners and the government; and focusing on outcomes and results. The KJAS also includes a matrix through which donors have agreed on a division of labor in the key sectors in Kenya. The KJAS donors coordinate their work through the Donor Coordination Group (DCG), which meets monthly at the level of heads of mission and agencies. In addition, a joint government-donor Aid Effectiveness Group (AEG), which reports to the DCG and the government, ensures government-donor coordination at the technical level.

34. There are currently government-donor working groups in 17 sectors; and several sectors have employed partnership arrangements, including joint financing agreements (e.g., education and public financial management). Since June 2009, the Bank has also been leading an effort to strengthen Government-donor dialogue and coordination on the development program through the establishment of a formal Development Partnership Forum (DPF), which meets with the Prime Minister, Minister of Finance and other key Ministers every six months to discuss critical issues in Kenya's reform program.

India

35. India has seen gains in poverty reduction, though modest in light of its strong economic growth. According to recent WB calculations, the number of people who lived below a dollar a day in 2005 PPP dollars (a threshold which is close to the official poverty line) came down from 296 million in 1981 to 267 million in 2005. However, the number of poor people living under US$1.25 a day in 2005 PPP dollars increased from 421 million in 1981 to 456 million in 2005. This indicates that there are many millions of people living just above a dollar a day and their numbers are not falling.[46] Whatever the threshold, India is home to the world's largest concentration of poor people. Inequality among households is also rising, primarily due to increasing income disparities within urban areas and between rural and urban India.

36. One area of impressive performance has been basic education. Between 2003 and 2009 the number of out-of-school children declined from 25 million to 8.1 million (less than 5 percent of the age cohort 6-14). The gender gap has shrunk and the share of scheduled castes and scheduled tribes in total enrollments is now in line with their respective shares in the total population. Similar progress has been registered on several other fronts: institutional births, total fertility rate, family planning methods, and knowledge of HIV/AIDS.

37. Progress has been slower than desired in some other MDGs. The infant mortality rate declined from 70 in 1999 to 47 in 2007, but future declines are likely to be more difficult than past ones. Most child immunization programs (other than polio) have suffered, with immunization rates either stagnating or slipping back. About half of all children below three are undernourished, and a large majority suffers from anemia. Maternal mortality remains high. Access to clean water is far from universal and one in two Indians does not have access to proper sanitation.

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[46] For more information on the World Bank poverty estimates, please see http://go.worldbank.org/LJ5H6LXZ60.

38. These data point to two basic facts. First, achieving the MDGs globally will not be possible without continued progress in India given its scale in terms of poverty and its capacity to achieve results with IDA investments. Second, continued progress overall and faster progress in key areas will require significant resources and know-how to learn and successfully scale-up. By way of example, the government primary education program alone envisages investments of more than US$12 billion over FY09-12, while expenditures on the rural roads program (PMGSY) since 2000 have been US$13.6 billion and it is estimated that a further US$40 billion will be required to complete the program by 2017.

39. **Government priorities**. India's Eleventh Five Year Plan (2007-2012) sets out a vision for inclusive growth that will ensure broad-based improvement in the quality of life, especially for the poor, scheduled castes and scheduled tribes, other lagging classes, minorities and women. This vision is supported by efforts in the areas of rapid growth that reduces poverty and creates employment opportunities, access to essential services in health and education especially for the poor, equality of opportunity, empowerment through education and skill development, environmental sustainability, recognition of women's agency and good governance.[47]

40. Resources generated from India's high and sustained growth are currently being channeled to low-income groups through a set of very ambitious programs to revolutionize deliver services to the poor – including in education, basic health care, health insurance and rural roads and connectivity. Where IDA has been involved in these programs, it has played an important role in helping the government achieve better results through stronger monitoring of outcomes, better management systems, the adaptation of international experience to the India context, and a broad involvement of civil society actors in monitoring and experimentation. IDA involvement in these programs also creates a platform for learning and south-south exchange.

41. **CAS support**. Since its inception, IDA has been an important partner for India. Today, India is IDA's biggest recipient, measured both by IDA commitments and by amounts disbursed and outstanding. The World Bank Group's FY09-12 Country Strategy for India supports the government in dealing with the challenges of achieving rapid, inclusive growth, ensuring sustainable development, and improving service delivery, with a cross-cutting focus on improving the effectiveness of public spending and achieving monitorable results, which will help scale up the impact of WBG assistance. At the sector level, as per the government external funding allocation rules, IDA resources are targeted to MDG-related sectors - education, health, nutrition, social protection, water supply and sanitation, rural connectivity, and low-income housing - and to broad development programs building institutional capacity in lagging states.

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[47] Government of India, Eleventh Five year Plan (2007-2012). Volume 1: Inclusive Growth, p.2.

Box 2. India and IDA: a successful long-term partnership

India was one of IDA's earliest credit recipients starting in 1961. IDA has been an important supportive player in a wide range of economic and social achievements, for example:

- The surge in agricultural production in the 1970s and 1980s resulting from the Green Revolution.
- India's recovery from the 1991 crisis, and the far-reaching reforms that laid the basis for subsequent growth and poverty reduction.
- India's accelerating growth over the last fifteen years, based on a gradual but steady reform process.
- The decline in income poverty – from 47% of people living in rural areas and 42% of people in urban areas in 1983 to 28% and 26% respectively in 2004-05, according to the official poverty lines.
- The mobilization of large numbers of women in self-help groups to create and exploit livelihood opportunities.
- The significant increase in primary school enrollment rates across India, and particularly among girls.
- The sharp decline in the incidence of major contagious diseases, notably leprosy, polio and TB.

In each of these areas, IDA supported a combination of advisory and analytic work and financing at both center and state levels. In a number of cases, IDA acted as a partner for innovation and subsequent scaling-up based on learning, often through support to key national programs (especially in the social sectors).

42. **Lending modalities in the country program**. IDA-funded DPLs have supported state-level policy and institutional reforms aimed at improving public resource management and capacity in some lagging states (Bihar, Orissa), while investment operations have focused on investment and capacity building in specific sectors at both the state and national levels.

43. **Aid coordination.** Since IDA contributes a small part of the large public resources needed to provide basic needs, over the FY09-12 CAS period an important consideration is the ability to leverage resources from other external financiers (such as DFID, the ADB, the EU and foundations) or from the government and/or state governments and ensure a greater impact for the resources invested. This leveraged impact can come from the role that IDA can play in supporting the coordination of donors through a focus on development of country systems, innovation, strengthened learning from experience through enhanced M&E, and generally stronger governance. Central government projects and programs, such as the primary education program or the rural roads program, offer especially important opportunities for IDA to leverage impact, provided such support is sustained over the medium term.

44. An important example of partnership with other donors comes from the State of Bihar, where WB Group engagement takes place in the context of donor collaboration. External agencies are working together to support the State's reform agenda, including: (i) Bank supported policy and institutional reforms; (ii) ADB, DfID and JBIC support for physical and social infrastructure investments; and (iii) DFID, ADB, and WB support for governance reforms and the urban sector.

Afghanistan

45. Afghanistan will not be able to meet the MDGs. Having lost over two decades to war, Afghanistan has had to modify the global timetable and benchmarks to fit local realities.[48]

[48] The rest of the international community defined the MDGs, to be attained by 2015, against a baseline of 1990.

Because of its lost decades and the lack of available information, Afghanistan has defined its MDG contribution as targets for 2020 from baselines of 2002 to 2005. An additional goal of 'enhancing security' was added, recognizing the critical role of peace and security in achieving the MDGs.

