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IDA16

Setting the Agenda for IDA16

**International Development Association
IDA Resource Mobilization Department (CFPIR)**

February 2010

Selected Abbreviations and Acronyms

AAP	Africa Action Plan
CAS	Country Assistance Strategy
CIF	Climate Investment Funds
CPIA	Country Policy and Institutional Assessment
CRW	Crisis Response Window
FTF	IDA Financial Crisis Fast Track Facility
FY	Fiscal Year
GAC	Governance and Anti-corruption
GAP	Gender Action Plan
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFRP	Global Food Crisis Response Program
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IL	Investment Lending
MDGs	Millennium Development Goals
MICs	Middle-Income Countries
MTR	Mid-Term Review
ODA	Official Development Assistance
OECD/DAC	Organization for Economic Cooperation and Development Development Assistance Committee
PBA	Performance-Based Allocation
PCD	Post-Crisis Directions Paper
PCPI	Post-Conflict Performance Indicators
PPP	Purchase Power Parity
RMS	Results Management System
SFDCC	Strategic Framework for Development and Climate Change
SSA	Sub-Saharan Africa
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WBG	The World Bank Group

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Executive Summary

- i. **IDA16 will be the last full replenishment period before 2015, the target date for reaching the Millennium Development Goals (MDGs).** It comes at a time when IDA countries are in the process of recovering from a succession of global crises, and need to consolidate their recovery efforts, and refocus towards long-term growth and development. Furthermore, 2010 marks the 50th anniversary of IDA's establishment, thus providing an important opportunity to reflect, in the context of the IDA16 replenishment discussions, on the long-term successes and challenges facing IDA.
- ii. **In this context, during the IDA15 Mid-Term Review (MTR) in November 2009, IDA Deputies and Borrower Representatives brainstormed about the strategic thrust of the IDA16 replenishment.** At the meeting, there was broad agreement on the need to focus on development "results" as the overarching theme for IDA16 as well as on some "special themes" such as fragile state, gender and climate change.
- iii. **This paper builds on these discussions and lays out the strategic development challenges confronting IDA countries and how to position IDA to better respond to these challenges.** The paper also draws from the ongoing work to define the new post-crisis strategic directions for the entire World Bank Group (WBG). This work takes stock of the changing development environment in the post-crisis period, including the emergence of global challenges, such as climate change. It also identifies key strategic priority areas – i.e. targeting the poor and vulnerable, creating opportunities for growth, providing cooperative models, strengthening governance, and managing risks and preparing for crises – and discusses the reform efforts that the Bank will need to undertake to most effectively carry out its development roles in the post-crisis world.
- iv. **An overriding development challenge for IDA countries is the need to accelerate progress toward the MDGs, particularly as many countries are lagging behind.** While all regions are making progress, it is clear that many IDA countries will not achieve most of the goals by 2015. In particular, fragile states remain far behind. Given the interdependence of the MDGs, further progress will require sustained reforms and multi-sectoral investments supported by scaled-up aid resources and more effective aid. In addition, tailored support for fragile states and special attention to gender would be critical to achieving improvements in overall outcomes.
- v. **IDA countries also face significant additional challenges from recurrent severe crises (e.g., economic and natural disasters) and climate change, which could detract them from their long term development path.** The recent crises have demonstrated how vulnerable low income countries are to severe exogenous shocks. For instance, the recent global economic crisis has reversed years of progress in many IDA countries, including on the income poverty goal. Furthermore, climate change is emerging as a key development issue which has also the potential to undermine the sustainability of the progress already achieved.
- vi. **IDA's central focus going forward remains the fight against poverty and the achievement of the MDGs.** Through its country-driven approach, IDA provides a range of financing and knowledge services across sectors depending on country needs and priorities. IDA

is well positioned – through its multi-sectoral perspective and integrative capacity, knowledge and analytical work, platform role and its Performance-Based Allocation (PBA) system – to help IDA countries in making further progress towards achievement of the MDGs. IDA has also recently made considerable progress in the provision of support to fragile states and could continue to enhance this through strengthening incentives to work in fragile states and implementing partnership agreements and Trust Funds more effectively; revisiting resource allocation criteria particularly the phase-out periods for exceptional allocations; and drawing on the findings and policy recommendations of the forthcoming 2010 World Development Report. Finally, building on the good progress made in increasing gender coverage in operations and analytical work under the Gender Action Plan (GAP) during the IDA15 period, the Bank is preparing a transition plan after the GAP ends in 2010 which would continue and enhance the gender focus of IDA operations and analytical work.

vii. **To effectively assist IDA countries cope with future crises, the paper also points to the need to develop a more systematic approach to crisis response.** Given the complex nature of the issues to be addressed in developing a systematic response, a companion paper discusses key questions on how to enhance IDA's capacity for crisis response.

viii. **Climate change will continue to remain a major challenge for IDA countries during the IDA16 period and beyond.** IDA will, hence, need to mobilize additional resources both to make development projects climate resilient and help IDA countries better adapt to the impact of climate change; and will need to ensure that these resources are additional to IDA's core development assistance. To demonstrate additionality, funds devoted to climate change activities may need to be monitored separately from IDA's core development funding. The establishment of a dedicated climate change window may help facilitate the monitoring of additionality while allowing IDA to continue to assist countries in responding to the impact of climate change, particularly in adaptation.

ix. **IDA will need to sustain its efforts in improving implementation and results.** IDA has made good progress in meeting its commitments in four main areas highlighted at the Accra High Level Forum, namely, strengthening country ownership; building more effective and inclusive partnerships; and delivering and accounting for development results. Going forward, the WBG's internal reforms, currently being rolled out in support of the Bank's post-crisis directions strategy, are expected to enhance IDA's ability to accelerate progress in implementation and aid effectiveness. A paper on implementation challenges, which will be prepared for the second replenishment meeting, will discuss these issues in more detail.

x. **The paper seeks the views of the IDA Deputies on two key questions:** first, whether the broad challenges and strategic directions identified in this paper are the right ones; and second, whether fragile states, gender, crises response and climate change should be the special themes for IDA16.

I. INTRODUCTION

- 1. IDA16 will be the last full replenishment period before 2015, the target date for reaching the Millennium Development Goals (MDGs).** It comes at a time when IDA countries are in the process of recovering from a succession of global crises, and need to consolidate their recovery efforts, and refocus towards long-term growth and development. Furthermore, 2010 marks the 50th anniversary of IDA's establishment. The IDA16 negotiations are thus an important occasion on which to reflect both on a half century of experience with concessional finance, as well as on the existing and emerging long-term challenges that IDA and IDA countries face.
- 2. The purpose of this paper is to lay out the strategic challenges that IDA countries face and the attendant issues that Deputies in the IDA16 replenishment round may need to focus on during subsequent meetings.** The paper builds on the themes identified during the brainstorming discussion held during the IDA15 Mid-Term Review (MTR) in November 2009, where IDA Deputies and Borrower Representatives began the discussion of the strategic directions of the IDA16 replenishment,¹ as well as on a subsequent informal discussion with IDA's Executive Directors in January 2010. The starting point for the paper is the consensus that the IDA16 negotiations should be focused on the key strategic issues that would need to be addressed in order to enhance IDA's effectiveness. This is consistent with the approach followed in the two previous replenishment rounds, which have focused on so-called "special themes" selected by the IDA Deputies and Borrower Representatives at the first meeting of each replenishment round (Box 1).
- 3. The IDA16 replenishment negotiations will run concurrently with a number of major initiatives aimed at increasing the effectiveness of the World Bank Group (WBG).** These initiatives include the effort to set out the strategic directions that will guide the WBG's effort to meet global development challenges over the next decade and beyond. Furthermore, work is well advanced on an internal reform agenda, which includes changes to the Bank's financial and knowledge services as well as supporting systems, with a view to creating a more effective, efficient and accountable WBG. Lastly, efforts are also underway to improve voice and participation in the WBG and to increase the capital of IBRD and IFC. Combined, these different efforts are intended to step up the WBG's organizational agility, development impact and crisis responsiveness. The debate surrounding these issues will be critical in shaping the development agenda going forward and will also provide important inputs into the IDA16 replenishment negotiations.
- 4. The rest of the paper is organized as follows.** Section II briefly describes the key directions of the recent paper setting out the post-crisis strategic directions for the WBG. Building on these broad directions, and taking account of the discussion at the IDA15 MTR, Section III discusses the key development challenges in the new decade. Section IV examines what needs to be done to meet these challenges, with a specific focus on issues that may need to be addressed in order to strengthen IDA's capacity. Section V sets out the key issues for discussion.

