



IDA 17

Setting the Agenda for IDA17

**IDA Resource Mobilization Department
Concessional Finance and Global Partnerships
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ACRONYMS AND ABBREVIATIONS

Fiscal year (FY) = July 1 to June 30

ADB	Asian Development Bank
AFR	Sub-Saharan Africa Region
AfDB	African Development Bank
AU	African Union
FCS	Fragile and Conflict-affected State
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LICs	Low-Income Countries
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MIC	Middle Income Countries
MIGA	Multilateral Investment Guarantee Agency
MNA	Middle East and North Africa Region
MTR	Mid-Term Review
NCPB	Non-Concessional Borrowing Policy
NEPAD	New Partnership for Africa's Development
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPCS	Operational Policy and Country Services
PSIA	Poverty and Social Impact Analysis
RRMS	Results Measurement System
SAR	South Asia Region
SDN	Sustainable Development Network
SDR	Special Drawing Right
SSN	Social Safety Net
TA	Technical Assistance
TF	Trust Fund
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WBG	World Bank Group
WDR	World Development Report

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EXECUTIVE SUMMARY

i. **This note discusses key strategic issues for IDA17 for consideration by the IDA Deputies during the IDA17 replenishment round.** It includes Management's proposed overarching theme for IDA 17 and selected special themes. The note draws from the guidance provided by the IDA Deputies and Country Representatives during the IDA16 Mid-Term Review (MTR) in November 2012.

ii. **The global economy is undergoing profound changes.** Evolving patterns of global economic growth are creating new space for trade and investment as well as for leveraging financing and global knowledge, particularly among developing countries. Savings and investment rates have risen significantly in developing countries and their share of global investment and savings currently stands at the highest level since the mid-1960s. Novel partnerships among developing countries have also emerged and today roughly a third of foreign direct investment (FDI) in developing countries originates in other developing countries. While FDI and other private capital flows to low income countries have also increased over the past decade, official development assistance (ODA) continues to account for a significant share of net financial flows to these countries and plays a critical role in the progress that is being achieved. These developments have been accompanied by important improvements in the policy environment in several developing countries. As part of these broader trends, many IDA countries have been able to accelerate their economic growth over the past decade and significantly reduce poverty.

iii. **These new economic dynamics present opportunities and risks for sustaining growth and poverty reduction in IDA countries.** The global aspiration to end extreme poverty can be within reach if the growth momentum achieved by many IDA countries in the last decade is sustained. This will require confronting the problem of rising inequality through more focused policy interventions to ensure that growth expands opportunities for marginalized groups, particularly for women and youth. Realizing these opportunities also means more effective and complementary private and public investments in IDA countries, including for closing remaining large infrastructure gaps. This will require expanded efforts to increase the synergies between public and private investments in the context of an enabling business environment as well as to build functioning institutions and strengthening policy making capacity, both of which are critical to use new private and public investment flows efficiently. In addition, it means confronting cross-border challenges at the regional and global level. In particular, adaptation actions need to be undertaken in order 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. Failure to act today on these fronts runs the risks of losing the potential to harness the benefits of expanded knowledge, financing and partnerships; prolonging or deepening poverty; and continued disruption of development efforts by conflict, climate change and other shocks.

iv. **In this rapidly evolving environment, IDA's diverse client base will require increasingly customized support.** IDA's clients range from small island states, to fragile and conflict-affected states (FCSs), to large economies facing deep poverty at sub-national levels, and states experiencing promising yet challenging transitions. Many IDA countries have

achieved strong growth rates since 2000 and have made advances in reducing the poverty headcount, thanks to sound economic policies and increased private investments. Notwithstanding this progress, performance across and within IDA countries has been uneven, and roughly one billion people still live on less than US\$1.25 per day in IDA countries – equivalent to one out of every seven people on earth. Also, capital flows have been concentrated in resource-rich countries and natural resource rents have tended to be skewed, fueling inequality and further marginalizing disadvantaged groups. In addition, fragile and conflict-affected states are lagging behind on most Millennium Development Goals (MDGs), with devastating impact on their citizens and potential effects on neighboring countries.

v. **IDA’s unique business model is well positioned to help IDA countries harness the benefits of expanded knowledge, financing and partnerships.** IDA’s country-driven and non-earmarked approach provides a unique platform that allows the flexibility to meet the demands, opportunities and risks facing its diverse client base. 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. By combining flexible financing with knowledge on best development practice, IDA also plays a catalytic role in scaling-up innovative approaches and brokering knowledge exchanges across countries. In addition, IDA’s convening power, coupled with its global reach and knowledge, has helped to facilitate global efforts to boost regional cooperation and address cross-border risks facing IDA countries, from disruptive climate-related events, to food price spikes, and communicable diseases. IDA’s performance-based support for the world’s poorest countries targets scarce concessional financing where it is most effective. Together with IFC and MIGA, IDA has been a leader in supporting the public and private sectors, providing access to knowledge resources and risk insurance. Recent external assessments of international aid agencies affirm IDA’s business model as among the most effective and efficient development assistance delivery mechanisms.¹ This helps to inform and energize IDA’s global coalition linking traditional donors, new aid partners and the world’s poorest countries.

vi. **The change agenda within the World Bank Group will reinforce IDA’s continued transformation.** Over time, IDA has adapted to respond to emerging challenges and has often been a driver of change within the World Bank Group (WBG). The ongoing reform process in the WBG under the leadership of President Jim Yong Kim will help position IDA to provide increasingly customized, integrated solutions for an evolving client base. The WBG is moving to establish measurable goals for ending extreme poverty and boosting shared prosperity. Clear, measureable goals will help ensure selectivity and focus in the Bank Group’s work to assess and promote sustainable development at the local, country, regional and global levels, including cooperation and engagement on global public goods. Clear goals will also promote the monitoring and evaluation of results, learning and adaptation over time.

vii. **Against this backdrop, Management proposes “Maximizing Development Impact” as the overarching theme for IDA 17.** The IDA17 period will cover the target date for achievement of the MDGs and the launch of the post-2015 development agenda. Building on IDA16’s focus on “delivering development results,” the proposed theme encapsulates the commitment to further enhance IDA’s business model and value proposition to maximize IDA countries ability’s to harness the benefits of expanded knowledge, financing and partnerships. In

¹See Box 9, below.

this context, IDA will strive to better leverage: (i) private investment, by tapping synergies of the World Bank Group, particularly of IFC and MIGA; (ii) public resources, by further strengthening public sector institutions and service delivery systems, and (iii) the WBG in-house knowledge and capacity, including facilitating South-South learning. In addition, IDA will continue to: (iv) enhance IDA's results measurement and communication; and (v) ensure cost-effectiveness of IDA operations and organizational cost-efficiency.

viii. **In recent replenishments, “special themes” have served to focus IDA’s work on frontier issues.** Attention to special themes, which have typically been the subject of in-depth analyses in World Bank Development Reports (WDRs), has contributed to better integrate them in Bank’s operations. To serve this purpose, ideally special themes should be limited in number. For IDA 16, there were 4 special themes: gender, climate change, FCSs, and crisis response (linked to the establishment of a dedicated crisis response window). As noted in the brainstorming session of the IDA16 MTR, and in subsequent consultations, there is still an unfinished agenda in the IDA 16 themes of FCSs, climate change and gender, which would warrant carrying them forward in IDA 17. In Management’s view, these themes resonate well with the agenda outlined above and, building on progress made during IDA16, Management proposes to focus attention on critical issues where further progress is required.

ix. **Management has considered two additional themes for IDA 17: “inclusive growth” and “regional transformative initiatives.”** Both themes will be pursued in the context of private sector development and resonate well with the evolving agenda confronting IDA countries. Management recommends selecting “inclusive growth” as a special theme for IDA 17, which was also the focus of an IDA16 working group. The theme speaks to the need to maintain the growth momentum in IDA countries while ensuring that the poorest and most disadvantaged groups also benefit from growth, contributing to WBG targets for *poverty eradication* and *shared prosperity*. Given that inclusive growth is a broad concept, it will be important to make it operational by focusing on key areas, such as jobs and youth, effective management of natural resource wealth and financial inclusion. Given strong client demand for regional solutions to address infrastructure constraints and other regional and global challenges, Management proposes to scale up IDA’s support for transformational projects with an impact beyond borders and to promote joint action among countries.

I. INTRODUCTION

1. **This paper discusses the strategic challenges facing IDA countries and core issues for consideration by the IDA Deputies during the IDA17 replenishment round.** The note draws from the guidance provided by the IDA Deputies and Country Representatives during the IDA16 Mid-Term Review (MTR) in November 2012. In keeping with the model established in previous IDA Replenishments, IDA17 will emphasize special themes that warrant intensified and systematic focus by IDA. The paper includes the following sections: (ii) the changing global economic landscape; (iii) key opportunities and risks facing IDA countries; (iv) IDA's value proposition in the changing global economic landscape; (v) strategic directions of the World Bank Group; (vi) the proposed overarching theme and possible special themes for IDA17; and (vii) issues for discussion.

II. THE CHANGING GLOBAL ECONOMIC LANDSCAPE

2. **Transformative changes are underway in the global economic landscape.** Savings and investment rates have risen significantly in developing countries and their share of global investment and savings currently stands at the highest level since the mid-1960s. Developing countries' domestic savings stood at 33 percent of their GDP in 2010 (up from 21 percent in 1970) and increased from a fairly stable ratio of around 4 percent of world savings to more than 9 percent across the same period.² The share of global investment now accounted for by developing countries is 46 percent, more than twice the level of the mid-1960s.³ There has also been a global shift toward greater investment in the developing world. While foreign direct investment and other private capital inflows to low-income countries have also increased over the past decade, official development assistance (ODA) continues to account for a significant share of net financial flows to these countries and plays a critical role in the progress that is being achieved.