46. From an extremely low base, impressive gains have been made in most goals, and across much, although not all, of the country. However, considerable progress remains to close the development gap caused by several decades of war and isolation. Although Afghanistan has made great strides in raising its level of economic prosperity, along with access to health care and education, the needs of many remain unfulfilled and the country is not progressing fast enough to achieve the majority of MDGs by 2020. Key constraints in achieving the MDGs include a continuing deterioration in security and stalling of reforms as a result of political uncertainties, low capacity in the public sector, and poor donor coordination with nearly three quarters of donor assistance being still disbursed and delivered outside the Government budget.

47. **Government priorities.** The Afghanistan National Development Strategy (ANDS), launched in 2008, lays out the government priorities for investment and reform and serves as the de facto PRSP. The ANDS is a comprehensive 5-year plan whose national pillars and goals are: (i) Security: achieve nationwide stabilization, strengthen law enforcement, and improve personal security; (ii) Governance, Rule of Law and Human Rights: strengthen democratic practice and institutions, human rights, the rule of law, delivery of public services and government accountability; and (iii) Economic and Social Development: reduce poverty, ensure sustainable development through a private sector-led market economy, improve human development indicators, and making significant MDG progress.

48. **CAS support and lending modalities in the country program.** Since 2002, the Bank has contributed to many areas of success in Afghanistan (e.g. health, education, rural access, microfinance, community driven local development) and has maintained active partnerships with Government and donors alike. The Bank's main objective is to sustain and accelerate the progress made so far in many areas of state building and service delivery, which constitute significant platforms for improving livelihoods and building government accountability. The Bank engages in areas where there is evidence that a strong reform-minded leadership is in place, where it can help leverage the support of others, and where opportunities exist to develop operational frameworks for future programs; it plays an enhanced role in working with the government to determine the vision, design and framework for its interventions in national programs, such as in agriculture, irrigation and the community driven development, which others donors might support.

49. Given the uncertain environment, IDA interventions will continue to operate with flexibility and pragmatism under the following strategic pillars: (i) building the capacity of the state and its accountability to its citizens; (ii) promoting growth of the rural economy and improving rural livelihoods; and (iii) supporting growth of the private sector. The bulk of IDA investments will be additional financing or follow-on operations to support ongoing proven national programs, notably in health, education, rural community development, and whose resource needs remain vast. The rural sector, agriculture, and power distribution will be main

target sectors. Up to 20 percent of the yearly IDA allocation is expected to be earmarked for development policy lending.

50. Afghanistan became eligible for the IDA post-conflict allocation in mid FY03. During FY03-FY07, the country received a total of SDR930 million (or about US$1.3 billion) in IDA allocations. Hence, since FY04 the Afghanistan IDA program has committed on average US$250 million per year. In FY08, primarily due to the phasing out of the exceptional FY03 IDA post conflict allocation, a downward trend in IDA resources kicked-in of around US$20 million per year. A continued decline in IDA resources would affect: (i) IDA's leadership role as a neutral partner and the expectations of the government and the international community as the key nexus between the security and development agenda; (ii) the role of IDA as a catalyst for ARTF programs; and (iii) the fact that IDA has been committing and disbursing the post conflict allocation quickly and with proven results but that the needs (and absorptive capacity) still remain vast. Against this background, sustaining IDA's funding is needed to enable it to play its role effectively.

51. **Aid coordination.** Around 60 international donors are active in Afghanistan, challenging coordination and often leading to fragmentation of the aid effort into a multitude of small, overlapping, projects. Additionally, two-thirds of international assistance bypasses government systems, undermining government-led coordination and government's accountability for results. This situation has been aggravated by the sometimes inconsistent imperatives and timelines between military/political and development actors. Policies of some donors have led to a creeping "provincialisation" of aid which has pulled resources away from national programs and into often unstable provinces where the context may be unsuitable for development.

52. Against this challenging background, IDA stands out as a neutral, long-term vision partner, balancing the priority to deliver services to the population with a sustained but incremental approach to state building. Although in terms of size, IDA contribution is relatively small in comparison with some bilateral donors, it is seen by the government and donors alike as an innovative and reliable collaborator.

53. A case in point is provided by the Bank's role as administrator of the Afghanistan Reconstruction Trust Fund (ARTF). The ARTF has established itself as the leading multi-donor funding mechanism for Afghanistan's core budget and as a critical tool to foster aid effectiveness.[49] Its value is in pooling funds from over 30 donors and providing a predictable source of financing for the Government of Afghanistan – essentially transitioning responsibility for development to Afghans. It finances the essential running costs of government and key national development programs. Most of these programs are co-financed by IDA operations, providing donors with assurances on their viability.

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[49] To date, over 30 donors have contributed a total of US$3.6 billion; annual contribution levels have risen substantially and are currently estimated at over US$700 million.

Vietnam

54. **Government priorities.** Vietnam's current Socio-Economic Development Plan (SEDP) 2006-2010 is based on a poverty reduction strategy framed around four pillars: (a) promoting growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and (d) building institutions to support implementation of the strategy. Vietnam is likely to achieve most of the MDGs, with the exception of the MDGs on access to improved water sources and sanitation facilities.

55. Vietnam's MDG achievements nevertheless lack important dimensions of quality and robustness. In education, for example, while near universal primary coverage has been achieved, completion and learning outcomes are still low, and participation of ethnic minorities, the poor and children with disabilities is still a significant challenge. Child mortality of poor and ethnic minority groups is eight times higher than in urban areas. In both education and health, access to quality services is increasingly dependent on out-of pocket expenditures, and a growing proportion of the population is unable to afford a minimum standard of quality service. Poverty has been significantly reduced, but still large numbers are near poor and risk falling back into poverty given inadequate social safety nets. Moreover, poverty rates remain as high as 60 percent in some ethnic minority communities. Vietnam faces severe risks of environmental degradation, particularly from pollution of water resources. The government is rightly focusing on more meaningful achievement of the MDGs and setting more ambitious and robust targets in key MDG areas for its forthcoming SEDP 2011-2015.

56. Vietnam's key development challenges straddle the low-income and middle-income country agendas. They include: (i) raising the efficiency and competitiveness of the economy as a basis for regaining rapid growth; (ii) achieving structural transformation towards an industrialized economy; and (iii) addressing rising inequality while tackling pockets of pervasive and increasingly intractable poverty. More specific elements are: (i) accelerating market reforms, particularly in the state enterprise sector; (ii) improving access to and quality of economic infrastructure; (iii) building a strong skills base; (iv) modernizing and strengthening public institutions; (v) expanding access to quality health and education services for the majority of the population and in particular for disadvantaged groups; and (vi) strengthening social protection mechanisms. Significant reforms are underway in the power sector to develop a competitive market, restructure the main participants, move to market-based tariffs, and improve demand-side energy efficiency. Primary education is transitioning to full-day schooling to improve learning outcomes and education completion alongside introduction of measures for greater efficiency and equity. Higher education reforms focus on strengthening governance, rationalizing financing, and improving the quality of teaching and research. A social protection strategy under preparation seeks modernization of the social security administration, strengthened management and accountability, increased effectiveness and expanded reach of safety net programs. Administrative procedures are being reduced, and measures to increase the transparency and efficiency of public investment processes are being implemented.

57. **CAS support.** The Bank's current five-year Country Partnership Strategy is aligned with the SEDP 2006-2010. It focuses on improvements in the business environment, promoting

social inclusion, strengthening sustainability of natural resources management and strengthening different dimensions of governance. The next CPS covering the entire IDA16 period will be aligned with the SEDP and will seek an appropriate balance between support for addressing remaining low-income country challenges and tackling emerging middle-income concerns. Specific sectoral focus of IDA-financed investments will include power and transport, agricultural productivity and competitiveness, health systems strengthening, expanding health insurance to poorer groups, and urban and rural water supply and sanitation. Newer areas of engagement will include climate change adaptation; social protection and social security modernization; research, technology, and inclusive innovation; and early childhood and higher education. With Vietnam being one of the countries globally assessed to be the most adversely impacted, its climate change agenda is daunting. This will be a growing area of IDA assistance.