¹ This discussion was summarized in the paper "IDA16 Themes and Issues: Note on Brainstorming Session at the IDA15 Mid-term Review", January 2010.

Box 1. Special Themes during IDA14 and IDA15

The idea to focus replenishment discussions around “special themes” was first put forward in a paper by Mr. Tony Faint, ex-IDA Deputy from the United Kingdom. He had been asked by IDA Deputies to devise an approach to IDA replenishments discussions that would ensure focused discussions on key strategic priorities where Deputies’ guidance was most needed. Special themes for the past two replenishments were:

- IDA14: (i) Growth in IDA Countries; (ii) Private Sector Development; (iii) Debt Sustainability and Grants in IDA14; (iv) Results Management in IDA14; and (v) Working Together at the Country Level.
- IDA15: (i) The Role of IDA in the Global Aid Architecture; (ii) IDA’s Country-Level Effectiveness; and (iii) IDA’s Effectiveness in Fragile States.

See “Selectivity and Accountability in IDA’s Replenishments”. IDA, October 2003.

II. STRATEGIC DIRECTIONS FOR THE WORLD BANK GROUP

5. **The overall vision set out in the recent Post-Crisis Directions Paper (PCD) is of a WBG that supports an inclusive and sustainable globalization – to overcome poverty, enhance growth with care for the environment and create individual opportunity and hope.**² This long-term vision is being implemented in a changing global landscape where progress in achieving development outcomes has stalled or reversed and millions have been pushed back into extreme poverty by the global crisis; economic power configurations have changed; and the global aid architecture has become broader and more complex.

6. **The PCD notes that the global development community faces five key development challenges, both old and new, in the new decade:** (i) redoubling efforts to meet the MDGs before the 2015 deadline;³ (ii) fostering multi-polar growth in developing countries and integrating rising economic powers; (iii) responding effectively to complex global interactions in the global public goods arena, particularly in climate change; (iv) promoting an environmentally and socially sustainable development process through effective institutions and policy environments; and (v) managing risks and anticipating potential shocks and new crises. Responding to these challenges requires more agile and stronger multilateral institutions, including a stronger WBG.

7. **The WBG is responding to these challenges by establishing strategic priority areas of engagement; reforming its business model; and improving governance, transparency, and voice and participation.** In particular, the PCD paper sets out five key priority areas for the WBG going forward:

- (i) Targeting the poor and vulnerable in Africa, the “bottom billion” located in fragile and post-conflict states and the 70 percent of the world’s poor living in middle income countries (MICs);

² World Bank, 2010a. “New World, New World Bank Group: (I) Post-Crisis Directions.” (forthcoming).

³ This echoes the call made by the Development Committee, in its most recent meeting in October 2009, on both developing and developed countries to accelerate progress towards the MDGs through promoting trade and openness, increasing investment, and following through on commitments to increase aid and its effectiveness. “Development Committee Communique”, Istanbul, Turkey, October 5, 2009.

- (ii) Creating opportunities for growth through promoting agriculture and food security, addressing pressing infrastructure needs, fostering an investment climate and private sector that encourages innovation and competitiveness, engaging on critical public finance issues, and offering knowledge and policy expertise to help policymakers manage choices and tradeoffs within an increasingly global economy;
- (iii) Providing cooperative models/promoting global collective action to deal with global challenges through helping Governments to integrate regional and global interests and goals in national development strategies; participating in partnerships including with the private sector and in developing innovative financial mechanisms; and undertaking constructive advocacy on behalf of developing countries;
- (iv) Strengthening governance in fragile and conflict-affected states; improving results and capacity-building for effective service delivery in critical sectors; and mainstreaming the Governance and Anti-Corruption (GAC) strategy and understanding its impact; and
- (v) Managing risk and preparing for crises by developing global approaches to disaster and post-conflict needs assessments and helping design counter-cyclical policies, risk sharing mechanisms and institutions for the public and private sectors.

8. **These priorities are consistent with the initial discussions of broad strategic issues and special themes for IDA16 that were held during the IDA15 MTR.** In particular, the emphasis in the PCD paper on meeting the core challenge of poverty reduction by accelerating progress towards the MDGs is consistent with the broad agreement among IDA15 MTR Deputies on the need to focus on “development results” as the over-arching theme for IDA16. Furthermore, the issues of fragile states and gender, which were discussed as possible special themes during the IDA15 MTR, have a significant impact on the pace of the attainment of development outcomes as measured by the MDGs. These issues are discussed in section III A below.

9. **In addition to the core challenge of accelerating progress towards the MDGs, the PCD also refers to two additional challenges: managing risks and preparing for crises, and climate change.** These issues were also on the agenda for the IDA15 MTR, which discussed the pilot Crisis Response Window (CRW) and the progress report on climate change actions. They also featured in the IDA15 MTR brainstorming session as possible key themes for IDA16. As both of these challenges have the potential to divert countries from their long term development paths, they are closely linked to the overall results focus of IDA16. They are discussed in section III B and C below.

III. KEY DEVELOPMENT CHALLENGES FOR IDA COUNTRIES

10. Within the broader post-crisis directions of the WBG, this section looks at the key development challenges that IDA countries face. At the IDA15 MTR, there was broad consensus that the IDA16 replenishment round should have a strategic focus, with development results as an overarching theme. While there are a wide menu of indicators of development results (e.g., the World Development Indicators consist of more than 800 indicators), the MDGs are the most suitable set of indicators for a more aggregated analysis and discussion of development results. They reflect an internationally agreed set of goals in eight key areas of development, and have been utilized in part or in their entirety as core components of results measurement systems of multilateral organizations including in the IDA Results Measurement System (RMS). This section therefore discusses development results from the perspective of accelerating progress towards the MDGs.

A. Achieving Development Results

11. **The central challenge IDA countries face is to accelerate progress towards the MDGs.**⁴ The goal of halving poverty between 1990 and 2015 remains within reach for developing countries as a whole. Projections based on the new 2005 purchasing power parity (PPP) poverty data reveal that the share of people living on less than US\$1.25 a day⁵ will fall from 41.7 percent in 1990 to 15.1 percent in 2015, well below the target rate of 20.8 percent, thanks in large part to the extraordinary economic success in most of Asia, in particular in China.

12. **At the same time it is now clear that many IDA countries, most of them in Sub-Saharan Africa (SSA), will not achieve the MDGs by 2015.** Based on current trends, SSA and Europe and Central Asia – the only region where poverty has increased relative to the 1990 – will not reach the poverty goal. Notwithstanding the considerable progress made in recent years in terms of growth and service delivery,⁶ SSA lags on all MDGs, including the goal of halving poverty by 2015. The region is projected to reduce poverty by only a third between 1990 and 2015 (Table 1). A forecast for 2020 suggests that five additional years would still leave SSA short of the poverty MDG.⁷ Similarly, South Asia, although on track to achieve the poverty goal, lags on most human development MDGs (Annex 1). At the country level, the majority of countries will fall short of most of the MDGs – in particular with respect to the non-income

⁴ This section draws on the analysis and data presented in the Global Monitoring Report 2009 (World Bank), and the Global Economic Prospects 2010 (World Bank), which already incorporates the impact of the global crisis on poverty.

