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FROM: Vice President and Corporate Secretary

The Demand for IDA17 Resources and the Strategy for their Effective Use

1. Attached for information is a paper entitled "The Demand for IDA17 Resources and the Strategy for their Effective Use". This paper has been provided to IDA Deputies for discussion at the upcoming IDA17 meeting in Managua.

2. In accordance with the guidelines for disclosure of replenishment documents, this paper will be publicly disclosed.

3. Questions on this paper may be addressed to Ms. Angelique dePlaa and Mr. Qiang Cui (ext. 87993/39658), Mr. Andersen (ext. 82140), or Ms. Bassani (et. 31468).

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IDA17

The Demand for IDA17 Resources and the Strategy for their Effective Use

IDA Resource Mobilization Department
Concessional Finance and Global Partnerships

June 2013

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Acronyms and Abbreviations

AAA	Analytic and Advisory Activities
AIDS	Acquired Immune-Deficiency Syndrome
BRICS	Brazil, Russia, India, China and South Africa
CAS	Country Assistance Strategy
CEDAW	Convention on the Elimination of All Forms of Discrimination Against Women
CODE	Committee on Development Effectiveness
CPR	Country Performance Rating
CPS	Country Partnership Strategy
CRW	Crisis Response Window
DAG	Development Assistance Group
DCC	Development Coordination Council
DRC	Democratic Republic of Congo
EAP	East Asia and Pacific
ECA	Europe and Central Asia
FCS	Fragile and Conflict-affected State
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HIV	Human Immuno-deficiency Virus
HNP	Health, Nutrition and Population
IE	Impact Evaluations
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ISN	Interim Strategy Note
LCR	Latin America and the Caribbean
MDG	Millennium Development Goal
MIGA	Multilateral Investment Guarantee Agency
MOU	Memorandum of Understanding
NIP	National Development Plan
ODA	Official Development Assistance
OECS	Organization of Eastern Caribbean States
OHADA	Organization for the Harmonization of Business Law in Africa
PBA	Performance-Based Allocation
PBG	Policy Based Guarantees
PCG	Partial Credit Guarantees
PPP	Public Private Partnership
PRG	Partial Risk Guarantee
SAR	South Asia Region
SE4ALL	Sustainable Energy for All
SME	Small and Medium Enterprise
SPPB	Special Private Placement Bond
SSA	Sub-Saharan Africa
UN	United Nations
WAEMU	Western African Economic and Monetary Union
WBG	World Bank Group

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EXECUTIVE SUMMARY

i. **Over the past decade IDA countries have made remarkable progress in accelerating economic growth and achieving poverty reduction**. At the same time, the challenge ahead is significant with about 1 billion people in IDA countries still living in absolute poverty, and more than half of IDA countries still off track for achieving the health-related Millennium Development Goals (MDGs). Furthermore, the poverty headcount increased in some country groups, including in sub-Saharan Africa (SSA) and in Fragile and Conflict-affected States (FCSs) where progress on many MDGs is lagging.

ii. **Within this context of significant unmet needs, emerging patterns of trade and investment are creating new opportunities to leverage finance and global knowledge for economic growth in IDA countries**. It has brought within reach the global goal to end extreme poverty in many IDA countries. At the same time, it has raised challenges that, if not adequately addressed, could unravel the gains achieved so far by these countries and jeopardize their ability to seize these opportunities for the benefits of their populations.

iii. **IDA is well placed to help its client countries capture this unique moment of opportunity building on the progress achieved and harnessing the opportunities created by the evolving external environment**. First, IDA's country-driven and non-earmarked approach provides the flexibility to meet the demands, opportunities and risks facing its diverse client base – from small island states and fragile countries to fast-growing economies well on their way to becoming middle income countries (MICs). Second, through the combined strengths of the World Bank Group (WBG), IDA provides catalytic financing and technical assistance to leverage and complement private sector development. Third, IDA's focus on building country institutions and capacity is supporting stronger management of both public and private investments and the sustainable expansion of infrastructure and services in IDA countries. Fourth, by combining flexible financing with evidence-based knowledge, IDA plays a catalytic role in scaling up public resources where they can be most effective for poverty reduction and in providing integrated development solutions, including innovative approaches. Fifth, IDA's convening power, coupled with its global reach and knowledge, helps to broker knowledge exchanges across countries and facilitate global efforts to boost regional cooperation and address cross-border risks, from the global economic crisis and disruptive climate-related events, to food price spikes, and communicable diseases. Sixth, IDA provides a platform for governments and development partners to effectively manage aid resources, helping reduce the burden of aid fragmentation. Recent external assessments of international aid agencies affirm IDA's business model as among the most effective and efficient development assistance delivery mechanisms.

iv. **The ambitious reform agenda currently being developed in the WBG aims to further strengthen the WBG's capacity to support the development efforts of its client countries**. A new strategy is being prepared to enable the WBG to most efficiently deliver on achieving the goals of ending extreme poverty by 2030 and boosting shared prosperity for the bottom 40 percent in each country. The WBG reform agenda will ensure that IDA17 will be able to provide the increasingly effective, customized and integrated solutions that the evolving client base of IDA needs, building on a strong foundation of evidence-based knowledge.

v. **IDA's regional and sectoral strategies and specific country strategies set out a compelling case for a strong IDA17 replenishment**. Each of the regional strategies sets out how the region seeks to use the full range of WBG knowledge, financing and convening power to meet the needs of the IDA countries in their regions. Key themes that emerge from the regional strategies include competitiveness and employment, reducing fragility and vulnerability, addressing gender inequality and increasing resilience to shocks, climate change adaptation, governance and capacity building for more inclusive growth. Regional strategies also identify opportunities for cross-border solutions to sub-regional development challenges which can be addressed through regional projects involving several countries. Furthermore, the Bank has sectoral/thematic strategies that also shape the focus at country, regional and global levels. These broad sectoral/thematic strategies are further refined for each region, while the choice of sectors for Bank support is determined at the country level.

vi. **The paper presents five potential scenarios for supporting the financing needs of IDA countries during the IDA17 replenishment period**. These scenarios take account of tightened fiscal constraints for some partner countries while recognizing the need for IDA countries to secure the development gains achieved, seize emerging opportunities and confront new challenges towards transformative results for the poorest. Each scenario presents a different combination of financing for core IDA and additional financing needs, including for regional projects, for the Crisis Response Window, for expected arrears clearances, and for transitional support; and each scenario illustrates the related trade-offs of this support package. Relative to IDA16, the scenarios presented range from a decline in IDA17 of 10 percent in nominal terms in Scenario 1to incrementally higher financing needs in Scenarios 2 through 5that allow for faster progress in scaling up financing to both FCSs and non-FCSs. Incrementally larger scenarios reflect the proposed new allocation framework for FCSs implemented in varying degrees of ambition, which would help offset the expected decline in IDA's financial support to FCSs in upcoming replenishments, while higher scenarios also help increase levels of support to non-FCSs. Arrears clearance amounts are kept constant in all scenarios, while the financing for the CRW and regional projects grows with each scenario, and transitional support is introduced at varying levels in scenarios 3 through 5. The paper also proposes changes to the eligibility and financing rules for regional projects, to allow IDA to finance transformational projects with a significant regional impact where the bulk of the investment is located in only one country.

I. INTRODUCTION

1. **This paper sets out scenarios for the IDA17 resource envelope and the strategies for their effective use**. Despite significant progress made over the past decade, IDA countries still have significant unmet needs. They also face a rapidly changing global economic landscape that presents unprecedented opportunities for addressing their development needs, as well as increasingly complex and interconnected challenges. IDA is well placed to support the poorest countries in the world to capture this unique moment of opportunity to end extreme poverty by 2030 and boost shared prosperity for the bottom 40 percent of the population in each country. The ongoing World Bank Group (WBG) reform agenda will further increase IDA's effectiveness through greater selectivity and a focus on tapping WBG synergies. Furthermore, the regional and sectoral strategies described in this paper provide the framework for defining areas of strategic focus and of comparative advantage for IDA during the IDA17 period.

2. **The World Bank Group is in the process of developing and implementing an ambitious reform agenda aimed at further strengthening its capacity to support the development efforts of its client countries**. This work has led to the establishment of two ambitious overarching goals for the WBG: ending extreme poverty by 2030 and boosting shared prosperity for the bottom 40 percent of the population in each country. Work on the new WBG strategy recognizes that ending extreme poverty and building shared prosperity require promoting environmental, social and economic sustainability. The two goals were endorsed by Governors at the 2013 Spring Meetings, at which time Governors also supported the development of a strategy that would align Bank Group activities around the two goals. Formulation of the strategy is being guided by a change process that includes active engagement with staff, shareholders and clients. Development of the new WBG strategy is proceeding in parallel with the IDA17 Replenishment process. Updates on the strategy and change process will be provided to Executive Directors in June and July, followed by discussion of the full Strategy by the Committee of the Whole in September and presentation to the Development Committee at the Annual Meetings in October. The Strategy and change process will inform the IDA17 discussions while IDA will reinforce the strategy's implementation as the Bank Group's main instrument to support its poorest member countries. Further developments related to the WBG Strategy will be reflected in the Deputies report, a first draft of which is planned for the Third Replenishment Meeting in October.

3. **IDA is central to the WBG strategy and achieving its two overarching goals in the poorest countries**. The change agenda associated with the new WBG strategy will reinforce IDA's continued transformation and ensure that IDA17 will be able to provide the effective, customized and integrated solutions that the evolving client base of IDA needs. This will be accomplished through greater selectivity, increased WBG synergies and an even closer focus on results (see companion paper "IDA17 Overarching Theme: Maximizing Development Impact" for a full discussion of these issues). Implementation of the forthcoming WBG strategy will be supported by an annual business planning, budget and performance management process to operationalize the two global goals at the country and corporate levels. It is also expected that this process will serve to align WBG activities identified in regional and sector strategies with the overall WBG strategy. Coupled with these ongoing efforts to enhance IDA's effectiveness and impact, a strong financing base will position IDA17 to make a critical contribution to its

client countries' efforts to build on the existing growth momentum, enhance resilience and make substantial progress towards achieving the two goals.

4. **The paper is organized as follows**. Section II examines the global development context, including an overview of recent progress and challenges in meeting development goals and trends in development financing for IDA countries. This section also sets out IDA's broad comparative advantage in terms of maximizing development results. Section III provides a summary of IDA's regional and sectoral strategies for implementing IDA's core program during IDA17.Section IV sets out the financing scenarios for IDA17 and seeks the guidance of IDA Deputies on the range of options and trade-offs related to those scenarios. Section V sets out issues for discussion.

II. THE GLOBAL DEVELOPMENT CONTEXT FOR IDA COUNTRIES

A. Progress and Challenges in Meeting Development Goals

5. **During the past decade many IDA countries made remarkable progress in accelerating economic growth and lifting people from extreme poverty**. Several IDA countries, including Ethiopia, Rwanda and Tajikistan, were among the fastest growing economies in the world between 2001 and 2011.[1] In Africa, annual growth averaged 4.9 percent between 2001 and 2011 despite the impacts of the recent global financial crisis. More broadly, improved growth and policy performance has helped to lift the average per capita Gross Domestic Product (GDP) of IDA countries from US$618 (in constant 2000 US$) in 2009 to US$678 in 2011. In line with more sustained economic growth, IDA countries achieved a significant reduction in the percentage of the population in absolute poverty from 58 percent in 1981 to 38 percent in 2008 and made significant progress on the achievement of access to improved water.[2]

6. **Notwithstanding the progress achieved, the challenge ahead remains significant**. Despite the relative improvements in the poverty ratio, the absolute number of people in poverty in IDA countries remains high. While the number of people in absolute poverty decreased for the developing world as a whole from 1.9 billion in 1990 to 1.3 billion in 2008, in IDA countries this remained at about 1 billion – equivalent to one out of every seven people on earth. Furthermore, the poverty headcount increased in some country groups, including in sub-Saharan Africa and in FCSs. In addition, most IDA countries are lagging behind on most MDGs. In particular, the MDGs related to human development and health are lagging, with more than half of all IDA countries off track for achieving the health-related MDGs. Specifically, over 80 percent of IDA countries are off track to achieve the MDG on reducing under-5 mortality by two-thirds by 2015, while more than 70 percent are also off target to reduce maternal mortality by three quarters (see box 1 for more information on progress towards the MDGs in Sub-Saharan Africa).

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[1] World Bank and IMF staff. The three countries achieved average annual GDP growth rates ranging from 8.1 to 8.7 percent over this period.

[2] See IDA16 Mid-Term Review Implementation and Results Progress Report (World Bank: Washington, DC 2012) and Managing Crisis and Building Resilience: A Retrospective Review of IDA15 (World Bank: Washington, DC 2012).

Box 1: Progress and Challenges in Meeting the MDGs in Sub-Saharan Africa

Robust growth and improved institutions and policies in the region have supported substantial progress on MDGs, but significant challenges remain in the 40 IDA countries in SSA, particularly in the 18 FCSs.

- Less than half (16 countries) have achieved or made enough progress to achieve the income poverty goal; with an additional push, five more countries are likely to achieve the target by 2015 or shortly thereafter.
- Only 13 countries have made enough progress to achieve the MDG on prevalence of undernourishment, and an additional four countries with some acceleration could also meet the target.
- 18 countries have met or have made sufficient progress to achieve gender parity in primary and secondary education (MDG3a).
- Health MDGs lag the most, despite solid progress in absolute terms. For example, only 10 countries are on track to meet the under-5 mortality target (MDG4a), with an additional five countries anticipated to meet this MDG between 2015 and 2020. On access to an improved water source, only 16 countries have made enough progress to meet the MDG before or by 2015. Progress on access to improved sanitation facilities is extremely limited, with only two countries (Angola and Cape Verde) on track to meet the goal before or by 2015.
- Among the 18 FCSs, 12 have met or have made enough progress to meet at least one of the MDGs on time. Two countries (Central African Republic and Sierra Leone) with some acceleration could meet at least two of the MDGs by 2015.

B. Trends in Development Financing

7. **Within this context of significant unmet needs, emerging patterns of trade and investment are creating new opportunities to leverage finance and global knowledge for economic growth in IDA countries**. Investment rates have risen significantly in IDA countries and their share of global investment currently stands at the highest level since the mid-1960s.IDA countries accounted for 6 percent of global investment in 2011, more than twice the level of the mid-1960s. Foreign Direct Investment (FDI) to IDA countries has also increased (by more than forty times from US$2.1 billion in 1990 to US$90 billion in 2011), mainly directed to higher income IDA countries, but also increasingly to resource-rich low income countries. In the same period, long-term debt flows to IDA countries grew by more than four times from US$12.6 billion to US$54.7 billion. Increased remittance flows and evolving migration patterns also represent important sources of savings and investment along with dynamic opportunities for partnerships through diaspora networks.Net private inflows surpassed US$150 billion in 2010 and are projected to return to those levels in 2014 subject to sustained recovery in the global environment.[3] Furthermore, private enterprises in IDA countries have become increasingly important sources of global growth and trade.

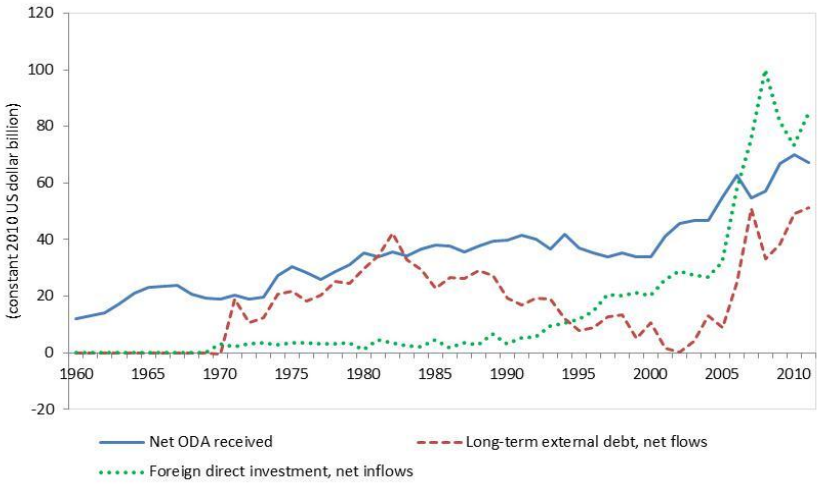
8. **New partnerships have also emerged and today roughly a third of FDI in developing countries originates in other developing countries**. On the knowledge front, research and development experience originates from multiple sources, from the academic community, regional development banks, bilateral development agencies, and developing countries themselves. An information and technological revolution is creating the potential for vastly improved information sharing, data collection and measurement of impact. Moreover, economic growth in several IDA countries (such as Nigeria, Bangladesh, Pakistan, and India) has the

[3] World Development Indicators 2013 and Global Economic Prospects 2013.

potential of spurring *regional* growth poles, with important ripple effects for neighboring countries.[4]Also, recent mineral discoveries in several IDA countries, notably in sub-Saharan Africa, point to new opportunities to harness natural resource wealth. Thesedevelopments have been accompanied by important improvements in the policy environment in many IDA countries.

9. **Yet IDA countries still rely heavily on official development assistance (ODA),which has declined somewhat in recent years after a period of strong growth through 2010**. ODA represented about 35 percent of long term financing in IDA countries in 2009-2011 with even higher reliance for current FCSs, where ODA represented 65 percent of long term financing.ODA to IDA countries has grown strongly over the last decade increasing from US$47 billion to US$70 billion in 2010 constant US dollar terms. However, the ongoing financial crisis and consequent tightening of aid budgets has led to a drop in ODA. As shown in Figure 1 below, ODA support to IDA countries declined by 4 percent between 2010 and 2011.

Figure 1: ODA and Private Financing Flows to IDA Countries
(US$ billion at 2010 prices, 1960-2011)



Sources: World Development Indicators 2013 database and World Bank staff calculations.

10. **The sources of ODA have become more diversified, with an increase in aid from non-DAC countries**. The last decade saw an increase in non-DAC countries participating in the aid landscape. Among these, the BRICS group of countries (Brazil, Russia, India, China and South Africa) have emerged as important growth poles and sources of development finance. BRICS financing has tended to focus on infrastructure and productive sector investment, and has been linked to trade and investment deals. In addition, the role of private aid through foundations and non-governmental organizations also expanded.

11. **Aid has also become increasingly fragmented and earmarked with more vertical funds and more financing aimed at specific issues and sectors**. Aid fragmentation and

[4] Global Development Horizons 2011, "Multipolarity: The New Global Economy" (World Bank: Washington, DC. 2011).

earmarking has accompanied the proliferation of channels of aid. The average size of donor funded transactions has declined from close to US$3 million in 1997 to about US$1.3 million in 2009, while the number of donors per country grew from 3 in 1960 to 30 in the 2000s, and donor activities reached about 120,000 in 2009.[5]Earmarked multilateral and bilateral ODA is estimated to account for over 40 percent of the total ODA, with global programs created in the 2000s accounting for about 15 percent of total ODA. Earmarking can help raise financing for specific issues that may be high priority for donors and rally public support for aid. At the same time, earmarking can reduce the predictability of funding for IDA countries, reduce reform incentives and undermine country ownership by altering the priorities countries place on specific programs.[6] Proliferation of aid channels, fragmentation and earmarking also significantly increase the complexity of aid, and amplify the administrative burden for both aid recipients and aid providers.

12. **The changing global economic landscape presents unprecedented opportunities for addressing IDA countries' development needs and, at the same time, increasingly complex and interconnected development challenges**. The global goal to end extreme poverty is within reach in many IDA countries. At the same time, the global economic landscape raises challenges that, if not adequately managed, could unravel the gains achieved so far by these countries and jeopardize their ability to seize opportunities for the benefits of their populations. A key challenge will be that of rising inequality which will require more focused policy interventions to ensure that growth expands opportunities for marginalized groups and creates quality jobs. Second, realizing opportunities from the new global economic dynamics will require more effective and complementary private and public investments in IDA countries. Third, cross-border challenges at the regional and global level mean that IDA countries must increase their resilience and adaptability to evolving global conditions and shocks. In particular, adaptation actions are needed to make climate resilient development a reality in IDA countries. Also, regional transformational initiatives have the potential to catalyze large-scale benefits to improve access to infrastructure services beyond borders and promote joint action to tackle common challenges. Simmering conflicts, particularly in FCSs, continue to pose an important downside risk to their economic activity and those of neighboring countries. Food price spikes are a cause for concern as well, especially for the poorest.

C. IDA's Comparative Advantage in Delivering Aid

13. **IDA is well placed to help its client countries build on the progress achieved and harness the opportunities created by the evolving external environment, putting them firmly on a path out of aid dependency**. First, IDA's country-driven and non-earmarked approach provides the flexibility to meet the demands, opportunities and risks facing its diverse client base – from small island states and fragile countries to fast-growing economies on their way to achieving MIC status. Second, through the combined strengths of the WBG, IDA provides catalytic financing and technical assistance to leverage and complement private sector development. Third, IDA's focus on building country institutions and capacity is supporting

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[5] See Adugna et al. "Finance for Development: Trends and Opportunities in a Changing Landscape", November, 2011, CFP Working Paper Series, the World Bank Group, and Adugna, A (2009), "How much of Official Development Assistance is Earmarked?", CFP Working Paper Series No.2, World Bank, Washington, DC.

[6] Ibid.

stronger management of both public and private investments and the sustainable expansion of infrastructure and services in IDA countries. Fourth, by combining flexible financing with evidence-based knowledge, IDA plays a catalytic role in scaling up public resources where they can be most effective for poverty reduction and in providing integrated development solutions, including innovative approaches. Fifth, IDA's convening power, coupled with its global reach and knowledge, helps to broker knowledge exchanges across countries and facilitate global efforts to boost regional cooperation and address cross-border risks, from the global economic crisis and disruptive climate-related events, to food price spikes, and communicable diseases. Sixth, IDA provides a platform for governments and development partners to effectively manage aid resources, helping to reduce the burden of aid fragmentation. Seventh, IDA's pioneering work in results monitoring and measurement helps IDA countries deliver stronger results, enhance operational effectiveness and improve organizational efficiency.[7] IDA also provides leadership on tough global challenges by combining top-notch research on key development issues with knowledge gleaned from operational experience. From its support for climate resilience, empowering women, and increasing finance to fragile states to sustain their recoveries, IDA rallies others on tough issues for the common good. Recent external assessments of international aid agencies affirm IDA's business model as among the most effective and efficient development assistance delivery mechanisms.[8]

III. IDA'S REGIONAL AND SECTORAL STRATEGIES FOR IMPLEMENTING IDA'S CORE PROGRAM DURING IDA17

14. **IDA customizes its support to IDA countries through the development of Country Assistance Strategies (CASs).**[9] The CAS supports a country's development strategy and priorities and provides the framework of assistance for the whole WBG, including International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), for a period of 3 to 5 years. It is prepared in collaboration with government and in consultations with civil society, private sector, development partners, and other stakeholders. The CAS outlines IDA's resource envelope for the country, the instruments of assistance[10] and the specific sectors and areas of focus based on government priorities, IDA's comparative advantage and other partners' areas of engagement. Most CASs support the overall goal of helping countries achieve sustained growth and improve delivery of services to the poor while strengthening governance. CASs also address cross-cutting issues such as climate change and gender disparities. Crisis response is also being included in 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. They include a results-monitoring framework and highlight partnership arrangements with MDBs, bilateral partners, United Nations (UN) agencies, and other

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[7] See companion paper "IDA17 Overarching Theme: Maximizing Development Impact" for a more detailed discussion on results.

[8] See for instance Centre for Global Development, "Measuring the Quality of Aid: QuODA Second Edition", Executive Summary for the Fourth High-Level Forum on Aid Effectiveness, Busan, Korea, 2011.