58. **Lending modalities in the country program.** The Vietnam program has until very recently relied heavily on investment lending. The main development policy lending operation has been the very successful PRSC series which has provided a broad platform for dialogue between government and donors on a broad range of policy issues. Vietnam is now implementing a second generation of reforms focused on more specific sectoral challenges. Going forward, therefore, the Bank will make greater use of sectoral development policy instruments to deepen policy dialogue at the sector level and strengthen sector policy environments for greater investment impact.

59. Vietnam has become a blend country in FY10. This should allow the Bank to scale up assistance to a well-performing client at a time when its development financing needs are growing rapidly. Vietnam has consistently demonstrated strong development impact results from IDA despite historically low disbursement rates. Recently improving disbursement performance is expected to further strengthen IDA effectiveness and impact. This is also a time when Vietnam is focused on more robust achievement of the MDGs. A scale-up of support to expand results and respond to growing financing needs will require IBRD resources to be incremental to IDA through a gradual transition to IBRD-only financing. In FY10 a significant portion of IBRD exposure has been used to help government meet emergency crisis financing needs. Given still constrained IBRD exposure ceilings, IDA resources for Vietnam during the IDA16 period will be needed in areas such as water and sanitation where achievement of the MDG is at risk; agriculture and rural development to maintain rural poverty gains; basic education quality; and rural roads, insurance for the poor and various targeted poverty interventions. Significant resources will be needed for climate change adaptation. IBRD funding will initially be used more in the economic infrastructure sectors (e.g., transport and power) and in higher education, and then extended to other areas as Vietnam's IBRD exposure levels rise.

60. **Aid coordination.** The Bank, the Asian Development Bank and Japan are Vietnam's largest development partners, providing more than 70 percent of gross ODA annually. The Bank participates in and leads several partnership arrangements, including the PRSC series and the multi-donor trust fund for public financial management. Under the Six Banks' initiative, the Bank and other partners conduct joint dialogue with the government on common implementation challenges and on reforms in areas such as procurement to allow a move towards the use of country systems. The Bank is exploring alternative joint policy dialogue platforms, including at

the sector level, to replace the PRSC series after FY11. The Bank and Education for All (EFA) partners will help Vietnam put forward a program for EFA financing. It is also exploring closer collaboration with other donors in rural water and sanitation through the government's National Targeted Program on rural water and sanitation. The Bank is partnering with DFID on climate change and working with other partners on a JICA-led Climate Change DPL which could eventually attract IDA financing.

Pakistan

61. Pakistan is unlikely to meet the MDGs. While the country was on track to meet the poverty reduction goal, the recent economic crisis and its adverse impact on poverty may have jeopardized its achievement. At all levels, education participation rates remain the lowest in the South Asia region. Progress has been encouraging in increasing education enrolments, but access remains far from universal, and there are significant regional, rural-urban, and gender disparities. Also, quality and retention rates (especially for girls) remain a concern. Progress in improving child, infant and maternal mortality as well as the provision of reproductive health services has been slow. Under-five mortality and fertility rates remain the highest among South Asian countries. Chronic child malnutrition is about 40 percent, and high levels of out-of-pocket expenditures for health services hamper access of the poor to basic services. Significant gender and rural/urban disparities persist. These poor human development outcomes reflect the fact that public expenditure on health and education remains low by international standards while weak governance and accountability of service providers at all levels limits the effectiveness of spending. To protect the poor during economic adjustment, Government's social safety net system needs strengthening.

62. Pakistan is recovering from a macroeconomic crisis. Restoring growth and achieving durable development outcomes will require overcoming an array of formidable challenges. Strengthened macroeconomic management is needed to provide an enabling environment for growth. Improving the level, composition and efficiency of public expenditure is critical as lack of fiscal space severely constrains spending needed for poverty reduction. Providing employment for a young, growing and increasingly urbanized population by fostering exports of manufactured, labor intensive goods is central to Pakistan's strategy for income and employment generation. Increasing the productivity of agriculture to tap its full potential to mitigate poverty and vulnerability remains a key challenge. Key constraints to sustained growth also include shortages of reliable infrastructure, poorly functioning factor markets, and unpredictable governance of markets.

63. Conflict and insecurity represent major obstacles to economic development and poverty reduction. Addressing longstanding economic deprivation and social inequities among the population in the northwest frontier region is critical to dealing with conflict.

64. Governance challenges cut across nearly all of Pakistan's economic development priorities, including a return to a high growth path and poverty reduction. The achievement of the majority of Pakistan's development objectives depends in large part on improved governance within the public sector – greater transparency and accountability, strengthened legal and regulatory frameworks especially for private sector activity, and improved responsiveness. Improvements in the delivery of education, gains in the coverage of social protection programs

and increased access to health care, all require that the State performs its functions more effectively and efficiently at federal and at provincial levels.

65. **Government priorities.** The Government's strategy is fully aligned with the MDGs, and covers fiscal years 2008/09-2010/11. It focuses on regaining macroeconomic stability after the economic crisis and structural reforms required to support the recovery of strong and sustainable growth. The overall vision of PRSP-II is to steer Pakistan's economic growth back to the range of 5-7 percent per year by stimulating growth prospects in the production sector; creating adequate employment opportunities; improving income distribution; and harnessing the country's economic competitiveness through economic liberalization, deregulation and transparent privatization. The strategy recognizes that to steer Pakistan back on a path of broad-based growth, create jobs, and reduce poverty, a prolonged period of macroeconomic stability, financial discipline and sound policies is required. To mitigate poverty, it aspires for pro-poor growth, with more emphasis on agriculture and manufacturing, as well as on services. It also seeks to strengthen the social safety net to protect the poor and vulnerable. In addition, empowering women and reducing gender disparities is a cross-cutting theme, which is woven throughout the strategy.

66. **CAS support.** Under the proposed Country Partnership Strategy, the World Bank Group's support to Pakistan will be organized around three pillars: (i) improved governance and performance of the public sector; (ii) improved human development and reduced vulnerability; and (iii) improved infrastructure to support private sector investment and growth. Despite the recent promising developments on many fronts, the operating environment in Pakistan is likely to be highly uncertain during the CPS period. The proposed CPS is therefore designed to be flexible to enable the Bank to cope in such an environment and be able to deliver effective support to Pakistan.

- ***Pillar 1: Improved Governance and Performance of the Public Sector.*** The focus of this pillar is on building greater resilience by improving macroeconomic management, strengthening public expenditure management, and enhancing capacity and accountability in the public sector. Public expenditure management at all levels of government will continue to be a focus and enhancing domestic revenue mobilization will be an urgent priority during the CPS period. The Bank will also support development of a public sector reform strategy. The strategy also focuses on governance of markets with a view to strengthening Pakistan's competitiveness by addressing barriers to competition, and factor market rigidities (including constraints in access to finance).
- ***Pillar 2: Improved Human Development and Reduced Vulnerability.*** Improvement in human development, including social protection, is critical to the CPS goal of building resilience at the level of families and individuals. The focus of Bank Group efforts will be to support increased spending on human development along with reforms to improve governance and accountability in the provision of services, assessing and addressing the needs of vulnerable groups among the poor, such as women and displaced people. Coping with the causes and consequences of the ongoing conflict in the Northwest Border region is an urgent priority for the government and Pakistan's development partners.

- ***Pillar 3: Improved Infrastructure to Support Private Sector Investment and Growth.*** The IDA program will focus primarily on the irrigation sector through rehabilitation of major assets such as barrages and continued capacity development at the regional and federal level for managing water resources. The strategy also envisions technical assistance to help Pakistan in agricultural policy analysis and design with a view to increasing agricultural competitiveness and expanding rural livelihoods. IDA will also finance investments in the urban sector.