3. **Evolving patterns of trade and investment are also opening new opportunities and partnerships for developing countries.** Trade among developing countries – referred to as South-South trade – has seen strong growth over the past decade, increasing by 19 percent on average between 2001 and 2010 compared to world export growth of 12 percent during the same period.⁴ Foreign direct investment among developing countries has also been significant, with roughly a third of foreign direct investment in developing countries originating in other developing countries by 2010.⁵ The strong growth in trade and finance among developing countries is generating wide spillovers, from enhanced technology transfer and knowledge sharing to spurring demand for exports and growth of domestic manufacturing and agriculture in IDA countries. Increased economic spillovers generated by a more multipolar global economy are having a positive impact on IDA countries as a whole, though the benefits vary significantly across countries. Increased remittance flows to developing countries and evolving migration patterns also represent important sources of savings and investment along with dynamic opportunities for partnerships through diaspora networks.

² Global Development Horizons (2013). Capital for the Future: Saving and Investment in an Interdependent World.

³ Ibid.

⁴ South-South Trade Monitor, No 1, (2012) United Nations Conference on Trade and Development (UNCTAD).

⁵ Growth and Development in Emerging Markets and Other Developing Countries: Report prepared by the Staff of the World Bank for the G20 Summit, Seoul Korea.

4. **As part of these broader trends, many IDA countries have been able to accelerate economic growth over the past decade.** Strong growth reflects improved economic policies, rising commodity prices, and increased private investments. Several IDA countries, including Ethiopia, Cambodia and Rwanda, were among the fastest growing economies in the world between 2000 and 2010.⁶ In Africa, growth averaged 4.7 percent between 2000 and 2009 (with average growth of 6 percent excluding South Africa) despite the impacts of the recent global financial crisis.⁷ 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. Moreover, economic growth in several IDA countries (such as Nigeria, Bangladesh, Pakistan, and India) has the potential of spurring *regional* growth poles, with important ripple effects for neighboring countries.⁸ On a

related front, recent mineral discoveries in several IDA countries, notably in sub-Saharan Africa, point to new opportunities to harness natural resource wealth for poverty reduction and development of new growth poles and resource corridors, also raising new demands for effective public financial management, good governance and inclusive growth (see Box 1).

Box 1: Mineral Discoveries in Sub-Saharan Africa Present Potential Game-Changers for Development

Improved technology and strong investor interest helped drive increased recent mineral discoveries in Africa, lifting hopes for a significant expansion of resource income in several countries. Ghana's Jubilee oil field was discovered in 2007 and is expected to reach peak production of 120,000 barrels of oil per day in 2013. Uganda's fields in the Lake Albert Rift basin were discovered in 2006 along with natural gas in Tanzania and Mozambique, which is projected to produce 100 million metric tons of coal in a decade. With estimated 10.5 billion tons of iron ore, mining of Sierra Leone's Tonkolili deposits is boosting the country's output and exports: GDP growth in 2012 is estimated at 25 percent compared to 5 percent in 2011. As the opportunity to harness natural resource wealth increases in resource-rich countries, demands for ensuring inclusive and sustainable growth through accountable government and good policies are also increasing in tandem, so that the opportunities provided by natural resource wealth are not squandered.

From: Africa's Pulse, October 2012, Volume 6 (World Bank).

5. **Progress in lifting people from extreme poverty in IDA countries is unprecedented in both scale and scope.**⁹ In line with more sustained economic growth, IDA countries achieved a significant reduction in the absolute poverty ratio from 58 percent of the population in 1981 to 38 percent in 2008 (see Figure 1).¹⁰ Notwithstanding the progress achieved, the challenge ahead is significant. 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, the total population in extreme poverty in IDA countries has remained at about 1 billion – equivalent to one out of every seven people on earth – due largely to population growth.¹¹ Furthermore, the poverty headcount increased in some country groups, including in sub-Saharan Africa and in fragile and conflict-affected states (FCSs). In addition, most people in IDA countries whose incomes increased above US\$1.25 per day still earn under US\$2 per day¹² and thus remain at high risk of falling back into poverty in the event of shocks.¹³

⁶ IMF and Economist estimates.

⁷ Africa's Pulse, Volume 6, (2012).

⁸ Global Development Horizons 2011, "Multipolarity: The New Global Economy" (World Bank: Washington, DC. 2011).

⁹ Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015 (Brookings Institution: Washington, DC. 2011).

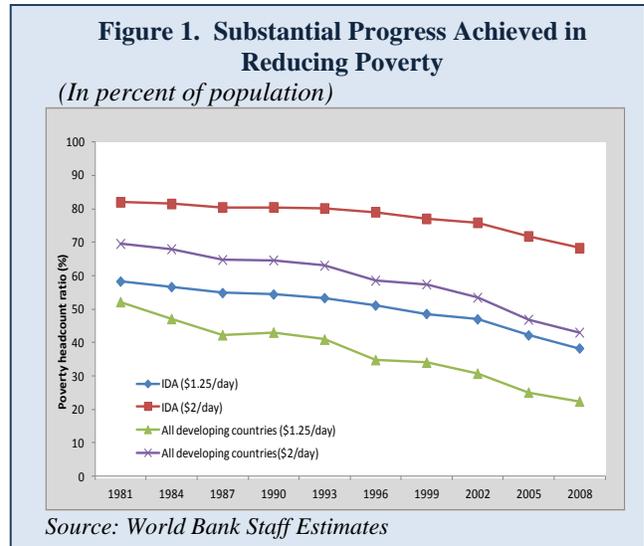
¹⁰ See IDA16 Mid-Term Review Implementation and Results Progress Report (World Bank: Washington, DC 2012) and Managing Crisis and Building Resilience: A Retrospective Review of IDA15 (World Bank: Washington, DC 2012).

¹¹ The total world population as of February 2013 was 7.06 billion (United States Census Bureau).

¹² World Bank staff estimates.

¹³ In Pakistan, for example, the share of the population living in poverty fell from 34.5 percent in 2001 to 17.2 percent by 2008. However, longer-term trends since 1998 indicate little change in the poverty headcount over time; recent panel data indicates

6. **Going forward, the ability of IDA countries to reap the potential benefits of the evolving patterns of global economic growth will hinge on their capacity to maximize opportunities and manage risks.** The increasing integration of developing countries in the international economy is creating new space for leveraging financing and knowledge and benefiting from novel trade and investment partnerships. At the same time, increased interconnectedness across economies also increases requirements for effective policymaking and heightens risks and vulnerabilities.



7. **In this rapidly changing environment, IDA countries will need increasingly customized support.** IDA’s 81 client countries encompass small island states in the Pacific and the Caribbean, fragile and conflict-affected states, large economies facing deep poverty at sub-national levels, and states experiencing promising yet challenging transitions, such as Myanmar and South Sudan. While many IDA countries have achieved strong growth rates since 2000 and have made advances in reducing poverty, performance across and within IDA countries has been uneven. In particular, fragile and conflict-affected states are lagging behind on most MDGs; development is not only imperative for their own citizens but has important implications for the peace, stability and growth of neighboring countries. For IDA countries confronting the aspirations of their populations for increased voice and economic opportunity, the urgency of addressing development gaps linked to endemic poverty, productive employment and infrastructure are pressing. In many IDA countries, over the past decade export growth has been highly primary commodity dependent, with relatively limited structural transformation and modest improvements in diversification. Although improved macroeconomic management and structural reforms are leading to more sustainable fiscal policies and removing some of the bottlenecks to private sector-led growth, a significant increase in productivity has not ensued in many IDA countries. As a result, where growth has been robust, it has not always been accompanied by the creation of high productivity and better-paying jobs.¹⁴ Domestic resource mobilization has also remained constrained in many countries. In addition, capital flows have been concentrated in resource-rich countries and natural resource rents have tended to be concentrated, fueling inequality and further marginalizing disadvantaged groups. Finally, the successive global crises over the past four years, the changing climate and the increasing frequency of natural disasters and extreme weather events revealed new risks and vulnerabilities associated with shocks.

that more than 40 percent of the population was moving in or out of poverty in the early part of the decade when growth began to significantly improve. The data suggests that a large share of the non-poor population is as vulnerable as poor households, living close to the poverty line and characterized by low asset ownership and large household size.

See IBRD/IDA/IFC Country Partnership Strategy with the Islamic Republic of Pakistan (FY2010 – FY2013).

¹⁴ For instance, including workers in the informal sector, close to 80 percent of all Sub-Saharan African workers are in low-productivity, low-income jobs.

III. KEY OPPORTUNITIES AND RISKS FACING IDA COUNTRIES

8. **The new global economic dynamics present opportunities and risks for IDA countries' ability to significantly shift their trajectory of future growth and poverty reduction.** The global aspiration to end extreme poverty can be within reach if the growth momentum achieved by many IDA countries in the last decade is sustained. Recent projections suggest that the absolute poverty headcount in IDA countries could be reduced to roughly 6 percent by around 2027 provided that the momentum of high levels of growth and poverty reduction experienced since 2000 continues.¹⁵ However, slower growth and poverty reduction (similar to those experienced in the 1990s) would likely take roughly half a century or more to achieve the same goal.¹⁶

9. **In addition to maintaining strong growth performance, accelerating progress towards ending extreme poverty and achieving shared prosperity will require:** (a) confronting the problem of rising inequality through more focused policy interventions to ensure that growth expands opportunities for marginalized groups, particularly for women and youth, and is sustained through social consensus; (b) more effective and complementary private and public investments in IDA countries, including for closing remaining large infrastructure gaps; and (c) addressing cross-border challenges and opportunities, at the global and regional level. Failure to act today on these fronts runs the risks of losing the potential to harness the benefits of expanded knowledge, financing and partnerships; prolonging or deepening poverty; and continued disruption of development efforts by conflict, climate change and other shocks.