⁵ The extreme poverty line was updated following the availability of the 2005 benchmark Purchasing Power Parity (PPP) estimates in 2005, as were the poverty headcount estimates at country and global level.

⁶ Between 1997 and 2007, non-oil producing countries in Africa averaged real GDP growth rates of 5.9 percent, while oil producers averaged 8.1 percent. Furthermore, during the same period, enrollment rates in primary schools increased across the continent, literacy rates rose, and advances were made in combating malaria. For more on this, see the Africa Action Plan (“Meeting the Challenge of Africa’s Development: A World Bank Group Action Plan”), in particular the Implementation Progress Report of 2009. Work is currently underway to update the Africa Action Plan.

⁷ World Bank, 2010c. *Global Economic Prospects 2010: Crisis, Finance and Growth*.

human development goals such as child and maternal mortality, primary school completion, nutrition, and sanitation.⁸

Table 1. Poverty goal: People living on less than US\$1.25 a day (% of population)

Region	1990	Status*	Target Goal 2015	Projected 2015
East Asia & Pacific	54.72	16.78	27.4	5.1
Europe & Central Asia	1.96	3.7	1.0	2.7
Latin America & Caribbean	11.32	8.22	5.7	5.4
Middle East & North Africa	4.31	3.6	2.2	1.8
South Asia	51.71	40.34	25.9	24.5
Sub-Saharan Africa	57.58	50.91	28.8	36.6

*Based on latest data for 2005-2007

Source: Global Monitoring Report 2009

13. **The situation is similar for other MDGs as many of these will also not be achieved by 2015 (Annex 1).** For instance, while the under-five mortality rate has declined in all regions since 1990, the pace has not been fast enough to meet this target by 2015. Nearly half of all deaths of children under five occur in SSA.⁹ Malnutrition, as well as lack of access to water and sanitation infrastructure, contributes to the poor health and death of young children. Among all MDGs, the least progress has been made in improving maternal health. Progress in SSA – the region with the highest maternal mortality rate – has been negligible. Similarly, the goal of access to sanitation is far from being achieved – with all SSA countries and almost two-thirds of countries in the other regions not being on track. Lastly, progress toward the primary education goal has varied across regions. Thirty-three of 36 countries in SSA are not on track to achieve the target, and South Asia will also miss the 2015 deadline. Fragile states in particular lag behind – only three of 22 countries with available data have achieved the target. South Asia and SSA lag behind at all education levels (primary, secondary, and tertiary) for this target.

14. **There is a large body of literature on why countries have fallen short of the MDGs.**¹⁰ While it is not the purpose of this paper to examine this literature, it is important to note that simultaneous progress on different MDGs is necessary since they tend to be strongly interdependent and mutually reinforcing. Not only do the health and education goals reflect dimensions of poverty, but they are also strongly related to one another. Within the human development goals, gender equality in education is strongly correlated with extreme poverty, infant mortality rate, and primary school enrolment ratio.¹¹ Given the strong synergies, cross-sectoral support is critical to ensuring the complementarity of policies and interventions required to make progress on multiple fronts.

⁸ World Bank, 2009c. *Global Monitoring Report 2009: A Development Emergency*.

⁹ World Bank, 2009c. *Global Monitoring Report 2009: A Development Emergency*.

¹⁰ See for example “The Millennium Development Goals Report 2008” of the United Nations; and recent “Global Monitoring Reports 2005-09” of the World Bank, among others, which discuss in detail why countries and regions have fallen short and what can be done to accelerate progress.

¹¹ See for example “Women’s education, child welfare and child survival: a review of the evidence” by John Hobcraft in *Health Transition Review*, Vol 3. No. 2, 1993 for review of the evidence; and “Education and Health: Evaluating Theories and Evidence” by David M. Cutler, NBER Working Paper 12352, June 2006.

15. *Fragile States: Within the IDA country group, those countries that are categorized as fragile states pose a special challenge.*¹² Fragile states are a heterogeneous set of countries that are characterized by poor governance, low capacity and that are often either in or emerging from violent conflict. The majority of these countries do not have comprehensive data on the MDGs; and most of those that do are not on track for reaching most of the MDGs. For instance, only two of the 12 fragile states with available data are on track to meet the poverty goal.

16. *The challenges in these countries often go beyond the mere lack of resources to address more complex problems, and include lack of legitimacy and of effective institutions capable of delivering basic services.* The international development community is increasingly recognizing that these countries constitute a case where special assistance is required both to support their transition from conflict or fragility to peace, and for sustainable development to accelerate progress toward the MDGs. Furthermore, there is increasing recognition that fragile and post-conflict environments can have a destabilizing impact on neighboring countries through conflict, risks to public health and humanitarian crises, which in turn can impact the pace of MDG attainment beyond the borders of fragile states.

17. *Gender Equality: The MDG of gender equality in education is far from being achieved, and the Middle East and North Africa, South Asia and SSA are the farthest from the goal.* In SSA, where most progress is needed, the primary completion rate for girls is still 10 percentage points lower than for boys, and fewer than 30 percent of girls go to secondary school. Even if enrollment equality were achieved, and there has been progress in this area, empowering women would require progress on other critical dimensions such as employment opportunities, supporting women's self-employment, and improving rights to land and other assets.

18. *Gender equality, embedded in the behavior of the family, the market and society is intricately linked to growth and poverty reduction by stimulating productivity, earnings, and better child development outcomes.*¹³ In sub-Saharan Africa, studies show that agricultural productivity could be raised by as much as 20 percent by redistributing existing agricultural inputs more equally between men and women.¹⁴ Failure to release female farmers' full potential in agriculture is a contributing factor to low growth and food insecurity.¹⁵ Women also tend to reinvest a much higher portion in their children, families and communities than men. For example, one study shows that income in the hands of the mother increases the survival probability of a child by about 20 percent.¹⁶ For Cote d'Ivoire,¹⁷ in years when the production of women's crops is higher, households spend a larger share of budget on food and on private goods for women.

¹² Fragile states are low-income countries or territories with no Country Policy and Institutional Assessment (CPIA) score or a CPIA score of 3.2 or less.

¹³ World Bank, 2007, "Global Monitoring Report 2007: Confronting Challenges of Gender Equality and Fragile States."

¹⁴ Udry et al. 1995. "Gender Differentials in Farm Productivity, Implications for Household Efficiency and Agricultural Policy Food." *Food Policy* 20:407-423.

¹⁵ World Bank, 2008e. *World Development Report 2008: Agriculture for Development*.

¹⁶ See Thomas, 1990. *Intrahousehold Resource Allocation: An Inferential Approach*. *Journal for Human Resources* 25: 635-64.

¹⁷ Duflo and Udry, 2004. *Intrahousehold Resource Allocation in Côte d'Ivoire: Social Norms, Separate Accounts and Consumption Choices*. NBER Working Paper #10498.

19. **Gender inequality also limits countries' ability to take advantage of opportunities for growth and poverty reduction offered by favorable demographic trends.** IDA aims to spur economic growth and reduce poverty in low income countries. Countries' success in achieving these twin goals is intricately linked with the demographic trends they experience and the levels of gender equality. As fertility rates fall, if the right institutions and investments are in place, a resulting surge in the relative size of the working age population can open up prospects for faster economic growth (the so called demographic dividend).¹⁸ Gender inequality in schooling and employment can limit the potential for economic growth by reducing the productivity of the labor force.