67. **Aid coordination.** Given its strategic significance, Pakistan is a recipient of substantial donor resources linked to its proximity and historic relationship to the conflict in Afghanistan as well as broader efforts to combat violent extremism. Key donors are the ADB, UK Aid / DFID, USAID, Japan, EU and the UN. The Bank and ADB provide about US$1 billion a year. IDA's comparative advantages include: flexibility in terms of resource deployment across sectors/programs, decentralized decision making at the country level, capacity to program assistance and provide implementation support in the country office, use of country systems and supporting the government in strengthening the systems where there are inadequacies.

68. Over the past two years, Pakistan's partners have sought to increase their assistance. In support of these efforts, the World Bank co-organized with the Government of Japan the Tokyo Donors Conference in April 2009. Government and donors recognize that extraordinary assistance provided as a result of these efforts needs to be aligned with the Government's overall poverty reduction vision. IDA is playing a leading role in helping the Government to reinvigorate the Pakistan Development Forum to foster this alignment.

69. IDA also seeks to help create project "platforms" through which donors can channel additional support, primarily through parallel co-financing arrangements. In education, programmatic operations in Sindh and Punjab have attracted co-financing from the UK and EU. Another such platform is the MDTF for the border region, which will facilitate coordination of donor programs with government's priorities as well as a mechanism for enhanced donor coordination, as donors will provide resources to a general pool of funds that will be allocated across priority sectors in line with strategic priorities agreed between donors and the government. The planned PRSC will also help mobilize parallel co-financing from Japan which is participating in preparation missions. IDA projects that have attracted joint co-financing include Tax Administration Reform (UK) and HIV/AIDS (Canada, UK).

70. IDA will continue to carry out analytical work jointly with other development partners. During the previous CAS period, joint analytical work was conducted with the UK Department for International Development, ADB, and the United Nations. IDA is playing a leadership role along with the ADB on the Post Crisis Needs Assessment for NWFP and the Federally Administered Tribal Areas.

Haiti

71. **Government priorities.** The catastrophic impact of the magnitude-7.0 earthquake on January 12, 2010 required Haiti to rethink its development strategy to address massive recovery and reconstruction needs. The Post-Disaster Needs Assessment (PDNA) put total reconstruction

needs at US$12.1 billion. Drawing on the PDNA and Haiti's existing strategy, the National Strategy Document for Growth and Poverty Reduction (DSNCRP), the country prepared an Action Plan for National Recovery and Development, which it presented at the March 31 donor conference.

72. The priorities of the Action Plan are: responding to the emergency needs; reestablishing economic, governmental and social activity; reducing Haiti's vulnerability to natural disasters, and putting Haiti back on the road to development. The Plan sets a framework for reconstruction and development that focuses on four main areas: (1) **territorial rebuilding**, including promoting development centers outside the capital, rebuilding affected areas, prioritizing growth-driving infrastructure, and managing land tenure; (2) **economic rebuilding**, with a focus on modernizing and developing key sectors: agriculture, construction, manufacturing and tourism; 3) **social rebuilding**, emphasizing the goals of universal primary education, an adequate higher education system, a health system with minimum coverage nationwide and social protection for the most vulnerable; and 4) **institutional rebuilding**, under which priorities are to re-establish core state functions, modernize the legal and regulatory framework, set up institutions to manage reconstruction, and establish a culture of transparency and accountability that deters corruption.

73. Even before the earthquake, Haiti was unlikely to meet most Millennium Development Goals (MDGs) for 2015. The 2007 DSNCRP found little or no progress on the goals related to poverty, hunger, primary education, child mortality, maternal mortality, and the environment. Haiti has achieved the goals of eliminating gender disparities in primary and secondary education, but school enrollment overall is still very low. Progress has been notable in reducing the incidence of HIV/AIDS, roughly halving this over the last decade. Nonetheless, around 2.2 percent of Haitian adults are HIV-positive, the highest national rate outside Sub-Saharan Africa.

74. **CAS support.** The World Bank and the IFC jointly prepared a Country Assistance Strategy (CAS) for Haiti for FY09-12, to align their assistance with the DSNCRP. The CAS also reflects strategic reassessment by the Government following the food crisis and the severe storms of 2008, and amid a difficult global economic context. While the CAS framework is flexible enough to accommodate the Bank's support for post-earthquake recovery and reconstruction, the strategy will be updated in late 2010, through the CAS progress report.

75. The CAS has three pillars: (i) promoting growth and local development; (ii) investing in human capital; and (iii) reducing vulnerability to disasters. Cutting across the strategy is a two-pronged approach, combining longer-term institution building with support for the Government in the delivery of quick, visible results. By sectors, IDA support focuses on infrastructure (transport, electricity, water and sanitation), community-driven development, primary education, agriculture and disaster risk mitigation.

76. **Lending Modalities in the country program.** Development policy support is an important component (over a fifth) of IDA's assistance. This recognizes the fact that for Haiti to attain long-term stability and economic growth it needs a transparent and legitimate state that can effectively deliver public goods and services to its citizens. Expanding the national budget, while strengthening budget and public financial management processes, is central to this.

77. Following the earthquake the World Bank Group has committed additional resources from the IDA pilot Crisis Response Window, Trust Funds and lines of credit from IFC for US$210.5 million for the remainder of the IDA 15 period. These resources are being used to support immediate reconstruction needs (critical infrastructure, re-establishing core government functions and human development needs). Also, effective May 21, 2010 the remaining debt of US$35.9 million owed by Haiti to IDA was cancelled through contributions from 13 donors. .

78. The central vehicle for the current IDA response to the earthquake is the Infrastructure and Institutions Emergency Recovery Project (US$65 million). This grant, approved by the Board on March 18, 2010, aims to: (i) reinstate key economic and financial functions of key Haitian public institutions; (ii) rehabilitate or rebuild core infrastructure, particularly in the transport sector; and (iii) support the country's crisis governance framework and the planning of reconstruction efforts. Implementation began shortly after the earthquake through a US$15 million Project Preparation Advance (PPA). Haiti needs strong and sustained funding under IDA 16 to continue the long and difficult process of reconstruction and recovery and get the country back on the path of longer term development.

79. **Aid coordination.** Prior to the earthquake, the bulk of development assistance pledged to Haiti since 2004 had come from five donors: the US, Canada, the European Union, the Inter-American Development Bank (IDB) and the World Bank. Providing around a tenth of the roughly US$3 billion of total assistance pledged, the Bank was the smallest of the five main traditional donors and number six overall, including Venezuelan subsidies through the PetroCaribe oil supply program. At the March 31, 2010 conference, donors pledged more than US$9 billion for the Action Plan, more than US$5 billion for 2010 and 2011.

80. IDA has long worked closely with other partners in Haiti, leveraging its funding to bring in project co-financing from other donors (such as Canada and the Caribbean Development Bank). It has undertaken joint analytical and advisory work, notably on public finance with the IDB. It has played an active role in aid coordination. By focusing funding and advisory activities on issues in which it has a comparative advantage, IDA plays a leading role among donors in key areas, including primary education, economic governance and disaster risk management. IDA has worked with the Ministry of Economy and Finance, the EU, the IDB, Spain and France to coordinate budget support behind a single matrix of policy conditions. IDA continues to work closely with other organizations on the earthquake response. The World Bank jointly coordinated the PDNA, along with the UN, the IDB and the EU, under the overall leadership of the Haitian government. Going forward, the Bank is working with these key stakeholders to establish a multi-donor Haiti Reconstruction Fund, for which the Bank will act as fiscal agent.