Confronting inequality for more robust and inclusive growth

10. **Rising inequality has undermined progress in poverty reduction and other MDGs.**¹⁷ Over a decade of strong growth in Africa, for example, has lowered the US\$1.25 per day poverty rate from 57.9 percent in 1999 to 47.5 percent in 2008, a rate of decline of one percentage point per year. However, results vary widely across resource-rich and resource-poor countries, and inequality at the country level is significant. In Togo, for example, new poverty data show that between 2006 and 2011 poverty declined slightly from 62 to 59 percent, though inequality increased as demonstrated by a rise in the Gini index from 0.36 to 0.39 over the period.¹⁸ Similar dynamics are evident across regions, with improved growth performance accompanied by increased inequality. In Mongolia, for example, the poverty rate fell from an average of 35 percent in 2002-08 to 29 percent in 2011; however, inequality in household consumption per capita increased as salaries of skilled workers rose while real wages in the informal sector declined.¹⁹ There is also greater recognition that the achievement of several MDGs will demand viable solutions to large inequalities at the national and local levels.²⁰ For example, an analysis of 35 countries in sub-Saharan Africa (representing 84 percent of the region's population) found significant differences between the poorest and richest fifths of the population both in rural and urban areas. Over 60 percent of the wealthiest quintile had piped water in their premises, while

¹⁵ Projections suggest that when the developing world as a whole reaches an aggregated poverty incidence of 3%, the corresponding poverty incidence for IDA countries – which include the world's 81 poorest countries – would be 6 percent. (World Bank staff estimates, 2013.)

¹⁶ For related analysis, see Martin Ravallion, "How Long will it Take to Lift One Billion People out of Poverty?" 2012.

¹⁷ The Millennium Development Goals Report 2012 (United Nations: New York, 2012). Also see "Convergence, Interdependence and Divergence," (IMF Finance and Development, September 2012, Volume 39, No. 3.)

¹⁸ IDA staff estimates and Togo "Questionnaire Des indicateurs Base Du Bien-Etre" (QUIBB).

¹⁹ IBRD/IDA/IFC/MIGA Country Partnership Strategy with Mongolia (2013–2017).

²⁰ Ariel Fiszbein, "Human Development Counts" in *MDGs and Beyond, Issue 3* (World Bank: Washington, DC, 2012).

piped-in water was “non-existent” for the poorest 40 percent of households.²¹ The 2011 World Development Report (WDR) on Security and Development also points to important risk factors from rising inequality, including a heightened risk of conflict. Specifically, it argues that political exclusion and inequality affecting regional, religious or ethnic groups are associated with higher risks of civil war, while inequality between richer and poorer households is associated with higher risks of violent crime. Analysis across 55 countries from 1986–2003 found a significant rise in the probability of conflict in countries with severe horizontal inequalities.

11. Increased economic opportunity for marginalized groups – including women and youth – can make growth more robust and sustainable.²²

World Bank estimates in Ethiopia suggest, for example, that reducing basic gender inequalities in education and the labor force could increase Ethiopia’s GDP by 1.2 percent points – representing an important potential contribution to both growth and poverty reduction.²³ In the Caribbean, lowering youth unemployment could raise GDP from 0.3 percent to 2.7 percent in a range of countries based on foregone earnings alone.²⁴ The WDR on “Development and the Next Generation” also emphasized that having young people sit idle is costly in foregone output, as young people are an enormous source of growth in the short run. Building human capital will be integral to boosting productivity and fueling growth, as each additional year of schooling raises labor productivity substantially. Although many IDA countries have made notable progress in the human

Box 2: As Countries Broaden Access to Services, the Spotlight is on Quality and Reach

Many countries are struggling to build up the human capital of their youth as the quality of delivery systems fails to keep up with the expansion of access to basic social services. Bangladesh made impressive gains in increasing primary school enrollment from 76 percent in 1991 to 98 percent in 2008, with net enrollment topping 90 percent; however, completion rates were 52 percent for primary school and 20 percent in secondary school in the same year. Increased enrollment in primary and secondary school in Bangladesh has also put added pressure on tertiary level education, underlining the need to strengthen tertiary and vocational education for the burgeoning youth population. In Ghana, primary education enrollment almost doubled in 15 years, with net enrollment at nearly 80 percent over the past five years (representing some seven million pupils in 2011). Analysis of Ghana’s progress has underscored the challenge ahead for reaching marginalized groups, which often require more targeted and context-specific engagement. The 2012 Global Monitoring Report found that policies and institutions are particularly important for health-related MDGs, given the need for stronger management of public expenditure and service delivery.

development MDGs in absolute terms, given initial conditions that were much worse than non-IDA countries, a significant distance will need to be covered in order to reach these MDGs. Notably, slow progress on human development and health goals has broad implications for human well-being as well as for productivity, family earning, growth and poverty. There is growing consensus on the need to focus on quality, including in the context of the Post-2015 discussions. As countries are expanding access to basic services, next generation issues are becoming more pressing, notably the need for improved quality and enhanced outreach to marginalized groups (see Box 2). The challenge of improving the reach and quality of services for people in extreme poverty will demand more inclusive policies and institutions, with increased participation along with enhanced accountability. Ongoing support for stakeholder consultation and citizen

²¹ The Millennium Development Goals Report 2012 (United Nations: New York, 2012).

²² Ibid. Also see “Convergence,

Interdependence and Divergence”, (IMF Finance and Development, September 2012, Volume 39, No. 3).

²³ IDA/IFC/MIGA Country Partnership Strategy with the Federal Democratic Republic of Ethiopia (2013 – 2016).

²⁴ World Development Report 2007: Development and the Next Generation.

accountability for reporting on service delivery and quality will continue to play an important role in identifying existing gaps as well as opportunities for improvement.

12. Focused efforts to enhance policies and strengthen institutions for more inclusive growth will broaden the potential benefits for all and avert important risks. The WDRs on Security and Development (2011), Gender Equality and Development (2012) and Jobs (2013) shed light on varied benefits of economic inclusion and empowerment as well as risks associated with the lack of equity and opportunity, particularly for women, youth and other marginalized groups.²⁵

- *Improving access to economic opportunity for women is a key priority for public action in promotion of gender equality as discussed in the 2012 WDR.* The report highlights that women across the world are disproportionately represented in lower productivity activities, self-employment and the informal sector. Policy actions for expanding women's economic opportunity can encompass closing gaps in access to assets and inputs (notably land and finance), correcting biases in service delivery institutions and addressing discrimination in labor markets.²⁶
- *Research also points to the relevance of youth employment for future economic productivity and growth as well as security at the national level.* The WDR on Jobs highlights the sizable share of young people who are considered "idle," meaning that they are neither in school, employed, training nor seeking work. Globally, it is estimated that there would need to be roughly 600 million more jobs in 2020 than there were in 2005 to keep the ratio of employment to working-age population constant. Job creation at that level would require 175 million new jobs in South Asia – roughly 1 million new jobs per month; in sub-Saharan Africa, the number of jobs would need to increase by roughly 50 percent, or a 2.7 percent employment growth annually. Notably, the 2011 WDR on Security and Development proposed that high unemployment, particularly among youth, tends to increase the risk of violence.

Towards more effective and complementary private and public investments

13. Realizing opportunities from the new global economic dynamics means more effective and complementary private and public investments in IDA countries, including for closing remaining large infrastructure gaps. This will require expanded efforts to build country functioning institutions and strengthening policy making capacity, both of which are critical to use new private and public investment flows efficiently. In addition, it will require efforts to increase the synergies between public and private investments, in the context of an enabling business environment.

14. In this context, enhanced efforts to mobilize and effectively use public and private financing to fill infrastructure gaps are especially important. The deficiencies currently facing IDA countries – insufficient power generation, lack of basic water and sanitation systems, overcrowded urban roads, inefficient ports, underdeveloped highways, railroads and roads systems, costly and limited information and communications technology – pose a major constraint.

²⁵ World Development Report 2011; World Development Report 2012; World Development Report 2013.

²⁶ Importantly, involving women in economic empowerment programs can also deliver results and support sustained institutional change in FCSs. In particular, the 2011 WDR on Security and Development cites positive results from reforms to increase female staffing and gender-specific services in security and justice systems in Liberia, Nicaragua and Sierra Leone.

Infrastructure investments typically have high cost-benefit ratios and wide spillovers across sectors, including supporting productivity improvements, private sector development and international trade; facilitating technology transfer; and improving human development outcomes, in education and health. Recent enterprise surveys in Kenya, for example, found that infrastructure constraints (primarily associated with power and transport) were responsible for around 30 percent of business constraints facing Kenyan firms.²⁷ In FCSs, electricity was cited as the top constraint according to businesses participating in World Bank infrastructure surveys.²⁸ In addition, potential benefits can extend far beyond country borders, helping to unlock the potential of an entire sub-region.

15. Addressing these deficiencies will require significant amounts of capital from domestic and foreign sources. Estimates indicate that aggregate water and sanitation sector investments needs in sub-Saharan Africa alone will rise from US\$2.2 billion in 2012 to US\$3.8 billion in 2030. This figure will be dwarfed by investment needs in the power sector, which is expected to nearly triple, from US\$4.9 billion to US\$13.8 billion, over the same years. Roads will require an estimated US\$11.2 billion of investment in 2030. Given these estimates, the huge infrastructure needs in IDA countries, particularly in sub-Saharan Africa, will substantially exceed the likely levels of actual infrastructure public investments. Thus, strengthening government's capacity to increase synergies between public and private investments will be vital, along with expanding development of domestic capital markets and non-bank financial institutions. Most fundamentally, governments will be called upon to ensure the transparent and efficient use of investment flows, including by leveraging technological improvements in service delivery.

Addressing global and cross-border challenges and opportunities

16. Addressing cross-border opportunities and risks, at the regional and global level, can unleash significant benefits. 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.²⁹ Moreover, transformational adaptation actions need to be undertaken in order to make climate resilient development a reality in IDA countries. Going forward, the ability of IDA countries to strengthen regional and national institutions, shape common policies and make cross-border investments will be critical to respond to these opportunities and risks.

17. IDA countries are increasingly recognizing that collaborative actions and regional approaches are critical to achieving their development goals. Regional cooperation also plays an important role in promoting political stability, peace and regional good governance. The benefits from pursuing regional coordination and integration include: (i) reaping economies of scale or other efficiencies by acting collectively in the pursuit of common objectives to increase local supply capacity and improve access to markets; (ii) integrated or harmonized treatment of trans-boundary issues such as trade, legal and regulatory frameworks and policies, regional infrastructure and other cross border issues; and (iii) management of shared natural resources, particularly water and sensitive eco-systems. These solutions are highly relevant for addressing

²⁷ Kenya's Infrastructure: A Continental Perspective, World Bank Africa Infrastructure Country Diagnostic (Briceno-Garmendia and Shkaratan, 2010).