[9] For countries that are in transition from conflict or crisis, or where the situation is uncertain, a shorter-term strategy known as an Interim Strategy Note (ISN) is prepared. The ISN sets out the strategy for the country until a full CAS can be developed.

[10] This includes investment lending, policy-based lending, program for results (P4R) lending, guarantees, analytical work, and trust funds.

stakeholders in line with the Paris Declaration of Aid Effectiveness and the Accra Agenda for Action.

15. **Based on the support identified in the underlying CASs, IDA uses regional and sectoral strategies to set out its comparative advantage and to define areas of emphasis**. The Bank regional vice presidencies have prepared strategies that identify priority activities for the IDA17 period, including opportunities for cross-border solutions to sub-regional development challenges which can be addressed through regional projects. Also, the Bank has strategies to shape the sectoral/thematic focus at the country, regional and global levels. These broad strategies are further refined for each region, while the choice of sectors for Bank support is determined at the country level.[11]Section II.A below summarizes the regional strategies (see Annex 2 for more details) and Section II.B sets out selected sector/thematic strategies.

A. Regional Strategies

16. **Sub-Saharan Africa**. Over a decade of strong growth in sub-Saharan Africa has helped reduce extreme poverty from 58 percent in 1996 to 48.5 percent in 2010. However, results vary widely across resource-rich and resource-poor countries, while inequality at the country level is increasing and economic diversification remains limited. Within the context of a favorable external environment, the key challenges for SSA countries to accelerate progress towards ending extreme poverty and promoting shared prosperity will be to sustain the growth momentum achieved in the last decade, ensure that growth is inclusive and build resilience to shocks.

17. The strategy for the region seeks to use the full range of the WBG knowledge, lending and convening power. It is built on two pillars: (a) competitiveness and employment; and (b) vulnerability and resilience – and a foundation, namely governance and public sector capacity. The first pillar focuses on helping SSA countries diversify their economies and generate jobs, especially for the 7-10 million young people entering the labor force each year, through scaling up the infrastructure program (notably to address large unmet energy needs), improving the business environment for private sector development, building the skills of workers (including for youth) and closing gender gaps in access to economic opportunities. The second pillar aims at reducing vulnerabilities and building resilience to the shocks that directly affect the poor, including by focusing on better health care, strengthening safety nets and adapting to climate change. Key engagement areas under this pillar include agriculture/drylands and social protection and gender equality. Support for governance and capacity building targets public expenditure management and the capacity of institutions for inclusive growth and social accountability, with a special focus on helping manage mineral wealth for inclusive growth. On energy, the strategy aims to help Africa meet its energy needs from clean sources and thereby support global and regional climate change goals. On agriculture, regional approaches – with special attention to drylands, water management and irrigation – are critical for maximizing poverty reduction in SSA and for dealing with climate change.

[11] The set of sector strategies highlighted in the paper is not comprehensive. Information on other sectors can be found in the "IDA at Work" website.

18. The strategy includes efforts to enhance IDA effectiveness and impact in the18FCSs in the region as progress in these countries is critical for the regions' growth and stability. Extreme poverty, lack of economic opportunity, limited capacity of national institutions and high vulnerability to climate change, droughts and other shocks are key challenges to help address in these countries. Three FCSs (*Sudan, Somalia and Zimbabwe*) could re-engage with IDA during the IDA17 period, requiring support for potential pre-arrears clearance grants and arrears clearance operations. Also, country-based initiatives in the countries in the *Great Lakes* (see Box 2), the *Sahel* (notably Mali – see Box 3) and the *Horn of Africa* sub-regions are being complemented with additional interventions at the regional level to target the drivers of conflict (including lack of economic opportunity, structural problems in areas such as land) and generate concrete benefits in the short- and longer-term; address vulnerability and resilience (e.g., support for early warning systems for droughts, floods and food insecurity); and improve economic opportunity and integration (e.g., energy, agricultural productivity including irrigation, intra-regional trade facilitation, skills development). The SSA strategy also aims to harness cross-border challenges and opportunities, including through regional projects for infrastructure connectivity. The strategy emphasizes selectivity, flexibility, efficient delivery, and innovation, and increased synergies with IBRD, IFC and MIGA in IDA countries, in close partnerships with stakeholders as well as other bilateral and multilateral development partners.

Box 2: Strengthening Support to the Fragile Great Lakes Sub-region in Africa

IDA leverages its global knowledge solutions, financing and platform role to help client countries to break the cycle of abject poverty and violence in the most difficult and complex situations, such as the Great Lakes sub-region (especially Burundi, DR Congo, Rwanda and Uganda), for which the Bank has pledged strong support of US$1 billion in May 2013. The WBG approach includes the following:

- scale up support to address the internal and external drivers of conflict: strengthen state effectiveness and improve governance of extractive industries in eastern DR Congo; target specific vulnerability in basic education and health services, agriculture and food insecurity or needs of displaced people; adapt successful solutions of governance, community empowerment, and social protection in fragile situations to enhance resilience; and empower women and address violence against them;
- promote economic cooperation and regional integration through regional initiatives, and strengthen the incentives for cooperation: support regional infrastructure and connectivity for better sharing of rich resources and addressing infrastructure deficits efficiently; facilitate trade of goods and services across borders; improve investment climate with regional harmonization; generate jobs with focus on agriculture, logistics and other selected services; cross-border cooperation on higher education and skills development; and promote opportunities for women;
- lead the efforts to address structural causes of conflict through integrated solutions from IDA, MIGA, and IFC for public and private sectors, leverage other sources of financing, and work closely with development partners (including the UN, EU, AU, AfDB, and other regional institutions) to improve peace and stability and maximize the development impact.

Box 3: Addressing Fragility and Security in the Sahel Through a Regional Approach

The Sahel sub-region (Burkina Faso, Chad, Mali, Mauritania and Niger) is a vast, arid and scarcely populated area that faces grave threats to its security and development as a result of a combination of geographic conditions and climate change. These include high demographic growth and low population density, extreme vulnerability to climate change, droughts and desertification; weak institutional capacity; mounting tensions among population groups; and extreme poverty, food insecurity and lack of economic opportunities. This situation is exacerbated by the current crisis in Mali, but is rooted in decades-long, regional economic, political and demographic stresses.

While the WBG is responding to the stresses affecting Mali and its neighbors with specific responses in each country, it aims to complement these individual country responses with a regional approach that would help address structural factors of fragility and insecurity in the Sahel. A regional approach would not only guide the country responses but also explore how action at the regional level can support greater stability, resilience and sustainable development in individual Sahelian countries.

The emerging regional approach to the Sahel focuses on: (a) vulnerability and resilience (e.g., support for early warning systems for drought, floods, and food insecurity; eradication of neglected tropical diseases; and analytics on nutrition and food security); and (b) economic opportunity and integration (e.g., regional pastoralists program, energy, agricultural productivity including irrigation, ICT, intraregional trade facilitation, and skills development). These are underpinned by a focus on the spatial and demographic roots of the conflict and improved governance work including common regional standards (e.g., through an ongoing Western African Economic and Monetary Union – WAEMU regional study) and capacity building of civil society organizations. These activities would be closely coordinated with other development partners active in the region, national and regional think tanks, regional organizations such as ECOWAS and UEMOA and coalitions and programs (e.g., Club du Sahel, Feed the Future).

19. **East Asia and Pacific**. The East Asia and Pacific (EAP) region supports the goals of ending extreme poverty and boosting shared prosperity in IDA countries by focusing on five major regional challenges affecting its IDA countries: (a) poverty and inequality; (b) making governments work for the people; (c) growing infrastructure and service delivery needs from rapid urbanization; (d) risks from environmental degradation, natural disasters and climate change; and (e)creating jobs and private sector led growth. New and innovative frontiers include infrastructure connectivity and inclusive green growth. The regional strategy emphasizes a strategically selective, differentiated approach across countries, where partnership strategies and country dialogues identify priorities and customize assistance based on specific client needs. EAP will prioritize support to *Myanmar*, with a focus on strengthening the capacity of public and private institutions to implement the country's reform efforts, achieve quick wins that deliver tangible results for the population, and analytical work and catalytic engagements in key sectors to set the stage for longer term engagement. In the *Pacific Island countries* which also include six FCSs, EAP has significantly scaled up its engagement and customizes its assistance to country circumstances. This aims to tackle the enormous challenges of economic geography, including vulnerability to climate change and susceptibility to natural disasters, with a strong focus on encouraging regional/global integration to address common challenges and benefit from economies of scale and network benefits. The Bank Group is for the first time developing individual "custom tailored" country partnership strategies for each of its Pacific Island members. *Vietnam*, with one of the largest populations of absolute poor and significant challenges for shared prosperity, would continue to require substantial support to achieve the transition to become an IBRD country. The EAP strategy also includes a sharpened thematic focus on disaster risk management and climate change, and on gender. Finally, EAP's strategy

emphasizes strong and systematic WBG collaboration in IDA countries and continued extensive bilateral and multilateral partnerships in assisting client countries. In particular, partnerships on the knowledge front have been expanding. IDA's broad footprint in the region, with more than 70 percent of staff located in country offices, facilitates partnerships and strong results delivery.

20. **Europe and Central Asia**. The Europe and Central Asia (ECA) region has adopted a three pillar strategy of (a) competitiveness, (b) social inclusion and (c) climate change actions, and customizes its assistance to the varied needs to end extreme poverty and promote shared prosperity in its client countries. These range from the *Eastern European countries* that have been adversely affected by the Euro area crisis to land-locked *Central Asian countries* that face significant challenges in governance, economic diversification and regional integration. Under the competitiveness pillar, IDA helps countries implement sound macro-fiscal and public financial management strategies; develop stable and well-regulated financial sectors; make cost-effective investments in infrastructure, particularly in energy and transport; and develop education systems that provide citizens with relevant skills. Under the social inclusion pillar, IDA assists clients in increasing employment and reforming labor markets; ensuring access to quality public services in health and education; modernizing social safety nets to better protect the most vulnerable; closing gender gaps in access to economic opportunities; and meeting the remaining MDGs, with a particular focus on the health MDGs where some ECA countries are most at risk of missing their targets. Under the climate action pillar, IDA supports ECA countries' efforts to boost energy efficiency; provides and leverages financing for investments in renewable energy; and supports climate adaptation investments – all with the aim of helping countries in the region build adaptability and resilience to climate change. Finally, the implementation of the strategy in IDA countries also supports the themes of gender and governance and as well as regional integration and partnerships.

21. **Latin America and the Caribbean**. The majority of countries in Latin America and the Caribbean (LCR) continue to perform well, but IDA countries in the region face more pronounced challenges. The regional strategy emphasizes "five Gs," with implementation adapted to the respective countries' contexts: (a) Gini (inequality), poverty and gender; (b) Growth and productivity; (c) Governance and institutions; (d) Green growth and global involvement; and (e) Guarding against disasters. In *Haiti*, the strategy takes into account its fragility by assisting reconstruction and delivery of services in the short term while supporting the Government to make the transition to long term development through strategic interventions, including by strengthening governance and building institutional capacity. The assistance is closely aligned with the Government's priorities and medium term strategy in four dimensions: territorial (reconstruction, transport, disaster risk management, regional development and watershed management); economic (agriculture, finance, private sector development, electricity and engaging the Diaspora); social (housing, jobs, social protection, education and health); and institutional (transparent and sound institutions, central administration, justice and security). In the four IDA countries of the *Organization of Eastern Caribbean States* (OECS) (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines), the strategy focuses on achieving two strategic objectives: (i) building resilience; and (ii) enhancing competitiveness and stimulating growth over the medium term. Also, IDA will continue to provide strong support for climate adaptation and disaster vulnerability reduction and response as well as deepened regional integration. Other IDA countries (*Guyana, Bolivia, Honduras and Nicaragua*) are supported to strengthen the business environment and job creation, environmental sustainability, quality of

social services, competitiveness and infrastructure. Finally, in all the IDA countries, the Bank will continue to work closely with other development partners to maximize development impact.

22. **Middle East and North Africa**. In the wake of the Arab Spring, the Middle East and North Africa (MNA) region is experiencing a period of transition following political and financial shocks. *Yemen* and *Djibouti*, the two IDA countries in the region, face common challenges of widespread poverty, rapid population growth, little diversification of their economies, limited water supply, low levels of human development and fragility. Consequently, good governance and transparency, growth and jobs, and social and economic inclusion (particularly of youth and women) are at the core of the country strategies for Djibouti and Yemen. These countries are highly vulnerable to external and weather related shocks, and consequently IDA's support to strengthen resilience and adapt to climate change are critical cross-cutting themes in the assistance strategies. In Djibouti, the focus will be on reducing poverty and strengthening more equitable growth through improving governance and the investment climate for accelerated private sector-led growth and job creation. IDA will also step up knowledge services to support the development of four sectors – tourism, transport, fishing, and telecommunications – identified as potential drivers for growth and jobs in the country, exploring opportunities to work with IFC and for regional integration. In Yemen, IDA support is focused on helping achieve visible results to help to stabilize the transition in the short term (through, for instance, strengthening mechanisms for service delivery, targeted social safety nets, and short-term employment creation), and is also laying the groundwork for medium-term reforms and sustainable longer-term benefits. Through its support IDA is (i) mainstreaming participation and inclusion, especially among women and young people; (ii) strengthening institutional capacity, governance, transparency and accountability; and (iii) enhancing its operational flexibility. Moreover, IDA will strengthen collaboration with IFC and MIGA and enhance partnerships with other development partners, including the various Arab Funds, IsDB, and GCC partners.

23. **South Asia Region**. The South Asia (SAR) region has made significant progress in poverty reduction and some of the MDGs, with recognizable advances made with regard to education and gender. Yet, there are over 500 million poor people in the region's IDA countries, 400 million in *India* alone, and the areas of child and maternal mortality, and environmental protection and sustainability have lagged behind targets. If growth is to be sustained and inclusive, faster progress needs to be made in the lagging MDGs, addressing governance weaknesses and facing security challenges. With continued IDA support, there is great potential for faster poverty reduction. South Asian countries can drive half or more of any reduction in the global rate of poverty. To help client countries meet their development objectives the strategy in the region will be guided by five strategic priorities: (a) increasing employment and accelerating growth (a priority as South Asian countries are adding around 1 million new entrants to the labor force every month for the next two decades, and contributing 40 percent of the total new entrants to the global workforce); (b) enhancing human development and social welfare (with a focus on lagging regions, better targeted social protection and safety nets, high impact infrastructure and human development); (c) strengthening governance and accountability; (d) reducing vulnerability, including to climate change, disasters and food insecurity (through support for natural resource management, protection of global commons, reducing pollution and enhancing agricultural productivity); and (e) promoting regional integration and cooperation and (through regional trade and cooperation in energy and water resources).

24. In *Afghanistan*, the 2014 drawdown of international military forces and a likely decline in civilian aid, draws attention to the critical role that IDA needs to play in the coming years, notably by stepping up its support to help strengthen institutions and processes for financial and economic management, equitable access to essential services, and inclusive growth and jobs. In *India*, IDA transitional support would focus on: (i) low-income and special category states, which combined account for half of India's poor people; and (ii) the rural-urban transition and supporting the government in creating functional secondary cities that create jobs and provide services. Coping with natural disasters and adapting to the impacts of climate change also require sustained and substantial investment over the longer term in *Bangladesh* and elsewhere. Across the region, the implementation of the strategy will rely on sharpening knowledge services; driving investments with a results focus; enhancing implementation support; redoubling attention to governance, especially through citizen engagement; and closer collaboration with development partners and across the Bank Group. This approach is spearheaded by a growing share (over 70 percent) of staff, especially more senior personnel, now located in the field to better serve clients. The combination of a coherent strategy and the capacity to execute provides a strong platform to leverage a transformational impact from IDA resources in SAR during the IDA17 period.

B. Key Sectoral/Thematic Strategies

25. **Infrastructure**. There is strong demand from IDA countries for infrastructure services to meet large basic access needs, such as to electricity, roads, improved water sources and sanitation, and telecommunication and internet services. Also, aspiration for growth is fuelling demand for the expansion of infrastructure networks across IDA countries. Availability and reliability of infrastructure services are viewed as critical to private sector growth and competition in domestic and international markets. For instance, the United Nations Secretary General's Sustainable Energy for All (SE4ALL) global initiative which IDA is supporting aims to ensure universal access to modern energy sources for all, double the rate of energy efficiency improvements and double the share of renewable energy within the global energy mix. In addition to access and growth, the infrastructure agenda is increasingly shaped by second-generation variables. Social stability calls for the creation of jobs and broadened opportunities for social outcomes, including gender equality, to which infrastructure can contribute. As the world becomes increasingly connected, issues which used to be local, such as food, water and energy security, are now becoming of regional or global relevance. Rapid urbanization from Asia to Africa is fuelling an increasing demand for more integrated infrastructure solutions. By 2030, 95 percent of the population growth in the developing world will be located in cities, with urban centers contributing up to 70 percent of global GDP. Adaptation to climate change is feeding demand for infrastructure that is more resilient to natural disasters, while mitigation calls for an infrastructure that is less environmentally damaging. Technological advances are offering new opportunities to leap-frog, while supporting a demand for more sophisticated infrastructure solutions. Resolving these issues through infrastructure has the potential to accelerate growth and even shift clients towards more sustainable development trajectories. However, given the

large unmet needs, addressing infrastructure gaps will require significant amounts of capital from domestic and foreign sources, estimated for Africa alone at US$48 billion per year.[12]

26. IDA has consistently supported basic infrastructure services, notably energy, transport and water. In IDA16 to date, infrastructure accounted for 40 percent of total commitments providing an important contribution in catalyzing resources to close the infrastructure gap. IDA clients' demand for infrastructure financing for IDA17 greatly exceed that range. The WBG Infrastructure Strategy Update, FY12-15[13] aims to unlock the transformational impact of infrastructure and leverage the WBG as a whole through three pillars. Pillar 1 focuses on the need to expand access in transport, energy, water, information and communication technologies, in particular given the IDA countries' demand from rapid urbanization. This engagement, critical for poverty reduction and growth, will continue to be guided by the strategies of individual sectors. Under Pillar 2, the WBG will transform the way it engages in order to tackle more complex, second-generation infrastructure issues. Depending on country circumstances and client demand, this will include: focusing on brokering knowledge; using new and existing partnerships to pool resources; and engaging with client countries in a dialogue to identify opportunities for transformational projects and supporting them where there are client champions or alliances to build on. Under Pillar 3, leveraging the WBG's capital by mobilizing the private sector, MDBs and others more systematically will be critical to expand the financing envelope for infrastructure. The IFC will ramp up its infrastructure business, with particular attention to third party resource mobilization, MIGA will scale up its guarantee support and the Bank will reinforce its upstream work on the enabling environment to attract the private sector, expand its range of guarantee instruments and strengthen synergies with IFC and MIGA. Additionally, the Bank will increasingly focus on achieving higher leverage in financing infrastructure, aiming to double the mobilization from the private sector, MDBs and other sources of financing in IDA/IBRD projects. Together, the WBG will pilot a new approach on Public-Private Partnerships (PPPs) in joint focus countries, which will involve developing and testing new instruments and coordinating actions across the WBG.[14]

27. **Agriculture**. Agriculture remains a critical sector for the livelihoods of IDA countries' populations (75 percent of whom live in rural areas and mostly rely on agriculture for their livelihoods), and its importance is amplified by the need to double food production and make progress on improving nutrition to feed a projected 9 billion people by 2050. In sub-Saharan Africa, agriculture employs 65 percent of the labor force and accounts for 32 percent of its gross domestic product, but it is largely dependent on good rains. Moreover, about 75 percent of SSA population in extreme poverty is in countries in which at least one-quarter of the population lives in dryland zones. As agriculture remains vital to the livelihoods of the rural poor, continued

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[12] See World Bank Group, Transformation Through Infrastructure, FY12-15 (the update to the Sustainable Infrastructure Action Plan, FY08-11).

[13] Ibid.

[14] In the first phase of the pilot, the new approach targets six countries, of which five are IDA countries. Other countries, including post-conflict countries, will be added to this list when the enabling environment is in place. Upon completion of the pilot and using lessons learned, the Group will roll out the approach to additional countries. The new approach involves upstream involvement in promoting the PPP agenda, the development of a pipeline of projects with an integrated program of activities (instead of working on individual transactions), capacity building of client countries to plan for PPPs, and to support a programmatic approach to PPPs. Using the findings from this PPP portfolio assessment, the Bank, IFC and MIGA will articulate an integrated program of activities and re-align existing resources (budget, trust funds and expertise) to support this program.

globalization and economic integration bring both opportunities and challenges. Opportunities arise from new demand patterns and market possibilities propelled by urbanization and new export markets. Challenges arise from increased requirements in terms of food safety, biosafety and intellectual property rights, and standards necessary to compete in the market. The need for action in agriculture, especially in SSA, has also been heightened by recurrent spikes in global food prices in recent years, climate variability, shrinking global stocks of key grains in exporting countries, underperformance of the MDGs related to nutrition, and the associated risk of social and political tensions. Yet investment returns in the sector can be high. Income gains in agriculture are no more costly to achieve than income gains in other sectors, and the associated growth originating from agriculture has been 2-4 times more effective at reducing poverty than growth originating from other sectors.

28. Given its critical importance as an engine for inclusive growth and economic diversification, IDA is redoubling efforts to strengthen its support to agriculture. It is expected that financing for agriculture will increase to US$8-$10 billion annually in FY13-15, from US$6.2-US$8.3 billion annually in FY10-12. Building on earlier efforts, IDA will continue to implement the 2008 WDR on "Agriculture for Development" though an Agriculture Action Plan for the fiscal years 2013-2015. In addition to the need for adequate food production and nutrition, the plan emphasizes the need for an agriculture system that help raise the levels and resilience of incomes and employment for most of the world's poor; that provides environmental services, such as sequestering carbon, managing watersheds, and preserving biodiversity; and that uses finite land and water resources more efficiently. The plan maintains the strategic focus of the previous Action Plan on five key thematic areas to help clients improve sustainable agricultural growth, incomes, nutrition, and their resilience to climate change by: (i) raising agricultural productivity and its resilience through support to better land and water management and improved technologies; (ii) linking farmers to markets and strengthening value chains through support to improve infrastructure, post-harvest handling, trade, and access to finance; (iii) facilitating rural non-farm income through improving the rural investment climate and skills development; (iv) reducing risk and vulnerability through support to risk management mechanisms, and greater transparency in food markets; and (v) enhancing environmental services and sustainability, including support to manage livestock systems, forests, oceans, and to enhance carbon capture in soils. Regional climate smart approaches to build resilience in dryland areas vulnerable to a changing climate such as in the Sahel and the Horn of Africa offer much promise. The Bank also plays a key role in supporting critical global public goods by funding collaboration with the Consultative Group on International Agricultural Research, animal disease (the Global Animal Health Initiative), rural finance (the Agricultural Finance Support Facility), fisheries (the Global Program for Fisheries) and forestry (the Growing Forest Partnership).

29. **Private Sector Development** is a critical driver of economic and social development in IDA countries playing a leading role in stimulating growth, productivity, job creation, technology transfer, and the provision of key goods and services. Strengthening the momentum for poverty reduction and shared prosperity will increasingly call for boosting the capacity of all IDA countries to capture the potential benefits of private resources for development. More specifically, this calls for leveraging IDA's expertise to strengthen the enabling environment for investment, including the regulatory and institutional infrastructure; IFC's expertise in financing and advising private enterprises; MIGA's expertise in mobilizing private sector participation by

issuing political risk guarantees; and enhancing IDA, IFC and MIGA synergies and collaboration.