Republic of Yemen

81. **Government priorities.** Despite progress on many development fronts, Yemen continues to face considerable development challenges. It ranks 140 out of 182 countries in the 2009 UNDP Human Development Index and progress in human and other development indicators, while steady, has been too slow to assure attainment of the Millennium Development Goals by 2015, with the possible exception of universal primary education and child mortality.

The structural and long-term development challenges facing Yemen have undermined the efforts of the State, as well as other stakeholders, in improving peoples' livelihoods. Population growth remains very high (over 3.5 percent a year). Sharp imbalances between the available water resources and consumption lead to increasing depletion of groundwater reserves (with aquifers feeding major cities expected to dry up within the next 15 to 30 years). Enrollment in basic education is improving and government efforts in this area are showing promise, however gender gaps remain significant. Rates of child malnutrition (51 percent) and maternal mortality (365 for 100,000 live births) remain unacceptably high. Unemployment is on the rise, due to insufficient job creation. Infrastructure is poor, with improving electricity coverage (59 percent), access to safe water (36 percent), and telecommunications (4.4 landlines per 100 inhabitants and 11.2 cellular per 100 inhabitants). In addition, food insecurity is rapidly increasing, with about 32 percent of the population considered undernourished. Yemen's fiscal situation is now quite fragile, as a result of a steep decline in oil revenues and expenditures far exceeded revenues in 2009. This is a severe constraint on the Government's ability to provide essential services and to address poverty. The system of governance also has its own deficiencies – across the executive, legislative, judiciary and security branches – including limited institutional capacity, accountability and transparency, and poor quality public services.

82. In an effort to address these problems, the Government has included a comprehensive set of socio-economic development goals in its National Strategic Vision 2025, by which time it aims to become a middle income country. Yemen was selected as one of the eight United Nations Millennium Project pilot countries, and an MDG Needs Assessment was conducted to identify investment requirements to achieve the Goals by 2015. The third National Socio-economic Development Plan for Poverty Reduction (DPPR 2005-2010), incorporating the recommendations of the second Poverty Reduction Strategy Paper (PRSP), was formulated and aligned to the MDGs, based on the Needs Assessment report.

83. The DPPR, currently under implementation, is built on 8 pillars: (i) macroeconomic policies and targets; (ii) good governance; (iii) development of productive and promising sectors; (iv) water, environment and basic infrastructure; (v) human development; (vi) Government services; (vii) social safety net, social protection and social security; and (viii) women's empowerment. The DPPR was the subject of a Mid-Term Review in January 2009, which took stock of implementation progress and identified areas for increased efforts. A fourth DPPR will be prepared in the coming months.

84. The Public Investment Program identifies priority investments in support of the DPPR. Overall, these plans revolve around a narrow set of overarching goals and provide a sound framework for identifying priorities: (i) accelerate economic growth through private sector-led diversification: to that effect, the DPPR aims to attract private investment and develop an export-oriented strategy directed toward the GCC markets and beyond. The current deterioration in the global environment makes the need for such efforts even more pressing and challenging. Action will be required in a number of areas: macroeconomic policy, regulatory reforms, improvement of infrastructure services, support to traditional sectors (oil, agriculture) and development of new sources of growth; (ii) enhance governance: the overall governance agenda is very broad and a number of the priorities identified in the DPPR (and the National Reform Agenda) are aimed at dealing with issues which are of a political or social nature. A further set of priorities is related

to the necessary strengthening of the judiciary through increased independence and enhanced capacity. Priority economic governance reforms are essentially related to three sets of issues: transparency, public finance management, and administrative capacity; (iii) improve living conditions and social indicators: the Government has successfully focused on expanding access to basic services in a context of rapid demographic growth. The DPPR aims to pursue this effort, while reforming or even transforming delivery mechanisms to improve effectiveness and quality. The Government is also beginning to underscore the significance of creating synergies among sectors to magnify impact of sector outcomes and influencing the MDGs. Priority reforms are essentially related to issues of gender, qat, youth, education, health and population, and social safety nets; and (iv) manage natural resource scarcity and natural risks: the DPPR highlights the natural constraints to Yemen's development and the need to take forceful action to allow for development efforts to be sustainable. Particular effort will be needed in several areas: water resources management, natural disaster response, and climate change adaptation.

85. **CAS support and lending modalities in the country program.** World Bank Group activities in Yemen are undertaken in the context of a joint IDA-IFC Country Assistance Strategy for FY2010-2013. The CAS program supports implementation of the DPPR across four pillars: (i) ***accelerating and diversifying economic growth*** through macroeconomic stability, private sector development, infrastructure, and support for non-oil growth drivers; (ii) ***enhancing governance*** through improved transparency, public finance management, and civil service reform; (iii) ***fostering human and social development***, including cross-sectoral work on gender, youth, and qat, as well as community development and social protection; and (iv) ***managing natural resource scarcity and natural risks***, with a particular focus on water resources, natural disasters, and climate change. The World Bank plays the role of the "glue" that holds together external assistance. In addition to the activities identified under each strategic objective, the Bank Group will provide technical assistance to help in the review of "Vision 2025", to support preparation of the Fourth Socio-Economic Development Plan for Poverty Reduction, and to help strengthen the country's M&E capacities.

86. While the Bank continues to implement the CAS, in recent months the policy dialogue has intensified. In the context of the crisis, the Bank recommended that the Government focuses on launching a fiscal stabilization program based on a combination of subsidy reforms, public expenditure restraint and taxation reforms. The Bank is ready to support the Government mobilize additional resources in support of its reform program. So far, Bank support has been provided in the form of investment lending during the current CAS implementation. However, in case the Government is able to launch a stabilization program, the IMF will be supporting this with a financing package and the World Bank will consider a Development Policy Loan.

87. **Aid coordination**. Key development partners in Yemen include (i) development agencies from France, Germany, Italy, the Netherlands, the United Kingdom, and the United States; (ii) the European Commission; (iii) United Nations agencies; (iv) GCC countries and regional development entities such as the Islamic Development Bank and the OPEC Fund; and (v) the World Bank Group and the IMF. In general, DP collaboration with the Government is ad hoc at present; it is usually strong at the time of the Consultative Group meetings. Nevertheless, most sector teams work on harmonizing agendas and work programs within the framework of the respective sector strategies.

88. The Bank is considered a lead donor in almost all sectors, and is the principal agency supporting the government in developing its broader economic vision, DPPR, and subsector strategies, which form the basis of donor financed investments. In addition, the Bank manages a large number of Trust Funds earmarked for Yemen. Donor coordination is perhaps most advanced in the education sector, with the DPs having signed a Partnership Declaration in 2005 and signed again (with additional members) in 2007. Donor coordination remains active in the water sector, but is at early stages in other sectors. A Memorandum of Understanding was signed in December 2009 between the key agencies operating in the water sector to promote sector wide harmonized support. IDA aims to strengthen a close cooperation with a number of Yemen's development partners, with possibly jointly financing some operations with partners who are committed to using a similar design and harmonized implementation arrangements. A close dialogue has also been established with the GCC Secretariat and bilateral agencies from the sub-region. Overall, cooperation with both "traditional" and "non-traditional" donors, already good, will be strengthened.

Annex 4. Sectoral Briefs

Infrastructure

1. Infrastructure plays a critical role in poverty reduction and achieving the MDGs and yet many developing countries still have major gaps in infrastructure. The population with access to water supply in rural areas in Sub-Saharan Africa is 44 percent, to electricity 26 percent and 43 percent to sanitation. In South Asia; access to electricity is 52 percent and water and sanitation is 22 percent in rural areas. Mobile telephone access per 100 people remains low in Sub-Saharan Africa (14), Asia (15), Middle East and North Africa (36), Latin America and the Caribbean (55) and East Asia (35).[50] Investment needed for infrastructure is estimated at 7 to 9 percent of GDP per year for developing countries, while only about half this amount is being provided.