²⁸ World Development Report 2011.

²⁹ As discussed in Section VI below, IDA is working to sharpen the definition of regional transformational projects and to identify potential regional transformational projects in each sub-region, highlighting the challenges for these projects to succeed and the role IDA can perform.

extreme poverty in IDA countries, particularly those that have small economies and small populations or are land-locked (see Box 3). Linking small markets can unlock the benefits of agglomeration and scale economies and spread investment opportunities and growth beyond current centers of development. Over the last decade, IDA countries, Regional Economic Communities (RECs) and specialized regional institutions have developed strategic regional frameworks to pursue regional integration across various regions. There is a growing demand to scale up solutions with a greater focus on mainstreaming regional issues in national planning, tackling the climate change agenda, regional infrastructure and the missing links, economic integration, and regional public goods. IDA countries are also moving to create new types of regional public goods based on improved regional knowledge. More effective agricultural research and dissemination through developing regional centers of excellence is but one example that holds considerable potential. Conversely, coordinated interventions need to be pursued to tackle some types of negative public goods, such as food insecurity from flooding, pests, and drought; risks to health and ecosystems from accidental pesticide stockpile leaks; and overuse of sensitive ecosystems.

Box 3: Regional Cooperation Key for Eradicating Extreme Poverty in IDA Countries

In South Asia, home to the largest concentration of poor people in the world, landlocked countries and border regions account for an estimated 50 percent of the region's poor. Two of the poorest South Asian countries – namely Afghanistan and Nepal – are both landlocked. Several lagging regions in larger South Asian IDA countries, including India, Pakistan and Bangladesh, are located in the border areas with very limited market integration. Cross-border initiatives are critical for inclusive growth and shared prosperity in these areas.

With 16 landlocked countries and 63 trans-boundary rivers on the continent, Africa's development agenda is inherently regional. There are over 80 international rivers and lake basins in Africa, including the Nile River Basin which crosses 10 countries. An estimated 160 million people live within the boundaries of the Nile River Basin alone, while about twice that number - roughly 300 million - live in the riparian countries. Four Nile riparians are among the world's ten poorest countries, with per capita incomes of US\$100 to US\$200 per year; the population is expected to double within the next 25 years, placing additional strain on scarce water and other natural resources.

18. **Support needed for regional initiatives is multi-dimensional:** financing and advisory services for regional investment projects, technical assistance and analytical work on integration issues, and capacity building for regional institutions—and convening power to leverage collaboration and resources from donor partners and the private sector. Also, successful regional initiatives will require coordinated national actions, including harmonizing policies, developing complementary institutional capacity and knowledge, and coordinating as well as monitoring implementation of shared programs at the national level.

19. **Transformational adaptation actions are needed for more sustainable, climate resilient development in IDA countries** (see Box 4 related to sub-Saharan Africa). Despite the global community's intention to keep global warming below a 2°C increase compared with the pre-industrial period, current United Nations Framework emission pledges and commitments would most likely result in levels of warming at 3.5 to 4°C. As the world moves to a 4°C+, climate change risks putting prosperity out of the reach of millions of people in the developing world and threatens to roll back decades of sustainable development.³⁰ The increased frequency of

³⁰ See *Turn Down the Heat: Why a 4° Warmer World Must be Avoided*. (World Bank: Washington, DC 2012). Significant long-term shifts and inter-annual variability in agricultural yields will also amplify food insecurity through unpredictable supply. For example, based on modeling warming of 4°C +, soya bean yield will be halved, at least in almost every developing country in which it is grown.

natural disasters, which doubled in number between 1990 and 2008, combined with ever growing numbers of people and assets in exposed coastal areas and floodplains, underscore the need for intensified action to avert increased human and economic losses.³¹ The impact of climate change is greater for IDA countries (particularly FCSs), which often depend on climate-sensitive activities located in drier, warmer areas and have more limited economic and institutional capacity to cope and adapt. Sectors most affected include water, health, infrastructure and agriculture, which is the largest employer for most countries in Sub-Saharan Africa.³²

Box 4: Regional Transformative Approaches for Climate Resilient Growth in Sub-Saharan Africa Show Potential

Regional transformative approaches to agriculture, including special attention to drylands, water management and irrigation, are critical for changing the trajectory of growth and development in sub-Saharan Africa and for dealing with climate change. Dry lands in sub-Saharan Africa (SSA) make up 43 percent of the total land area, account for 75 percent of the area used for agriculture (including both crops and livestock production), and are home to 50 percent of the population. Poverty is heavily concentrated in dry lands: about 75 percent of sub-Saharan Africa's poor people (defined as those living on less than US\$1.25/ day) are found in countries in which at least one-quarter of the population lives in dry land zones. 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.

Regional transformative approaches can help sub-Saharan Africa meet its energy needs from clean sources (hydro, geothermal and gas) and thereby support global and regional climate change goals. At present, sub-Saharan Africa has 68 GW generation capacity for its roughly 875 million people. The continent needs 1 GW of new generating capacity every other month but has been building 1GW of new capacity every year. Hydro and thermal resources in a dozen countries, linked through regional power markets, can provide the power that sub-Saharan Africa needs.

In addition, significantly expanded regional trade can be transformational. A recent World Bank study, "Africa Can Help Feed Africa", highlighted that African farmers only provide 5 percent of sub-Saharan Africa's cereal needs. Across the continent, regional trade has the potential to meet the bulk of rising demand for food. African farmers typically pay 3-4 times as much for fertilizers. Reducing trade costs for fertilizers in Ghana, for example, could reduce prices, increase usage, raise crop yields and more than double incomes for poor farmers.

Source: World Bank Staff Estimates; "Africa Can Help Feed Africa" (World Bank: Washington, DC 2012).

IV. IDA'S PARTNERSHIP IN THE CHANGING GLOBAL ECONOMIC LANDSCAPE

20. **In line with the evolving global economic landscape, the architecture for development finance has changed over the last decade.** The evolving aid architecture presents expanded opportunities for partnership, including among developing countries, along with new challenges for effectiveness and coherence. Systemic changes include an increasingly diverse array of stakeholders and increased earmarking and fragmentation of development assistance. In addition, development is increasingly multi-directional, with new opportunities for sharing ideas and connecting knowledge, leveraging financing and catalyzing change. At the same time, the still-fragile recovery of many advanced economies calls for ensuring results and value for money of scarce concessional resources. In this context, International Financial Institutions (IFIs) need to exercise their full potential for providing catalytic financial and knowledge engagement and high-impact support for strong project quality.³³ In particular, the Multilateral Development Banks

³¹ Resilience, Equity and Opportunity: The World Bank's Social Protection and Labor Strategy, 2012-2022. Note that this is particularly critical in Asia, where 125 million people are expected to be exposed to tropical cyclones by 2030, double the number in 1990.

³² Global Economic Prospects, 2013, Sub-Saharan Africa Annex.

³³ For related discussion, see *Long-Term Investment Financing for Growth and Development: Umbrella Paper* (February 2013). Paper presented to the Meeting of the G20 Ministers of Finance and Central Bank Governors. Prepared by staff of the World

(MDBs) will need to continue to build on their existing history of collaboration to maximize their comparative strengths and play an increasingly complementary role in lower-income countries (see Box 5).

Box 5: The Evolving Architecture Highlights Value of Strong Collaboration among MDBs

Together, the Multilateral Development Banks play a significant role in providing long-term financing to IDA countries across regions, including for the productive sectors. Towards increased individual and collective effectiveness, the MDBs have developed solid mechanisms for collaboration to enhance the complementarity of their activities for development and to harmonize approaches where appropriate. MDBs often prepare joint assistance strategies, increasingly co-finance development projects, typically co-lead post disaster needs assessments and share cross-country learning and best practices. In addition, common approaches have been established in critical areas such as financial management; strengthening supreme audit institutions; public sector procurement; managing for development results through the common performance assessment (COMPAS); and external evaluation through the Evaluation Cooperation Group. IDA also works closely with the MDBs on critical technical issues including performance-based allocation, support for fragile and conflict-affected countries, and promotion of debt sustainability and debt management.

21. **IDA's unique business model is well positioned to help IDA countries harness the benefits of expanded knowledge, financing and partnerships.** IDA's country-driven and non-earmarked approach provides a unique platform that allows the flexibility to meet the demands, opportunities and risks facing its diverse client base. IDA's focus on building country institutions and capacity is supporting stronger management of investments and the sustainable expansion of infrastructure and services in IDA countries. By combining flexible financing, global knowledge on best development practice, country-specific analytical work and timely technical assistance across sectors, IDA plays a catalytic role in scaling-up innovative approaches. Together with IFC and MIGA, IDA has also been a leader in supporting private sector development, providing access to financing, knowledge resources and risk insurance. With field presence in almost every client country, IDA helps to bring cutting-edge skills closer to clients, while sharing knowledge and experience as a connector globally (including with IBRD countries). IDA also serves as a platform for governments and development partners to manage aid resources more effectively, helping reduce the burden of aid fragmentation as IDA countries engage an average of 30 development partners per country. Recent surveys suggest that IDA's clients value IDA's clear focus on poverty reduction along with the combination of financing and knowledge and see scope for increased support for their country's development strategies (see Box 6).

22. **Delivering value for money demands the capacity to direct scarce concessional financing where it is needed most and to deliver results.** IDA's performance-based support for the world's poorest countries targets scarce concessional financing where it is needed most to deliver measurable results. IDA's Results Measurement System (RMS) and strong commitment to transparency and accountability keep results at the core of IDA's work. This helps to inform and energize IDA's global coalition linking traditional donors, new aid partners and the world's poorest countries.