30. IDA's support for private sector development focuses on strengthening the enabling environment for private investment, including the regulatory framework and institutions. IDA's direct support for private sector growth, including financial and private sector development, trade and integration, and economic management, has accounted for roughly one-quarter of IDA commitments in recent years, a share that has grown over time, and is expected to remain strong during the IDA17 period.[15] IDA's indirect support for private sector development ranges from support for critical infrastructure (power, roads and telecommunications which represent about one quarter of IDA lending), financial sector and skills, to policy support for macroeconomic management (including taxation and trade and integration). IDA also provides partial risk guarantees to support projects undertaken by private entities in Ida countries. As of April 2013, IDA had US$448 million in outstanding guarantees, in addition to US$607 million in approved but not yet effective guarantees. Although accounting for a relatively small share of IDA's total commitments, they have mobilized a significant amount of project financing (eight times the actual IDA allocation used).

31. During the IDA17 implementation period, IDA will step up its efforts to help identify and remove the key constraints to private sector development at the economy-wide, industry and firm level. At the economy-wide level, it will assist in identifying and supporting necessary investment climate reforms, the construction of both "hard" infrastructure (such as road, ports, and electricity), including through PPPs, and "soft" infrastructure such as improving logistics or streamlining customs procedures that help unlock private investment. IDA will also continue to work with governments to provide environments that support improved flows of information between research centers (including universities and other research groups) and at the industry and firm level to provide business support services, including management skills training to both new entrepreneurs and micro-, small- and medium-sized enterprises looking to move to a higher level of production and profitability. IDA will also work to improve labor market efficiency (which includes appropriate labor protection), build robust financial and trade systems that facilitate access to financial services and are resilient to shocks, develop skills which are needed by firms, and mobilize the private sector to offer better services, such as housing finance and insurance, to the poor as consumers. As discussed in more detail in the accompanying paper "IDA17 Overarching Theme: Maximizing Development Impact", in IDA17 the WBG will step up its support for helping IDA countries leverage private investment and maximize its positive spillovers by: (i) enhancing synergies and developing joint approaches across IDA, IFC and MIGA for transformative impact; and (ii) expanding the range of IDA guarantee instruments and regional transformational approaches.

32. **Education**. While significant progress has been made to achieve the education-related MDGs, significant challenges remain. Of the 82 IDA countries, 45 are off track to meet the goal of universal primary completion, while 18 countries have no data. For the goal of gender equality in primary and secondary schooling, 30 countries are off track. As of 2009, 67 million primary school age children were still out of school (even after a drop of 38 million since 1999);

[15] Private sector commitments accounted for 25 percent of total commitments in IDA15, up from 22 percent in IDA14.

almost half of these children live in SSA and around a quarter in South Asia.[16] About 42 percent live in poor countries affected by conflict. Also, the demand for secondary and tertiary education has grown sharply. In addition to ensuring equitable access to schooling, increased efforts are needed so that schooling results in learning and ultimately helps youth develop labor market relevant skills. Yet, learning levels in many IDA countries are alarmingly low, especially among disadvantaged populations. Even when children complete school, they often do so without acquiring basic skills, which is particularly detrimental when unemployment/underemployment is high and labor markets are demanding more skilled and agile workforces. The WBG has strongly supported the sector with financing and knowledge services. The Bank is the largest external education financier for developing countries. In 2012, for example, the Bank invested about US$3 billion in education, with more than US$1.7 billion supporting the poorest countries through IDA. The Bank was also instrumental in the establishment of the Global Partnership for Education, involving over 30 bilateral and multilateral partners.

33. Launched in 2011, the Bank's Education Sector Strategy 2020, entitled "Learning for All" recognizes that learning drives development and encourages countries to invest early (because foundational skills acquired early benefit lifelong learning), smartly (in efforts proven to improve learning), and for all (focusing not only on privileged but on all students).[17]To achieve learning for all, IDA is promoting country-level reforms of education systems and building a global knowledge base to guide reform. This includes the introduction of the Systems Approach for Better Education Results, a diagnostic tool that helps address education system performance and drive reform. As primary access, enrollment and completion increase, and the labor market demands a better skilled work force, IDA will also need to help countries meet the growing demand for secondary and tertiary education.

34. **Health**. IDA is one of the most significant supporters of health, nutrition and population (HNP) programs worldwide, with investments totaling US$7.2 billion during FY06-12. Health systems strengthening accounted for more than 30 percent of IDA's contributions in health. Simultaneously, a significant proportion of IDA investments went to key MDG themes such as child health (18 percent), tuberculosis and malaria (12 percent), population and reproductive health (11 percent), HIV/AIDS (10 percent), and nutrition (6 percent). Between 2002 and 2012, IDA provided 65 million people with access to a basic package of health, nutrition and population services, provided188 million pregnant women with antenatal care, and immunized 496 million children. The Bank has also supported several innovative financing mechanisms such as the IDA buy-downs (for polio), Advanced Market Commitments (to create market incentives for the rapid production, distribution and introduction of priority vaccines at low prices) and the Affordable Medicines Facility for malaria (to accelerate the global introduction of artemisinins). In addition, the Bank is a member of the informal partnership of the eight health-related agencies, which was formed in 2007 and meets biannually to address challenges in expanding health services, particularly in low-income countries. The Bank has joined with more than 100 partner agencies and organizations to endorse Scaling Up Nutrition: A Framework for

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[16] Three-fourths of the countries that are furthest from meeting the MDG on primary completion rates are in Sub-Saharan Africa.

[17] See World Bank Group Education Strategy 2020 – Learning for All: Investing in People's Knowledge and Skills, World Bank, 2011.

Action, which sets forth principles and priorities for action to address under-nutrition and help countries reach the MDGs by 2015, and also plays a key role in several other health partnerships, including the GAVI Alliance, the Global Fund to Fight AIDS, Tuberculosis and Malaria, Roll Back Malaria, and the Partnership for Maternal and Newborn Child Health.

35. Gains in halting and beginning to reverse the spread of major communicable diseases – such as HIV/AIDS and malaria – are promising, but there is still much to be done to achieve the MDGs. Weak health systems are undermining the ability of countries to achieve and sustain health results. Less than a fifth of IDA countries are on track to achieving MDG4 (reducing child mortality) and MDG5 (improving maternal health); progress toward maternal and child health and nutrition outcomes is particularly slow because these "neglected" MDGs are dependent on well-functioning health systems and their abilities to reach the poor. Expanding the implementation capacity of health sectors and improving the quality, efficiency and reach of health services is critical for programs to achieve sustainable results on a necessary scale. IDA's work in HNP focuses on strengthening country health systems to improve health results, particularly for the poorest and most vulnerable.[18]It also supports the prevention and treatment of communicable and non-communicable diseases and improves child and maternal health, nutrition, hygiene, and sanitation. Equity and financial protection for the poor from the impoverishing effects of high and unpredictable out-of-pocket spending are also at the core of the HNP strategy. IDA also puts much effort into improving health system governance and is developing a toolkit to measure health system governance to monitor accountability. An important pillar of the HNP strategy is increased use of results-based financing, with financial incentives provided to reward the delivery of one or more verified health outcomes. Results-based financing holds considerable promise for increasing health service utilization, improving service quality, increasing efficiency, and enhancing equity. It focuses attention on health results rather than inputs, thereby more tightly linking budgets and financing to impact on the ground. IDA's efforts to support results-based financing have been supported by the multi-donor Health Results Innovation Trust Fund. IDA is also working with partners to develop better ways to monitor the health MDGs and supports countries to carry out rigorous impact evaluations of health innovations and programs.

36. **Governance**. Strengthening governance and fighting corruption are critical for ending extreme poverty and boosting shared prosperity. During the IDA17 implementation period, IDA will continue its effort to systematically mainstream governance and anticorruption in its assistance to IDA countries. The 2012 updated strategy and implementation plan on governance and corruption[19] builds on the implementation experience of the 2007 strategy and aims to integrate governance issues at the country, operational and global levels across key instruments (CASs, sector strategies and operations). The strategy reflects fundamental changes taking place, including the rise of civil society movements and of social media as fundamental drivers for societal transformation and the call for greater openness and transparency in governance and the voice of citizens in decisions affecting access to basic services and economic opportunities. The strategy focuses on the importance of building capable, transparent and accountable country institutions as key drivers of sustainable and inclusive growth. IDA assistance aims to strengthen both core country systems of governance including for enhanced domestic resources

[18] See World Bank, Healthy Development – The World Bank Strategy for Health, Nutrition and Population Results, 2009.

[19] Strengthening Governance, Tackling Corruption: The World Bank's Updated Strategy and Implementation Plan, 2012.

mobilization and expenditure management, procurement, judicial reform, and corporate and regulatory governance, as well as sector institutions. IDA will also increasingly support initiatives that enable greater openness in governments and closer interaction among citizens, the private sector and the state. Furthermore, IDA will aim to more effectively manage, rather than avoid the risks inherent in working in development contexts and expand its work on improving global governance by embedding governance dimensions into global programs. IDA will continue to ensure the highest fiduciary standards in IDA-financed operations by preventing opportunities for corruption through improved project design, greater disclosure and enhanced participation.

37. **Social Protection**. The most recent financial, food and fuel crises highlighted the importance of strong social protection systems for reducing poverty and vulnerability and for building the foundations for shared prosperity. The Bank's Social Protection and Labor Strategy 2012-2022[20] aims to help countries move from fragmented social protection programs to more harmonized social protection systems in order to improve resilience to shocks and help their populations become more productive through investments in human capital and people's ability to access jobs and opportunity. It puts an emphasis on current challenges: lack of capacity to design and maintain effective and scalable social protection programs where needs are the greatest – in the poorest countries and fragile states; and keeping political and fiscal commitments to systems for improved coverage and resilience after the crisis, in "normal" times. To respond to these challenges, the Bank is developing country-tailored tools and approaches, investing in knowledge, data and evidence, providing rapid-reaction policy advice, and offering continuous technical assistance and capacity-building. IDA's support for social protection surged with commitments increasing to US$4.2 billion in IDA15, and US$2.9 billion in IDA16 to date, up from US$2.2 billion during the IDA14 period, and is expected to continue to expand. The SAR region has witnessed the fastest expansion in IDA-sponsored safety nets activities. In FY07-08, there were 24 lending operations supporting social safety nets programs in IDA eligible countries. Post 2009, this number has almost tripled, totaling 73 operations. As a specific example, during FY10-12 there were 45 lending operations to build or improve safety nets in this region, with almost US$1 billion in commitments. IDA supports a diverse set of safety net interventions, ranging from cash transfers to labor-intensive public works to school feeding programs.

IV. RESOURCING IDA17

38. **The IDA17 replenishment will help IDA countries build on the existing growth momentum, enhance resilience and make substantial progress in achieving the goals of ending extreme poverty and boosting shared prosperity**. The next section describes IDA countries' financing needs and presents five scenarios providing a broad range of options and trade-offs to help address these needs during the IDA17 replenishment period.

[20] World Bank, The World Bank 2012-2022 Social Protection and Labor Strategy: Resilience, Equity and Opportunity, 2012.

A. IDA Countries' Financing Needs

39. **IDA Core Funding**. The IDA16 funding is supporting 82 IDA-eligible countries to address key priorities for FY12-14 based on CASs for each country. Increasing this core funding will be needed to step up support to end extreme poverty and boost shared prosperity at a time of unprecedented opportunities and complex challenges. This includes continuing support in core areas of IDA's engagement that have a strong and direct impact on poverty reduction – according to countries' specific priorities – notably in infrastructure, agriculture, human development, private sector development and governance where significant gaps remain. The opportunities and challenges in these areas, and the scope for leveraging IDA resources to meet these challenges are discussed in the regional, sectoral/thematic and country-level strategies set out in section III (and Annex2and 3 for regional and country strategies). IDA17 will also require broadening IDA's engagement in key thematic areas, notably inclusive growth, climate change, gender, and regional programs. Specifically, IDA will continue to mainstream gender in its support, building on the progress made in IDA16, and help countries ensure that the benefits of growth and poverty alleviation are broadly shared within society. Within the core program, there is also a need for increased resources to help countries address the impact of climate change. As noted separately in the companion Special Themes paper, IDA has strengthened its systems for both results measurement and financing for climate change, particularly in the area of adaptation. At the same time, it is estimated that addressing climate resilience into IDA projects will increase financing requirements by about 25-30 percent.[21] As such, there is considerable need to increase financing for climate change related activities within the core IDA program. As in previous replenishments, about 50 percent of IDA resources would be allocated to Sub-Saharan Africa, subject to performance.

40. **Fragile and conflict-affected states**. Helping FCSs find a path towards sustainable peace and development is one of the greatest challenges for the international community. IDA has made significant progress in enhancing its support to FCSs in recent years. In recent replenishments, IDA has enhanced its resource allocation framework to better address the needs of some FCSs confronted with particularly challenging situations. Such efforts have led to a three-fold increase in IDA's financial support to FCSs between IDA11 and IDA15. IDA has also implemented several reforms to enhance IDA's operational effectiveness in FCSs. As highlighted in previous papers, these efforts are starting to show results in terms of improved portfolio performance and concrete results on the ground. Despite the above, absent any change in the allocation framework, IDA's financial support to FCSs is set to decline in upcoming replenishments, precisely at a time when an ambitious package of reforms is being implemented which would significantly boost IDA's capacity to deliver results in these challenging environments.

41. Against this background, Management has proposed a revised allocation framework for FCSs for implementation in IDA17. The proposed framework reflects the input of the IDA16 working group on FCSs, feedback from participants at the IDA16 MTR and the 1st IDA replenishment meeting as well as IDA's implementation experience and recent research findings. Its full implementation has the potential to significantly enhance IDA's support to FCSs, bringing the financial component needed to build on the ongoing operational reforms to step up

[21] See companion paper "Special Themes for IDA17".

the momentum on results delivery. The proposed allocation framework for IDA17 rests on two key components: (i) the setting up of an exceptional allocation regime for countries facing "turn-around" situations;[22] and (ii) increasing the poverty orientation of the regular Performance-Based Allocation (PBA) system, while retaining country performance as the key driver of allocation decisions. The proposed allocation framework includes interim measures to ensure a smooth transition out of these exceptional regimes. The scenarios presented in the next section reflect different levels of ambition for implementing the proposed package (see Annex 5, and Section V of the companion paper on IDA17 special themes for details on the assumptions on FCS support underpinning the financing scenarios).[23] In designing the scenarios, Management has strived to balance enhanced support to FCSs with other uses of funds.

42. **Regional projects**. The IDA Regional Program has grown significantly between the IDA13 and IDA16 periods. The program was scaled up from SDR304 million in IDA13 to SDR1.8 billion in IDA16. This program supports projects aimed at tackling challenges and harnessing opportunities that can only be achieved through coordination and cooperation at the regional level. This includes connecting landlocked countries and small domestic markets to regional and global markets; communications networks; harnessing economies of scale in infrastructure provision; improving efficiency through regional harmonization; and achieving sustainable development and protection of shared natural resources as well as mitigation of shared risks (e.g., drought and communicable diseases). To date, SDR1 billion has been committed from the IDA16 regional envelope to support total commitments to regional projects (including country IDA allocations) of SDR1.5 billion, and it is expected that the remaining resources will be fully committed well before the end of IDA16. Sub-Saharan Africa accounts for the greatest share of the commitments (90 percent). Eighty-eight percent of the funds have been committed for regional infrastructure projects in water management, roads networks, trade facilitation and energy access. Importantly, the Regional Program integrates a strong emphasis on partnerships, including with the private sector, and has leveraged over US$3 billion in co-financing and parallel financing. As detailed in the IDA16 Mid-Term Review paper titled "IDA Regional Integration Program", a special focus has been placed on the implementation of the IDA regional portfolio, with performance improving steadily as a result. The disbursement ratio, a proxy for implementation pace, has climbed from 6 percent at end FY08 to an all-time high of 17 percent at end FY12. These improvements are all the more notable given the complexity of the regional projects and the rapid rise in cumulative commitments.

43. Demand for regional projects greatly exceeds available funding and there is a strong pipeline over and above the allocations proposed in the scenarios presented below. In their Regional Strategy (Annex 2), the AFR, EAP (including the Pacific islands), ECA, LAC (including the Caribbean countries) and SAR regions included regional collaboration and integration as one of the key elements of their strategy going forward. Demand in SSA greatly outstrips available IDA (and AfDF) resources and other regions are experiencing similar growth

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[22] See companion paper "Special Themes for IDA17". For the purpose of the proposed exceptional regime, a "turn-around" situation will be defined as a critical juncture in a country's development trajectory providing a significant opportunity for building stability and resilience to accelerate its transition out of fragility marked by: (i) the cessation of an ongoing conflict (e.g., interstate warfare, civil war or other cycles of violence and/or partial state collapse that significantly disrupt a country's development prospects); or (ii) the commitment to a major change in the policy environment following: a prolonged period of disengagement from Bank lending; or a major shift in a country's policy priorities addressing critical elements of fragility.

[23] See Section V of companion paper "Special Themes for IDA17".

in demand as clients come to see the transformational potential of regional integration, regional institutions are strengthened, regional development plans are advanced, and priority regional investments identified. Demand for regional projects is particularly strong in FCSs (about half of the projected pipeline relates to these countries) and small states. Furthermore, as part of its package of support for regional operations, IDA will 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 program.

44. Moreover, countries are asking IDA to play a leading role in the preparation and implementation of regional transformational projects given its unique offering of scale financing, state-of-the-art knowledge and extensive partnerships. These projects are defined as projects with *significant* transformational impact: (1) on three or more IDA countries (or two if one is a FCS); or (2) whose physical implementation is only in one country but are expected to have a significant impact at the sub-regional or regional level (see above mentioned paper for a detailed discussion of these projects). As discussed in the background paper "IDA Support to Transformational Projects with Regional Impact" prepared for the first IDA17 replenishment meeting, and also in Annex6of this paper, the focus on regional transformational projects arises from the recognition that they have the potential to catalyze very large-scale benefits to improve access to services (notably infrastructure) beyond borders and promote joint action to tackle shared (including environmental) challenges. They can optimize co-benefits across infrastructure sectors, between infrastructure and the environment (green), between infrastructure and social development (inclusive) and heighten spatial benefits (regional) – with significant impact beyond borders. They are typically characterized by very complex designs (including challenging safeguard requirements), require significant financing, and often take place in difficult and risky environments. As a result, the private sector is often not forthcoming in engaging alone in the early phases of these projects given the large upfront costs required to determine their feasibility or the significant political and financial risks involved. Despite these challenges, these projects have very large potential spill-over benefits at the sub-regional or regional level.

45. IDA has long been a key partner of IDA countries in regional integration efforts, yet its ability to expand its role to further facilitate their preparation and implementation is being constrained in two ways: (i) for projects that qualify for financing from the IDA national and regional program, the size of their financing needs often exceeds the resources available; and/or (ii) some projects do not qualify for financing from the regional IDA program because their physical implementation is only in one country and their national IDA allocation is not large enough – but they are expected to have a significant impact at the sub-regional or regional level. To address regional transformational projects, Management recommends scaling up financing for the regional program (as detailed in the financing scenarios presented below) and adjusting the current eligibility and financing rules for IDA's regional program as follows:

- the eligibility criteria be revised so that financing of regional projects that only cover one IDA country be allowed, as long as it can be clearly demonstrated that three or more countries (two, if one is an FCS) would receive substantial benefits from the project.

- The financing share from a country's national IDA allocation to a regional transformational project can be reduced to 10 percent of the total IDA financing (down from the 1/3 required for regular regional projects) while regional IDA would contribute up to 90 percent.

46. The other criteria for accessing regional IDA funds would remain the same, thus the regional nature of the program is safeguarded by the fact that proposed transformational projects must have cross-country impact and spill-overs, still require close alignment with regional strategies, and be supported by regional institutions and development partners. It is therefore not envisioned that this modification would have a major impact on the type of projects currently being financed, except it would allow IDA to engage more fully on a few selected large and highly transformational projects, which are fully aligned with the current objectives of the regional IDA program. Given the high demand for regional resources, and the often large size of regional transformational projects, increased efforts will be made to target scarce IDA resources for the purpose of leveraging financing and partnerships from other international financial institutions and the private sector. IDA will also reflect lessons from experience with large scale investments, by ensuring that these projects are technically sound and well prepared, reflect maximum stakeholder ownership and benefit, and pay close attention to environmental and social safeguards. This will include ensuring extensive consultation and responsiveness to local concerns and focusing not only on mitigation measures to prevent harm but actively incorporating new opportunities and benefits for local populations for maximum lasting and socially inclusive development impact.

47. For large transformational projects, focusing scarce IDA's resources on project preparation up to the selection of a private developer/operator will help determine project feasibility in what are often very risky environments in which private sector involvement may not be forthcoming in the early stages. Funding could cover pre-feasibility and feasibility studies, environmental and social impact assessments, preliminary engineering design, technical testing and the cost for bidding and selection of the private sector developer/operator.

48. **Crisis Response Window (CRW)**. The primary aim of IDA resources is to support long term development in low income countries, which includes building resilience so that they are less prone to being affected by crises and are better able to handle the impact of those that do occur. The CRW, and its resources to respond to severe economic crises and natural disasters, are a necessary complement to this primary mission. Introduced in IDA16 with an amount of SDR1,335 million or 4.1 percent of IDA16's envelope (including an exceptional allocation of SDR329 million for Haiti), the CRW has provided valuable support to IDA countries affected by severe crises.[24] The continuation of CRW funding in IDA17 would help serve as a global contingency reserve to allow timely support to IDA countries in the case of exceptional crises. CRW financing in IDA17 would follow the same eligibility criteria established in IDA16.[25]

49. **Arrears clearance and re-engaging countries**. Three countries (Sudan, Somalia, and Zimbabwe) with loans and credits to IBRD and/or IDA in protracted arrears could become

[24] "Enhancing IDA's Capacity to Respond to Crises", October 2012.
[25] IDA 2010. "Enhancing IDA's Capacity to Respond to Severe Crises." p. 2.

eligible for exceptional IDA support for arrears clearance during the IDA17 period.[26]The total arrears to IDA and IBRD from these countries amounted to SDR1.3 billion at end-March 2013 and are projected to reach SDR1.4billion at end-June 2014. For the IDA17 scenarios, it is estimated that about SDR800 million will be required for exceptional arrears clearance support. This amount is offset by an expected SDR400 million in unused IDA16 funds for arrears clearance that would be carried forward from IDA16. The estimate of SDR800 million reflects the uncertainty in the timing of these countries' re-engagement, and assumptions regarding their capacity to finance their arrears clearance.[27] Since the arrears clearance funds are handled outside the PBA envelope, at the end of IDA17, if the funds allocated during IDA17 will be in excess of the actual costs, the remaining funds will be carried over into IDA18. 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 IDA18 replenishment. In addition to arrears clearance, the three countries would be classified as reengaging countries (Sudan, Zimbabwe), or post-conflict countries (Somalia) and receive exceptional IDA allocations during the IDA17 period. These countries could also be eligible for pre-arrears clearance grants.

50. **Transitional Support**. At the first IDA17 meeting, participants welcomed Management's proposal to provide transitional support from IDA to new IDA graduates meeting the proposed eligibility criteria.[28] Participants also discussed the case of India's eligibility for IDA transitional support during IDA17 to avoid a sudden drastic reduction in the Bank's overall financing to this country as a result of the IBRD Single Borrower Limit.[29] Participants agreed to discuss the size of the transitional support envelope in the context of the replenishment's overall availability of IDA resources.

51. Support from IDA is crucial to enable the World Bank to support India's poverty reduction goals. India is home to one third – 400 million – of the world's poor people. As detailed in the Country Partnership Strategy for India for FY13-17 discussed by the Board in April 2013, IDA transitional support would focus on: (i) low-income and special category states, which combined account for half of India's poor people; and (ii) the rural-urban transition and supporting the government in creating functional secondary cities that create jobs and provide services. Transitional support would help address the significant reduction in financing for India that would otherwise occur during IDA17 after India's graduation.