2. IDA has consistently supported infrastructure for basic services, including energy, transport, water and telecommunications. Since IDA11 infrastructure has accounted for 33 percent of IDA lending. During IDA15, 38 percent of IDA's commitments are infrastructure and projections of regions for IDA16 are in the same range. The Sustainable Infrastructure Action Plan outlines the WBG's approach: address the core access agenda in transport, energy, water, information and communication technologies; effectiveness through cross-sectoral approaches to address climate change mitigation and adaptation, private public partnerships, rural-urban integration; focus on social and environmental objectives in addition to economic/financial viability and ensuring affordability through strong governance; and leveraging WBG financing through support to increasing private investment, harmonized donor financing and leveraging ODA.

3. **Transportation**. In the period FY2000-09, IDA committed US$11.24 billion for transportation with US$ 8.61 billion for roads and highways. Objectives have included: improved asset management, sustained funding for road maintenance, increased private sector participation in maintenance and performance-based contracting. IDA lending has also funded policy and institutional reform, urban transport and a program in ports, shipping, railways and air transport. Forty-six percent of the projects were in SSA, 17 percent in SAR, 12 percent in EAP, 14 percent in ECA, 7 percent in LAC and 4 percent in MNA. The Bank's 2008-2012 Transport Business Strategy which straddles the IDA15 and IDA16 periods approaches transport improvements in the context of what is needed to achieve the MDGs: improved trade, creation of economic opportunity and growth through access to markets especially for rural areas, access to health care facilities and schools and contribution to improved functions of cities and urban centers. Going forward, attention will focus on institutional reform, capacity building, financial and technical sustainability and affordable rural and inter-urban transport to improve accessibility and reduce poverty.

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[50] 2008. World Bank Group Sustainable Infrastructure Plan for FY09-11. P2.

Box 3. Examples of Results in the Infrastructure Sector

Lao Road Project co-financed by the World Bank, Sweden and Norway: The recently upgraded section on Road 13 reduced average travel time to markets from five hours to less than three; resulted in savings in vehicle operating costs of US$39 million a year and establishment of a Road Maintenance Fund raising 40 percent of annual maintenance needs.

Ghana. Rural access increased from 44 percent (1970) to 61 percent (2003) benefitting about 1.5 million people.

Vietnam. The Bank supported a rural road network. Rural access grew from 73 percent (1998) to 84 percent (2004) connecting an additional 6 million people to markets and services and lifting 210,000 of 950,000 out of poverty. A study found that for every Dong invested in roads, the value of agricultural production went up by three Dongs.

Bhutan. A new road turned a six-hour commute to a one-hour commute in Kikhar.

Tanzania. IDA funding supported the development of a National Water Policy.

In **Yemen and Senegal**, IDA funding supported policy reform and sector-specific actions including development of water laws.

In **Mozambique**, an international rivers office was established providing technical capacity to assess water resources and dialogue with other countries on riparian rights and basin management issues.

Kyrgyz Republic: Infrastructure on 121,000 hectares was rehabilitated and water delivery to 80 percent of the farmers now closely matches irrigation water demands.

Nile Basin Initiative: The Bank coordinated 17 multilateral and bilateral development partners in the initiatives which helped articulate common benefits of river basin management through analytical work, country dialogue and communications for nine African countries.

Source: 2009. IDA at Work: (i) Connectivity: Providing Access That Links People to Opportunities of Health, Education, Social Needs, Trade and Services; (ii) 2009. IDA at Work: Water Resources: Managing a Scarce, Shared Resource.

4. **Water**. Low-income countries account for about 80 percent of countries with the worst water poverty ratings. Having established basic policies and capacity, several IDA countries are making significant progress in water resources management. From FY00-09, IDA provided US$1.3 billion for water resources management. The latest lending indicated US$334 million in FY08 and US$45 million in FY09. The FY09 commitments were to projects in South Asia (35 percent), Africa (33 percent) and the Middle East and North Africa (32 percent). Most of the commitments were for the rural sector (58 percent). IDA's work in the water sector is guided by its 2003 Water Resources Strategy which emphasizes the need to support: building institutions, capacity and management programs, and infrastructure. Analytic work has increased government's understanding of the role of water in development and poverty alleviation. On global partnerships, the Bank is a member of the new Water Partnership Program-a multi-donor program which includes: The Netherlands, Denmark and the United Kingdom. The Bank is also one of the three implementing agencies of the Global Environment Facility. It helps address critical threats to the global environment including the degradation of international waters and persistent organic pollutants. Going forward, specific challenges include creating an adequate platform of water infrastructure; equitable sharing of water resources among local, indigenous, rural and urban populations; coalitions for regional river management and development; including groundwater management as an integral part of water management; and addressing climate change in practical ways, including mitigation and adaptation.

Agriculture

5. Agriculture dominates in most low-income countries as the sector with the highest share of GDP and people employed. Recently, agriculture development has accelerated due to an improvement in policy, increased public spending and renewed strategic cooperation in the international community. Examples of IDA results are presented in Box 4.

Box 4. Results from Successful Agriculture Projects

The **Mali *Office du Niger* Consolidation Project** helped liberalize the rice markets, restructure the *Office du Niger* (responsible for the development of the left bank of the Niger river) and strengthen its financial management. As a result: milling costs savings were US$1.6 million for the government and US$6 million for farmers and consumers per year; water fee collection rate increased from 60 to 97 percent, with fees retained where they were collected and at least half used for maintenance; yields increased from 1.8 to 5.5. metric tons per hectare; real per capita income rose by US$70 per year in the project area; and the IDA investment leveraged 250 percent of funds from other donors.

The **Cameroon National Agricultural Extension and Research Program Support Project** strengthened producer organizations and improved credit, inputs, and marketing services. Agriculture productivity increased— for example, maize yields increased from 1.3 tons/ha to 2.9 tons/ha, and cassava from 3 tons/ha to 13 tons/ha. Ninety-three percent of women in the project zones received assistance. About 40 percent of the subprojects implemented were targeted to women, exceeding the planned 30 percent.

The Mauritania Rain-Fed Natural Resources Management Project reforested and protected common land, cut local crop production losses by 30 percent, and increased yields of sorghum—the primary rain-fed crop—through investments in soil and water conservation, such as aerial tree-seeding; rehabilitation and protection of retention dams; yields averaged 800 kg/ha, compared with 100 kg/ha without the project. Increased opportunities for the harvesting of gum arabic significantly slowed the pace of males leaving villages to look for work. Women have benefited from access to water and cash income.

The Rwanda Rural Sector Support Project, helped farmers, the private sector and the government by boosting basic institutional and technical capacities. This led to efforts to raise agricultural productivity in the areas of agricultural services, infrastructure maintenance systems, efficient management of the export crop, and marshland and hillside farming. The rehabilitation or development of farmed marshlands achieved a target of 3,018 hectares against an original target of 2,500 hectares. Protection of the hillsides through tree planting covered 14,485 hectares, almost double the target of 7,500 hectares. Training of farmers and the supporting investments in small-scale infrastructure were above target.

Global Food Crisis Response Program (GFRP). In addition to safety nets and budget support, IDA provided US$450 million through the GFRP to support agricultural productivity improvements in Ethiopia, the Kyrgyz Republic, Nepal and Tanzania. The objective was to generate a short-term supply response to mitigate the effects of the food crisis, while working towards medium- and long-term solutions. These projects typically focused on the provision of inputs (fertilizer, seed, and farming tools) and small scale infrastructure works to enhance agricultural productivity.

National Rural Development Strategies have been developed for 36 countries from FY2002-08.