20. **Progress in this area is all the more important in times of crises, which pose particular risks for women and girls.** Past experience indicates that women, particularly from vulnerable households, will step in to look for work to maintain households' consumption levels.¹⁹ At the same time, self-employed women's access to credit is expected to weaken, affecting earnings from micro-businesses. And, in terms of employment losses, women will be hard hit in export sectors where they often make up a large proportion of the workforce, e.g. in export manufacturing and high value export agriculture. The crisis is expected to adversely affect girl infants' survival. Schady and Friedman²⁰ estimate that as a result of the expected growth slowdown in 2009, there will be between 28,000 and 49,000 excess deaths in Sub-Saharan Africa and most of these deaths will be among girl infants. Another analysis of 59 low income countries estimates that a 1 percent drop in per capita GDP raises boys' infant mortality by 0.27 deaths per thousand births, but girls' infant mortality by 0.53 deaths per thousand births.²¹

21. **What is required going forward? Meeting these challenges will require concerted efforts by donors and recipients alike. For recipients, accelerating progress toward the MDGs requires sustained efforts on multiple fronts.** An immediate priority is to restore growth in the wake of the global crisis. Over the medium-term, recipients need to recommit to longer-term development objectives and redouble efforts to generate stronger and broader momentum toward the MDGs and related development outcomes. Furthermore, IDA countries will need to sustain reforms and increase multi-sector investment in the MDGs. In particular, institutional and policy reforms, where progress has been uneven, need to be strengthened and sustained. Box 2 highlights the key reforms that have been identified as needed to speed up progress on the Africa Action Plan (AAP).

¹⁸ Bloom, Canning and Sevilla, 2003. *The Demographic Dividend: A New Perspective on the Economic Consequences of Population Change*. Santa Monica, California: RAND, MR-1274.

¹⁹ Sabarwal, Sinha and Buvinic, 2009. "The Global Financial Crisis Assessing Vulnerability for Women and Children". Unpublished manuscript.

²⁰ Schady and Friedman, 2009. "How many more infants are likely to die in Africa as a result of the global financial crisis? World Bank Policy Research Working Paper Series 5023.

²¹ Baird et al. 2007. "Infant mortality over the business cycle in the developing world." World Bank Policy Research Working Paper Series 4346.

Box 2. Progress on the Africa Action Plan

The 2009 Progress Report on the Africa Action Plan (AAP) shows that macroeconomic and many structural policies continue to improve. Furthermore, progress on some of Africa's seemingly complex problems such as agriculture, private-sector development, and energy has been good relative to the AAP's intermediate targets – with progress in information communication and technologies exceeding all expectations. However, implementation of the strategy fell short in other areas, including water and sanitation, building skills, economic empowerment of women, environmental management, and aid coordination. Significantly, governance and the capacity of public sector institutions remain weak and governance indicators were, on average, either constant or declining slightly in many IDA countries.

Three areas of reform will be particularly critical over the medium term. First, action is needed in many areas where governments play a supportive role including property rights, regulatory frameworks, infrastructure and finance, and equal job opportunities for women. Second, improvements in both public and private sectors will be predicated on being able to successfully address governance and anti-corruption reforms. The first phase of reforms which involved changes to legislative and policy frameworks and capacity building of core entities within Governments have been completed in many IDA countries. The more challenging task of improving governance at the sectoral level and building institutional capacity in a wider range of institutions remains and requires attention not only to the supply side of governance and institutional capacity but to the demand side by strengthening institutions other than the executive branch and non-governmental actors. Third, greater attention is needed to regional integration and regional solutions. This is an area where increasing progress has been made particularly in Africa for inter-connection infrastructure in transport, energy and telecommunications but the scope in other regions and sectors remains significant.

22. **For donors, the challenge will be in increasing levels of aid and aid effectiveness.** The 2005 Gleneagles Summit pledged to increase ODA to Africa by US\$25 billion annually by 2010, but the latest OECD/DAC figures show that net annual ODA to Africa has so far increased by only about a quarter of that amount. A recent estimate²² shows that the poorest countries, those that rely on grants or subsidized lending, may require an additional US\$35-50 billion per year in funding just to sustain pre-crisis social programs. Hence, even though IDA16 is taking place against the backdrop of a difficult fiscal situation for most donor countries, there has never been a greater documented need to increase ODA. Work is underway in the Bank, in the context of the 2010 Global Monitoring Report, to update the financial requirements associated with accelerating progress towards the MDGs, which will be shared with IDA donors when it is available. Lastly, to ensure that aid resources are used with maximum efficiency, progress is also needed to raise the effectiveness of aid delivery, in particular through efforts to support government leadership in aid management, better align aid from all sources to country priorities and increase its predictability and timeliness.

B. Managing Risks and Preparing for Crises

23. **Over the past decade IDA countries have been affected by a succession of serious crises.** These crises range from natural disasters, health shocks and most recently a series of external economic shocks including the increases in global food and fuel prices, and the global financial crisis. They have underscored just how quickly IDA countries, and particularly the poorest and most vulnerable populations living in those countries, can be negatively impacted by

²² World Bank, 2010c. *Global Economic Prospects 2010: Crisis, Finance and Growth*.

events and policies that are outside their control. The crises have diverted countries from their long-term development paths as they have been forced to spend scarce resources on recovery efforts. In their wake they leave vulnerable populations that need prolonged and additional support to rebuild.

24. Natural disasters such as earthquakes, floods, droughts and tsunamis have in many instances taken a significant human toll and resulted in lasting damage to livelihoods and infrastructure. The impact of natural disasters in terms of fatalities and losses in economic growth is on the rise. IDA countries are disproportionately affected by disasters, at the same time as they also are the least prepared and resourced to deal with their aftermath. Furthermore, within IDA countries, disasters affect the poor most severely. They are frequently most exposed to the impacts of natural disasters and also have the least resources with which to overcome the impact. With natural disasters expected to increase in frequency and severity due to climate change, increased urbanization and environmental degradation, disasters pose a serious threat to development efforts.

25. The recent global economic crisis has led to sharp reductions in GDP growth. The evidence shows that average GDP growth in developing countries in 2009 reached only about a quarter of what was expected before the financial crisis. For developing countries as a whole, growth was 1.6 percent in 2009, down from an average of 8.1 percent in 2006–07. Growth in Sub-Saharan Africa was 1.7 percent in 2009, down from 6.7 percent in 2006–07, and breaking the momentum of the region’s strong growth revival in recent years.²³ Within IDA countries, the fragile states have been particularly hard-hit by the economic downturn, thus further straining political and reconciliation processes and the already weak national capacities and institutions for peace and development.²⁴

26. The impact on poverty has also been significant. Bank estimates show that the food price increases between 2005 and 2008 pushed around 200 million more people into extreme poverty.²⁵ Adding to this pain, it is estimated that the global crisis pushed 50 million people in extreme poverty in 2009; by end-2010, 89 million more people are expected to be living in extreme poverty compared to a no crisis scenario.²⁶ Beyond income poverty, the crises have curtailed progress on other MDGs, in particular human development goals.²⁷ Overall, the crises have clearly set back countries’ progress towards the MDGs, and diverted the attention and resources of governments, donors and multilateral agencies away from long-term development challenges.

27. A key lesson from these crises is that low-income countries do not have the domestic resources they need to mitigate the effects of serious shocks. Furthermore, the global aid

²³ World Bank, 2010c. *Global Economic Prospects 2010: Crisis, Finance and Growth*.

²⁴ World Bank. 2009a. “Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession”, Washington, DC: The World Bank, September.

²⁵ World Bank. 2009a. “Protecting Progress: The Challenge Facing Low-Income Countries in the Global Recession”, Washington, DC: The World Bank, September.

²⁶ Ibid.