52. In past replenishments, India has received 11 percent of the allocable performance-based IDA envelope. At a level of two-thirds, this would imply financing for India of between SDR2.2 billion, SDR2.3 billion and SDR2.4 billion for scenarios 3 through 5 respectively (or about SDR700-800 million per year,). Under the more constrained scenario 2, one third of the

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[26] See "IDA's Performance Based Allocation System: Review of the Current System and Key Issues for IDA16", IDA16 Replenishment Paper.

[27] Both Sudan and Zimbabwe are assumed to re-engage in FY15 and Somalia in FY16. The breakdown of estimated arrears as at end-June 2014 is as follows: SDR517 million for Sudan, SDR707 million for Zimbabwe (SDR564 million to IBRD and SDR143 million to IDA) and SDR187 million for Somalia.

[28] These are: (i) GNI per capita below the historical threshold at the time of graduation; (ii) a significant prospective reduction in available financing from the WB after graduation from IDA and (iii) a significant poverty agenda, as measured by poverty levels and other social indicators. The poverty agenda criterion is not unique to IDA countries but is intended to be used in conjunction with the other two criteria as a means to determine need for exceptional transitional support. See Annex 4 for a discussion of the potential eligibility on future graduates to transitional support based on these criteria.

[29] Access to IBRD financing for India is constrained during the IDA17 period as India is approaching the Single Borrower Limit, limiting IBRD exposure to US$17.5 billion.

allocable performance-based IDA would imply financing for India of SDR1 billion over the replenishment period. The level of World Bank support, even if transitional support were included under all scenarios, is a significant drop from the average World Bank (IDA and IBRD) support to India during IDA15 and IDA16 of about SDR8.4 billion per replenishment (SDR2.8 billion annually). In dollar terms transitional support provided from IDA will enable total IDA and IBRD lending volumes to reach about US$1.7 billion per year on average under scenarios 3-5 during the IDA17 replenishment period, and with the addition of Special Private Placement Bonds (SPPBs) purchased by India, lending volumes could reach an average of US$3 billion per year over the IDA17 period. Even with these levels of transitional support, negative net flows from the WB still start in FY18, driven by the existing pipeline of amortizing debt and lower new commitment levels going forward. Given India's importance for achieving the Bank Group's global goals, with a very high level of replenishment resources, Deputies could give consideration to increasing the transitional support for India beyond the two-thirds of the allocable performance-based IDA.

53. The financing for transitional support would be provided on terms that are harder than those for IDA hard term lending but below the fixed rate equivalent of an IBRD loan. The applicable fixed rate would be set on a quarterly basis at 100 basis points below the fixed rate equivalent of an IBRD loan, and would be applied to all transitional support credits approved within that quarter. In addition to a fixed interest charge, transition support credits would also carry IDA's standard service charge (0.75 percent) and a variable commitment charge (set between 0 – 0.5 percent) on an annual basis.

B. Financing Scenarios

54. **Given the current extraordinary circumstances, Management is seeking the guidance of IDA Deputies by presenting a range of potential scenarios**. On the one hand, the IDA17 replenishment takes place in the context of a challenging and uncertain external environment and tightened fiscal constraints for some partner countries. On the other hand, the IDA17 period will cover the target date for achievement of the MDGs and the launch of the post-2015 development agenda.[30] It is a time of unprecedented opportunities for IDA countries to secure the gains achieved, seize emerging opportunities and confront new challenges towards transformative results for the poorest. In particular, a strong IDA17 replenishment will be critical to support IDA countries' efforts to maintain the growth momentum achieved in the last decade, confront the challenge of inequality (notably gender), and address cross border challenges, including from climate change, fragility, natural disasters, food security and other shocks. It will also help IDA step up its involvement in FCS, and scale up support for regional programs.

[30] See Annex 7 for an update on the post-2015 development agenda.

Table 1. IDA17 Possible Financing Scenarios
(SDR million and percent change)

	Original IDA16 envelope [1/]	IDA17 Financing Scenarios				
		Scenario 1	**Scenario 2**	**Scenario 3**	**Scenario 4**	**Scenario 5**
I. Core IDA (PBA allocation)	29,909 (26,144)	26,370	26,837	27,805	28,736	29,764
(a) Non-FCSs	25,832 (22,252)	23,164	23,167	23,297	23,497	24,430
(b) FCSs[2/]	4,077 (3,891)	3,206	3,670	4,508	5,239	5,334
II. Regional Program	1,500	1,648	1,728	1,829	2,063	2,268
III. Crisis Response Window [2/]	1,006	840	857	889	924	961
IV. Arrears clearance	383	806	806	806	806	806
V. Transitional support	-	-	1,021	2,200	2,274	2,355
Total Financing Needs (I+II+III+IV+V)	**32,799**	**29,664**	**31,249**	**33,529**	**34,803**	**36,155**
Memo items						
Change from IDA16 (in real terms) [3/]		**-16%**	**-11%**	**-4%**	**0%**	**4%**
Change in non-FCS allocation (excluding graduates)		-2%	-2%	-2%	-1%	3%
Change in FCS allocation (excluding graduates)		-24%	-12%	9%	28%	30%

1/Data in brackets refer to the corresponding financing figures excluding countries expected to graduate at the end of IDA16.
2/ The IDA16 CRW support to Haiti (SDR329 million) is included in the allocation to FCSs.
3/ The percentage change figures are adjusted for the cumulative SDR inflation of 6.6 percent in 2010-12.

55. **The scenarios presented below provide a broad range of options ranging from a decline of IDA17 of 10 percent in nominal terms (16 percent in real terms) relative to IDA16to incrementally higher scenarios which would allow for more progress to be made to meet critical development priorities in IDA countries** (see Table 1). Under all scenarios, the financing framework originally agreed for IDA16 of SDR32.8 billion is adjusted for graduations, arrears clearance and inflation as follows: (i) the indicative allocation of SDR518 million for Angola, Armenia, Bosnia-Herzegovina, and Georgia during IDA16and the indicative allocation of SDR3.2 billion for India is deducted as they are expected to graduate at the end of IDA16; (ii) the amount of donor financing for exceptional arrears clearance support in IDA16 of about SDR383 million is subtracted from the IDA16 replenishment amount and the amount of donor financing needed for this purpose in IDA17 (SDR806 million) is added to the

IDA16replenishment amount;[31] and (iii) the baseline is adjusted for inflation using the three-year annual average SDR inflation over the IDA16 period of 6.6 percent.

56. **Each scenario presents a different combination of financing for core IDA and additional financing needs**. Core IDA financing consist of resources for non-FCS and for FCSs. Additional financing needs include: funding for regional projects; resources for the Crisis Response Window; funding for expected arrears clearances (for IDA17 these relate to Zimbabwe, Sudan and Somalia); and transitional support. While funding for core IDA and for regional projects and transitional support varies depending on each scenario, in each scenario the amount for the CRW is proposed to be 3 percent of the core IDA plus regional projects amounts and the financing for arrears clearance is set at SDR806 million regardless of the scenario. The potential scenarios detailed in Table 1above present elements for discussion by Deputies on allocating IDA resources for different purposes and related trade-offs. Specifically, the table presents the following five scenarios (in SDR amounts; the same table in US$ amounts is presented in Annex 1).The trade-offs are also illustrated graphically in Figure 2. Based on the Deputies' feedback in the July 1-4 meeting, Management will present updated scenarios at the 3rd replenishment meeting.

Scenario 1

57. This scenario assumes that: (i) no change in the current IDA16 allocation regime is introduced (including for FCSs); and (ii) Angola, Armenia, Bosnia and Herzegovina, Georgia, and India graduate and do not receive transitional support. For core IDA financing, this scenario shows no discernible increase from the IDA16 amounts excluding graduates. Within IDA core financing, this scenario shows a small allocation reduction of 2 percent in real terms (a nominal increase of 4 percent)for non-FCSs relative to IDA16 amounts excluding graduates. For FCSs, scenario 1 assumes that extensions of the phase-out period are granted to eligible post-conflict and re-engaging countries (Afghanistan, Burundi, CAR, DR Congo, Haiti and Togo) based on the criteria agreed in the IDA16 replenishment.[32] For these countries, this scenario shows a significant reduction of 24 percent in real terms to SDR3.2 billion because the allocations would continue to decrease in the phase-out period. This scenario would also allow for only a small increase in the envelope for regional projects(SDR148 million) which would not allow for a meaningful scale up of the regional program (including regional transformational projects). Under the assumption of a CRW allocation of 3 percent of the core IDA plus regional projects in each scenario, SDR0.8 billion would be allocated for crisis response purposes under scenario 1. The total financing in this scenario is SDR29.7 billion, representing a 16 percent reduction from the IDA16 replenishment size in real terms. This scenario would not enable IDA to respond to the needs identified by client countries, in particular in ramping up support needed to sustain progress in FCS which is crucial for meeting the goals of ending extreme poverty and boosting shared prosperity.

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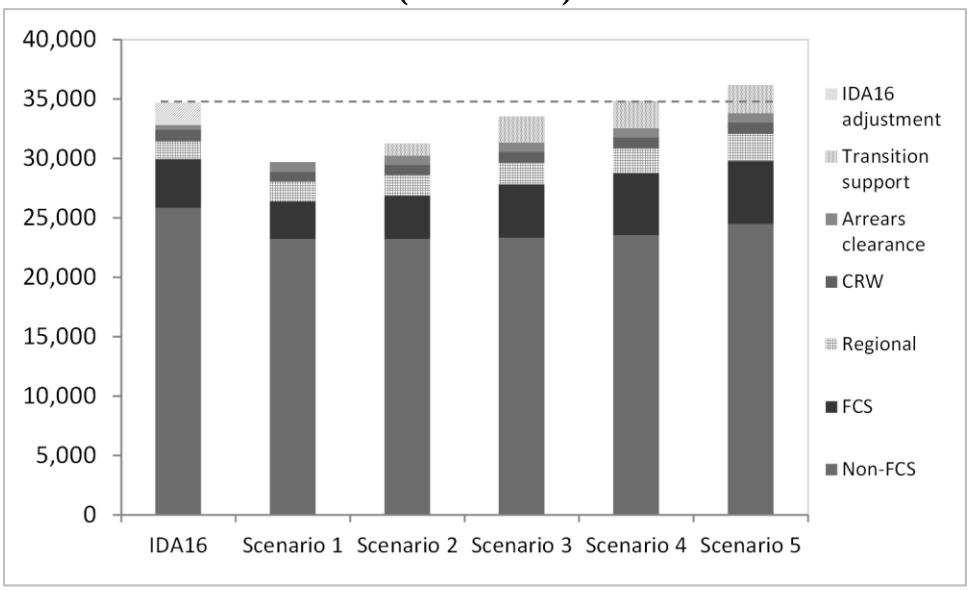
[31] This amount is based on a set of assumptions on: (a) the probability of arrears clearance in IDA17, (b) availability of resources from IDA country allocations and (c) donor and government resources with which to reduce the size of the arrears clearance needs.

[32] The eligibility criteria for the case by case extension are: (i) GNI per capita and country financing options; (ii) the presence of exogenous factors slowing down transitions; and (iii) portfolio performance. See World Bank, Additions to IDA Resources: Sixteenth Replenishment, February 2011.

Figure 2: An Illustration of Aggregate Financing Changes by Category in IDA17 Scenarios [1/]
(SDR million)



1/ IDA16 adjustment refers to the net impact of excluding the countries expected to graduate at the end of IDA16 and including an adjustment for inflation.

Scenario 2

58. This scenario differs from scenario 1 in two ways. First, it would allow for increased support to FCSs while maintaining a similar level of support to non-FCSs as in scenario 1. The enhancement in support to FCSs comes from introducing in the current IDA16 allocation framework (after the extension of the phase-out assumed under scenario 1) two changes that have been discussed as part of the FCS revised allocation framework: (i) a reduction in the Country Performance Rating (CPR)exponent from 5 to 4; and (ii) ensuring a meaningful country engagement by IDA (through the increase of the base allocation for all IDA countries from SDR3 million to SDR4 million and assuming elimination of the MDRI netting out) (see Annex 5 for details). As a result, the total financing for FCSs is increased to SDR 3.7 billion, or a decline of 11 percent in real terms (6 percent in nominal terms). Second, scenario 2 includes transitional support to India of SDR1 billion, which is about one-third of the 11 percent share of resources that India would receive under this scenario if it does not graduate. The envelope for regional projects would increase slightly to SDR1.7 billion, while that for CRW increases only slightly, in proportion to the amount of IDA core financing and regional projects under the scenario. This scenario would not allow for any increase in funding for non-FCSs relative to scenario 1. The total financing in this scenario amounts to SDR31.2 billion, which is an 11 percent reduction from the IDA16 replenishment size in real terms.

Scenario 3, 4 and 5

59. These scenarios would allow for the scaling up of funding for core IDA resources, for both FCSs and non-FCSs, over IDA16 as well as more financing for regional projects, CRW and transitional support to India. Specifically, scenarios 3, 4 and 5 would allow the increase in the PBA envelope to be shared by FCSs and non-FCSs. Specifically:

- **Scenario 3**would increase financial support for FCSs to SDR4.5 billion (a 9 percent increase in real terms). Specifically, it assumes the same changes as in scenario 2 (a reduction in the CPR exponent from 5 to 4 and ensuring a meaningful country engagement by IDA through the increase of the base allocation for all IDA countries from SDR3 million to SDR4 million and assuming elimination of the MDRI netting out), and in addition it includes:(i) support for countries in turn-around situations at levels 50 percent higher than that currently applied for post-conflict countries; and (ii) alignment of the support to countries currently under the post-conflict and re-engaging regimes to the levels for turn-around countries. Compared to Scenario 2, the financing envelope for non-FCSs increases slightly to SDR23.3 billion. Moreover, under this scenario the transitional support to India would be SDR2.2 billion, or 2/3 of the 11 percent share of resources that India would receive under this scenario if it did not graduate. The calculation of this amount is consistent with the proposal for transitional support presented in the March IDA17 replenishment meeting. The envelope for regional projects would increase to SDR1.8 billion to meet a high unmet demand (including for regional transformational projects),[33] while that for the CRW would increase only slightly, in proportion to the overall size of the scenario. The total financing in this scenario is SDR 33.5 billion, which is a 4 percent reduction in real terms from the IDA16 replenishment size, or a nominal increase of 2 percent.
- **Scenario 4**, relative to Scenario 3, would provide higher support for FCSs by increasing the notional allocation to turn-around countries by 100 percent of that currently applied for post-conflict countries and aligning the support to post-conflict and re-engaging countries to those levels. Under this scenario support for non-FCSs would be kept close to the scenario 3 level – resulting in keeping the core IDA funding for FCSs and non-FCS flat in real terms as compared to the IDA16 level excluding graduations. Transition support for India is calculated at the same level as in Scenario 3 but increases slightly due to a larger overall envelope. The envelope for regional projects and for the CRW would increase slightly. The total financing in this scenario is SDR 34.8 billion, which is a 1 percent reduction in real terms from the IDA16 replenishment, or an overall increase of 6 percent in nominal terms.

[33] See "Issues Remaining from the IDA16 Mid-Term Review", February 2013.

- **Scenario 5** would build on Scenario 4 and also provide higher support to non-FCSs to achieve an increase for the group by 3 percent from the IDA16 level in real terms (10 percent in nominal terms). In addition, regional projects would receive increased support. Transition support for India is calculated at the same share as in Scenario 3 and 4, thus increasing slightly to SDR 2.4 billion, again reflecting the higher overall envelope in this scenario. Total proposed financing in this scenario is SDR 36.2 billion, which is a 4 percent increase in real terms from the IDA16 replenishment, or a 10 percent increase in nominal terms.

V. ISSUES FOR DISCUSSION

60. **Coupled with enhanced efforts to improve its effectiveness and impact, a strong financing base will position IDA17 to make a critical contribution to its client countries' efforts** to build on the existing growth momentum, enhance resilience and make substantial progress in achieving the goals of ending extreme poverty and boosting shared prosperity. Over the last 50 years, IDA has been a critical development partner in countries where it operates. In addition to the quality and scale of its financing, it plays an important role in helping leverage public and private resources and knowledge – critical building blocks for high value-added partnerships with clients and other development partners. A robust IDA17 replenishment will be crucial in allowing IDA to continue to play its central role in supporting the country-based development model.

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

i. Do Deputies agree that the financing scenarios present a suitable range within which to discuss the needs of IDA countries during the IDA17 period?

ii. What are Deputies' views on the level of support for core IDA programs and the provision of financing for other identified activities, namely the scaling up of support for fragile and conflict-affected states, the ex ante funding levels for the CRW, the scaling up of support for regional projects, resources set aside for arrears clearance, and the level of transitional support for India?

iii. Do Deputies agree to the proposed revisions of the eligibility and financing criteria for regional projects set out in paragraph 45?

Annex 1: IDA17 Possible Financing Scenarios (US$ million and percent change)[1/]

	Original IDA16 envelope[2/]	IDA17 Financing Scenarios				
		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
I.Core IDA (PBA allocation)	44,933 (39,276)	39,669	40,372	41,828	43,229	44,775
(a) Non-FCSs	38,808 (33,430)	34,847	34,851	35,047	35,347	36,751
(b) FCSs[3/]	6,125 (5,846)	4,823	5,521	6,782	7,881	8,024
II. Regional Program	2,253	2,479	2,599	2,751	3,103	3,412
III. Crisis Response Window [3/]	1,511	1,264	1,289	1,337	1,390	1,446
IV. Arrears clearance	575	1,212	1,212	1,212	1,212	1,212
V. Transitional support	-	-	1,536	3,310	3,421	3,543
Total Financing Needs (I+II+III+IV+V)	**49,274**	**44,625**	**47,009**	**50,439**	**52,355**	**54,389**
Memo items						
Change from the IDA16 envelope (in real terms) [4/]		**-16%**	**-11%**	**-4%**	**0%**	**4%**
Change in non-FCS allocation (excluding graduates)		-2%	-2%	-2%	-1%	3%
Change in FCS allocation (excluding graduates)		-24%	-12%	9%	28%	30%

1/The US$ figures for IDA16 use the IDA16 exchange rate of 1SDR=US$1.50233 and IDA17 figures are calculated based on the preliminary IDA17 replenishment reference rate of 1SDR=US$1.50434.
2/ Data in brackets refer to the corresponding financing figures excluding the countries expected to graduate at the end of IDA16.
3/The IDA16 CRW allocation to Haiti (SDR329 million) is included in the allocation to FCSs.
4/The percentage change figures are adjusted for the cumulative SDR inflation of 6.6 percent in 2010-12.

Annex 2: Regional Strategies for the Effective Use of IDA17 Resources

1. IDA's assistance is provided on the basis of a Country Assistance Strategy for each country in line with the country-driven approach. In addition, the Bank's operational regions develop an overall management strategy linked to the country strategies. Presented below are the summaries of the regional strategies for the medium term, including the IDA17 period.

Sub-Saharan Africa

2. **Context and progress**. Sub-Saharan African countries continue to experience robust growth. Excluding South Africa, the region's largest economy, the remaining SSA economies grew at a robust 5.8 percent in 2012 – higher than the developing country average of 4.9 percent. About a quarter of countries in the region grew at 7 percent or better, and several African countries are among the fastest growing in the world. Even though resource-rich countries have been growing faster on average during 1996-2011, some resource-poor countries such as Ethiopia, Rwanda, and Mozambique have also grown fast, driven by services and agriculture. This growth builds on a pick-up of growth since the mid-1990s that has seen GDP per capita rise by about 50 percent.

3. Reasons underlying this turnaround include improved macroeconomic policies, increased foreign aid, increased private investment flows, buoyant commodity prices, the expansion of mineral resource exploitation, and the substantial reduction of debts. In particular, the investment climate continues to improve. Among the 50 economies making the most progress in business regulations since 2005, 17 are in Africa. Africa is an attractive investment destination: the United Nations World Investment Report, 2012 reports that data on the profitability of United States Foreign Direct Investment (FDI) – FDI income as a share of FDI stock – shows a 20 percent return in Africa in 2010, compared with 14 percent in Latin America and the Caribbean and 15 percent in Asia.

4. Medium-term economic prospects for the region remain strong as the same driving forces that have underpinned its robust performance in recent years are expected to be sustained over the projection horizon. Excluding South Africa, GDP growth for the rest of the region is expected to pick-up to about 6.1 percent in 2013 and 6.0 percent and 6.1 percent in 2014 and 2015 respectively, although downside risks from a fragile global economy could threaten this growth.

5. More than a decade of strong growth has helped reduce poverty in the region, but with considerable variation across countries. Between 1996 and 2010, the share of people living on less than US$1.25/day in SSA has declined from an estimated 58 percent to 48.5 percent (data are provisional). However, despite faster growth, poverty declined at a slower pace in the region's resource-rich countries. For example, Nigeria saw 7 percent annual GDP growth between 2005 and 2010, yet the poverty rate declined by only 2 percent in that period. In contrast, Rwanda experienced that same 7 percent annual growth rate, but experienced a 12 percent decline in the poverty rate. Nearly 50 percent of the region's extreme poor are in Nigeria (27 percent), Democratic Republic of Congo (14 percent) and Tanzania (8 percent). Poverty rates remain above 80 percent in Burundi and Liberia. Burkina Faso, Mozambique, and Zambia have actually seen higher poverty rates with growth. Several opportunities – mineral wealth,

elevated food prices, rapid urbanization and a demographic dividend – hold the promise of accelerating the income growth of the poorest groups, but appropriate policies are required to unleash this potential.

6. Although the region lags behind other regions on meeting the MDGs, progress towards them has been significant. While most SSA countries are unlikely to reach the MDGs by 2015, the Region is on a trajectory to achieve the targets with sustained growth and strong commitment to reforms. Notable achievements have been in primary education completion, and the sharp decline in under-5 mortality. There is substantial heterogeneity in country-level progress on the MDGs, with some highlights shown in Box 1 in the main text.

7. Despite these positive trends, deep development challenges persist in SSA:

- The region has around 18 fragile states, many of them caught in a vicious cycle of political instability, violence and poverty.
- Weak governance remains a challenge, especially in resource-rich countries. New mineral discoveries put a premium on transparency in size and distribution of resource rents, accountability in managing resource riches, and converting mineral wealth into sustainable and inclusive development.
- Infrastructure deficits, low human capital (poor learning outcomes, skills deficit, lagging health indicators), and limited economic and social inclusion are a drag on competitiveness and economic performance.
- Slow structural transformation – even among countries that have achieved both rapid growth and poverty reduction, such as Ghana, Rwanda and Ethiopia.
- Sustained growth has not been accompanied by increased employment, and not nearly enough productive jobs have been created to absorb the millions of young people entering the labor force each year. Most Africans continue to work in the informal sector – such as smallholder farms and household enterprises.
- Climate change is an added source of downside risk with rising temperatures and precipitation uncertainty posing serious concerns for livelihoods and GDP growth.

8. **Strategy**. The Bank's strategy for SSA[34] seeks to use the Bank's knowledge and IDA finances, in close collaboration with IBRD, IFC and MIGA to maximize the assistance to SSA countries in accelerating progress towards the goals of ending extreme poverty and boosting shared prosperity. The strategy is built on two pillars – (a) <u>competitiveness and employment</u>; and (b) <u>vulnerability and resilience</u>, and a foundation – <u>governance and public sector capacity</u>. Key themes for Africa are energy, skills and education, agriculture, social protection, women's economic empowerment, and natural resources management. The strategy has a particular focus on FCS, about half of which are in the region, and on finding regional solutions where infrastructure and other problems require a regional approach. It draws on the various knowledge work being done by the Bank, and is being implemented by working collaboratively with other partners and leveraging partnerships with African stakeholders, the private sector, the

[34] The strategy is outlined in "Africa's Future and the World Bank's Support to It", World Bank, March 2011.