In **Senegal**, the **Sustainable and Participatory Energy Management Project (FY97)** adopted a comprehensive approach, tackling both wood fuels' supply and demand, and demonstrated that the production and marketing of traditional biomass fuels can be stabilized, while arresting deforestation, contributing to ecological conservation and increasing village incomes. In 2005, community-managed forest resource systems accounted for a large part of the country's wood fuel supply. The project also surpassed its targets for net CO2 emission reductions (1.78 million vs. 510,000 tons), and income to the communities from the wood fuel trade and natural resource-based microenterprises (US12.5 vs. US$3 million per year).

6. The spike in grain prices in 2008 resulted in sharp increases in staple food costs in many developing countries. This in turn led to an increase in the price of key inputs such as fertilizer. These events signaled the need for renewed attention to agriculture. The 2008 World Development Report (WDR), Agriculture for Development, called for greater investment in agriculture and warned that the sector must be placed at the center of the development agenda if the goals of halving extreme poverty and hunger by 2015 are to be realized.

7. IDA is one of the largest providers of resources for agricultural development. IDA investment in agriculture has increased steadily from FY00 with a major increase in FY09 following the food price crisis. Its lending rose from an annual average of US$82 million during FY99-03, to US$187 million per year in FY04-08 and US$266 million in FY09. The greatest beneficiaries of support have been the Sub-Saharan Africa and South Asia regions. In response to the food crisis in 2008, the Bank initiated the World Bank's Global Food Crisis Response Program, a rapid financing facility for the countries with the greatest need. The program is supported by funds from Australia, Russia and the European Union. By June 2009, the Bank had approved US$1.15 billion out of the US$2 billion. The program funded short-, medium- and long-term responses including: safety nets such as school feeding, employment programs, conditional cash transfers and increased agricultural production.

8. The WDR 2008 and lessons from the food crises point to priorities for agriculture in developing countries: reducing poverty by helping smallholder farmers access markets; increasing agriculture productivity to feed the growing world population; mitigating the effects of climate change; and supporting economic transformation-higher incomes in agriculture can increase demand for manufactured goods and services, as well as availability of affordable food and improved land use. The Bank's Agriculture Action Plan for FY10-12 seeks to address these priorities by supporting countries to: (a) increase productivity through use of new technology (e.g., seed varieties, livestock breeds, improved agricultural water management, tenure security and land markets, and greater agricultural innovation); (b) link farmers to markets—including supporting the Doha round of global trade negotiations, investments in rural roads, strengthened producer organizations, improved market information, and access to finance; (c) reduce risk and vulnerability, including safety nets; (d) facilitate rural non-farm income by improving rural investment climates, upgrading skills and expanding rural infrastructure; and (e) enhance environmental services and sustainability, including through better management of livestock, rangeland, ecosystems and support to overcoming barriers to entry in carbon markets.

9. On partnerships, the Bank plays an important role in various efforts aimed at strengthening coordination and investing in key international public goods. The Bank and other donors are supporting the Global Donor Platform for Rural Development. Established in 2004, a year later, it started piloting coordination efforts in line with the Paris Declaration on Aid Effectiveness in Burkina Faso, Cambodia, Nicaragua and Tanzania. Other partnership supported by the Bank include: the Consultative Group on International Agricultural Research; a Standards and Trade Development Facility housed at the World Trade Organization which helps countries access international markets for agricultural products; the Agriculture Finance Support facility established together with the Bill and Melinda Gates Foundation, to scale up profitable rural finance business models; the Global Program on Fisheries to improve governance and sustainable livelihoods in the fisheries sector; the World Animal Health Organization/Global

Animal Health Initiative to address animal diseases; and the Growing Forest Partnership bringing together a wide group of stakeholders to support sustainable forest management.

Education

10. It is important to sustain progress in education-an important human development and economic investment. More children are in school today than when the MDGs were set in 2000. The pace of enrollment and completion in IDA countries has accelerated dramatically, especially over the last 5 years. Progress in getting more children into school has also meant significant progress toward achieving gender parity in education.

11. IDA is one of the largest sources of assistance for education in IDA countries. Since 2000, IDA has provided over US$10.2 billion. Since 1995, IDA funding for education has averaged US$922 million per annum. This rose to a record US$1.65 billion in FY09. IDA has committed about half of its education funds to support primary education, thereby helping countries to achieve universal primary education and eliminate gender disparities. About 24 percent of IDA lending has supported education sector reforms. IDA is committed to providing sustained and long-term funding needed to make progress. Lending has been highest for the Sub-Saharan Africa and South Asia regions. The goal of IDA education lending is to integrate education into national economic strategies and work with countries to develop balanced education systems. Its priorities include: quality learning for all; skills and knowledge that contribute to economic growth and competiveness; and education systems that attain results. IDA support has focused on laying a foundation through training teachers, updating curricula, building schools, delivering textbooks, and improving education governance and school management. Many IDA countries are adopting comprehensive or sector-wide approaches. They are also undertaking cross-sectoral coordination which may include coordinated investments to provide clean water, de-worming, nutrition, school feeding and other health related interventions. IDA support to education has also been provided through non-education IDA funding, such as cash transfers to poor families conditioned on keeping children in school. IDA's funding is accompanied by analytic work, capacity building and policy advice based on global experience and knowledge on education programs that are most effective in delivering results.

12. IDA's convening power helped to establish the Education For All Fast Track Initiative (FTI) in 2002.[51] The FTI secretariat is hosted by the Bank which manages the US$1.54 billion FTI Catalytic Fund and the US$115 million Education Program Fund. The FTI is a results-based partnership focused on delivering primary education to children in developing countries through country commitment, increased aid, improved aid effectiveness and coordination. The FTI supports 35 countries; by 2008 6 of them had achieved universal primary completion, 8 are on track to meet the goals and the remaining 21 countries—mainly in SSA—face major obstacles and require increased and sustained donor support to get them on track to meet the MDG goal. Evidence from a number of FTI countries suggests that significant progress can be made in a relatively short period of time with government commitment and donor support. There is a risk

[51] Supported by Canada, the Netherlands, Norway and France.

that during crises these gains can be lost; however, during the recent crises, governments tried to protect social spending.

13. As primary access, enrollment and completion increase and the labor market demands a better skilled workforce, countries are faced with a higher demand for secondary and tertiary education. World-wide, an estimated 264 million secondary school age youth are not attending school. IDA has been supporting the expansion and improvement of higher education efforts in countries such as Bangladesh, Mozambique and Vietnam. A lot remains to be done and IDA help will be needed to support countries in this area.

Box 5. Responding to Education Needs

- **Since 2000, an additional 91 million children have enrolled in primary school in IDA countries.**
- **Enrollment of girls has risen from 76 percent in 2000 to 95 percent in 2007.**

Uganda. Today only 58 percent of primary school students are admitted into secondary school in Uganda. IDA is helping expand and improve opportunities for secondary education. The IDA project aims to increase access to secondary education and improve its quality. Funds will be used to expand school infrastructure, expand a national teachers' college, improve school management, provide textbooks, improve curriculum and develop and monitor academic performance assessments that gauge learning outcomes.

Vietnam. An estimated US$98 million in IDA funds have been allocated to improve the capacity of Vietnam's universities to provide relevant, cost-effective, quality programs. Quality improvement grants were awarded on a competitive basis to those universities that demonstrated strong aptitude in academics, financial performance, strategic planning and performance monitoring.

Mongolia. School has come to the herding families of rural Mongolia, and it is housed in a large, white tent. This allows for school mobility and is part of Mongolia's effort to reach a subset of children in the countryside who may otherwise not have regular access to education. Flexibility is necessary to integrate these nomadic children into the national school system, and the Fast Track Initiative is helping make this happen. A US$29.4 million grant from the FTI Catalytic Fund allowed for expansion of basic education programs into Mongolia's more remote regions during 2007-2009.