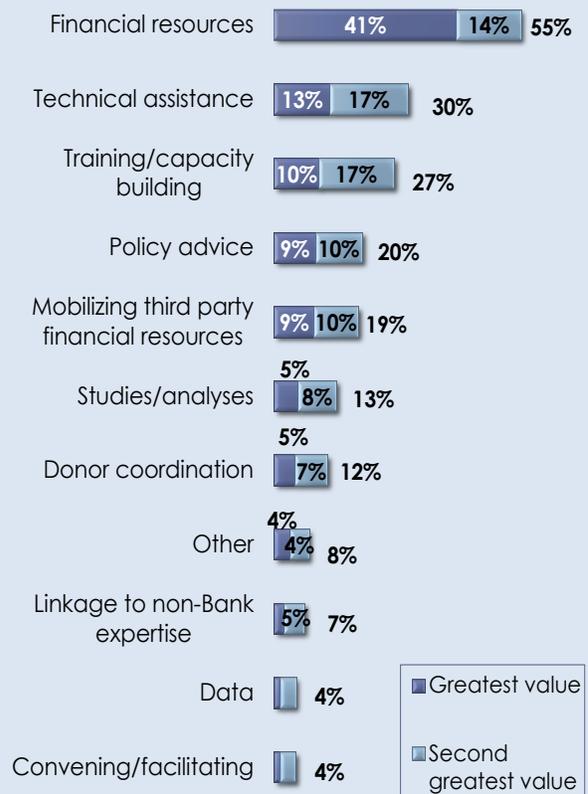
23. **At the same time, the evolving profile of global risks facing IDA countries, from disruptive climate-related events to food price spikes and communicable diseases, will require IDA’s unique global convening power and international reach and knowledge.** It will also benefit from IDA’s ability to help integrate global and regional priorities in national development strategies, and pooling funds for these goals to build global partnerships and facilitate large-scale and coordinated responses across international partners. IDA’s track record for supporting countries to respond to wide-ranging crises and vulnerabilities, from the launch of the IDA Crisis Response Window to the response to the draught in the Horn of Africa to administering complex multi-donor partnerships such as the Haiti Reconstruction Fund, reflects the unique benefit of IDA’s strong, global multilateralism focused on the poorest. IDA has demonstrated the capacity to work in partnership with others in risky settings – prudently, but ambitiously – and is also helping clients to build their own institutions to better manage risks.³⁴ Recent external assessments of international aid agencies affirm IDA’s business model as among the most effective and efficient development assistance delivery mechanisms.

24. **Looking ahead, the emerging 21st century development agenda calls for IDA’s continued and deeper transformation.**

IDA has continuously adjusted its business model, instruments and partnerships over time to meet new demands and challenges. In IDA 17, dimensions of IDA’s internal transformation will include maximizing synergies to leverage the full range of its comparative advantages, including financing, knowledge and capacity building. Enhanced collaboration among IDA, IFC and MIGA will aim to deliver more cohesive and catalytic support for inclusive and private sector-led growth. Further, IDA will work to sharpen the focus on results, including clear targets for poverty reduction and shared prosperity indicators, and ensure organizational efficiency and value for money. Strong support for monitoring and

Box 6: Clients Value the Partnership with IDA

The 2012 Country Opinion Survey explored the views of 29 countries, 19 of which were IDA countries. Some 79 percent of respondents hailed from IDA countries. The client survey affirmed that clients value the clear focus on poverty reduction in the World Bank’s country work. Clients also placed high value on World Bank/IDA’s financial resources as well as technical assistance, policy/economic advice, and knowledge. Among low-income countries, the top three IDA instruments in order of priority were (i) investment lending; (ii) capacity development; and (iii) policy-based lending and budget support to the Government.



Percentage of Respondents (N=6031)

Source: World Bank Country Opinion Survey Program, FY12 Annual Review.

³⁴ IDA’s support for crises will be informed by the forthcoming World Development Report 2014, entitled “Managing Risk for Development.”

statistical capacity building in IDA countries will be integral. IDA17 will also include more tailored and flexible approaches to engage with fragile states as well as innovations to provide transitional support to help address deep poverty in some graduating countries. IDA countries are facing an evolving array of opportunities and complex development risks, from the need to tackle growing economic inequality to global and cross-border risks such as climate change. These evolving challenges will shape the global development agenda during the IDA17 period, which spans both the MDG target date and the launch of the Post-2015 MDG framework.

V. STRATEGIC DIRECTIONS OF THE WORLD BANK GROUP

25. The change agenda within the World Bank Group will reinforce IDA's continued transformation to respond to emerging needs. The ongoing change and reform process in the World Bank Group under the leadership of President Jim Yong Kim will help position IDA to provide increasingly customized and integrated solutions for an evolving client base. In turn, the priorities emerging from the IDA17 Replenishment will inform the development of the first WBG strategic framework and will be a critical channel for its implementation in IDA countries.

26. At the 2012 Annual Meetings, President Kim announced his vision for a well-aligned World Bank Group making accelerated progress towards its mission of a world free from poverty.³⁵ The WBG is moving to establish measurable goals for ending extreme poverty and boosting shared prosperity. Clear, measureable goals will help ensure selectivity and focus in the Bank Group's work to assess and promote sustainable development at the local, country, regional and global levels, including cooperation and engagement on global public goods. Clear goals will also promote the monitoring and evaluation of results, learning and adaptation over time.

27. Operationalizing the proposed WBG goals towards ending poverty and boosting shared prosperity will involve three components. These components encompass: (i) developing a single unified strategy for the WBG; (ii) operationalizing the corporate goals through the country strategies; and (iii) using the strategic framework to align the WBG business planning and budget process over time. The development of the unified WBG strategy builds on frameworks already in place, such as the IFC 2013 process. Formulation of the WBG strategy is being guided by sound analysis of the evolving global economic context, diagnostic work on the strengths and weaknesses of the World Bank Group, and consultations with clients, development partners, stakeholders and the Board. The process of developing the strategy for the WBG will run parallel to the IDA17 replenishment negotiations. At the country level, the forthcoming strategic framework will enable IDA to exercise selectivity towards high pay-off activities relevant to the corporate goals. The WBG will seek to help close poverty data gaps in developing countries to allow tracking progress towards poverty and shared prosperity objectives.³⁶ Strategy-driven business planning, budget and performance management processes are expected to be in place by FY15.

³⁵ President Jim Yong Kim, Opening Plenary Session of the 2012 Annual Meetings, October 2012.

³⁶ For example, the forthcoming India Country Partnership Strategy will include a results chain aligned with poverty and shared prosperity targets.

28. **Implementation of the new WBG strategy will be supported by the other elements of the broader change initiative underway.** Specifically, five key areas of focus for change have been identified: (i) moving towards a unified strategy for the WBG; (ii) improving systems, technologies and structures to promote knowledge that delivers the solutions the countries demand; (iii) focusing on results, accountability and risks; (iv) improving leadership and talent management; and (v) defining a business model that leverages proximity to the clients to be responsive to their needs while maintaining global leadership in knowledge and experience in development. The change initiative will build on the progress made under the modernization agenda implemented since 2010. The WBG reforms in these areas will position IDA to meet the rapidly evolving needs of a diverse client base through enhanced effectiveness, efficiency and impact. Specifically, the change reforms will enhance the WBG's ability to ensure that the right people, skills and knowledge are in the right place at the right time more consistently and with greater impact than is the case today.

VI. IDA17 PROPOSED OVERARCHING AND SPECIAL THEMES

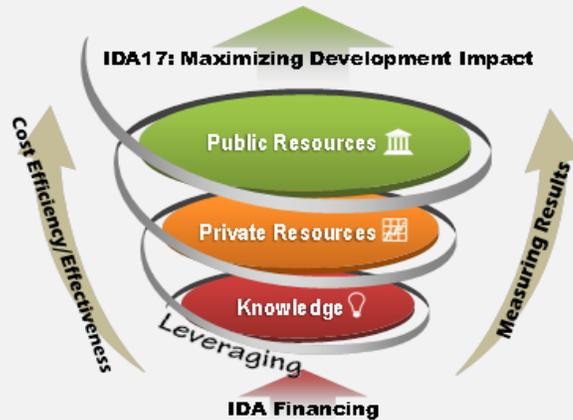
Proposed Overarching Theme

29. **Based on the guidance provided by the Participants at the IDA16 Mid-Term Review in November 2012, Management proposes “Maximizing Development Impact” as the overarching theme for IDA17.** The proposed theme encapsulates IDA's commitment to scale up the drive for results and impact in the context of tightened fiscal and financing constraints for partner countries and a complex development agenda for IDA countries. Specifically, the theme points to the commitment to continuous improvement, adaptation and innovation of IDA as a global platform for transformational development. Equally, the theme is anchored in the broader WBG reform agenda to accelerate delivery of integrated solutions towards ending extreme poverty and boosting shared prosperity. More broadly, a key priority for IDA17 will be to maximize synergies to better leverage knowledge, finance and convening power across the WBG to deliver on the potential of a truly global solutions bank. The overarching theme incorporates the following key dimensions (See Box 7):

- **Maximum leveraging of:**
 - **Private resources** in IDA countries by enhancing synergies among IDA-IFC-MIGA for private sector development.
 - **Public resources** by strengthening public sector institutions and systems.
 - **Knowledge** through more systematic generation, management and dissemination of knowledge, including North- and South-South knowledge exchange.
- **Enhancing the IDA Results Measurement System (RMS)** through new indicators to monitor progress (for example, on inclusive growth/shared prosperity) and increased access to more updated data on poverty.
- **Ensuring cost efficiency and effectiveness** to ensure that IDA resources, both financial and staffing, are focused where they are most needed to deliver for IDA clients.

Box 7: Maximizing Development Impact in IDA17

The overarching theme of maximizing development impact for the poor incorporates five dimensions that will be essential for maximizing the impact of IDA's partnership for development with clients in IDA17. As illustrated below, the theme integrates a sharper focus on IDA's capacity to leverage public resources, private resources and knowledge – critical building blocks for high value-added partnership with clients and other development partners. In addition, a commitment to cost efficiency and effectiveness will reinforce IDA's efforts to ensure value for money throughout its activities. Importantly, IDA17 will also feature enhancements to the RMS to further strengthen the incentive framework and the focus on delivering results.