²⁷ World Bank research estimated that the global crisis could result in 30,000 to 50,000 additional infant deaths in Sub-Saharan Africa in 2009. See Jed Friedman and Norbert Schady. 2009. “How Many More Infants are Likely to Die in Africa as a Result of the Global Financial Crisis?” World Bank Policy Research Working Paper, WPS 5023.

architecture does not have mechanisms with which to provide timely and adequate support for protecting core spending that do not at the same time divert resources from long term development.²⁸ The effects of crises also demonstrate the importance of having well-developed approaches at the international level that can be used to mitigate the risk of crises and help affected countries to recover quickly after short-term shocks and natural disasters, while maintaining steady progress towards the MDGs.

C. Confronting Climate Change

26. Climate change is emerging as a dominant global development challenge that can potentially detract IDA countries from their long term development path. The recently completed Copenhagen Accord²⁹ reaffirmed that poor countries face the urgent challenge of adapting to the adverse effects of climate change, and that enhanced action and international cooperation is urgently required to enable and support the implementation of adaptation actions aimed at reducing their vulnerability and building resilience. There is, hence, strong consensus that climate change presents an urgent challenge to the well-being of all countries, particularly to the poorest countries and the poorest people within them.

27. IDA countries are at significant risk. The primary direct effects of climate change include increases in temperature, and shifting and more erratic rainfall patterns, which in turn would lead to increases in droughts and floods, to more seasonal peaks in river flows (as snow melts and the buffering capacity of glaciers is lost), and stronger tropical storms. The poorest countries and communities are likely to suffer the most because of their geographical location, low incomes, and low institutional capacity, as well as their greater reliance on climate-sensitive sectors like agriculture.

28. Climate change efforts in IDA countries should be aimed principally at adaptation and reducing vulnerability. Adaptation – understood as efforts to adjust to the ongoing and potential effects of climate change and building up resilience to increasing climate variability – would be critical. But IDA countries cannot afford to neglect key mitigation opportunities – including the promotion of clearly defined property rights, the adoption of sustainable land use and agricultural practices, and the use of local indigenous renewable resources for rural development – which are closely intertwined with development and poverty reduction. Also, mitigation of greenhouse gas emissions often coincides with reductions in local air pollutants, thus decreasing impacts on human health such as respiratory infections, cardio-pulmonary diseases and lung cancer. Finally, because of their low levels of energy use and massive energy investment needs, IDA countries are in a position to develop their energy sectors in a lower carbon manner compared to the historical patterns of industrialized countries by using modern technologies, which are cleaner and more efficient, including innovative renewable applications.

²⁸ The global responses were limited primarily to front loading of resources by the Multilateral Development Banks, additional funding by the European Union, and a set of crisis measures adopted by the IMF.

²⁹ See UNFCCC, 2009. “Copenhagen Accord”, Copenhagen, December 7-18.

IV. MEETING THE CHALLENGES: IDA'S ROLE

29. The previous section laid out the key challenges that IDA countries are facing. This section examines how IDA can help recipient countries in meeting the challenges identified in each area and aims in particular to identify the gaps in IDA's current assistance capacity.

A. Achieving Development Results

30. **While the current pace of poverty reduction is too slow to meet the poverty MDG, IDA countries have made significant progress in terms of reducing poverty and improving their policies.** The proportion of people in IDA countries living on less than US\$1.25/day dropped by 4 percentage points to 42.4 percent between 2002 and 2005, the last year for which aggregate estimates of poverty rates are available. Poverty reduction has been underpinned by faster growth: between 2005 and 2008, the average annual GDP per capita in IDA countries grew by 5.8 percent, more than double the average rate of growth of the same countries between 1990 and 2005.

31. **IDA is well positioned to help IDA countries build on this progress to scale up their efforts to reach the MDGs.** Given the multi-dimensional nature of the MDGs, IDA can contribute to the MDGs by drawing on its global experience, cross-country work, multi-sectoral perspective,³⁰ and governance and institutional reforms. In addition, IDA provides a broader platform, through its analytical work and convening power, to enhance donor coordination and aid effectiveness at the country level.³¹ Its performance-based allocation (PBA) system has also served as an important tool in aligning resources with expected development results.

- **Multisectoral perspective and integrative capacity:** IDA's assistance is organized around country strategies and programs, and delivered in combination of knowledge and diagnostic work, policy advice, building institutional capacities and systems, and financing investments and programs. Given the high interdependence and multi-sectoral nature of development outcomes, IDA has played a unique role of bringing comparative knowledge and multi-sectoral perspectives and linkages to its assistance at the country level.
- **IDA's capacity to help address governance challenges** at the country level – including strengthening institutions, improving governance and transparency in service delivery to the poor, increasing accountability for results, and building and using country systems – has been critical to accelerating growth and progress towards the MDGs at the country level.
- **Knowledge and analytical work:** IDA's knowledge base – its technical expertise – informs how its financial assistance is provided.³² For most countries, IDA conducts

³⁰ IDA's sectoral role – in health, education, agriculture, infrastructure, social protection, private sector development, etc. – will be fully discussed in an upcoming replenishment paper in the context of demand for IDA resources ("Ask Paper").

³¹ IDA, 2007b. "The Role of IDA in the Global Aid Architecture: Supporting the Country-based Model", IDA15 Replenishment paper.

³² For a recent summary of the Bank's strategic directions on development knowledge, please see "Global Excellence: Transforming the Bank's Knowledge Agenda", Washington DC, World Bank.

several analytical and diagnostic work which are national in scope. Examples of such work are poverty assessments, country economic memoranda/development policy reviews, public expenditure reviews, country financial accountability assessments, country procurement assessment reports, institutional and governance reviews, rural development assessments, country gender assessments, country environmental analyses, financial sector assessments, investment climate assessments, diagnostic trade integration studies, and country infrastructure framework reports.

- **IDA's platform role:** Through its analytical work, convening power, and leadership role, IDA promotes aid coordination in IDA countries, where the complexity and growing number of development actors can overwhelm the capacity of policymakers and implementing agencies. IDA also helps build partnerships with other donors and the private sector to leverage additional finance and foster cross-regional and South-South cooperation and learning – all of which have contributed greatly to leveraging additional resources, reducing fragmentation, and increasing aid effectiveness.
- **IDA's PBA system:** By allocating more resources to countries with better institutional and policy reforms, IDA's PBA system has promoted effectiveness and results. In addition, carefully ring-fenced exceptions have enabled IDA to channel support to post-conflict and re-engaging countries, where the exceptional needs of reconstruction and recovery may be higher; and to regional projects, where spillover benefits may result from investments in regional projects and initiatives.

32. **Beyond deploying these comparative advantages to support MDGs at the country level and internationally, IDA has continued to play a broad leadership role in implementing the aid effectiveness agenda.** As reported in the IDA15 MTR, the Bank as an institution has made good progress in meeting its commitments on the Paris Declaration and AAA principles. It continues to work at the country level, bringing its global knowledge and technical expertise--in the form of diagnostic and analytic work-- to governments and donors to forge alignment on approaches to policy and institutional reform as well as investments. It is engaging in a wide ranging set of internal reforms to modernize its services, improve its delivery mechanisms (including decentralization) and bolster its supporting services (including Human Resources reform to support a global bank and a results-based culture). These reforms are designed to make the Bank faster, more flexible and more client-centric, which will improve the responsiveness and impact of its assistance at the country level. The Bank also continues to work at the international level, leading the MDBs and other donors to develop common standards and diagnostics in areas such as financial management, procurement, results measurement and aid predictability.