Ethiopia. The General Education Quality Improvement Program is a unique partnership comprising an IDA commitment of US$50 million, an Education for All Fast Track Initiative initial commitment of US$70 million, and US$100 million in contributions from bilateral development partners including the United Kingdom, The Netherlands, Finland and Italy, for a total of US$220 million. The program aims to address: curriculum reform, textbook development, teacher training, management and administration. The partnership has reduced the complexity and cost associated with multi-donor programs, allowing both the Ethiopian government and its partners to place the focus where it should be, improving education.

Health

14. Development aid for health has increased substantially in the last 10 years creating an opportunity for improving health conditions in low-income countries. ODA for health more than

doubled in five years reaching US$21.8 billion in 2007.[52] Most of it was provided by global health partnerships, bilateral funds and private foundations and a large proportion of it was earmarked for priority diseases. Achieving desired health outcomes, for example the MDGs on maternal and child health which are lagging in many IDA countries, requires strong health systems. Most of these countries require assistance in strengthening their health systems. IDA is well placed to supply the sustained, long-term financing-combined with technical assistance to help countries improve the coverage, quality and efficiency of their health care services. In the case of priority diseases such as AIDS, tuberculosis and malaria, while IDA is not the major financier for these diseases, it is a key player by helping to strengthen planning, implementation and monitoring capacity to enable countries use funds from other sources effectively. IDA's assistance is valued, for example, in addressing AIDS due to: flexibility of its funding which is used to complement other funds; strengthening of health care delivery systems; ability to support marginalized groups-key to preventing transmission of HIV; and assistance for grassroot initiatives that reach poor, remote and marginalized communities. IDA also plays a global leadership role.

15. Some progress has been made in health outcomes. Mortality of children under 5 years declined from 134 deaths per 1,000 children in 1995 to 105 deaths in 2007; according to UNAIDS; annual new infections of HIV have peaked globally; and there have been recent declines in malaria in countries such as Zambia. Despite the progress, there are still many challenges: more than 85 percent of IDA countries are off-track on the child mortality MDG. Many countries are also unlikely to meet their malnutrition and maternal health MDGs. A few communicable diseases (AIDS, tuberculosis, malaria, acute respiratory infections and diarrhea) continue to impede improved health for the poor and the achievement of MDGs. Malaria continues to affect the health and economic status of people in Sub-Saharan Africa and South Asia.

16. IDA has played an important part in support to health with lending for health averaging US$780 million over the past 10 years. In financial terms, IDA has become a relatively small player in funding health programs. However, its strategic interventions provide indispensable funding for facilitating effective use of aid from other sources as well as complementing them. The Bank's Health, Nutrition and Population Strategy guides IDA's work in the health sector. "It calls for IDA to support country-driven programs that will demonstrate results on the ground, and to concentrate financing on IDA's areas of comparative advantage."[53] These include: health system strengthening and governance, health finance reform, and targeted assistance and insurance mechanisms to protect the poor from health risks and economic shocks such as the recent 2009 economic crisis. The Bank will continue to provide selective support to major disease programs with the aim of complementing the funding from governments and donors for

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[52] Most of the funding was from the Global Fund for AIDS, Tuberculosis and Malaria, the Global Alliance for Vaccines and Immunization, the United States President's Emergency Plan for AIDS Relief, the United Kingdom's Department for International Development and private foundations, notably the Bill and Melinda Gates Foundation.

[53] 2009. World Bank. IDA at Work. Health: Supporting Country Health Systems in a New Global Context. P. 2.

HIV/AIDS and malaria through the World Bank's Malaria Booster Program. It will also focus on areas of special attention including reproductive health and nutrition.

17. The Bank plays an important role in international health partnerships. It is a founding co-sponsor of UNAIDS and helped create the Global Fund for AIDS, Tuberculosis and Malaria. (GFATM) and serves on its board in addition to being its Trustee. The Bank is coordinating the International Health Partnership with the World Health Organization. The partnership seeks to strengthen national health systems and achieve better results by mobilizing donors around a single country-led national health strategy, in line with Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The Bank is a member of several other health partnerships including the Global Alliance for Vaccines and Immunization, the Global Fund, Roll Back Malaria and the Partnership for Maternal and Newborn Child Health. The Bank has supported the design of the Advanced Market Commitments to create market incentives for the rapid production, distribution and introduction of priority vaccines and the Affordable Medicines Facility for Malaria. With regard to HIV/AIDS, global partners have requested the Bank to take a lead in analytical work to help countries understand their epidemics and tailor national responses accordingly; develop results-focused and evidence-based national HIV/AIDS strategies; build monitoring and evaluation systems; and integrate HIV into the broader development agenda and poverty reduction strategies. The Bank also helps countries strengthen implementation of their programs.

Box 6. IDA Contributions to Improving Health in Poor Countries

- **Renewed Focus on HNP Results.** With funding from Norway, 8 countries with IDA-financed health projects have been given grants to develop results-based financing mechanisms targeting the poor and focusing on reproductive and child health. Financial incentives are provided: at community and district levels to stimulate demand for maternal and health services in Zambia; to boost rates of assisted deliveries among the poor in Benin; to reduce user fees which are a barrier to access for the poorest in the Democratic Republic of the Congo; to improve services for the poorest in Kyrgyz Republic and Benin; and to broaden health insurance coverage and quality of services in Rwanda (coverage was increased from 7 percent to 70 percent of the population over a 4 year period).

- **Innovative Financing Mechanisms.** The Bank has supported the design of the Advanced Market Commitments to create market incentives for the rapid production, distribution and introduction of priority vaccines. A pilot for pneumococcal vaccines is underway. The Bank also supported the Affordable Medicines Facility for Malaria to accelerate the rapid global introduction of artemisinins, drugs used for multi-drug resistance strains of malaria.

- **Inter-sectoral Investments.** The Ethiopian Protection of Basic Services Program, co-financed by IDA and other donors, covers education and health by funding an MDG fund which transfers funds to local governments based on needs and performance criteria. The project has supported distribution of 20 million insecticide-treated nets and trained over 24,000 health workers. After 2 years, malaria incidence has decreased by more than 40 percent in Ethiopia.

- **The Madagascar Second Community Nutrition Project.** After 2 years, the project has contributed to 10 percent reduction in underweight in malnourished children 3 years and younger.

- **Eritrea's HIV/AIDS, Malaria, STD and Tuberculosis Control Project** increased utilization of health services and achieved significant results: decline of malaria deaths by up to 60 percent between 2000 and 2005. Malaria in children under 5 years decreased from 10.6 per 1,000 in 2001 to 0.84 per 1,000 in 2004. There was also a decline in HIV/AIDS mortality rates from 13 percent to 10 percent between 1997 and 2002.

- **The Afghanistan Health Sector Emergency Reconstruction and Development Project (2003-2009)** has contributed to a 26 percent reduction in mortality for children under 5 years; increased the female health workers from 25 to 74 percent and antenatal coverage from 4 to 32 percent and doubled the tuberculosis detection rate from 35 to 64 percent with a treatment success rate of the targeted 85 percent.

- In **Guyana,** an IDA-financed HIV/AIDS project enhanced the civil society and government ministries response to HIV/AIDS. The project established a transparent system for civil society organizations (CSOs) to access funds and built the capacity of CSOs from 10 to 65 with the capacity to access US$1.6 million for community-based initiatives. Eleven ministries and 5 national agencies are implementing HIV/AIDS workplace programs.

- In **Moldova,** an IDA-financed project helped develop a national HIV/AIDS strategy that includes public campaigns and targeted CSO-run programs for injecting drug users, screening of pregnant women, prophylactic treatment for HIV-positive mothers and free milk formula for replacement feeding.

- In **India,** IDA helped create the institutional framework of India's entire HIV response at the national level and in 28 states and territories.

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