African Union Commission, the African Development Bank, the United Nations, bilateral donor agencies and other development actors.

9. The first pillar of the strategy, competitiveness and employment, aims at assisting countries to further diversify their economies and generate jobs, especially for the 7-10 million young people entering the labor force each year, through scaling up the infrastructure program (notably for energy), improving the business environment for private sector development, building the skills of workers (including for youth) and closing gender gaps in access to economic opportunities. This pillar represents the way to harness private sector growth for sustainable poverty reduction and ultimately wealth creation. Closing the gap between infrastructure needs and investments – currently about US$48 billion annually – is an important priority.

10. The second pillar aims at reducing vulnerability and building resilience to the shocks that directly affect the poor– economic, health-related, natural disasters and conflict. These shocks have an immediate effect of lowering living standards and keeping people in the poverty cycle for longer. The strategy seeks to reduce the number of shocks and limit the damage from those that do occur – by focusing on better health care, dealing preemptively with the effects of climate change (including floods and droughts) through improved irrigation and water management, and strengthening public agencies to share resources more fairly and build consensus. Key engagement areas under this pillar include agriculture/drylands and social projection/gender.

11. The foundation underpinning the Bank's SSA Strategy is Governance and Public Sector Capacity. On the demand side, the strategy aims to strengthen citizens' voices using instruments of social accountability and to exploit the immense potential of ICT to provide innovative ways to enable citizen-centered governance. On the supply side, foremost is building the capacity of African political leaders by, for instance, supporting leadership training schools and convening leadership peer-learning networks. IDA will also continue to work directly with governments to help them improve their systems and capacity to deliver basic services, including building public expenditure management systems and strengthening incentives within the civil service. An important focus is on helping countries to manage their mineral wealth for inclusive growth.

12. A major Bank Group collaborative initiative (IDA, IBRD, IFC and MIGA) aims to address critical issues through high value transformational projects (energy, agriculture) which are closely linked with the green growth and climate change agenda. The Bank Group will promote catalytic mechanisms that leverage its financing to crowd in other sources of private investments, link to the countries' resources, and deploy other innovative financing and risk management instruments to support public-private partnerships. On energy, the aim is to help Africa meet its energy needs from clean sources (hydro, geothermal and gas) and thereby support global and regional climate change goals. On agriculture, regional transformative approaches – with special attention to drylands, water management and irrigation – are critical for maximizing poverty reduction in SSA and for dealing with climate change.

13. The Bank Group is developing special initiatives to address key issues of conflict and fragility in key sub-regions of SSA. In the Great Lakes region, the aim is to scale-up support to the region by targeting the drivers of conflict (including lack of economic opportunity, structural problems in areas such as land) and generate concrete benefits in the short- and longer-term, both

through individual country programs and through bolstering regional cooperation. Four priority areas are being considered: (i) governance (rebuilding key state institutions, mining, decentralization, and beneficiary participation); (ii) infrastructure, with a focus on connecting provinces and countries through better transport, energy and information technology linkages; (iii) intra-regional trade, private sector development and agricultural growth, including generating jobs, especially for the youth who are easy targets for militia groups; and (iv) social welfare, through access to health and education, social protection and effective re-integration of combatants, with sensitivity to gender.

14. In the Sahel region, the aim is to address structural factors of fragility and insecurity. The Sahel faces a series of stresses linked to its geographic conditions and demographic and climate changes. The emerging regional approach focuses on: (i) vulnerability and resilience (e.g., support for early warning systems for drought, floods, and food insecurity; eradication of neglected tropical diseases; and analytics on nutrition and food security); and (ii) economic opportunity and integration (e.g., regional pastoralists program, energy, agricultural productivity including irrigation, ICT, intraregional trade facilitation, and skills development). These are underpinned by a focus on the spatial and demographic roots of the conflict (analytic work); and improved governance work including common regional standards (e.g., through an ongoing Western African Economic and Monetary Union – WAEMU regional study), and capacity building of civil society organizations through the Global Partnership for Social Accountability.

15. Knowledge generation and dissemination is a central instrument of IDA's work to improve development outcomes in SSA:

- Impact Evaluations and other AAA are used to inform operations, and increase the productivity of lending operations. The Bank has completed 33 impact evaluations (IE) in Africa, and more than 100 IEs are in the pipeline covering 15 sectors. Four of the completed IEs, and 24 of those in progress, are gender-related.
- The Africa Region's *Gender Innovation Lab* works with partners on innovative approaches to research projects on what works to close gender gaps. The proportion of gender-informed projects is rising steadily, from 69 percent in FY10 to 88 percent in FY12.
- Flagship reports (e.g., *Defragmenting Africa*, *Light Manufacturing*, *Enterprising Women*, *Youth Employment*, *Demographic Dividend*) help to nourish evidence-based public debate on key issues.
- Regular country and regional economic reports(e.g., *Decentralization in Kenya*, *Employment in Cameroon*, *Africa's Pulse)* provide analysis of key issues, and help to stimulate discussion and enable policy makers to make informed choices.
- Blogs, webinars, and e-discussions (e.g., on topics such as youth employment, population, and road safety) help to generate ideas and share information.
- The Bank also prepares policy notes in response to client needs (e.g., *Zimbabwe Growth*, *Education in South Sudan*, *Cocoa Policy in Ghana*, *Deforestation in Congo Basin*).

- Helping countries to build their statistical capacity, particularly to produce timely, accurate statistics to better understand the dynamics of poverty is a major priority.

16. The strategy in Sub-Saharan Africa aims to build on the solid portfolio performance of the region, with a high priority on quality and results. The disbursement ratio of the Region's portfolio has improved; in FY11, it outperformed the Bank average for the first time in four years. Proactivity continues to be above the Bank average, but the Region is making enhanced efforts to further improve portfolio performance, including by: (a) strengthening accountability for quality and results performance; (b) providing increased resources for frontline units; (c) incorporating lessons from IEG evaluations into the design of new operations and restructuring of active projects where needed; (d) focusing on all marginally performing operations, projects that are approaching the mid-term review, and portfolio in sectors/countries with historically low satisfactory outcomes; and (e) an enhanced focus on monitoring and evaluation, with a greater use of early and mid-term reviews.[35]

South Asia Region

17. **Context and Progress**. South Asia is dynamic, diverse, and pivotal to the global challenge of ending extreme poverty and boosting shared prosperity. With strong and continued support from IDA, SAR has consolidated progress made in poverty reduction and in reaching some MDGs. It has posted 6 percent annual growth over the last decade (the world's second fastest region), creating over 800,000 new jobs every month. But this platform for future growth sits alongside broad swathes of poverty and continued challenge in some other MDGs. In particular, 44 percent of the world's poor are located in the region. Inequality is rising, malnutrition is stubbornly high, gender imbalances are pronounced and weak governance hampers service delivery. Security issues and regional integration remain critical in several geopolitically important yet fragile states. In this context, IDA assistance will be critical to support their transition to peace and long term development.

18. Structural reforms and carefully-targeted investments – many of which are supported by the World Bank Group and underpinned by critical allocations of IDA funding – are essential to unlock growth. While some momentum has been secured in recent years – including progress on trade normalization between India and Pakistan – reforms remain difficult, not least given impending political transitions region-wide to 2014. Indeed experience shows that SAR is a region of significant uncertainties, and the fragility in some countries and localities underlines the nature of the Bank's development work. In addition, slowing growth in 2012, softening global demand and very limited domestic space for stimulative macroeconomic policy all underline the importance of reform.

19. In many areas, South Asia has done very well in striving to reach the MDGs which have provided an important anchor to development partnerships between client countries and the international development community. In education, for example, the region-wide progress is exemplified by India, where now 96 percent of school children – boys and girls alike – will complete a full course of primary education, and India will likely eliminate gender disparity in primary and secondary education in the coming years. In Afghanistan, school enrollment has

[35] Proactivity refers to an index that measures actions taken to resolve identified problems in Bank operations.

increased from 1 million in 2002 to 7.2 million children in 2011, of which 2.7 million (37 percent) are girls, entirely excluded from education under the Taliban regime. This is a remarkable achievement, although having started from such a low base a great deal remains to be done.

20. Considerable progress has been made in South Asia to reduce extreme poverty, and indeed India has already achieved the MDG1, having halved its proportion of people living on less than US$1.25 a day, to under 30 percent. Nepal has been among the world's best performing countries in terms of reducing extreme poverty and minimizing rises in inequality, and Bangladesh has also brought the rate of extreme poverty down to around 30 percent in recent years. Yet, this region-wide picture of progress must be set against the huge challenge to reduce the absolute number of people living in extreme poverty. Furthermore, many of South Asia's newly non-poor, especially those in rural areas, remain vulnerable to shocks – natural disasters, poor crop yields, and illness – that can easily push them back into poverty.

21. In other key areas, especially on important elements of human development, the region is far away from reaching key MDGs, as illustrated in maternal and infant health performance which remains poor by global standards. India's maternal mortality is still 230 per 100,000 live births (in 2010), and it is even higher in Afghanistan (at 460 in 2010) notwithstanding the progress that the country has made. Malnutrition is a scourge, with incidences being far greater in South Asia than in other countries with similar income levels – indeed more than 40 percent of the world's malnourished children live in India. Progress has also not yet been good enough in providing access to improved sanitation facilities (MDG7), where India for example is less than to two-thirds of the way to the 2015 target.

22. This last point is indicative of an immense challenge in the region – tacking major gaps in infrastructure. As an example, South Asia is home to more than one-third of the world's people without residential access to electricity. Mobile telephone subscriptions have risen exponentially but from a low base and are still below the average for developing countries. Agricultural labor productivity and crop yields are below developing country norms. Weak governance – many South Asia countries are in the lower tiers of global rankings of corruption – hampers the delivery of public services. There are encouraging signs, however, that improved public access to information (India and other states have been among the world's leaders in right-to-information provisions) and greater citizen engagement in development programs, could help turn this situation around over the longer term.

23. Countries in the region must also contend with a variety of volatilities and vulnerabilities which complicate the development process and still hover in the upcoming IDA17 period. In Afghanistan, for example, security is fragile and the threat of violence is ever present. The 2014 drawdown of international military forces and a likely decline in civilian aid, draws attention to the critical role that IDA needs to play in the coming years. Coping with natural disasters and adapting to the impacts of climate change also require sustained and substantial investment over the longer term in Bangladesh and elsewhere.

24. **Strategy**. The imperative for South Asia's strategy is unambiguous, to redouble IDA's efforts to support the ambitions of our client countries and the international community to end extreme poverty and boost shared prosperity. With future sustained IDA support helping

leverage change, there is great potential for faster poverty reduction; and South Asian countries can drive perhaps half or more of any major reduction in the global rate of poverty. To help client countries meet their development objectives IDA has five strategic priorities: (i) increasing employment and accelerating growth; (ii) enhancing human development and social welfare; (iii) strengthening governance and accountability; (iv) reducing vulnerability (including to weather, disasters, and food insecurity); and (v) promoting regional integration and cooperation.

25. SAR's focus on increasing employment and accelerating growth is a watermark in all of our country programs and through region-wide work. The working age population is expanding rapidly – with South Asian countries adding around 1 million new entrants to the labor force every month for the next two decades, and contributing 40 percent of the total new entrants to the global workforce. The issue is beyond quantity – job quality and productivity are also concerns: reforms and investments are needed to move workers beyond low-yield agriculture and the "informal sector" of low skills and low earnings. Informed by globally-leading knowledge (in the 2013 WDR and an accompanying South Asia flagship report on jobs) the Bank is providing investment, policy advice and technical assistance on a reform agenda that cuts across sectors, including protecting workers in dealing with shocks; boosting agricultural productivity; enhancing education and skills training; reducing corruption and other costs of doing business; and investing in infrastructure, most pressingly a reliable electricity supply.

26. To make much-needed improvements in human development, IDA has major investments planned in key sectors. For example, in health IDA has shifted towards programmatic financing and sector-wide support in cooperation with development partners. In education, despite impressive achievements across SAR, many issues remain, such as 26 million children being out-of-school; and low enrolment of girls in Afghanistan (34 percent rate) and Pakistan (up to 63 percent in 2012 compared to 43 percent in 2001). The Bank will help clients focus on second generation issues to improve the quality of education and outcomes, which calls for investments in infrastructure, curriculum and teachers, combined with systemic reforms in education governance to underpin better service delivery. And in social protection IDA is supporting path breaking cash transfer programs at scale in Pakistan, Nepal and elsewhere. And IDA has driven the mainstreaming of gender across its work, since gender inequality is a major constraint on economic growth and social development in the region. All of IDA country programs are informed by detailed gender analysis, and some 93 percent of investment projects were gender-informed in FY12 – the highest rate in the Bank and up from 80 percent a year earlier.

27. To improve governance and accountability, the Bank Group is offering assistance to partner governments on better corporate governance, transparent and fair regulations, and more political voice for under-represented people. For example, IDA will continue to support countries in pioneering direct accountability innovations ranging from balanced scorecard surveys to mobile-phone-based initiatives and formal accountability mechanisms such as Ombudsman and Rights institutions. Project investments are also using technology to improve the quality and efficiency of public services – as for example in the e-Sri Lanka project. On reducing vulnerabilities, disaster risk management and climate change experts are in a single new unit to exploit synergies and shifting IDA engagement beyond disaster response and towards risk reduction and adaption. This has included retrofitting schools in Nepal to protect children in a

seismic event, and innovative policy lending in Himachal Pradesh for clean energy and action on climate change.

28. South Asia is among the least economically integrated regions, and cooperation and integration could make a major contribution to peace and prosperity by lowering transportation costs, fostering mobility and achieving economies of scale. IDA is supporting new cross-border projects (including in infrastructure and environment) and will expand its activities in areas such as the South Asia Water Initiative, the South Asia Food and Nutrition Security Initiative and other collaborations.

29. The Country Partnership Strategy (CPS) for India[36] embodies the region's new approach to targeting deep reductions in extreme poverty and boosting shared prosperity, and indeed it is the Bank's first such strategy designed with these two goals in mind. These goals are helping the Bank select among competing priorities in this large country program, as projects and knowledge products are identified where IDA can have the most impact. The medium-term (FY13-17) program for India would benefit hugely from receiving transitional IDA support, and provide a bedrock of resources to leverage change, thereby contributing dramatically to global targets of ending poverty and more inclusive growth.

30. More broadly across the Region, the Bank's strategic priorities are underpinned by fresh techniques in our approach – the "way we do business" – to respond to lessons and make a bigger impact. These comprise sharpening our knowledge services; driving investments with a results focus; enhancing implementation support; redoubling attention to governance, especially through citizen engagement; and closer collaboration with development partners and across the Bank Group. This approach is spearheaded by a growing share (over 70 percent) of staff, especially more senior personnel,[37] now located in the field to better serve clients. The combination of a coherent strategy and the capacity to execute provides a strong platform to leverage a transformational impact from IDA resources in the coming three years.

East Asia and Pacific Region

31. **Context and Progress**. The East Asia and Pacific region is vast and diverse, with large differences in economic and social progress. It is the most economically dynamic region in the world, accounting for 40 percent of total global growth, and IDA has played a critical role in helping low income countries in the region maintain high growth and poverty reduction. EAP has the second largest number of countries benefiting from IDA resources (15 countries) and also the second largest region with fragile situations (seven countries). IDA-eligible countries include Vietnam, Cambodia, Lao PDR, Mongolia, Myanmar, Timor-Leste, Papua New Guinea (PNG) and eight Pacific Island countries. Aid has been increasingly effective in IDA countries as their absorptive capacity has been growing.

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[36] Report No. 76176-IN, March 21, 2013

[37] In addition to all CDs, SAR has its Director of Regional Integration, Chief Economist, and over half of sector managers in country offices (up by a third over twelve months). IFC has expanded its centers of excellence in Delhi and Mumbai, and located senior international talent in Colombo and Kabul. Indeed the particular emphasis placed on FCSs and difficult country environments is paying off in maximizing client face time.

32. IDA countries in the region have been relatively resilient to the global slowdown, growing at 5.4 percent in 2012, compared to non-IDA developing countries' growth rate of 7.5 percent, the latter benefiting from China's relatively higher growth. Among IDA countries, growth performance has been quite diverse. The resource rich countries, Mongolia (12.3 percent), Papua New Guinea (8 percent) and Timor-Leste (10.6 percent), enjoyed the highest rates of growth in the region and in fact among the highest globally, as they benefited from investments in mining and petroleum industries. The Mekong Delta IDA countries grew at 5.3 percent, ranging from 7 to 8 percent for Cambodia and Lao, PDR, to 5 to 6 percent for Vietnam and Myanmar. In particular, growth accelerated in Myanmar from 5.5 percent in 2011/12 to 6.3 percent in 2012/13 and continued political and economic reforms are expected to help the country remain at a higher growth path. Performance in the Pacific Island economies has been mixed, remaining mostly in line with the average growth rate of 2 percent in the past years. However, better policies and continued infrastructure investments could translate to improved growth and poverty reduction.

33. The region's decades of strong growth performance has led to rapid poverty reduction. As a result, EAP as a whole has already achieved the MDG1 target on halving the rate of extreme poverty, based on the PPP US$1.25 per day poverty line. However, when considering only IDA eligible countries, overall progress has been less certain mainly due to the lack of credible poverty related data for Myanmar, which is nevertheless likely to have the largest number of poor among the region's IDA countries. Vietnam, Cambodia and Laos have either met or are likely to meet the MDG on extreme poverty; progress for Mongolia in addition to Myanmar is indeterminate due to data shortcomings; and PNG and Timor Leste are unlikely to meet the target while progress has been mixed for the rest of the Pacific Island countries. The overall poverty rate of 19.3 percent for EAP IDA countries in 2010 meant 33 million lived in extreme poverty, with a majority in the Mekong Delta countries due to Myanmar (14 million)[38]and Vietnam (14.8 million) which had by far the largest population of the poor. Hence, addressing the poverty challenges in these two countries will be critical to reducing poverty in the region. But while these two countries had the largest number of poor, their poverty rates of 25.6 percent for Myanmar and 16.9 percent for Vietnam were comparatively lower than the 38.6 percent in PNG and 34.6 percent in Timor Leste. Hence, the resource rich countries, despite growing quite rapidly in recent years, continue to face significant poverty challenges.

34. Similar to MDG1, there has been considerable variation in progress towards the remaining MDGs across the IDA eligible countries in the region. With the exception of Myanmar, the Mekong Delta countries have made comparatively the most significant progress towards the MDGs, although progress in areas such as reducing malnutrition and expanding access to basic sanitation remains elusive. Myanmar is a special case given its data challenges and its recent emergence from decades of international isolation. Mongolia has made good progress in several areas, despite the aforementioned lack of credible data on extreme poverty, but the country has had less success in ensuring environmental sustainability (MDG7). The

[38] Myanmar currently does not have reliable poverty related data and therefore any estimates of poverty should be considered preliminary and indicative only. The poverty estimates for Myanmar is based on the national poverty line and not the PPP US$1.25 per day, due to the unavailability of a PPP conversion rate. The resulting poverty rate of 25.6 percent is likely to be an underestimate. In addition, estimates of the country's population are similarly uncertain and ranges from 48 to 61 million. An average of these two extremes was used for the purposes of estimating the number of poor.

Pacific Islands overall have so far experienced the slowest progress on the MDGs, with PNG and Timor-Leste considered unlikely to meet many of the MDGs. Gender and disaster risk management and climate change are also critical challenges for the Pacific Islands. Lao PDR has made significant progress on many of the MDGs, including extreme poverty, primary net enrollment rate and under five mortality. However, there has been little progress in reducing malnutrition, increasing immunization rates, and improving access to maternal health services.

35. **Strategy**. The EAP region will focus on reducing poverty, promoting shared prosperity and continuing to make progress on the MDGs in IDA eligible countries. For this purpose, EAP has developed a Regional Strategy which will focus on addressing five major regional challenges: (a) poverty and inequality; (b) making governments work for the people; (c) infrastructure and urbanization; (d) risks from environmental degradation, natural disasters and climate change; and (e) creating jobs and private sector led growth. The EAP region relies on this broad-based five-pillar strategy to address the diverse needs of its client countries to end extreme poverty and promote shared prosperity. A stronger emphasis on job creation reflects feedback from our client countries and the 2013 World Development Report on jobs. Jobs are rising in importance in the region as growth moderates in the short term and as high youth unemployment, informality and gender gaps in economic opportunities add pressure in the long term. Job creation is a major priority which needs both public and private sector engagements.

36. EAP will continue to make strategic choices across IDA eligible countries in the region. The regional strategy emphasizes a strategically selective, differentiated approach across countries, where country partnership strategies and country dialogues identify priorities and areas to do less as well as areas to do more. New and innovative frontiers include infrastructure connectivity and inclusive green growth. EAP will in particular prioritize:

- *Full scale reengagement in Myanmar* building on the full scale reengagement of the country, with planned projects to strengthen public financial management, telecommunication reforms and electricity generation. The support to the electricity sector is structured to deliver IDA, IFC and MIGA assistance under a joint energy sector strategy.
- *Expanded engagement in the Pacific Islands*. EAP will continue its focused support to Pacific Island states, given their unique development challenges: economic and geographical constraints due to their small size and remoteness; among the highest vulnerabilities to natural disasters and exogenous shocks, with disasters costing these countries an average of 1.8 percent of GDP per year; and post-conflict challenges in Timor-Leste, PNG (Bougainville) and the Solomon Islands. Climate change and gender challenges are particularly significant for the Pacific Islands (see also next paragraphs).
- *Disaster risk management and climate change*. EAP is the most disaster-stricken region in the world. Disasters disproportionally affect the poor, vulnerable, and the marginalized, and women are more likely than men to die from natural disasters. Supporting IDA countries strengthen climate change resilience and adaptation has become a core part of EAP's business, particularly in the Pacific Islands which are among the most affected globally.

- *Gender*. Gender gaps in education and health have been closing in the region, but important gender disparities remain in access to economic opportunities and in voice and influence in society. The prevalence of gender-based violence remains high in the Pacific Islands. EAP will help IDA eligible countries addressed gender related challenges with the goal of integrating gender in all WBG country strategies and operations. All new country strategies have been gender informed, while the share of gender informed lending operations has increased. EAP intends to continue making improvements. Gender issues have been identified as a significant barrier to development across the Pacific Islands. Hence, the Bank and IFC are partnering on the Pacific Gender Initiative to promote women's access to public and financial services and formal employment opportunities. A variety of IDA funded interventions in the Pacific Islands will improve the business climate for women entrepreneurs, strengthen national gender policies and improve the provision of services to victims of gender based violence.

37. EAP's regional strategy emphasizes strong and systematic WBG collaboration in IDA countries. Collaboration among IFC, MIGA and IDA has always been at the core of how EAP does its business in the region. A good example of WBG coordination is in Lao, PDR, where IDA and IFC jointly supported the government's rural electrification program, cofinanced by Australia and Norway. The program has steadily increased access to electricity from only 15 percent of the population in 1995 to 80 percent today. This is the type of effective collaboration which will also be important in Myanmar, where EAP will support improved access to electricity through a new joint WBG strategy and business plans.

38. EAP also continues to strengthen extensive bilateral and multilateral partnerships in assisting client countries. In particular, partnerships on the knowledge front have been expanding. The region's footprint is among the broadest in the Bank, with close to 70 percent of our staff located in 17 WBG offices. This solid presence on the ground helps EAP strengthen external partnerships and cooperation with our client countries. The recently established country office in Myanmar helps us quickly expand our support to the country.