33. **Fragile States:** IDA capacity to support fragile states has been substantially enhanced in recent replenishments. From an operational perspective, the Bank has introduced more flexible policies that respond to the varied needs of fragile states, strengthened cooperation with other agencies and the UN in particular, and improved staffing including in field offices. From a financing perspective, countries emerging from conflict and re-engaging countries are receiving exceptional IDA allocations that support their special recovery and reconstruction needs. IDA Deputies supported extending the duration of these allocations during the IDA15 replenishment negotiations to their current length of up to ten years for post-conflict countries, and up to five years for re-engaging countries. Other changes introduced during the IDA15 replenishment

included: linking the share of post-conflict allocations in overall allocations to changes in the overall replenishment size; strengthening the existing review process for, and moving towards public disclosure of, the Post Conflict Performance Indicators (PCPI); and introducing a systematic approach to arrears clearance for eligible countries (which are all fragile states).

34. Yet, significant challenges remain in further strengthening support to fragile states.

Although fragile and conflict affected countries face complex challenges, the impact of well-designed and supervised aid programs can be potentially very high in fragile states not only because they start from a low level of development outcomes, but also because successful interventions may have positive regional spillovers on neighboring countries. In light of this, the IDA16 discussions could explore several operational and financing issues pertaining to these countries:

- Strengthening staffing and rapid deployment, and operational effectiveness;
- Implementing partnership agreements and Trust Funds more effectively in view of the greater importance of aid coordination and effectiveness in these countries;
- Revisiting the resource allocation criteria, including a consideration to lengthen the phase out period, in view of the longer recovery and reconstruction support that these countries need; and
- Drawing on the findings and policy recommendations of the 2010 World Development Report (WDR) on fragile states to improve IDA's knowledge and understanding of the nexus between security, governance, and development as well as how to address early recovery gaps and emergency responses, and tailor its operational support accordingly.

35. Gender Equality: During the IDA15 period, the Bank improved its performance in mainstreaming gender issues in IDA country operations and analytical work with the most significant increase in the economic sectors. Between FY06 and FY08 gender coverage increased from 33 percent to 41 percent in the economic sectors; by 55 percent in agriculture and rural development, by 20 percent in infrastructure and in human development and from zero to 36 percent in private sector development. Eighty percent of IDA CASs in FY08 analyzed gender issues as compared to 60 percent in FY06. Implementation of the Gender Action Plan (GAP), launched in 2007, has played an instrumental role in improving gender mainstreaming in project design and analytical work, particularly in the economic sectors where implementation was previously lagging. It has also supported strengthening the collection of sex-disaggregated and gender-relevant statistics.

36. However, significant challenges remain. Looking forward, the Bank will need to take further steps aimed at strengthening gender mainstreaming:

- Increasing gender mainstreaming in both social and economic sectors, with a focus on women's economic empowerment;
- Strengthening the Bank's monitoring system including the development of Bank-wide indicators for gender, integrating reporting on gender in the results reporting systems being developed;

- Developing results frameworks with time-bound plans that address specific objectives with measurable targets within the overall gender strategy goals; and
- Strengthening management accountability for gender mainstreaming.

37. In addition, the Bank is preparing a Transition Plan after the GAP (which ends in FY11) to continue the gender focus of IDA operations and analytical work. This will include a comprehensive review of implementation of gender activities under IDA15. This review will provide recommendations on how to integrate lessons of the GAP in gender mainstreaming and will address the recommendations made in the IEG evaluation (Box 3). Finally, there is also the possibility that the World Development Report in 2012 will focus on gender. That would provide a further opportunity for building and reviewing the evidence base for gender equality.

Box 3. Key Recommendations from IEG's Evaluation of the Implementation of the Bank's Gender Strategy 2002-2008

- **Foster greater clarity and better implementation of the Bank's Gender Policy** by: (i) Establishing a results framework to facilitate consistent adoption of an outcome approach to gender integration in the Bank's work; (ii) Establishing and implementing a realistic action plan for completing or updating country-level diagnostics, giving primacy to countries with higher levels of gender inequality; and (iii) Extending implementation of the 2007 GAP while formalizing and strengthening its policy basis.
- **Establish clear management accountability** for the development and implementation of a system to monitor the extent to which Bank work adequately addresses gender-related concerns, including effective reporting mechanisms.
- **Strengthen the incentives for effective gender-related actions in client countries** by continuing to provide incentive funding through the GAP to strengthen the collection, analysis, and dissemination of gender disaggregated, gender-relevant data and statistics.

Source: IEG, 2010, Gender and Development: An Evaluation of World Bank Support, 2002-08.

B. Preparing for and Responding to Crises

38. **IDA has been developing its capacity to help countries prepare for and respond to crises.** IDA often leads the international response to global crises and is one of the largest donors for disaster reconstruction and recovery. In supporting recovery and reconstruction, IDA has demonstrated flexibility, leadership, and technical expertise to build on policy reform and draw in local communities for successful project results. IDA is also supporting a number of activities aimed at improving emergency preparedness, including through various disaster risk reduction instruments and the incorporation of preventative measures into longer-term development planning.

39. **In terms of its concrete response in the aftermath of crises, IDA has responded in two main ways.** With respect to natural disasters IDA has typically assisted countries' recovery efforts by freeing up resources from their existing IDA portfolio, frontloading of IDA

allocations, and providing exceptional allocations in the aftermath of particularly severe natural disasters (such as the recent earthquake in Haiti). For shocks and disasters that affect more than one country, IDA's response has often been delivered in the form of a multi-country program funded by combinations of donor resources, IBRD income and IDA resources (e.g. the US\$2 billion Global Food Crisis Response Program).³³ To respond to the global financial crisis, IDA established the Financial Crisis Fast Track Facility (FTF), which allowed countries to fast-track up to US\$2 billion of financial assistance.³⁴ Furthermore, to address a gap in the international aid architecture for protecting core spending in IDA countries and to further strengthen IDA's response to the global economic crisis, IDA established a pilot Crisis Response Window during the IDA15 period. The pilot CRW was discussed at the IDA15 MTR and is now being implemented.³⁵

40. IDA's capacity to respond is however limited in important ways. In the aftermath of the global crisis, IBRD was able to nearly triple lending to middle income countries because of its large capital base and its ability to tap international capital markets. IDA is not able to do this – instead its ability to respond is limited to the resources available during a given replenishment period. This amount is fixed, thus any resources allocated in an exceptional manner within a replenishment period would be resources taken away from the allocations of other IDA countries. Furthermore, IDA resources are intended to support countries' long term development, and exploiting the PBA's in-built flexibilities for resource management has fallen far short of what is required by most countries to respond effectively to the impact of crisis and emergencies. Lastly, the lack of access to readily available additional resources means that IDA is below its potential in terms of the speed and scope with which it is responding.

41. Given the vulnerability of IDA countries to exogenous shocks they are often forced to make tradeoffs between long-term development and responding to these shocks. In view of this, and as agreed during the IDA15 MTR, the IDA16 replenishment discussions are expected to consider establishing the CRW as a permanent window to respond to severe crises within IDA. This would enable IDA to take a more systematic approach to crises response, in contrast to its current *ad hoc* approach. Ways to ensure that funding for crises is additional during any given replenishment period are being explored, which would mean that a crises response would not adversely impact the allocations of IDA countries. IDA16 provides a good opportunity to discuss the merits as well as the principles that could underpin a permanent crisis response window within IDA. This would be consistent with the priority areas outlined in the Post-Crisis Directions paper.³⁶ A paper discussing key questions on how to enhance IDA's capacity for crisis response is being presented in parallel to this paper for consideration at the first meeting of

³³ See World Bank, 2008c. "Framework Document for Proposed Loans, Credits and Grants in the Amount of US\$1.2 billion equivalent for a Global Food Crisis Response Program", June.

³⁴ See World Bank, 2008d. "Proposal for an IDA Financial Crisis Response Fast Track Facility", December.