Leveraging Private Resources, Public Resources and Knowledge

30. **IDA's value proposition is grounded in its country-driven model and unique capacity to leverage development impact.** The capacity to leverage other resources complements IDA's direct provision of financing, knowledge and partnerships, effectively multiplying the impact of IDA's support to its clients.

31. In relation to private sector development, the ongoing WBG change and reform process will maximize synergy across IDA, IFC and MIGA to further *leverage private resources*. Enhanced WBG collaboration will include more focused efforts to develop and implement joint business plans for an increasing number of IDA countries for potentially transformational results in sectors ranging from agribusiness and the food supply chain to infrastructure and financial market development. 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.³⁷ In this connection, support for Public Private Partnerships (PPPs) is

³⁷ 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,³⁷ 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. In addition, Management has launched an initiative in early 2013 to make fuller use of the flexibility allowed under the Procurement Guidelines to support PPPs and other private sector operations financed by the Bank, including by IDA. The Bank continues to provide a

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 will scale up efforts 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 (see Box 8). The Kenya Private Sector Power Generation Support Project approved in 2012, for example, integrated financing from IDA, long-term debt from IFC and political risk guarantees for commercial financiers from MIGA. The unique combination of instruments for the project helped to unlock a total financing package of US\$623 million, 57 percent of which (US\$357 million) came from private sector investments and commercial lending. Going forward, closer engagement across IDA, IFC and MIGA will help maximize WBG support for transformational projects; support more expansive private sector engagement towards inclusive and sustainable growth; and expand the use of guarantee instruments to further unlock private flows for IDA countries.

Box 8 : Growing WBG Collaboration to Deliver Solutions for Private Sector-led Growth

In addition to collaborating on the preparation of Country Assistance Strategies (CAS) and Country Partnership Strategies (CPS), there is a widening array of joint activities among IDA, IFC and MIGA at the country level to scale up support for private sector led growth through Joint Business Plans. In **Myanmar**, IFC and IDA are supporting power sector transformation through building an integrated central power utility with donors and the private sector to generate 500 Mega-Watts of new power, reaching 3 million people. To foster job creation and investment in **Haiti**, joint work on investment generation led to a new Integrated Economic Zone strategy and legislation while interdependent projects target job creation and economic reconstruction. Looking ahead, strong collaboration across IDA, IFC and MIGA will be essential for high-potential regional integration activities in **South Asia**, including cross-border investments such as Nepal-India and Bhutan-India hydropower. In **Nigeria**, IDA has worked with IFC and MIGA on a Joint Business Plans to address immediate and medium-term challenges facing the energy sector. Additional Joint Business Plans are under preparation, including in **Burkina Faso** focused mainly on the agribusiness sector and in **Côte d'Ivoire** across multiple sectors.

32. IDA will also intensify efforts to *leverage public resources* by strengthening public sector institutions and systems, including through evidence-based country engagement.³⁸ IDA will continue its efforts to generate positive externalities and learning from innovative approaches, best practice and cutting edge knowledge, multiplying the influence of IDA's financing beyond projects and activities towards enhanced national expenditures and programs. The IEG evaluation of WBG support to Lao PDR, for example, found that a positive externality of support for the transformational Nam Theun 2 Multipurpose Development Project (NT2) was to strengthen government capacity to manage large hydropower projects towards international standards. Within the education sector in Bangladesh, IDA's use of disbursement linked indicators (DLI) helped to change the conversation between the government and development partners to enhance the focus on achieving shared objectives, strengthening the dialogue on results. Going forward, enhanced leveraging of the broader impact of IDA's partnership with countries will be an

series of training sessions on public-private partnership projects to increase awareness for the guarantee instruments internally and externally.

³⁸ During the 2012 Annual Meetings, the Development Committee affirmed support for the vision of the World Bank that "focuses on impact, evidence based assistance for integrated development solutions and promotes global public goods." (October 13, 2012).

increasingly important complement to IDA's direct activities for institutional strengthening and capacity building.

33. Lastly, IDA17 will also seek to enhance IDA's role in *leveraging knowledge* for transformative development. Knowledge has the potential to transform development by helping to reach the right solution faster and bringing solutions to scale. Delivering the right knowledge solutions will encompass more systematic, evidence-based approaches; greater facilitation of knowledge exchange with former IDA and other middle income countries; better capturing and managing of knowledge embedded in projects; and further mainstreaming impact evaluation and beneficiary feedback. IDA countries will benefit from the WBG's full in-house capacity by facilitating knowledge exchanges, including South-South exchanges to harness the practical knowledge and experience of IBRD countries, some of which are IDA graduates. Impact evaluation is an important tool, representing a wealth of knowledge that will help to improve the design and implementation of programs and projects.³⁹ In addition, given that institution building requires longer-term, knowledge-intensive commitment, IDA will also explore programmatic approaches to capacity building and knowledge sharing in non-lending support to clients. Lastly, IDA will also focus on addressing the need for better research, data, tools and techniques for understanding and measuring the impact of interventions to inform policymaking. This will be important across IDA countries and especially in FCSs, given the increasing importance of monitoring poverty data at the national and global levels.

Enhancing the RMS

34. **The renewed World Bank Group mandate to end extreme poverty raises the bar for IDA's results.** IDA will intensify the focus on results during IDA17, building on the institution's longstanding commitment to monitoring and evaluation for delivery of measurable results (Box 9). This enhanced focus will incorporate efforts to strengthen IDA's RMS (for instance, including new indicators to monitor progress on inclusive growth/shared prosperity) and strengthening access to more updated data on poverty. During the IDA16 MTR, Participants highlighted the importance of strong efforts to expand evidenced-based engagement through impact evaluation and the strengthening of the statistical capacity of IDA countries. To scale up support for statistics and results management in IDA countries, IDA will aim to strengthen the feedback loop between evaluation and implementation

Box 9: Partners Value IDA's Commitment to Monitoring and Evaluation for Delivering Results

External stakeholders value IDA's use of performance data to inform programming and country allocations. IDA has made consistent and significant investments in result measurement, including the use of a four-tier framework for the IDA16 RMS, the inclusion of an IDA 'report card', the development of core sector indicators, and the documentation of results stories. Client surveys and donor assessments highlight IDA's increasing focus on results as well as the use of self-evaluation to inform policy and programming. Recent client surveys of World Bank stakeholders for 2011 and 2010 broadly affirm that clients believe the Bank uses evaluations to inform programming – clients perceived that the extent to which the Bank evaluates its own work was high, receiving an average rating of 7.3 out of 10. Similarly, surveys and assessments by contributing partners underscored the value of the independent evaluation function in strengthening both project quality and management. The 2009 Common Approaches review of the Multilateral Organization Performance Assessment Network (MOPAN), an informal network of international donors, highlights the World Bank/IDA's efforts to deepen the results agenda and credited the Bank with monitoring external results and presenting performance information to the World Bank/IDA Board of Directors.

³⁹ IEG's evaluations strongly support enhanced project level monitoring, including incorporation of impact evaluations, that can provide lessons from experience.

through learning from operational successes as well as cases in which activities failed to meet development objectives. It will also continue its efforts to develop state-of-the-art indicators to assess impact in hard-to-measure areas, such as institution- and capacity-building.

Cost Efficiency and Effectiveness

35. IDA's cost effectiveness and efficiency are central to its ability to maximize development impact. These issues were central to the IDA16 replenishment, which included an IDA Report Card with indicators and performance standards for IDA operational and organizational effectiveness. With respect to its client countries, IDA has developed a strong framework to encourage both effective resource use and accountability for results. This framework includes cost-benefit and cost-effectiveness analysis of individual development projects and programs; poverty and social assessments; and fiduciary accountability mechanisms. Through these efforts IDA has established itself as an effective long-term partner to developing countries, supporting them by ensuring that resources are used to achieve results for the greatest development impact. Building on the ongoing WBG change and reform process, IDA will improve its cost efficiency and effectiveness in IDA17.

Proposed Special Themes

36. The proposed IDA17 special themes would deepen action and catalyze results in critical areas across IDA countries (see Box 10). Importantly, the recommended IDA17 *Special Themes* would scale up effort on frontier issues and carry forward some of the themes selected in IDA 16, namely: gender, climate change and FCSs.⁴⁰ As noted in the brainstorming session of the IDA16 MTR, and in subsequent consultations, there is significant scope to build on the progress achieved in these themes, which warrant continued focus in IDA17.

37. Management has considered two additional themes for IDA 17: “inclusive growth” and “regional transformative initiatives.” Both themes are integral to the evolving agenda confronting IDA countries. Management recommends selecting “inclusive growth” as a special theme for IDA17, which was also the focus of an IDA16 working group. The theme speaks to the need to maintain the growth momentum in IDA countries while ensuring that the opportunities and benefits of growth are broadly distributed throughout the population, including the poorest and most disadvantaged groups, contributing to the WBG targets for *poverty eradication* and *shared prosperity*. Given that both the nature and constraints to inclusive growth are ultimately country-specific, the policy actions for making growth more inclusive will depend on country circumstances and conditions. Because of the broad range of actions that can potentially contribute to more inclusive growth at the country level, Management proposes a two-track parallel approach on inclusive growth in IDA that will encompass building the knowledge base and tools for understanding the country specific constraints to inclusive growth in IDA countries as well as devoting special attention over this period to a few important channels for inclusive growth as discussed below. In addition, given strong client demand for regional solutions to address infrastructure constraints and regional/global challenges, Management proposes to explore the

⁴⁰ Note that IDA's emphasis on strong support for crisis response, a special theme in IDA16, will continue in the IDA17 period. Work is underway, for example, to develop an early warning global food price monitoring system to further enhance IDA's capacity to promptly mobilize a response to food price shocks. IDA's future support for crisis response in client countries will also be informed by the forthcoming World Development Report on Managing Risks for Development.

issue of expanding IDA's role in transformational projects with regional impact. This would complement and build on ongoing collaboration on regional cooperation activities with the Multilateral Development Banks, strengthening overall support for long-term investment for development in critical areas.