Europe and Central Asia Region

39. **Context and Progress**. Over the past three IDA periods, IDA has been increasingly effective in the ECA region as country after country has been successfully placed on the path to graduation. Despite adverse impact from the protracted euro area crisis, the IDA countries in ECA have achieved a strong growth performance, with an average growth rate of 4.7 percent in 2011-12.

40. Of the ECA countries that are expected to remain IDA eligible in IDA17, two (Kosovo and Moldova) are situated in Europe, while the other three (Kyrgyz Republic, Tajikistan, and Uzbekistan) are in Central Asia, and their needs for IDA assistance continue to be strong. For example, Tajikistan remains one of the poorest countries in the world with a GNI of US$870 per capita, poorer than 50 percent of African countries. In addition, the protracted euro area crisis also poses significant downside risk to growth and poverty reduction for these countries, including through financial, trade, and remittance channels. Upgrading the infrastructure base and the skill set of the labor force will be critical focus areas under IDA17.

41. The need for continued access to concessional funding for ECA's IDA-only countries (Kosovo, Kyrgyz Republic and Tajikistan) remains unchanged under IDA17. IDA remains the most important source to cover their financing needs to eventually reach the MDGs, since their access to capital is highly constrained. As in previous IDA cycles, needs far outstrip each country's IDA allocation. However, it has been proven under IDA16 that absorptive capacity is high and all countries are able to readily absorb front loaded IDA amounts and in fact could effectively utilize much higher levels of IDA funding.

42. Moldova and Uzbekistan are ECA's two IDA blend countries. Moldova is now creditworthy, with access to IDA hard-term credit. Per capita income now exceeds the IDA operational cut-off and the country will prepare for a possible IDA graduation by the IDA18 cycle. To allow a gradual phase-in of IBRD, IDA allocations will be front loaded and utilization of IDA resources focused on investment in public goods and projects with high social returns. Uzbekistan has only limited amounts of IBRD borrowing under IDA16 with fragile creditworthiness, and it continue to need strong IDA support to meet its developmental goals under IDA17.

43. **Strategy.** ECA's strategy will be anchored by the three pillars of competitiveness, social inclusion, and climate change. The IDA17 program will also support gender equality, governance and as well as regional integration and partnerships.

44. Climate change. The third pillar of the new Moldova CPS (FY14-17) promotes a green, clean, and resilient Moldova by addressing the negative effects of climate change events on agriculture and rural livelihoods. In the Kyrgyz Republic, analytical work will address adaptation issues in water resources management (co-funded by a Swiss trust fund), upland pastures and forests, as well as strengthening hydrometeorology services and disaster preparedness. In Tajikistan, it is rural women – the poorest segment of society – who are the most vulnerable to the combined impacts of climate change and corruption. While officially 28 percent of women are farm heads, in reality it is more than 60 percent given high outward migration of men. For IDA17, ECA will be innovative in bringing good practices to Tajikistan, including mobile technologies so that rural women benefit more from information on social services, farmer extension, and extreme weather events. Additionally, a catastrophic insurance risk mechanism will be developed to finance preventive measures. In Uzbekistan, interventions with relevance to climate change are focusing on energy efficiency in infrastructure. At the Central Asia regional level all countries depend on glacier melt for water for drinking, irrigation and economic activity. Hence, adapting to climate change is of utmost importance and must be addressed regionally, for example, through new risk insurance mechanisms to generate investment in measures to prevent recurring disasters from flash floods.

45. Gender. Kosovo's legal and institutional frameworks promote gender equality and protect women rights. However, weak enforcement and legacy issues deny women the full enjoyment of, for example, their property rights. The Real Estate Cadastre Project will help formalize existing rights, increase coverage of land administration services for women, strengthen their access to land administration services, and raise the percentage of women with ownership rights. The Moldova CPS is informed by a gender assessment, the outcome of which will be discussed at the concept stage of each new operation. In the Kyrgyz Republic, based on the 2012 multi-donor gender assessment (jointly with ADB and UNDP), projects, e.g., village

infrastructure, urban investment planning, pastures, and forests, will be targeted to ensure they take findings into account and address key challenges. Also, the Kyrgyz analytical program will assess the impact of weak institutions on female entrepreneurs. In Tajikistan, the IDA17 country program aims to empower women and create educational and economic opportunities, for example, through social accountability mechanisms. Uzbekistan, which recently had the highest growth rate of female employment in ECA, is focusing on the implementation of CEDAW Committee (Convention on the Elimination of All Forms of Discrimination against Women) recommendations. In addition, the CPS portfolio is becoming more gender-informed in line with ECA's Regional Gender Action Plan.

46. On governance most IDA supported projects in Kosovo contain explicit governance components, aimed at strengthening the functioning of public institutions and the increased reliance of e-governance components (Public Sector Modernization Project in particular, as well as in the Financial Sector Strengthening and Market Infrastructure Project; and the Land Administration and Education projects). Embedded in a broader strategy aimed at improving the business climate, these efforts have resulted in a tangible strengthening of the investment climate, as reflected in the 28-rank improvement in the 2013 Doing Business Report. There has also been a notable improvement in the most recent Transparency International Corruption Perception Index. The Moldovan strategy addresses governance issues at the country, sectoral, and operational levels. Governance interventions will be pursued to improve business climate, enhance public administration reform and quality of public service delivery, and improve public financial management and procurement systems. The CPS will use a Governance Filter to ensure that governance is systematically tackled in all operations; it will also support enhanced involvement of civil society organizations through the Global Partnership for Social Accountability to which Moldova has adhered. At the operational level, the WBG will ensure the highest fiduciary standards in projects it supports while helping the government to strengthen country systems.

47. Regional cooperation/integration. IDA will need to increasingly focus on regional cooperation opportunities and regional transformational projects to enhance its development impact, especially in Central Asia. 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), but also involve IBRD neighbors such as Kazakhstan and non-borrowing Turkmenistan. Increasingly, trade and transport opportunities arise for these landlocked countries in Central Asia. The Kyrgyz Republic and Tajikistan are also exploring disaster risk insurance/mitigation as they are highly prone to such risks.

48. Partnership and coordination.IDA has been critical to leverage and harmonize aid through policy dialogue and donor meetings. In the Kyrgyz Republic, a Development Partners Coordination Council, established in 2001, meets monthly to coordinate activities and, where appropriate, dialogue with the government. IDA's global perspective as well as its convening and intellectual leadership role – exemplified, for example, by its organization of the emergency Donors Conference in Bishkek in July 2010 – is recognized by the government. While a FY07-10 Joint Country Support Strategy involving six partners including IDA was replicated, its coordination and harmonization goals remain valid and are now reflected in a more broadly-

based, inclusive Kyrgyz Republic Development Partnership focusing on principles that were signed in 2012.

49. Likewise in Moldova, IDA has been a strong supporter of donor coordination and improved aid effectiveness. This led to the signing of a new set of partnership principles between the government and 23 development partners in 2010. The subsequent Partnership Principles Implementation Plan sets out a number of initiatives for improved aid effectiveness, which has proven effective in leveraging financing and reforms.

50. In Tajikistan, the Development Coordination Council (DCC) brings together 26 development partners and is currently chaired by the World Bank. Most recently the DCC and government agreed to develop ten joint initiatives with measurable results by 2015. The initiatives aim to reduce fragmentation and strengthen policy coherence and impact by building on sector and thematic working groups chaired by donors and coordinated by the Ministry of Economy.

Latin America and Caribbean Region

51. **Context and Progress**. Despite weakening global economic tailwinds, LCR economies have shown solid economic growth in recent years, although the performance varies among the IDA countries. The nine IDA countries in the region can be grouped into three categories: (i) one re-engaging FCS (Haiti); (ii) the small island OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines); and (iii) other countries (Bolivia, Honduras, Guyana and Nicaragua). Growth in the OECS countries remains fragile at 0.5 percent in 2011-12 largely due to their vulnerability to external shocks and the ripple effects from the sluggish recovery in the US and the Euro area crisis, while Haiti has shown a strong recovery from the devastating earthquake with a growth rate of 4.2 percent, and other IDA countries have also shown a strong growth about 4.6 percent in the same period. IDA assistance has contributed significantly to the development progress. For example, in Haiti, 300,000 people received cholera treatment, health education and prevention training; in Honduras, IDA-supported conditional cash transfers reaching 350,000 poor households, and disaster risk mitigation; in Nicaragua, learning conditions in primary schools improved after 1 million new textbooks were distributed; in OECS countries, IDA has also supported regional disaster vulnerability reduction and regional ICT infrastructure development and policy harmonization.

52. **Strategy**. Given the diverse circumstances of the IDA countries in the region, the strategies are customized as following.

53. Haiti, the poorest country in LCR, has weak institutional capacity and limited infrastructure. Over half of its population of 10 million was estimated to live on less than US$1 per day in 2001 (last available data) and it ranks 158 out of 187 in the 2011 Human Development Index. The 2010 earthquake disaster also revealed and exacerbated Haiti's underlying socio-economic challenges, such as social fracture and inequity, the fragility of political mechanisms in the country, Government's weak capacity, risks of political instability, and persistent volatility. Striking a balance between speed and accountability, and responsiveness and sustainability remains a considerable political, economic, financial and organizational challenge. The current WB strategy for Haiti is closely aligned with the Government's priorities and medium term

strategy. Following the earthquake, the 2010 Action Plan for National Recovery and Development of Haiti organized reconstruction into four dimensions: territorial (reconstruction, transport, DRM, regional development, watershed management); economic (agriculture, finance, private sector development, electricity, engaging the Diaspora); social (housing, jobs, social protection, education, health), and institutional (democratic institutions, central administration, justice and security). Also, the strategy will reflect the county's transition from recovery toward longer term reconstruction and development. In the context of chronic fragility, the aim is to support reconstruction and delivery of services in the short term while at the same time supporting Government to make the transition by making catalytic investments, strengthening governance, and building institutional capacity. Finally, IDA will work closely with other development partners to maximize the development impact in Haiti. In education, Government and donors (Canada, IDB, US, IDA) are ready to sign a partnership agreement. In social protection, donor coordination has been framed around the Government's Aba Grangou program for food security. Recent progress in coordination in health is encouraging (Canada, IDB, UN, US, IDA), with the objective of pooling funds into one mechanism within reach. Strengthening Government's stewardship role in health and adopting a sector-wide approach would improve access to services and sustainability.

54. 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.

55. Guyana has made significant strides to provide the foundation for macroeconomic stability and inclusive growth, but large challenges remain. The Government's Poverty Reduction Strategy focuses on accelerating and sustaining economic growth through enhanced competitiveness and social development. The ongoing CAS is demand driven and highly selective and is built on two pillars: (i) strengthening environmental resilience and sustainability; and (ii) improving education quality and social safety nets. Implementation progress has been mixed, but the current focus on the education sector is producing important results and serves as the conduit for our continued engagement with the Government on a possible expanded strategic program in the future. Discussions have been initiated to start preparation of a new CAS, covering FY13-17. For IDA17, it is envisaged that there will be a continuation of the current focus on environment and education, areas where there is a clear need for financing and where the Bank and other partners have been able to show results, in spite of implementation capacity and delays. Meanwhile, IDA assistance will also address the equity and empowerment of women.

56. Bolivia is entering the middle-income country status, mainly supported by the gas windfalls rather than structural improvements in the economy. The IDA assistance will focus on supporting the country in the transition to IBRD financing and to continue improve its institutions toward expected graduation at the end of IDA17. The current Country Partnership Strategy for FY12-15 covers: (i) sustainable productive development; (ii) climate change and disaster risk management; (iii) human development and access to basic services; and (iv) public sector effectiveness. Gender, governance, and anti-corruption are cross-cutting themes. In addition, as the third largest multilateral financier in Bolivia, the Bank would also work to: (a) alter the Government's implementation model to support better project development, execution

and monitoring; (b) catalyze additional donor and private sector financing; and change the storyline for simple service provision to sustainable service models. Finally, the Bank will continue to play an important role in donor coordination.

57. Nicaragua. IDA in Nicaragua has consolidated lending around a core set of well-performing investment programs focused on rural infrastructure and social services. Key lessons include the strategic value of Bank Group engagements in helping Nicaragua mobilize resources, as well as the need to maintain flexibility to respond to emerging challenges in a country buffeted by external shocks and natural events. The IDA lending program will help Nicaragua to scale up new models of service delivery in health, education, social protection, and water and sanitation, particularly in areas where Nicaragua faces significant challenges to achieve the remaining MDGs. The country program will also deepen the impact of current programs in rural infrastructure, land, and SME administration by adding the focus on productivity, and through greater synergies with IFC and MIGA engagements in agribusiness, and in the energy and financial sectors. The CPS will continue mainstreaming attention to gender and indigenous peoples, disaster risk mitigation, and climate adaptation. Finally, the CPS program will leverage the full bundle of WBG services to complement IDA resources and help mobilize other development financing, including those from the private sector.

58. Honduras. In recently years, IDA has had a significant and transformational impact in many sectors, including education, citizen security, water and sanitation service delivery at the municipal level, conditional cash transfers reaching 350,000 poor households, and disaster risk mitigation. Looking ahead, the IDA17 program is expected to: (a) deepen some of the previous IDA interventions, including citizen security; (b) strengthen our current substantive engagement in infrastructure with a renewed emphasis on private sector participation (road maintenance, energy); (c) new lending and non-lending activities to strengthen our support to the growth agenda in areas such as logistics, mining and financial sector; and (d) deepen our engagement, dialogue and advice on fiscal and budget management, reform of tax institutions, and good governance.

59. OECS Countries. The OECS countries are small islands that are vulnerable to natural disasters, and many also face a significant external debt burden. Also, these countries are among the countries that were the hardest hit by the global crisis and have experienced a significant lag in recovery relative to other countries in the LAC region. Economic growth in the OECS has been severely undermined, with ripple effects across the economies, particularly through a decline in tourism activity and the FDI-related construction sectors upon which these countries depend. Furthermore, the agriculture sector contracted due to pest infestation, drought, and Hurricane Tomas in October 2010. The global slowdown also exacerbated existing weaknesses in the financial sector, increasing the risk of spillovers across countries. In addition, limited fiscal space, the result of high debt and debt service, severely constrained the governments' ability to implement countercyclical policies to cushion the impact of the crisis. As a consequence, vulnerability across the region has increased and remains a major element of concern going forward. On the positive side, the OECS continued to pursue ambitious goals for further political and economic integration with the implementation of the OECS Economic Union. The current OECS Regional Partnership Strategy (RPS) 2010-14 covers the four IDA OECS countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines) and aims at achieving the two following strategic objectives: (a) building resilience; and (b) enhancing

competitiveness and stimulating growth over the medium term. Thus, IDA continues to provide a strong support to the OECS countries, including in financing climate adaptation and disaster vulnerability reduction and response as well as continued regional integration. Both IBRD and IDA resources are used in the OECS through various instruments, including investment loans, development policy operations and knowledge services in the following areas: (a) improving fiscal and debt sustainability; (b) protecting and improving human capital; (c) strengthening climate resilience; (d) strengthening the domestic financial sector; and (e) improving access to quality services for a more competitive business environment.

Middle East and North Africa Region

60. **Context and Progress**. In the wake of the Arab Spring, the MNA Region is experiencing a period of transition following a series of political and financial shocks. While two IDA countries in the region, Yemen and Djibouti, face some common challenges of widespread poverty and high vulnerability to climate change and other exogenous shocks, rapid population growth and little economic diversification, recent shocks have shown varied impact on their development progress.

61. Yemen is one of the poorest countries in the Arab region, and its oil production and reserves are declining with severe fiscal consequences. While the recent national dialogue offers an opportunity for progress, the political situation remains fluid with a high risk of conflict; the economic situation is also difficult, reflected in stagnant growth and rising levels of unemployment, particularly among the youth. Civil unrest and armed conflict in 2011 also undermined the efforts in improving peoples' livelihoods. Consequently, social development indicators, such as child malnutrition, maternal mortality and educational attainment remain discouraging. Poverty, which was already increasing prior to the global economic crisis, is estimated to have risen further from 42 percent of the population in 2009 to 54.5 percent in 2012. Poverty is particularly high in rural areas, which are home to about 73 percent of the population and 84 percent of the poor, and recent conflicts have also created a significant population of vulnerable war-affected people or refugees. There are large gender disparities, with significant gaps in women's access to economic, social and political opportunities. Weaknesses in governance have exacerbated the development challenges. Yemen is not expected to meet any of the MDGs by the current target of 2015, and ranked 160 out of 186 countries in UNDP's 2013 Human Development Index. IDA assistance has helped achieve some significant results in Yemen. For example, investment in education has funded the construction of 1,996 new classrooms and rehabilitation of 1,765 existing classrooms in 10 governorates, contributing to an 11.3 percent increase in enrollment in those governorates between 2005 and 2010. In particular, the gender focus of IDA assistance has helped increase girls' enrollment by 17.5 percent. Similarly, a public works program has supported over 3,900 sub-projects in the education, health, roads, agriculture, vocational training, social security, water and sanitation sectors for over 14.7 million poor people.

62. In Djibouti, the political situation has remained stable and its economy has performed more favorably. Despite its scarce natural resource endowment and high vulnerability to natural disasters such as severe floods and droughts, Djibouti's economy has achieved a strong growth of 4.7 percent in 2011-12 while inflation remains contained, but it continues to face high risk of debt distress and needs to strengthen its fiscal position. In addition, high international food and

fuel prices are adversely affecting Djibouti's poor who spend up to three quarters of their income on food. Consequently, at least 20 per cent of the capital's population remains in a state of food crisis, and three quarters of rural households are severely or moderately food insecure. In 2012, IDA has mobilized additional resource from the Crisis Response Window to assist Djibouti in addressing the drought. Nevertheless, Djibouti is unlikely to meet the MDGs for achieving universal primary education, promoting gender equality and women's empowerment, and reducing child mortality by 2015, and climate change will likely continue to have a strong adverse impact on the country. It ranked the 164th in the 2013 HDI, which underscores the continued severe development challenges in the country. Significant progress has been made in some areas with IDA support. Support in the education sector has more than doubled the number of beneficiaries in the selected sites, reaching 2,950 students, and the ratio of girls to boys increased from 0.55 to 0.88 in these areas. In addition, a recently closed IDA funded health project helped reduce the maternal mortality ratio from 546 deaths per 100,000 live births in 2002 to 383 deaths in 2012, and the under-five child mortality rate was also reduced from 124 deaths to 68 deaths per 1,000 live births. Moreover, the HIV/AIDS prevalence among young pregnant women (15 to 24 years old) has more than halved from 2.9 percent in 2002 to 1.4 percent in 2010.

63. **Strategy**. IDA's assistance in Djibouti and Yemen will be based on their respective poverty reduction strategies and IDA's comparative advantage to maximize development impact. A new Country Partnership Strategy (CPS) for Djibouti is under preparation and would support the country's emerging vision in "Djibouti Vision 2035," and the strategy will focus more on governance as well as improved investment climate to support accelerated private sector-led growth, which is crucial for generating income and jobs. IDA will also step up the knowledge service to support the development of four sectors – tourism, transport, fishing, and telecommunications – that have been identified as potential drivers for growth and jobs in the country, and work closely with the country authorities to explore potential opportunities of regional integration, which can benefit from additional resources from the IDA Regional Program. Moreover, the IDA17 program will continue to further strengthen collaboration with IFC and MIGA to provide integrative solutions and to leverage other additional financing from other development partners, including private sector financing.

64. In Yemen, IDA's strategy for the current transition period and its immediate aftermath is laid out in the Interim Strategy Note (ISN) for FY2013–14 as jointly prepared with IFC, and the ISN is expected to be followed by a full CPS at the end of the transition period until a new constitution and the conclusion of legislative and presidential elections in early 2014. The overriding objective of the ISN is to help the Government produce tangible results that stabilize the transition in the short term, while laying the groundwork for medium-term reforms and sustainable longer-term benefits. Through its support, the Bank Group intends to help restore trust and confidence between the state and its citizens by facilitating inclusive dialogue among national actors on a sound technical basis and strengthening mechanisms for service delivery, targeted distribution of social safety nets, and short-term employment creation. Over the medium term, Bank Group support will be oriented toward helping address the key institutional and structural weaknesses that caused the crisis – notably governance deficits, acute poverty, and deep horizontal inequalities – while helping to establish the foundations for long-term development and private sector-led growth. The ISN proposes to support these objectives across three strategic pillars: (i) achieving quick wins and protecting the poor; (ii) promoting growth

and improving economic management; and (iii) enhancing governance and local service delivery. Recognizing the need to adapt to changing circumstances in Yemen and build on lessons learned, the implementation of the ISN will be guided by three principles that will be mainstreamed across the program: (i) intensifying participation and inclusion, especially among women and young people; (ii) strengthening institutional capacity, governance, transparency, and accountability; and (iii) enhancing the operational flexibility of the Bank's program. Finally, the IDA17 program will enhance partnerships with other development partners. The total aid volume mobilized by Yemen quadrupled from an average of US$300 million per year before 2006 to roughly US$1.2 billion per year during 2006–10, an increase largely due to Arab donors. The Bank Group has been the leading donor in Yemen and is thus well placed to play a critical role in donor partnership to minimize the inefficiency of aid fragmentation and maximize the development impact.

Annex 3: Selected Country Briefs

Ethiopia

1. **Country context and priorities**. Ethiopia experienced strong and generally broad-based economic growth from 2004 to 2011 averaging around 10.6 percent a year in real terms. As a result, poverty in both urban and rural areas has fallen, and measured by the national poverty line (US$0.6 per day), the headcount ratio declined from 39 percent in 2004/05 to less than 30 percent in 2010/11. The access to and the quality of infrastructure has also improved. The average access time to an all-weather road decreased from 4.5 hours in 2007 to 3.5 hours in 2011. The number of consumers connected to the electric grid grew from 800,000 in 2005 to more than 2 million in 2011. Ethiopia is on track to achieve the MDGs related to gender parity, child mortality, HIV/AIDS, and malaria, but the progress is more limited on universal primary education and maternal mortality.

2. The Government of Ethiopia's strategy for poverty reduction is set out in its Growth and Transformation Plan (GTP, 2009/10-2014/15). The vision is for Ethiopia to reach middle-income status by 2020-23, through strong and stable economic growth. The strategy will rely on agriculture and industry as the main drivers and include the provision of quality infrastructure and social services (particularly in health and education) and good governance and democratization. Development partners have broadly endorsed the GTP.

3. Important challenges have emerged during the last few years. These include challenges in macroeconomic stability, the large number of poor and food-insecure people, the low quality in social services, and the weak capacity of the public sector. Government-led investments play an important role but are constrained by low saving rates and limited domestic resources. Private sector participation in industry and services could greatly contribute to the export-led job creation agenda, but realizing this potential requires significant upgrade of the business environment for domestic and foreign private sector participation, particularly through increased government transparency, improved engagements with non-government actors, more effective public participation in the decision-making process at all levels of the government, and better fiduciary and oversight institutions.

4. **IDA's strategy for support**. The Country Partnership Strategy (CPS, FY13-16) includes two pillars. Pillar One, "fostering competitiveness and employment", aims to support Ethiopia in ensuring (i) a stable macroeconomic environment; (ii) increased competitiveness and productivity; (iii) increased and improved delivery of infrastructure; and (iv) enhanced regional integration. Pillar Two, "enhancing resilience and reducing vulnerabilities", aims to support Ethiopia in improving the delivery of social services and developing a comprehensive approach to social protection and risk management. In addition, good governance and state building form the foundation of the CPS. In line with the GTP, gender and climate change have been included as cross-cutting issues to be mainstreamed in the portfolio.

5. Future IDA commitments are expected to be about US$1.2 billion a year, with 45 percent in infrastructure since: (i) the Government views IDA as adding significant value to the infrastructure sectors; and (ii) a large part of IDA programmatic support is required to support multi-year Government programs (e.g., energy and transport). Commitments in the social

sectors are expected to be about 35 percent of the total, while the remaining could be in budget support or Program for Results operations. IDA assistance would aim to strike a balance between appropriate selectivity and the expectations for a broad Bank engagement to support the overall development financing in Ethiopia.