³⁵ See IDA, 2009a. "Proposal for an IDA Crisis Response Window", IDA15 Mid-Term Review Paper.

³⁶ Note also that recent IEG's evaluations have highlighted the need for the Bank, along with other members of the international community, to develop more effective financing mechanisms for emergency assistance and vulnerability reduction. IEG, 2006, *Hazards of Nature, Risks to Development: An IEG Evaluation of World Bank Assistance for Natural Disasters*. and IEG, 2008, *Lessons from World Bank Group Responses to Past Financial Crises*. Evaluation Brief 6.

the IDA16 replenishment discussions.³⁷ A broader review of other aspects of the IDA's capacity to help prepare for and respond to crises could be discussed at the second IDA16 meeting.

C. Responding to the Climate Change Challenge

42. **Climate change is a challenge of global scope with significant implications for development results.** Without adaptation and a range of interventions that will increase IDA countries' resilience to climate change, this is set to undermine progress to date and throw many countries off their long-term development path.

43. **To counter the emerging climate change challenge, the WBG has developed a Strategic Framework for Development and Climate Change (SFDCC).**³⁸ The Framework recognizes that climate risk management and adaptation is a top priority in development; and facilitates both growth objectives and poverty reduction goals while recognizing the added costs and risks of climate change. One year after the SFDCC was endorsed, there are multiple signs that climate action in IDA has ramped up from what was already a significant work program: IDA and the WBG in general have provided a solid development platform in a rapidly evolving financing landscape through the creation of the Climate Investment Funds (CIF); the consideration of climate change risks into CASs has improved substantially between IDA14 and IDA15; and IDA has continued to fill important knowledge gaps on the impact of climate change in IDA countries.³⁹ Analytical work is typically aimed at calculating the cost of adaptation at the country or sector levels, and has been important in filling knowledge gaps and in integrating climate risks into development initiatives and strategies.

44. **Still, significant additional resources are needed to help IDA countries to adapt to the impact of climate change.** While assessing the amount of money needed for climate change finance is not easy, important exercises have been recently undertaken in this direction. For example, the Economics of Adaptation to Climate Change study shows that the global cost of adapting to an approximately 2°C warmer world by 2050 is in the range of US\$75 billion to US\$100 billion a year.

45. **However, IDA countries receive only a small proportion of existing climate funds, the bulk of which goes to the middle income countries (Box 4).** While donors have committed over US\$17 billion in climate funds to Bank managed Trust Funds to date, only 17.5 percent of commitments have gone to IDA countries and only 2.4 percent of the amount disbursed in FY09 went to IDA countries (Annex 2).

³⁷ IDA, 2010a. "Enhancing IDA's Capacity to Respond to Severe Crises". IDA16 discussion paper. February.

³⁸ World Bank 2008a. *Development and Climate Change: A Strategic Framework for the World Bank Group*, Washington DC: The World Bank.

³⁹ During the first year of IDA15, there has been an increase in the number of both Economic and Sector Work and Technical Assistance activities, with the share of Analytical and Advisory work in sectors vulnerable to climate change stresses increasing from 9 percent during IDA 14 to 12 percent during IDA15.

Box 4. Existing Climate Funds and IDA Countries

The WBG is the trustee for six Climate Funds that provide (or have the potential to provide) resources to projects related to climate change in IDA countries. These funds include the Global Environment Facility (GEF), the Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF) of the GEF, the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF) under the Climate Investment Funds, and the Adaptation Fund. The cumulative resources available⁴⁰ through these funds currently stand at US\$16.3 billion. To date, the governing bodies of these Funds have approved funding of US\$10.3 billion, of which about US\$9 billion has been committed.

Of total commitments to date, only about 17.5 percent has gone to IDA countries, with the remainder (83 percent) going to the Middle Income Countries. Of total available resources, a cumulative amount of US\$1.6 billion (or 17.5 percent of total committed resources) has been committed for projects in IDA countries and US\$1.08 billion has been disbursed for projects in these countries. In FY09, total disbursements from these funds amounted to US\$277 million, of which over 87 percent went to IBRD countries, and *only 2 percent to IDA countries*. When the Bank-executed trust funds are included, the total disbursement rises slightly to US\$289 million, with disbursements to IDA countries marginally increasing only to 2.4 percent.

Looking ahead, while some additional resources may become available to IDA countries (e.g. through the GEF, and UN funds on climate change) the funds will likely remain very small compared to what is needed in IDA countries.

46. Going forward, IDA faces two key challenges: (i) mobilizing additional resources both to make development projects climate resilient and help IDA countries better adapt to the impact of climate change; and (ii) the need to ensure that these resources are additional to IDA's core development assistance.

- **Resources:** While it is not expected that IDA would bridge the entire financing gap for climate change, it is sensible to ask how much would be needed to make IDA investments climate resilient. The IDA and Climate Change report⁴¹ for IDA15 used the scenarios of the Stern Review⁴² to estimate that an increase of 6 to 21 percent of total IDA resources (i.e. between US\$2.5 billion and US\$9 billion for the IDA15 period alone) would be required to keep IDA projects climate resilient. In view of the fact that most adaptation projects are indistinguishable from regular development projects,⁴³ IDA has a comparative strength in helping countries adapt to the impact of climate change.
- **Additionality:** Developing countries are legitimately concerned that the recent emphasis on climate change will shift resources away from the core urgent development issues such as education, health, infrastructure, and poverty reduction. For IDA to help its clients adapt to the impact of climate change, financial resources for this purpose need to be truly additional to the current level of contributions.

47. To demonstrate additionality, funds devoted to climate change activities would need to be monitored separately from IDA's core development funding. One way to monitor

⁴⁰ This includes resources received since inception from donors, installment receivables, pledges, plus investment income and other income.

⁴¹ IDA, 2007a. *IDA and Climate Change: Making Climate Action Work for Development*, Washington DC: The World Bank.

⁴² Stern. 2007. *The Economics of Climate Change: The Stern Review*, Cambridge and New York: Cambridge University Press.

⁴³ IDA, 2009b. *IDA and Climate Change: Progress Report*, Washington, DC. The World Bank.

additionality would be to create a dedicated climate change window, as complementary to the core IDA funding that supports progress towards the MDGs. It is important to note that additional resources for climate change would be relatively small in volume compared to IDA's core resources, which would help mitigate any potential impact on IDA's capacity to finance long-term development efforts in IDA countries.

48. **This would have several benefits.** First, it would help to overcome the limitation of the current funding structure, whereby IDA's ability to monitor additionality is limited by the unearmarked nature of the funds, and the problem of separating adaptation projects from regular development projects. Second, through the proposed window, IDA can also bring together a range of international stakeholders behind efforts to respond to climate change as a development issue rather than encourage the emergence of "vertical climate funds" targeted to individual areas or single purpose interventions, as witnessed in the health sector over the last decade. Thus, this approach could enhance IDA's resources and capacity to respond to the impact of climate change, while at the same time allowing for monitoring of additionality of funds – a key demand of developing countries. IDA16 offers an opportunity for IDA donors to consider this and other options for scaling up IDA's capacity to assist countries in their efforts to confront the challenge of climate change.