38. The proposed IDA17 special themes are mutually reinforcing.

For example, inclusive growth addresses stress factors that have led to social strains and fragility while efforts towards achieving gender equality also contribute to inclusive growth. Similarly, support for transformation through regional cooperation has potential to address key infrastructure gaps and strengthen trans-boundary natural resource management – both of which can be highly relevant for climate change adaptation and for fragile countries. Collectively, the *Special Themes* address key bottlenecks to broad-based growth; create opportunity for enhanced leveraging of results through cross-country cooperation; and address the long-term fundamentals for robust and sustainable development. Each theme is discussed below.

Box 10: IDA Special Themes

IDA “special themes” help to promote focused discussions on priority topics that are of strategic importance for IDA countries. The themes pinpoint critical issues that are topical and relevant across IDA countries, notwithstanding the diversity in circumstances and national objectives among IDA’s 81 borrowers. During the course of a Replenishment period, the special themes inform IDA’s strategic priorities through results monitoring, promote systematic reflection in IDA country partnerships, and shape the dialogue with IDA Deputies and Borrower Representatives. Limiting the number of special themes helps to ensure that the themes collectively and individually fulfill these important functions.

Inclusive Growth

39. Accelerated progress in reducing poverty and shared prosperity in IDA countries requires strong, sustained and inclusive growth. Inclusive growth aims to provide equitable opportunities across the population to accumulate income-enhancing assets, allocate those assets to productive purposes, and obtain fair benefits from those endeavors. Evidence suggests that a bad investment climate hurts marginalized groups, including women, more than other groups because the marginalized are often least likely to have the means to bypass constraints. Importantly, inclusiveness is multidimensional, going beyond poverty and income distribution to include dimensions such as well-being, voice in the political process and participation in social life.⁴¹ Inclusiveness consequently integrates the need for transparent and accountable policy formation processes as well as enhanced governance. Given the broad nature of inclusive growth, Management proposes that along with a focus on knowledge to diagnose country-specific constraints and inform policymaking, the IDA17 theme on inclusive growth focuses on the following particular areas:

- **Job creation.** An important dimension of inclusive growth is expanding good job opportunities throughout the population, including for youth, through strong private-sector led growth and access to assets. The need for increased focus on job creation is heightened by projections indicating that the next four decades will witness the greatest wave of young people ever to enter the global labor market, most of them in low-income countries. Notably, sub-Saharan Africa has the largest share of youths to total population of any region. Innovative solutions are needed to address growing demands for faster job

⁴¹ Luiz de Mello and Mark A. Dutz, eds., Promoting Inclusive Growth: Challenges and Policies, (OECD and the World Bank, 2012).

creation and addressing inequality of opportunities.⁴² In many African countries, for example, agriculture and agribusiness have the potential for increased job creation, including for youth. Job creation and youth employment issues are also increasingly pressing in South Asia. In Pakistan, for example, young people between the ages of 15 and 24 accounted for roughly 29 percent of the population of 161 million in 2010, and the youth population is expected to increase by 10 percent by 2020.⁴³

- ***Ensuring broad benefits from natural resource wealth.*** Natural resource wealth has the potential to be a game-changer for accelerating development in low-income countries, while inadequate management of natural resource wealth has proven to be a significant economic stress factor for conflict.⁴⁴ Of particular importance is the need to support countries in maximizing the benefits of natural resource wealth – from providing support to strengthening institutional and legal frameworks for licensing, contracting and regulation to effective public expenditure management. In particular, this support would need to integrate analysis and policy advice related to equity considerations along with support for enhancing accountability, transparency and participatory mechanisms in the deployment of wealth from natural resources. In addition, there are emerging opportunities in several IDA countries to support or accelerate development of “growth poles.” Development of backward and forward linkages around mining/energy infrastructure initiatives can foster broader and more inclusive development along natural resource corridors.
- ***Financial Inclusion.*** Lack of access to financial services hinders entrepreneurship, limits economic opportunity for individuals and constrains growth of small businesses. In addition, it can reinforce and contribute to income inequality: recent data suggest that among all adults in the developing world, those in the richest quintile are on average more than twice as likely as those in the poorest quintile to have a formal account.⁴⁵ In Africa, surveys suggest that access to finance is a leading constraint for small businesses and that the majority of savings and borrowing options are informal.⁴⁶ Although several IDA countries have made progress in broadening access to financial services in recent years, the need for development of an inclusive financial sector is a frontline issue. This would require more focused engagement for policy measures to foster development of inclusive financial sectors; enhanced support for using innovation and new technologies to reach under-served groups; and demand-side interventions to build financial literacy among key constituencies. In IDA17, IDA can work to harness all available WBG instruments to help extend responsible financial inclusion to households and firms and strengthen support for making use of innovative technologies to lower costs and risks. IDA will also promote enabling policy and legal frameworks and strengthened financial infrastructure, and seek to help accelerate the response of the private sector towards expanding financial service delivery and outreach.

⁴² “Post-2015 Global Development Framework: Is There a Role for a Next Generation of MDGs?” Address by World Bank President, Jim Yong Kim, World Bank-IMF Annual Meetings 2012.

⁴³ IBRD/IDA/IFC Country Partnership Strategy with the Islamic Republic of Pakistan (FY2010 – FY2013).

⁴⁴ World Development Report 2011, Security and Development.

⁴⁵ Asli Demirgüç-Kunt and Leora Klapper, *Measuring Financial Inclusion: The Global Findex Database*, (World Bank: Washington, DC. 2012).

⁴⁶ Asli Demirgüç-Kunt and Leora Klapper, *Financial Inclusion in Africa: An Overview*, (World Bank: Washington, DC. 2012).

40. Discussions during the IDA17 replenishment negotiations would identify the range of actions and interventions that can help countries foster more inclusive growth.

Acknowledging that the strategies for inclusive growth are determined by country-specific circumstances, and informed by the policy experiences of similar countries, discussions during the IDA17 replenishment negotiations could integrate a focus on the knowledge front, ramping up the knowledge base needed to determine the barriers to inclusive growth and employment and the policies that would best address those barriers, based on global experience. Efforts would include targeted actions to address knowledge gaps, such as stepping up efforts in IDA countries to help increase the collection and availability of microeconomic data necessary to determine the key barriers to inclusive growth (including household and enterprise surveys, labor market surveys, and government financial accounts); creation and dissemination of tools facilitating inclusive growth analysis (including tools automating analysis of large microeconomic datasets, like AdePT, BuDDy and BOOST); and integrating and systematizing the Bank's knowledge base on constraints and prescriptions for inclusive growth, based on country analytics.

41. In addition to country data and knowledge, other actions supportive of the inclusive growth agenda could include: encouraging greater emphasis on inclusive growth in Country Assistance Strategies and developing indicators that would allow better tracking of IDA investments for inclusive growth; assessing how inclusive growth could be reflected or aligned with the results framework of IDA17; strengthening the role of IDA to facilitate and promote dissemination of information on inclusive growth and encourage knowledge exchange (North- and South-South); and increasing collaboration with the IMF and other Multilateral Development Banks (MDBs) to support inclusive growth strategies at the country level. In addition, the inclusive growth theme will provide a context for closer collaboration between IDA and IFC/MIGA.

Gender Equality

42. Significant gains have been made over the past decades in closing gender gaps in educational enrollment, life expectancy and economic opportunities. However, gains have not been evenly spread across and within countries, and gender equality constraints are significant. Gender inequality is also exacerbated in some IDA countries by social disparities including class, ethnicity and geographic location. Going forward, there is a large unfinished agenda to eliminate gender disparities in access to education, health services, economic productivity and earnings; to enhance gender equality in voice and agency at the household and societal levels; and to reduce excess deaths of girls and women (particularly maternal mortality) and eliminate persistent gender disadvantages in education. In addition, gender gaps in income, schooling, and health have far-reaching implications at the household and economy-wide levels.

43. In line with the commitments of IDA16 (for which gender equality is a special theme) and the 2012 WDR Gender and Development, the Bank has strengthened efforts to mainstream gender in IDA's work. Gender equality is multidimensional, encompassing considerations of agency, endowments and economic opportunities.⁴⁷ The IDA16 MTR paper, "Accelerating Progress on Gender Mainstreaming and Gender-Related MDGs," outlined progress achieved as well as lessons learned and elements of the ongoing agenda. Tangible progress on gender reforms have included (i) strengthening integration of gender into CASs and gender-informed investments; (ii) implementation and monitoring of regional gender actions plans; (iii)

⁴⁷ World Development Report 2012: Gender Equality and Development.

implementation and monitoring progress on the Reproductive Health Action Plan for the identified priority countries with high maternal mortality rate and high total fertility rates; (iv) strengthening interventions for gender equity in education in line with the World Bank education strategy; (v) strengthening the framework for measuring results by improving indicators and increasing data availability in the IDA RMS; and (vi) addressing knowledge gaps. Continued focus on gender as a special theme can also help overcome the obstacles reported by the Mid-Term Review paper, including variable levels of attention to gender across the IDA portfolio, weaknesses in data availability, and the need for more support to staff and country authorities.

44. In IDA17, Management will build on the substantial advances made during IDA16 to expand the focus on gender issues, with special emphasis on women’s economic empowerment. At the IDA16 MTR, some participants noted that having gender equality as a special theme also for IDA17 could help maintain the momentum of progress on gender mainstreaming in IDA activities. Priorities for progress on the gender agenda include: scaling up efforts in lagging sectors and region portfolios, notably those related to the economic empowerment of women; addressing knowledge gaps to better inform ongoing and future actions; strengthening the framework for measuring results by improving indicators (such as women’s labor-force participation and access to finance) and increasing data availability to track expected gender effects; and continuing to enhance support to staff and country authorities to advance the agenda on the ground.