6. **Collaboration with partners**. ODA to Ethiopia has more than quadrupled from US$0.7 billion in 2000 to US$2.9 billion in 2009, although it declined to US$2.6 billion in 2010. There has been a significant increase in the number of donors (from 25 in 2006 to about 36 in 2010), and the top seven donors (2011/12) are: IDA, China, DFID, WFP, USAID, the African Development Bank (AfDB) and the EU. Non-traditional donors are increasingly present, particularly through finance linked to specific trade and investments deals. IDA has had a long track record in helping achieve effective donor collaboration. A Development Assistance Group (DAG) coordinates donors and collaborates with the Government of Ethiopia through a High Level Ministerial Forum; and there are also several joint donor and government Sector and Technical Working Groups.

7. Going forward, the Bank will further strengthen the collaboration with existing development partners and expand the collaboration with non-traditional partners. Of the 25 IDA projects in the FY13 portfolio, 12 are co-financed with other donors, including the two largest projects (Promoting Basic Services, Productive Safety Net Program). A recent assessment concluded that many IDA projects were in compliance with the Paris Declaration principles of aid effectiveness and showed significant progress in coordinated technical cooperation and the use of country systems. In addition, the Bank will seek more active engagement with the regions within Ethiopia and with non-government partners. The programs of IFC and MIGA are well aligned with the CPS framework, with more focus on the objectives of CPS Pillar 1 on competitiveness and employment and on financial sector liberalization. Finally, the IDA, IFC and the IMF offices are co-located, which facilitates close collaboration.

Côte d'Ivoire

8. **Country context and priorities**. The Government's National Development Plan (NIP) states that poverty rates have worsened due to the recent conflict, and likely increased from the 48 percent level in 2008. In addition, progress towards most MDGs has been slow and most of them remain beyond reach, even though some improvement has been registered in gender equality, infant mortality and maternal health.

9. Côte d'Ivoire's key development challenges are to lay the foundation for sustained growth and poverty reduction by promoting traditional agricultural value chains and fostering structural transformation towards sectors with higher value added – a key prerequisite for the country's objective to become an emerging market economy by 2020. To this end, the government will need to continue to make progress towards reconciliation by addressing root causes of the recent conflict, including through reform of the security forces, land reform, and the strengthening of the justice system. In addition, further progress will be needed to reduce transaction costs to support private sector development, especially by improving infrastructure in transport and electricity, enhancing access to finance, and addressing the skill deficits in key sectors, as well as reducing the cost of doing business. Côte d'Ivoire also needs to strengthen the

quality of pro-poor spending to improve social indicators, including in educational achievement, access to health care, and gender equality.

10. Against this background, the government launched a comprehensive and ambitious reform program which received the strong support of the international community at a December 2012 Consultative Group meeting. The program foresees large-scale investments in transport and energy, as well as the establishment of an institutional and regulatory framework conducive to greater investment in promising sectors, including agricultural value chains and light manufacturing. In addition, the government has launched major reforms in education and health, including the rehabilitation or new construction of schools, universities and hospitals.

11. **IDA's strategy for support**. The World Bank Group Country Partnership Strategy FY10-13 is under implementation, and a CPS Progress Report (CPS-PR) is expected to be completed by mid-2013. The CPS-PR proposes an extension until end-FY14 to account for the recent crisis and includes adjustments to reinforce peace while supporting reform and recovery. The original four CPS pillars include: (i) strengthening governance and institutions; (ii) improving the performance of the agricultural sector; (iii) private sector development; and (iv) infrastructure renewal and basic services. Also, two cross-cutting themes – job creation with special attention to youth, and mainstreaming gender and improving women's economic empowerment – also reflect government priorities. In response to urgent country needs, IDA frontloaded resources in FY12, although the limited IDA resource envelope still constrains IDA's ability to deliver a number of pipeline operations. Côte d'Ivoire has benefited from exceptional post-conflict allocations and would benefit further from enhancements of IDA's support to FCSs in IDA17. Moreover, regional integration operations also form an important part of IDA's assistance in Côte d'Ivoire, by bringing in more benefits from regional synergies and additional regional IDA financing for eligible regional projects.

12. **Collaboration with IFC and MIGA**. IFC will increase its outreach in agribusiness, with support to cash crops, while also promoting increases in food production. Further support to infrastructure is being considered and the financial sector will continue to benefit from both investment and technical assistance. Some examples of WBG-wide collaborations are:

- <u>OHADA Investment Climate Reform</u>. This initiative is carried out in coordination with the Organization for the Harmonization of Business Law in Africa (OHADA) Secretariat and regional institutions, and through: (i) collaboration with IFC; and (ii) the *Projet d'Amélioration du Climat des Affaires dans l'Espace OHADA* – a dedicated Regional IDA project launched in 2012*;* and complementary national IFC-IDA activities in Côte d'Ivoire.
- <u>Infrastructure and Competitive Industries</u>. Through joint IDA advisory services and IFC's Public Private Partnership Business Line (C3P) program, the WBG provides technical assistance to public-private partnership (PPP) development in Côte d'Ivoire. Activities are supporting the government in structuring a pipeline of priority projects and in building institutional capacity. IDA, IFC and MIGA have played and continue to play a critical role in the development of the Azito power plant and its expansion.
- <u>IDA and IFC Collaboration in the Agriculture Sector</u>. In the cocoa sector, IFC has provided financial support to the private sector, and building on this experience, IDA

and IFC teams will deepen and scale up the support through an Agriculture Support Project planned for delivery in 2013. In addition, the IDA-IFC team is working on a shared strategy for palm oil development and exploring other opportunities.

13. **Collaboration with partners**. In addition to IDA, key donors include: the European Union, France, the African Development Bank, China, UN agencies and the IMF. IDA is the leading partner and accounts for nearly half of the ODA in Côte d'Ivoire. A Consultative Group was held in Paris in December 2012 under the auspices of the World Bank to mobilize funds for the implementation of the National Development Plan 2012-15.

14. IDA's investments and knowledge has leveraged donors and private sector contributors, and some examples include:

- The IDA-financed Small and Medium Enterprise (SME) Revitalization and Governance Project is implemented with the private sector. The Chamber of Commerce and Industry as well as private sector associations are active members of the Project's Steering Committee. In addition, specific project activities have leveraged private sector contributions (e.g., a pooled SME fund capitalized by IDA and participating SMEs).
- IDA, jointly with IFC, EU and UNIDO, is mobilizing support to design and implement an *industrialization, transformation/processing and competitiveness program* for Côte d'Ivoire through the newly launched IDA-administered Competitive Industries and Innovation Program. The program will provide a platform for public and private investment in potential high-return sectors and includes spatial development initiatives to achieve transformative growth and job creation.

Democratic Republic of Congo

15. **Country context and priorities**. The Democratic Republic of Congo (DRC) is emerging from a long period of conflicts and mismanagement, which have had devastating impacts on the economy, institutions and the social fabric. Poverty remains widespread, and the country will not reach any of the MDGs by 2015. With a 2011 per capita GNI of US$190, DRC's population of approximately 71 million is among the poorest in the world. More than 71 percent lives under the US$1.25 a day, and they account for 14 percent of the total number of the absolute poor in Sub-Saharan Africa. The 2012 Human Development Index ranks DRC the last among 187 countries. The maternal mortality ratio is 670 per 100,000 live births; the infant mortality rate is 97 per 1,000; and the under-5 child mortality rate is 158 per 1,000. Malaria, preventable infectious diseases, malnutrition, and the lack of infrastructure have impacted the government's efforts toward achieving many human development MDGs. Furthermore, the lack of economic activities in sectors with high growth and poverty reducing potential such as agriculture has reduced opportunities for DRC to address poverty and malnutrition.

16. With rich land and other natural resources, DRC has the potential to sustain higher growth and reduce poverty faster – but only if a large number of stable, wage-paying jobs are created. However, poor governance – evidenced by the mismanagement of the extractive sector, weak institutions, wars, and conflict – has prevented the population from enjoying the benefits of their incredible endowments. Addressing this paradox has been at the heart of the Second

Poverty Reduction Strategy Paper adopted in 2011 and the May 2012 Government Program as its implementation roadmap. The Program focuses on: (i) establishing mining sector linkages with the rest of the economy; (ii) improving governance in the management of natural resources and public enterprises; (iii) promoting a modern public administration and strengthening public financial management; (iv) enhancing the business climate for private-sector-led growth; (v) improving human development; (vi) closing the infrastructure gap; and (vii) improving security in general, especially in eastern DRC.

17. **IDA's Strategy for Support**. The new CAS program (FY13-16), scheduled for Board Presentation in May 2013, will focus on four strategic objectives: (i) increase the effectiveness of the state at the center and at decentralized levels, and improve good governance, while strengthening the development impact of IDA operations; (ii) boost the competitiveness of the economy by accelerating private-sector-led growth that will create jobs; (iii) improve social service delivery to raise human development indicators; and (iv) address the development deficits contributing to fragility and conflicts in DRC's eastern provinces.

18. Supporting the first strategic objective on state effectiveness and good governance will cover civil service reform and rejuvenation in targeted ministries, implementing the Public Financial Management action plan at the center and provincial levels, strengthening civil society organizations to help achieve good governance(particularly in the mining and forestry sectors), and reinforcing the capacity of state oversight institutions, including the Parliament. IDA has adopted a *growth pole* approach to boost the competitiveness of the economy, accelerate private-sector-led growth and create jobs by supporting basic infrastructure including energy, improving business climate, improving trade facilitation, and supporting the development of value chains in agriculture. Strengthening basic service delivery systems and improving access to basic education and essential health services will support the third strategic objective. Furthermore, conflict fragility will be addressed by an economic empowerment program to increase economic opportunities in eastern DRC and deal with some of the drivers of conflicts through analytical work and dialogue with all stakeholders.

19. Given the enormous needs of DRC, IDA resources will be used selectively for critical investment lending operations to complement and leverage other financing, including trust funds and other donor resources. Regional integration is also a key element in the assistance given DRC's strategic location in the center of the African continent, such as the further development of power generation from Inga as the most cost-effective power source that can boost the competitiveness of the economy and accelerate private-sector-led growth across African countries. Moreover, IDA will help generate knowledge products, provide technical assistance, and strengthen dialogue with the authorities, other in-country stakeholders and development partners to advance critical reforms, the most critical of which is to transform the country's natural riches into improved human development indicators.

20. **Collaboration with IFC and MIGA**. The new CAS is a joint IDA, IFC and MIGA strategy, the first joint CAS since reengagement of the WBG in DRC in 2001. The Bank and IFC are committed to continuous collaboration to maximize development impact in DRC, including in planning joint dissemination and implementation. Periodic reviews will be conducted jointly to track progress, make needed adjustments, and explore additional opportunities for greater collaboration. MIGA does not have a country-specific strategy for DRC

but it will continue to engage alongside the other WBG institutions and will likely contribute more to private sector development support.

21. **Collaboration with partners**. The DRC receives an estimated US$1.6 billion in donor contributions annually. Development banks contribute approximately 60 percent of the annual financial assistance (including 26 percent from IDA and 16 percent from AfDB). European countries, including the European Union, provide 25 percent of the total; and USAID 13 percent. Among traditional donors, the coordination mechanism is formalized through a Donors Coordination Group, which has been co-chaired by the Bank and the UN. Also, the coordination platform for public financial management reforms can be considered a model of donor collaboration. Development partners in the Thematic Group on Public Finances (AfDB, DfID-UK, AFD, GIZ, UNDP and IDA) and the Government signed a Memorandum of Understanding (MOU) to jointly monitor the implementation of this reform program and to harmonize interventions. Also, the use of a basket-funding mechanism through a MDTF for the implementation of this reform program is being developed with the support of DfID.

Mali

22. **Country context and priorities**. Mali was far from reaching the MDGs prior to the 2011 drought and the 2012 crisis, which further worsened its development results. Between 2001 and 2010, the poverty rate declined from 55.6 to 43.6 percent. However, it subsequently increased due to the crises in 2011-12 from 43.6 percent in 2010 to 46 percent by end-2012, resulting in 7.2 million more poor people. Also, poverty has been compounded by high fertility rates (6.7 children per women) and dependency ratios. The infant mortality rate is also high at 191 per 1,000 live births, and Mali is the 3rd to last country in the world in under-five child mortality. The maternal mortality rate is high at 540 deaths per 100,000 live births. The primary education completion rate in 2010 was 59.1 percent, much lower than the SSA average of 70 percent. The quality of learning is also poor. Gender inequality remains high with less than 8 girls for 10 boys enrolled in basic education. GDP is estimated to have contracted by 1 percent as a result of the crisis, although it is projected to grow by 5 percent in 2013. The crisis has also resulted in a large displacement of people from the northern provinces to neighboring countries (more than 150,000 people) and to the south (more than 200,000 people), adding pressure on the already stretched social services in the south. These adverse developments have further increased the development needs in Mali.

23. **Government priorities for investment and reforms**. Mali's post-conflict recovery challenges include both long term institutional and capacity weaknesses that preceded and led to the crisis, and emergency post-conflict reconstruction challenges. Mali is facing a heightened risk that insecurity and fragility will remain, even as territorial control is regained. The Government has formulated a Political Roadmap, approved by the National Assembly in January 2013, highlighting the priorities for the recovery, including territorial control and holding elections, and for laying foundations for growth and development. The current Government has updated its pre-crisis Poverty Reduction Strategy Paper 2012-17 with a new Emergency Priority Action Plan (PAPU, 2013-14). The PAPU combines programs from the PRSP (mostly aimed at preventing rapid deterioration of human development indicators) with crisis–related actions from the political roadmap which were not contemplated in the PRSP. These include actions to restructure security services; promote reconciliation through dialogue between communities;

facilitate and support the return of the administration, refugees and displaced populations in Northern regions; organize elections; rehabilitate damaged infrastructure; encourage the development of labor-intensive economic activities; and strengthen State legitimacy and the rule of law. In addition to the PAPU, the Government has formulated a detailed Plan for the Sustainable Recovery of Mali (2013-14).

24. **IDA's strategy for support**. The Bank Group's strategic priorities are outlined in the FY14-15 Interim Strategy Note. The ISN program focuses on both the short term post-conflict needs and long term governance and growth challenges. The ISN outlines one cross-cutting area of engagement, long-term challenges in governance, and two pillars: (i) protecting human capital; and (ii) preparing the conditions for economic recovery. IDA's lending and non-lending activities will provide technical and financial support to revive agriculture and build social safety nets, while supporting reforms and actions to build and update institutions and strengthen the foundation for economic growth in the long-term. The ISN non-lending program builds on a fragility assessment, and aims to rebuild the knowledge base to inform the dialogue with Malian counterparts, complement coordinated post-crisis efforts with all partners, and prepare for a full Country Assistance Strategy immediately following the ISN period.

25. Under the cross-cutting area *Laying the foundations for long term accountability and stability*, the priorities will focus on budget transparency, support to decentralization, public expenditure review and management. Under Pillar 1 *Protecting human capital and building resilience*, IDA will support the government to protect human capital and build resilience with a mix of investment and policy lending and non-lending assistance in health and demography. This includes activities on a national safety nets, skills development and youth employment, primary education, and analytical work on poverty, service delivery in low-density areas, and statistical and employment assessments. Under Pillar 2 *Preparing the conditions for economic recovery*, IDA will support immediate post-conflict recovery in agriculture and in reconstruction and investments in basic service delivery, including water supply, rural electricity, urban services and regional operations in ICT and energy, as well as guarantees in support of IFC investments. Finally, solutions for Mali's peaceful recovery are closely connected with a more resilient future for the Sahel and the rest of West Africa, and thus IDA assistance will also explore a regional approach to energy for more efficient support to the reconstruction and development in Mali.

26. **Collaboration with partners**. The Bank is the main development partner in Mali, with an ongoing portfolio of US$534 million and a pre-crisis IDA commitment of US$120 million in 2011. The US is the second largest donor (US$105 million in 2011), followed by AfDB (US$65 million), Canada (US$52 million) and the EU (US$50 million), and other major donors are the Netherlands, France and Germany. In the Brussels Conference on May 15, 2013, donors pledged more than US$4.2 billion for development and peace-building efforts in Mali, and IDA will play a platform role in supporting the effective utilization of this assistance to achieve results. In addition, the WBG program envisages using IDA strategically to complement IFC investments (including potential support of guarantees) and Trust Funds (in education and climate change), as well as regional initiatives to more efficiently address the Sahel-wide challenges. The Global Partnership for Education Project is the result of a strong partnership in the education sector with all the main donors engaged in Mali, including the Netherlands (lead donor), Canada, France, UNICEF, UNESCO, and international CSOs. Key partnerships in health are with Canada, France, the US, the Netherlands, Sweden, AfDB, IDB, and the UN system led by UNDP.

Similarly, the Emergency Safety Net Project has been prepared with inputs of UNICEF, the main strategic partner in the sector in Mali.

Somalia

27. **Country context and priorities**. Two decades of conflict and instability have had devastating development consequences for Somalia, which is unlikely to attain any of the MDGs by 2015 and ranks among the bottom five countries on the Human Development Index. Poverty incidence is very high (73 percent), and there is a lack of access to basic water and sanitation, low school enrollment (31 percent overall, only 22 percent for girls), and high gender inequality and child and maternal mortality rates. Development indicators are even worse for the country's 1.3 million internally displaced persons, though they are generally higher in the more stable northern regions. The constraints to achieving the MDGs are fundamental and include insecurity and conflict, lawlessness, lack of infrastructure and basic service delivery, and the absence of public institutions able to provide effective responses to persistent drought and famine. Intense social fragmentation, contested governance, and dysfunctional political economy are among the underlying sources of fragility.

28. In the past 18 months, Somalia has entered into a fragile – but positive – transition period. The key development challenge is to continue the early gains on political, security, and economic fronts, while managing on-going insecurity and new stresses, including sensitive processes of political negotiation between federal and regional administrations. During this time it is crucial for the government to develop basic institutional capacity and accountability to generate public confidence as well as increased economic activity and longer-term resilience. These needs will require the country to access international financial assistance and set out a pathway for the re-engagement of the International Financial Institutions.

29. The federal government's current planning strategy – the "Six Pillar Policy" – focuses on stability and includes: (i) the rule of law and good governance; (ii) economic recovery; (iii) peace-building and social reconciliation; (iv) service delivery; (v) national unity; and (vi) international relations. These priorities reflect the "pre-MDG" nature of Somalia's development status and focus on basic peace-building and state-building activities as preconditions for a more stable development pathway in which sustainable progress towards the MDGs can be made. The administration of Somaliland has developed its own National Development Plan (2012-2016). Public investment priorities under the plan include infrastructure (roads, airport, ports, energy and water); agriculture and industry; environmental protection; and the promotion of science, technology and innovation.

30. **IDA's strategy for support**. The Bank has re-engaged with Somalia in limited capacity since 2003 and has operated at the request of the international community in a focused set of areas: public financial management, private sector development, livelihoods/resilience, combining grant financing and analytical work. The Bank is now preparing a new ISN for Somalia in the context of the transition. The framework for the engagement was discussed with Executive Directors in April 2013 and received strong endorsement. Based on dialogue with the authorities, the ISN will propose two areas that are aligned with government priorities and the Bank's comparative advantage: (i) support building of selected key institutions to begin to perform key functions of the state, critical for domestic and international trust; and (ii) support

early recovery and economic recovery. The Bank will balance its new work in southern Somalia with the ongoing engagement in Somaliland. The strategy will evolve through the year in line with the evolving framework for international engagement in Somalia. IDA has comparative advantages to leverage its cross-country experiences to assist Somalia in institution building, private sector development and medium-term economic recovery planning. IDA's analytical and statistical capacity has also been highly regarded by the government and international actors.

31. **Collaboration with partners**. At the strategic level, all parties are now committed to a new aid framework that applies the principles of the New Deal: under government leadership, IDA – together with the UNDP and other partners – will support a fragility assessment to help establish peace- and state-building priorities and develop corresponding indicators to measure country progress. The work will feed into a high level "Compact" that lays out principles of mutual accountability and responsibility between Somalia and its development partners. At the sector/programming level, IDA is in discussions with UNDP on an appropriate division of labor in the area of institutional development, including public financial management. IDA is also facilitating a workshop with the UN Resident Coordinator's Office on financing instruments in Somalia and best practices from other transitions, including in the administration of a strategic financing instrument that would likely support core functions of the state, key service delivery programs and capacity building.

32. In addition, the private sector plays a key role in Somalia, especially the Somali diaspora. Domestic business actors play a significant role, especially in the financial sector and the telecommunications sector. IDA and IFC are working together to formulate a joint strategy in Somalia, leveraging ongoing private sector work in Somalia supported through an IDA-administered MDTF, as well as IFC's capacities for public-private dialogue. MIGA is currently not engaged in Somalia, but there are significant opportunities for MIGA given the role of the private sector and inward investment from the diaspora.

Myanmar

33. **Country context and priorities**. Myanmar is one of the poorest countries in East Asia**,** with an estimated GDP per capita of between US$800-US$1,000 and a poverty rate of 26 percent. About 75 percent of the population of about 60 million has no access to electricity, and almost half of roads are not passable during the monsoon season. Also, 32 percent of children under five suffer from malnutrition, the highest in East Asia. Yet Myanmar is in the midst of a triple transition: from an authoritarian military system to democratic governance; from a centrally-directed economy to market-oriented reforms; and from 60 years of conflict to peace in the border areas. If successful, these transitions present a chance for Myanmar's transformation, but setbacks in any one of these realms will affect the others. Since 2011, the reformist administration of President Thein Sein has undertaken far-reaching reforms, including a rapprochement with opposition leader Aung San Suu Kyi, the release of most political prisoners, ceasefires with ethnic minority insurgent groups, and important reforms to stimulate inclusive growth and reduce poverty. In December 2012, President Thein Sein announced that a "third wave" of reforms would focus on targeting corruption.

34. The government is changing its economic planning approaches to a prioritized set of policy reforms through a process of technical discussions and public consultations. The basis for

these consultations is the "Framework for Economic and Social Reforms," which spells out a number of important institutional reforms, along with several "quick wins" to maintain popular support. A key focus will be meeting the MDGs, in many of which Myanmar ranks the lowest among ASEAN countries. In the transition, Myanmar can benefit from its tremendous endowments, including human and natural resources and a strategic location, but needs to overcome some critical challenges, particularly to address weak institutions, an infrastructure deficit and underdeveloped service sectors. Similarly, maintaining a stable macroeconomic environment and rule of law will be essential to build investor confidence, while sound public sector management will be critical for effective service delivery.

35. **IDA's strategy for support**. After an absence of more than 20 years, the World Bank Group's re-engagement can help Myanmar address its key challenges. The Interim Strategy Note (prepared jointly with the IFC and discussed at the Board in November 2012), proposes three pillars for engagement: (i) supporting the transformation of institutions; (ii) building confidence in the reform process by delivering tangible benefits to the population; and (iii) preparing the way for the road ahead, including by building the knowledge base. A CPS will be prepared to cover the IDA17 period and will build on these themes and the reform experiences. Since the re-engagement, IDA has delivered a community-driven development project to put into practice the government's vision of people-centered development, and is planning to deliver projects to strengthen public financial management, telecommunications reform, and electricity generation in addition to undertaking a significant set of analytical and diagnostic work to inform policy dialogues and future interventions. During IDA17, IDA would propose additional operations related to these challenges, including in agriculture, education, health, access to finance, and integrated water management. In addition to the continued efforts of building country capacity, the scope for policy based lending will also be explored.