D. Implementation Going Forward

49. **The Bank's contribution to the aid effectiveness and results agenda in IDA16 will be underpinned by the WBG's internal reforms being rolled out in support of the Bank's post-crisis directions' strategy.**⁴⁴ The Bank's internal reform agenda, which will have a substantial impact on IDA's operations, encompasses three inter-linked elements: (i) modernizing and enhancing the effectiveness of the Bank's financial and non-financial instruments to tailor them to client needs, improve the speed of delivery, and demonstrate results on the ground; (ii) facilitating responsive and efficient delivery of client services through changes in the way the Bank is organized, including improvements to the matrix and an enhanced field presence, coupled with greater devolution of responsibility and accountability; and (iii) supporting *more effective services* and *better delivery* of services through changes in policies, infrastructure, and the incentives system.⁴⁵

50. **Building on the solid progress in deepening aid effectiveness across the institution, the ongoing internal reforms agenda will enhance IDA's ability to accelerate progress in these areas.** Investment Lending Reform's emphasis on a risk-based approach with greater implementation support, as well as efforts to develop a programmatic instrument, will strengthen governments' ability to better implement investments, including with greater reliance on country systems and capacity. Continued progress on decentralization will facilitate an even greater focus on developing government capacity to manage aid programs in a coordinated fashion. Realignments in the matrix will facilitate the mobility of staff expertise and knowledge flows-- assets that can be drawn upon to an even greater extent by governments and donors at the country level to coordinate approaches to development assistance.

⁴⁴ World Bank, 2010b. New World, New World Bank Group: (II) The Internal Reform Agenda" (forthcoming).

⁴⁵ Including financial and non-financial incentives taking into account organizational structure, resource allocation processes, measures of success, follow-through on rewards and consequences, management signals and other institutional mechanisms which influence staff behaviors and drive individual and organizational performance.

51. **Managing for results will remain at the core of the WBG, including IDA.** The Bank will continue to rely on self and independent evaluations of its operations; the use of results frameworks in CASs, sector strategies and projects; and improvements in results measurement systems. For IDA, the Results Measurement System (RMS) remains central to tracking progress on development outcomes. The RMS monitors results at two levels. At the country level, the system captures 14 development outcomes (through Tier 1 indicators), with the MDGs at the core of this system. At the project level (through Tier 2 indicators), the system assesses the effectiveness of IDA as an agency through the performance of its country programs and projects. While the RMS has recently been enhanced (including through the introduction of core indicators that will over time allow IDA to report on outputs for completed as well as ongoing operations), further efforts are needed to strengthen the RMS and build statistical capacity.

52. A paper on implementation challenges, which will be prepared for the second replenishment meeting, will discuss these issues in more detail.

E. Financing

53. **Even as IDA strengthens its operational support and effectiveness, there is clearly a considerable need to grow core IDA resources in the context of IDA16.** Higher funding of IDA – coupled with its demonstrated long term leadership and effectiveness in global development – will enable it to scale up its support for low income countries, and the fragile states within them, so they can accelerate progress towards the MDGs. Furthermore, in the face of a growing proliferation and fragmentation of the international aid architecture, IDA’s platform role will be critical to reducing fragmentation and promoting aid effectiveness.

54. **Concurrently, IDA Management is reviewing IDA’s financial framework to look at its long term financial capacity, credit reflows, and the terms of IDA’s assistance.** Since its inception in 1960 IDA’s supply of financial resources has amounted to over US\$234 billion (US\$350 billion in real financial terms) in financial assistance to poor countries. Donor contributions have been the main source of funding for IDA, representing over 70 percent of IDA’s resources to date. While credit reflows (after the impact of grants and debt relief) are projected to increase over the next two decades, they will not be sufficient to sustain expected levels of new commitments. IDA’s overall concessionality has increased from 60 percent in IDA12 to 66 percent during IDA15. Based on a review of the terms of financial assistance, and how it could be better tailored to country needs, a financing options paper, presented in parallel to this paper at the first meeting of IDA16, discusses possible adjustments to the terms of certain financial instruments of the more economically developed IDA recipient countries which in turn will strengthen IDA's finances and increase its long-term sustainability.⁴⁶

⁴⁶ IDA, 2010b. “A Review of IDA's Long Term Financial Capacity and Financial Instruments”, IDA16 paper, February.

V. ISSUES FOR DISCUSSION

55. In light of the above discussion, the views of Deputies are sought on the following questions:

- Do Deputies agree that the broad challenges and strategic directions identified in this paper are the right ones?
- Do Deputies agree that fragile states, gender, crises response and climate change should be the special themes for IDA16?

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Annex 1. Status of Non-Income Poverty MDGs by Region

Goal	Definition	Region		1990	Status*	Target 2015		
Education	Primary completion rate, (% of children completing primary school)	East Asia & Pacific	Female	97	98	100.0		
			Male	105	98	100.0		
		Europe & Central Asia	Female	92	96	100.0		
			Male	93	99	100.0		
		Latin America & Caribbean	Female	85	101	100.0		
			Male	84	100	100.0		
		Middle East & North Africa	Female	72	88	100.0		
			Male	84	93	100.0		
		South Asia	Female	52	77	100.0		
			Male	75	83	100.0		
		Sub-Saharan Africa	Female	47	55	100.0		
			Male	57	65	100.0		
		Gender Equality	Ratio of girls to boys in primary and secondary education (%)	East Asia & Pacific		89	99	100.0
				Europe & Central Asia		100	102	100.0
Latin America & Caribbean				98	103	100.0		
Middle East & North Africa				78	96	100.0		
South Asia				70	89	100.0		
Sub-Saharan Africa				79	86	100.0		

Goal	Definition	Region		1990	Status*	Target 2015
Under-5 Mortality	Under-5 deaths per 1,000 live births	East Asia & Pacific		56	27	19.7
		Europe & Central Asia		49	23	16.4
		Latin America & Caribbean		55	26	18.3
		Middle East & North Africa		77	38	25.8
		South Asia		125	78	41.5
		Sub-Saharan Africa		183	146	61.1
Maternal Mortality	Maternal mortality ratio (modeled, deaths per 100,000 live births)	East Asia & Pacific		220	150	55.0
		Europe & Central Asia		60	44	15.0
		Latin America & Caribbean		180	130	45.0
		Middle East & North Africa		260	200	65.0
		South Asia		650	500	162.5
		Sub-Saharan Africa		920	900	230.0
HIV/AIDS, Malaria and Other Diseases	HIV prevalence rates and deaths	East Asia & Pacific		NA	NA	NA
Environmental Sustainability	% of population without access to improved water sources or sanitation facilities	East Asia & Pacific	without water access	32	13	15.9

Goal	Definition	Region		1990	Status*	Target 2015
			without sanitation access	52	34.5	26
		Europe & Central Asia	without water access	9.6	5	4.8
			without sanitation access	11.5	11	5.8
		Latin America & Caribbean	without water access	16	8.6	8.1
			without sanitation access	32	21.7	16.1
		Middle East & North Africa	without water access	11	12.5	5.6
			without sanitation access	16	8.6	8.1
		South Asia	without water access	26.9	13	13.4
			without sanitation access	82	67	41.1
		Sub-Saharan Africa	without water access	51	41.6	25.6
			without sanitation access	74	61	37.2
*Based on latest data for 2005-2007.						
Source: Global Monitoring Report, 2009						

Annex 2. WBG-Administered Climate Change Funds—Percent Share of Commitments Going to IDA Countries

(Cumulative amounts in US\$ million as of January 2010)

	GEF	LDCF	SCCF	CTF	SCF	AF	TOTAL
Total Pledges / Contributions	9,684	194	129	4,761	1,545	39	16,352
Governing body approved funding	9,627	122	103	449	20	7	10,321
<i>of which:</i>							
<i>committed</i>	8,390	47	73	449	20	7	8,986
<i>committed to IDA countries/1</i>	1,517	38	15	-	-	-	1,570
<i>disbursed to IDA countries /2</i>	1,061	16	8	-	-	-	1,085
<i>Memorandum:</i>							
Commitments to IDA countries as a share of total commitments (%)	18.1	80.9	20.5	NA	NA	NA	17.5

Notes:

1/Includes both IDA-only and IDA blend countries.

2/Derived by calculating the percentage of all project commitments going to IDA and/or IDA Blend Countries and applying this percentage to the total amount of disbursements to Agencies for projects.