36. IDA can provide critical financing to address Myanmar's urgent needs and play a catalytic role to accelerate its progress. But equally important, IDA can play a key platform role for donors to strengthen Myanmar's government systems, service delivery, and infrastructure, since donors are looking for the most efficient way to support the country. In addition, the Myanmar government has welcomed the Bank's re-engagement not only as a source of financing, but as a source of knowledge on a wide range of issues confronting the country, such as a shift to people-centered development and bottom up planning. Given the significant size and needs of Myanmar, a substantial IDA17 financing is required to allow IDA to make a substantive and lasting impact.

37. **Collaboration with partners**. Top donors to Myanmar in financing are JICA, ADB and IDA, all of which are likely to have strong programs, ranging from US$400 million over the next four years from the ADB to US$1.2 billion annually from Japan. Also, other partners have scaled up their Myanmar operations over the past two years in recognition of the government's reform efforts, including Australia, UK, and the EU. Commensurate with increased donor interest, the Government has stepped up its donor engagement. In January 2013, it held the first Myanmar Development Cooperation Forum that was attended by 57 partner countries. IDA will continue to strengthen its collaboration with partners in its assistance following the country-driven model to maximize the development impact.

Annex 4: Potential Eligibility for Transitional Support for Future IDA Graduates

1. The paper titled "Follow-Up on IDA's Graduation Policy and Proposal for Transitional Support for Graduating Countries" discussed at the first meeting of the IDA17 replenishment proposed that access to transitional support for a graduate would require meeting the three eligibility criteria set out in the March paper and specified below:

(a) GNI per capita below the historical threshold at the time of graduation;

(b) a significant poverty agenda, as measured by poverty levels and other social indicators; and

(c) a significant prospective reduction in available financing from the WB after graduation from IDA.

2. The paper provided a preliminary assessment of eligibility for transitional support for upcoming graduates. As it pointed out, the need for transitional support for future graduates will depend upon a range of factors, including each country's development path, demand for WB financing and developments in the global economic environment.

3. Based on a sample of blend countries and/or IDA-only countries whose GNI per capita is above the operational cutoff for FY13, less than half of the countries could meet the first two criteria (GNI per capita below the historical cutoff and a significant poverty agenda as measured by poverty and social statistics). This assessment uses the most recent poverty and social data, and FY13 GNI per capita figures. These countries are Cameroon, Djibouti, Ghana, Lesotho, Nigeria, Pakistan and Papua New Guinea. Vietnam and Uzbekistan could meet the income criterion, but both fare better than the lower-middle income group average on all or almost all poverty and social indicators, and hence would not likely meet the poverty criterion.

4. It is difficult to predict which countries would meet the third criterion. As was pointed out in the March paper, as more countries graduate to IBRD-only status, and there is a greater concentration of higher risk countries, IBRD's financial capacity may become more constrained. Shocks affecting multiple countries simultaneously may also increase demand from IBRD countries as happened during the global financial crisis. Should such a crisis occur when countries are close to graduating, then constraints to IBRD lending in these countries could be binding, and would need to be considered along with other eligibility criteria. IBRD financing constraints are likely to be more binding in countries where IBRD is being asked to substitute for large lost IDA flows, such as may be the case in Vietnam or Pakistan at the point of their graduation. A concerted WB effort to smooth lending by encouraging a frontloading of IDA and backloading of IBRD financing for upcoming graduates will help reduce the need for transitional support in the future, but this smoothing is more difficult in countries with a longer history of IBRD financing.

Table 2. Potential Eligibility for Transitional Support

Country	IDA status	GNI per capita below Historical cutoff	Fares worse than Lower-middle income group average? 1/								Sharp drop in WB financing after IDA graduation
			Poverty headcount ratio at $1.25 a day (PPP) (% of population)	Primary school enrollment rate (adjusted net, % of primary school age children)	Fertility rate (births per woman)	Life expectancy at birth, total (years)	Literacy rate (% of adults ages 15+)	Malnutrition prevalence, height for age (% of children under 5)	Mortality rate, infant (per 1,000 live births)	HDI	
1. IDA16 Graduates											
Angola	Graduation	NO	YES	YES	YES	YES	YES	NO	YES	YES	NO
Armenia	Graduation	NO	NO	YES	NO	NO	NO	NO	NO	NO	NO
Bosnia and Herzegovina	Graduation	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
Georgia	Graduation	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO
India	Graduation	YES	YES	NO	NO	YES	YES	YES	YES	NO	YES
2. Potential future graduates 2/											
Bhutan	IDA only/Gap	NO	NO	YES	NO	NO	YES	NO	NO	NO	UNKNOWN
Bolivia	Blend	NO	NO	NO	YES	NO	NO	NO	NO	NO	UNKNOWN
Cameroon	IDA only	YES	NO	NO	YES	YES	YES	YES	YES	YES	UNKNOWN
Congo, Republic of	IDA only/Gap	NO	YES	NO	YES	YES	NO	NO	YES	NO	UNKNOWN
Djibouti	IDA only/Gap	N.A.	NO	YES	YES	YES	NO	NO	YES	YES	UNKNOWN
Ghana	IDA only	YES	NO	YES	YES	YES	YES	NO	YES	NO	UNKNOWN
Guyana	IDA only/Gap	N.A.	NO	YES	NO	NO	NO	NO	NO	NO	UNKNOWN
Honduras	IDA only/Gap	NO	NO	NO	YES	NO	NO	NO	NO	NO	UNKNOWN
Kosovo	IDA only/Gap	NO	YES	NO	NO	NO	NO	YES	YES	NO	UNKNOWN
Lesotho	IDA only	YES	YES	YES	YES	YES	NO	YES	YES	YES	UNKNOWN
Moldova	IDA only/Gap	NO	NO	NO	NO	NO	NO	NO	NO	NO	UNKNOWN
Mongolia	Blend	NO	YES	NO	NO	NO	NO	NO	NO	NO	UNKNOWN
Nigeria	IDA only	YES	YES	YES	YES	YES	YES	YES	YES	YES	UNKNOWN
Pakistan	Blend	YES	NO	YES	YES	YES	YES	YES	YES	YES	UNKNOWN
Papua New Guinea	Blend	YES	YES	NO	YES	YES	YES	YES	NO	YES	UNKNOWN
Sri Lanka	Blend	NO	NO	NO	NO	NO	NO	NO	NO	NO	UNKNOWN
Timor-Leste	Blend	NO	YES	YES	YES	YES	YES	YES	NO	YES	UNKNOWN
Uzbekistan	Blend	YES	YES	NO	NO	NO	NO	NO	NO	NO	UNKNOWN
Vietnam	Blend	YES	NO	NO	NO	NO	NO	NO	NO	NO	UNKNOWN

Notes:

1/ Based on latest available data. "N.A." indicates that data are not available for making the respective comparison.
2/ Shows countries either above the GNI per capita operational cutoff for FY13, or classified as blend.

Annex 5: Assumptions on FCS Support Underpinning the Financing Scenarios

1. **The objective of this annex is to summarize the assumptions underpinning the scenarios on financing to FCSs presented in this document.**[39] The different scenarios build on the allocation framework proposed by Management at the first IDA17 replenishment meeting. The framework responds to the principles of effectiveness, transparency, responsiveness and timeliness in a way that preserves strong incentives for performance and builds on IDA's implementation experience – including with respect to the need for striking a balance between rules and flexibility. In addition, the proposed framework responds to the challenges and opportunities presented by IDA's diverse client base and the opportunities presented by the New Deal.

2. **The proposed framework rests on two main components which received broad support at the IDA16 MTR and the first IDA17 meeting**. Specifically, these two components are: (i) an exceptional allocation regime for countries facing "turn-around" situations; and (ii) increasing the poverty-orientation of the regular Performance-Based Allocation (PBA) system. In addition, the proposed framework includes measures to ensure that IDA funding allows for meaningful country engagement and to ensure a smooth transition out of the current exceptional regimes for post-conflict (PC) and re-engaging (RE) countries. These components are summarized below.

3. **Exceptional allocation regime for countries facing "turn-around" situations**. Starting in IDA17, this regime would cover all future cases warranting the provision of exceptional IDA support. This regime will provide IDA with a vehicle for enhanced support to countries experiencing unforeseen openings for significant policy and institutional changes. The proposed implementation modalities reflect the current understanding on fragility and conflict, including with respect to the long timeframes required in the FCSs context for restoring confidence and building institutions. Setting up this regime would also recognize the importance of responding quickly and decisively with international support to openings that enable countries to build resilience.

4. **Increasing the poverty-orientation of the regular PBA system**. Increasing the poverty-orientation of the regular PBA system responds to the increased number of IDA countries with Gross National Income (GNI) per-capita levels above the IDA operational cutoff and the increased revenue dispersion among IDA countries. While not based exclusively on fragility considerations, this measure would allow an increased IDA engagement in the broader group of FCSs, most of which have low per-capita GNI per-capita levels. The Management proposal, contemplates that the increased poverty-orientation would be achieved by reducing the Country Performance Rating (CPR) exponent in the regular PBA allocation formula.

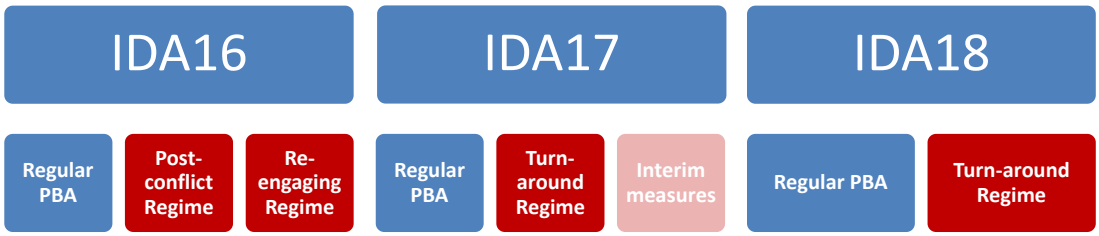
5. **Ensuring adequate funding for meaningful country level engagement**. This addresses the fact that IDA financing remains insufficient to support an effective engagement in several small states. In this context, the proposal contemplates an increase of the minimum base allocation from its current level of SDR3 million. This measure will benefit primarily small states whose IDA allocation is largely determined by the minimum base allocation, many of which are FCSs. In addition, if the MDRI netting out were to be eliminated, it would further

[39] For a detailed discussion of the proposed framework and its implementation modalities see Special Themes paper.

strengthen the support for FCSs receiving small allocations and simplify the allocation framework.

6. **Ensuring a smooth transition of countries currently under the exceptional Post-Conflict (PC) and Re-engaging (RE) regimes**. To smooth the transition of countries currently under exceptional PC and RE regimes, either to the regular PBA system or to the new exceptional "turn-around" regime, two interim measures have been proposed. Specifically, these countries would be subject to: (i) a case-by-case extension of their phasing out period for the duration of IDA17, and (ii) the alignment of the level of support to these countries with the support to be provided under the exceptional "turn-around" regime. The existing exceptional PC and RE regimes would be discontinued by the end of IDA17 and the exceptional "turn-around" regime would remain the only vehicle for enhanced IDA support thereafter, as illustrated in the chart below.

Evolution of IDA's Allocation Framework as per the Management Proposal



7. **Financing Scenarios for FCSs**. The magnitude of the financing to FCSs under the different scenarios in this paper reflects different assumptions regarding which components of the Management proposal are implemented as well as on the parameters guiding the implementation of such components. The specific assumptions and the resulting levels of financing are detailed in the tables below. In setting up these financing scenarios, Management has strived to balance the need to keep up progress momentum in FCSs and the trade-offs that would emerge from implementing the proposed changes to the allocation framework. A full discussion of the financing implications for FCSs and trade-offs is in the special themes paper. A summary of the assumptions underpinning the 5 scenarios for FCS support is shown in Table 1 below.

Table 1. Assumptions on FCS Support Underpinning the Financing Scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Elements of the Proposed Framework 1/					
(i) Exceptional Turn-Around Regime					
Notional Maximum Per-Capita Allocations 2/			50%	100%	100%
(ii) Regular PBA System					
CPR Exponent		4	4	4	4
(iii) Ensuring a meaningful country engagement		Yes	Yes	Yes	Yes
(iii) Interim Measures					
Case-by-case phasing out extension 3/	Yes	Yes	Yes	Yes	Yes
Alignment of Support with "Turn-around" Regime			Yes	Yes	Yes
Replenishment level (US$ billion)	44.6	47.0	50.4	52.4	54.4
Core funding level (US$ billion)	39.7	40.4	41.8	43.2	44.8

Notes:

1/ Cells in gray indicate the elements of the proposed framework applicable to each scenario. Where relevant, the parameters parameters guiding the implementation of these elements are noted in the cells.

2/ Figures in the cells represent the percent increase in the Notional Maximum Per-capita Allocations under the exceptional "turn-around" regime relative to the Notional Maximum Per-capita Allocations agreed in IDA14 for the exceptional PC regime.

3/ The case-by-case extension would be based on the extension criteria agreed in the context of the IDA16 replenishment. Under these criteria, and using the most recent data avaialble, Afghanistan, Burundi, CAR, DRC, Haiti and Togo would have their phasing out periods extended. The original phasing out periods for Côte d'Ivoire and Liberia end in FY17.

Annex 6: Regional Transformational Projects

1. **A transformational project implies major positive improvements to some binding constraint that will enable a fundamental change in a country. For "regional transformational projects", these positive impacts are expected to have very significant spill-over benefits beyond borders, namely at the sub-regional or regional level**. These are not "business as usual" projects, but interventions that cause significant structural and sustainable change in a positive manner. Generally these projects: (i) significantly affect supply prices (or resource cost in some form, e.g., time); (ii) reap large economies of scale or other efficiencies by acting collectively in the pursuit of common objectives to increase regional/sub-regional supply capacity and improve access to market; and (iii) affect a large number of people. For the purposes of the present paper, regional transformational projects refer to projects with significant transformational impact: (1) on three or more IDA countries (or two if one is a FCS); or (2) whose physical implementation is only in one country but are expected to have a significant impact at the sub-regional or regional level. According to this definition, regional transformational projects align very well with the IDA's ongoing regional integration program.

2. **Regional transformational projects are typically characterized by very complex designs (including challenging safeguard requirements), require significant financing, and often take place in difficult and risky environments**. As a result, the private sector is often not forthcoming in engaging alone in the early phases of these projects given the large upfront costs required to determine their feasibility or the significant political and financial risks involved. Despite these challenges, these projects have very large potential spill-over benefits at the sub-regional or regional level. In this context, countries are asking IDA to play a leading role in the preparation and implementation of several of these complex projects given its unique offering of financing, knowledge and partnerships. IDA has a unique comparative advantage in many areas of the regional integration agenda. The engagement of IDA can help mitigate risks from investing in difficult environments and mobilize large financing (through its own and the leveraging of others' financing). Its global experience enables cross-regional learning and introduction of global best practice. IDA's cutting edge analytical work and technical assistance across the sectoral spectrum provide vital knowledge to spark regional policy debate and inform strategic planning and operational design. It also serves as a valued asset and entry point for dialogue and long-term engagement and partnerships with national governments, regional institutions and other donors. IDA provides high standards of due diligence and offers strong advisory services through its depth of skills and presence on the ground to craft innovative and targeted solutions to complex project design and implementation issues, as well as help improve the broader sector environment and project impact on communities.

3. **In these projects, IDA works closely with other financiers given its global reach and long-standing partnership with regional development banks, bilateral donors and the private sector**. The Bank was one of the first development institutions to operate regionally on a large scale and has had long experience in regional integration. Lessons learned from this experience have helped inform its strategy going forward and the innovations and staffing strategies currently being rolled out to position the Bank as a practice leader on innovative new approaches to speed regional project delivery, improve project management and attract significant private sector financing for regional programs. IDA's leadership has also helped encourage other development partners to scale up their regional programs and collaboration in a

significant way and IDA increasingly co-finances projects with other regional development banks. In this context, the paper titled "IDA Support to Transformational Projects with Regional Impact" prepared for the 1st meeting of the IDA17 Replenishment details the significant co-financing on regional projects with the African Development Fund/African Development Bank.

4. **IDA has long been a key partner of IDA countries in regional integration efforts, and its assistance for regional initiatives aims to combine global knowledge and leveraging of financing services to provide development solutions customized to client country needs**. Through the current regional program, IDA is already engaged in supporting the preparation and implementation of some regional projects that have significant transformational impact. IDA has also been active in capacity building for regional institutions – using its convening power to draw attention to the integration agenda and leverage collaboration and resources from donor partners and the private sector. However, IDA's ability to expand its role to further facilitate the preparation and implementation of regional transformational projects is being constrained in two important ways: (i) for projects that qualify for financing from the IDA national and regional program, the size of their financing needs often exceeds the resources available; and/or (ii) some projects do not qualify for financing from the regional IDA program because their physical implementation is only in one country and their national IDA allocation is not large enough – but they are expected to have a significant impact at the sub-regional or regional level.

5. **Moving forward on the regional transformational project agenda will require actions to address these two constraints**. Management's view is that there is no need to consider an additional financing window for transformational projects; rather what is needed is to consider adjusting the eligibility criteria in order to support transformational projects under the regional program financing window and to augment the amount of financing available. Specifically, Management proposes to revise the eligibility criteria so that financing of transformational projects that only cover one IDA country would be allowed, as long as the impact/benefit covers three or more countries (two, if one is a FCS). The other criteria for accessing regional IDA funds would remain the same, thus the regional nature of the program is safeguarded by the fact that proposed transformational projects must have cross-country impact and spill-overs, would still require close alignment with regional strategies, and be supported by regional institutions and development partners. It is therefore not envisioned that this modification would have a major impact on the type of projects that are currently being financed, except it would allow IDA to engage more fully on a few selected large and highly transformational projects, which are fully aligned with the current objectives of the regional IDA program. With respect to financing, it is clear that additional resources will be needed, both to meet existing demand for regular regional projects, and to be able to scale up support for large regional transformational projects.

6. **Given the high demand for regional resources, and the often very large size of regional transformational projects, increased efforts will be required to target scarce IDA resources for the purpose of leveraging financing and partnerships from other international financial institutions and the private sector**. Specifically, IDA's role will have to increasingly shift from financing a finite regional investment to that of using IDA resources (financing, knowledge and partnerships) to catalyze support from other development partners. While this is true for all (regional and national) projects that IDA supports, it is particularly

critical for the regional transformational projects whose complexity and financing requirements cannot be addressed by any financier alone. This will require:

- closer engagement across IDA, IFC and MIGA to help mobilize private sector participation and funding, and address political, financial and other risks, including through the full use of their financing instruments (credits, guarantees, risk insurance, etc.); indeed, the expectation is that regional transformational projects would be supported by the WBG in an integrated and synergistic manner. In addition, ongoing efforts to expand IDA's guarantee instruments will help improve IDA countries' access to market funding, particularly for infrastructure where financing needs remain large.[40]In this connection, support for Public Private Partnerships (PPPs) is particularly relevant, providing private sector financing, innovation and efficiency along with support for countries to improve the planning of public investments, procurement, and the incentive and regulatory frameworks for key industries. The WBG is well positioned to help IDA countries establish PPP delivery mechanisms by leveraging its capacity to support this agenda from priority setting to policy formation and governance to projects/transactions across sectors. As one World Bank Group, the combined competencies of IDA, IFC and MIGA present IDA countries with a cohesive package of catalytic financing and technical advisory support to meet diverse and evolving needs.

- enhanced collaboration with other international financing institutions, especially regional development banks, bilateral donors and other financial institutions which have an important complementary role to play; this will require enhanced joint long-term planning and partnerships.

- for large transformational projects, focusing scarce IDA's resources on project preparation up to the selection of a private developer/operator. This will help determine project feasibility in what are often very risky environments in which private sector involvement may not be forthcoming in the early stages. Funding could cover pre-feasibility and feasibility studies, environmental and social impact assessments, preliminary engineering design, technical testing and the cost for bidding and selection of the private sector developer/operator.

- continued efforts to strengthen the implementation and performance of the regional IDA program and portfolio. As discussed in the paper provided for the IDA16 Mid-Term

[40] In light of market developments and new opportunities to mobilize development financing, and as part of the modernization of the World Bank's Operational Policy on guarantees, a proposal is being developed to extend IDA's guarantee products to include Partial Credit Guarantees (PCG) and Policy Based Guarantees (PBG), in addition to the existing Partial Risk Guarantee (PRG). Following a discussion of an Approach Paper on this proposal by the Board's Committee on Development Effectiveness (CODE) in October 2011 and external consultations, a final paper will be put forward to CODE and the Board in 2013. In addition, as noted in the CODE Approach Paper, the Bank plans to further align the guarantee policies with lending policies, to facilitate the use of guarantees and encourage further leveraging of IDA's resources by mobilizing private and other resources. Also, alignment of environmental and social safeguards for private sector projects among WBG institutions was approved by the Board on June 26, 2012 to facilitate WBG collaboration, including for guarantees. The Bank continues to provide a series of training sessions on public-private partnership projects to increase awareness for the guarantee instruments internally and externally.

Review,[41] there have already been very significant improvements in the performance of the regional IDA portfolio. Areas of continued management focus include tailoring the design and scope of projects to the capacity of national and regional institutions, ensuring readiness at entry, careful attention to the political economy context to mitigate risks and ensure commitment, and regularly conducting in-depth project performance reviews to identify and address implementation bottlenecks.

7. **IDA will also reflect lessons from experience with large scale transformational investment**. It should be noted that, without careful attention, the benefits of large scale, transformational investments can bypass local communities and the most vulnerable populations. IDA's approach and strategy take into account lessons learned from experience to ensure maximum stakeholder ownership and benefit when financing large scale infrastructure operations. This means paying close attention to environmental and social safeguards – ensuring extensive consultation and responsiveness to local concerns and focusing not only on mitigation measures to prevent harm but actively incorporating new opportunities and benefits for local populations. Practical examples include designing transmission lines with more sub-stations than would be technically needed to export power over long distances – enabling electrification of local grids rather than bypassing local communities; approaching water resource development from a multi-purpose perspective – not only building hydropower plants but also incorporating flood control, irrigation, agriculture and livelihoods development for riparian communities; and incorporating HIV/AIDS awareness and treatment and road safety initiatives with regional transport corridor investments to empower and protect populations at risk.

[41] See IDA16 Mid-Term Review discussion paper "IDA Regional Integration Program: Progress Update and Review of the Provision of Grants to Regional Organization." October 2012.

Annex 7: The Post-2015 Development Agenda

There are only two and a half years left before the target date for the 2015 MDGs, but much remains to be achieved. In July 2012 a High-Level Panel was constituted by the UN Secretary General to make recommendations on the development agenda post-2015. The High Level Panel has outlined a set of key recommendations that will underpin the Post-2015 Development Agenda, building on the existing MDGs and setting a path for identifying key goals to strive for by 2030.

The initial recommendations of the High Level Panel include five big transformative shifts in the Development Agenda:

1. Leave no one behind – new goals need to be designed to focus on reaching excluded groups.
2. Put sustainable development at the core – halt the pace of climate change and encourage social inclusion.
3. Transform economies for jobs and inclusive growth – harness innovation, technology and the private sector.
4. Build peace and effective, open and accountable institutions for all – recognizing peace and good governance as core elements of wellbeing.
5. Forge a new global partnership – built on principles of common humanity and mutual respect.

New goals and measurable targets could be framed in the wake of these transformative shifts and the report of the High Level Panel provides a set of illustrative goals and sub-goals to demonstrate how this could be accomplished. The ongoing consultations are expected to lead to targets like the MDGs that are bold, yet with clear indicators to ensure they are sufficiently practical to galvanize the support of the international community. During 2014, an Open Working Group, established at Rio+20, will report to the UN General Assembly with recommendations on a set of sustainable development goals.

Source: A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development. The Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda.

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