Fragile and Conflict-Affected States

45. Fragility and conflict are among the greatest development challenges of our time. Countries affected by fragility and conflict face political, security economic and environmental stresses that cannot be mitigated by their weak institutions. As a result, these countries experience repeated disruptions in their development progress and stagnating or deteriorating economic and social indicators. As highlighted by the 2011 World Development Report (WDR), lessons from experience show that sustained progress in resilience and security can unlock significant development potential in Fragile and Conflict-affected States. However, overcoming fragility and conflict is a long-term process, subject to several risks, that requires sustained efforts by a determined national leadership. Support from international actors is also vital to help contain the stresses that could derail progress. In this context, the 2011 WDR called for a paradigm shift on the modalities for operational engagement by international actors and their channels for financial support.

46. IDA’s work on fragility and conflict features prominently in the broader agenda of the World Bank Group. The Bank has committed to an ambitious agenda for change to enhance its effectiveness in FCSs that is reflected in the Bank strategy for Operationalizing the 2011 WDR, and has been further enhanced in the Bank’s Modernization Agenda. This agenda builds on enhanced efforts by IDA to improve its operational effectiveness in FCSs as evidenced by: the decentralization of staff effort to the front lines, the significant increase in Bank resources invested in FCSs projects and the increased expediency of Bank projects in FCSs. The above efforts are starting to have a positive impact on the IDA portfolio in FCSs. Ten years ago, FCS projects were twice as likely to fail as those in the rest of the IDA portfolio. By IDA15, the quality of projects in FCSs improved considerably and is now on par with the rest of the IDA portfolio.⁴⁸ IDA’s lessons

⁴⁸ See “Managing Crisis and Building Resilience: A Retrospective Review of IDA15.” (World Bank: Washington, DC. 2012).

learned underscore that delivering quality support in very difficult conditions on the ground in locations such as Afghanistan, Yemen and the Democratic Republic of Congo calls for close engagement with clients, capable staff, strong partnerships and long-term commitment.

47. **Building on the substantial progress achieved and lessons learned, fragility and conflict warrant further emphasis to be a key area of focus during IDA17.** As discussed in the accompanying paper “IDA Support to Fragile and Conflict-affected States,” priority areas for further enhancement in IDA’s effectiveness in FCSs will include:

- *Designing integrated WBG country strategies to better address the drivers of conflict and fragility* and identifying the impact of such strategies. The Bank will ensure that country strategies address the drivers of conflict and fragility and pursue synergies across the three branches (IDA, IFC and MIGA) of the WBG.
- *Reform Human Resources policies and practices* directing more experienced Bank staff to enhance the extent and depth of client engagement. Staffing levels in FCSs have increased, and more is needed to ensure that the right skills are in place to deliver effectively in FCS environments. The Bank is exploring the most cost effective way of deploying staff to support high-quality development interventions.
- *Creating a more agile set of operational policies and practices* that promote responsiveness and adaptation in low capacity and high risk environments.
- *Enhancing financing for FCSs facing new opportunities for change.* A revised allocation framework for FCSs will be proposed for IDA17, which links considerations for enhanced support to operational effectiveness and performance incentives.

Climate Change Resilience

48. **As noted during the IDA16 Mid-Term Review, the needs of development and adaptation to climate change are closely related and mutually reinforcing.** IDA’s financing, knowledge, dialogue and partnerships are important entry points for ongoing support to IDA countries in building climate-smart investments and infrastructure and enhanced planning for climate mitigation and adaptation.

49. **It is imperative to scale-up investments in climate resilient development in IDA countries now.** Climate finance is to be eventually scaled-up through the Green Climate Fund, but time will be needed to operationalize the new financial architecture. IDA is well placed to contribute to bridging the climate finance gap, thus minimizing the risk that the growing pace of increased climate change adaptation and mitigation actions in IDA countries over the last five years could slow down due to limited access to climate finance. IDA has the relevant experience and capacity to promote climate resilient development by integrating knowledge, strategic work, investment and policy support. In addition, IDA is uniquely positioned to advance climate change activities, strengthen institutions that would allow a systematic approach for moving towards climate resilient and low carbon development, and evolve into a major source of support for climate resilience in the most vulnerable countries. More specifically, IDA’s broad range of instruments – including its country-based model that supports national development priorities, policy advice, lending and knowledge sharing on best practices and results across countries – are helping to integrate climate change considerations at the global, regional and national levels.

50. **IDA’s agenda on climate change for the IDA17 period will be informed by lessons learned in advancing the climate change agenda in IDA borrower countries and elsewhere as well as by deliberations of the United Nations Framework Convention on Climate Change (UNFCCC).** The agenda will seek to foster opportunities for complementarities among IDA and other institutions and funds, such as the Climate Investment Funds, the Global Environment Facility and regional development banks. Climate resilient development in IDA countries will require large-scale actions – including better urban and land use planning to put people and assets out of harm’s way, major changes in agricultural crops, changes in infrastructure investments, water management and increased investment in public health systems and disaster preparedness. Given the potentially rapid pace of development, the next few years are also a chance for IDA countries to ensure that their development is low carbon, efficient in the use of natural capital, sustainable and inclusive. Viewing climate resilience through a longer-term planning horizon would help many countries capture positive synergies of green growth and incorporate short- and long-term risks from changing climate and low carbon options. The IDA17 replenishment discussions could focus on:⁴⁹

- Actions to mainstream climate change into countries’ strategic planning and implementation with a view to making all IDA-financed development investments climate-smart. This would include (i) helping countries to strengthen institutions and capacities to identify priority vulnerabilities and develop climate resilient policies and investments; (ii) ensuring that the analysis of potential vulnerabilities and climate change impacts informs the design of IDA-financed projects in climate change sensitive sectors; and (iii) effectively tracking progress in promoting resilience and reducing vulnerability consistent with climate resilient and low carbon development strategies of beneficiary countries.
- IDA’s role in helping build IDA countries’ climate-smart development through cross-border activities such as managing the environmental commons and facilitating cross-border management of climate sensitive sectors, including energy, water, early warning systems, forestry and agriculture. Discussion would assess the criticality of regional and global resources for climate resilience, IDA’s comparative advantages in supporting cross-border activities, and related operational issues.

Regional Transformative Initiatives

51. **IDA is uniquely positioned to scale up support for regional transformational projects to meet needs at the national and regional levels.** Transformational projects can encompass hydropower projects in one country that can unlock its electricity production potential and shift to cleaner sources of energy for an entire region as well as multimodal transport corridor projects that reduce transit costs and delays across countries. IDA and other MDBs play an important role as catalysts for increasing the flow of domestic and foreign private capital into private investments, including by supporting projects in high-risk countries and sectors in which private investors would be reluctant to invest without the presence of official lenders.⁵⁰ Importantly, IDA’s Regional Program is helping to move the regional integration agenda forward. The bulk of the portfolio is concentrated in complex regional connective infrastructure, namely energy, transport,

⁴⁹ Note that these proposed actions closely follow the recommendations from the IEG evaluation on climate adaptation.

⁵⁰ See Long-Term Investment Financing for Growth and Development: Umbrella Paper. (February 2013.) Also, IEG evaluations of projects in the portfolios of the World Bank and IFC point to a higher risk profile for development projects in LICs (particularly market and sponsor risks) compared to higher-income developing countries.

information and communication technology (ICT) and water resources development. The Regional Program integrates a strong emphasis on leveraging external and internal partnerships, including with the private sector, and has leveraged over US\$3 billion in co-financing and parallel financing.⁵¹

52. As agreed in the IDA16 MTR, Management is considering how it can expand its role in facilitating the preparation and completion of regional transformational projects whose financing needs extend beyond the scope of the IDA regional program.⁵² IDA's ability to expand its role to further facilitate the preparation and implementation of regional transformational projects is being constrained by the following factors: (i) for projects that qualify for financing from the IDA national and regional program, the size of their financing needs may largely exceed the IDA resources available; and/or (ii) some projects do not qualify for financing from the IDA regional program because their physical implementation is only in one country and their IDA national allocation is not large enough -- but they are expected to have a significant impact at the sub-regional or continental level.

53. 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 for the current regional program and to augment the amount of financing available. Specifically, it would be necessary 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 an FCS). 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.

54. Potential regional transformational projects can cover any sector or region, as long as they have substantial impact on the poor. A sector that has great potential for implementing and delivering transformational projects is the infrastructure sector, which could spill into many other sectors, including urban development, energy, trade, private and financial sector development, education and the environment. In 2010, the WBG positioned support for infrastructure as a strategic priority in creating growth opportunities and targeting the poor and vulnerable. "Transformation through Infrastructure, 2012-2015" is the WBG's strategic approach to supporting the infrastructure agenda, and focuses on transformation through infrastructure for the poor and most vulnerable. In relation to regional integration, regional infrastructure can help spur trade, as well as contribute to regional trust and security, which is particularly important for fragile states. Regional transformative projects can also help IDA countries meet their energy needs from clean sources (hydro, geothermal and gas) and thereby support global and regional climate change goals (see Box 4). In addition, some regional projects can have significant transformative impact for regional resilience and disaster risk management, river basin management, cross-border habitat protection/biodiversity and multi-country coastal zone management and fisheries.

⁵¹ IDA Regional Integration Program: Progress Update and Review of the Provision for Grants to Regional Organizations (IDA16 Mid-term Review, 2012).

⁵² See "IDA Support to Transformational Projects with Regional Impact." (Background paper for 1st IDA17 Replenishment Meeting, 2013.)

55. **Given the high demand for regional programs, and the often very large size of regional transformational projects, increased efforts will be required to better leverage IDA's scarce resources.** 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: (i) 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.); (ii) enhanced collaboration with other international financing institutions, especially regional development banks which have an important complementary role to play, bilateral donors and other financial institutions; and (iii) for large transformational projects, focusing scarce IDA's resources on project preparation up to the selection of a private developer/operator. This is 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.

VII. ISSUES FOR DISCUSSION

56. **A robust replenishment underpinned by a strong package of policies will enable IDA to provide catalytic support to help IDA countries address emerging opportunities and challenges.** In this context, IDA is committed to institutional transformation to further leverage development impact and meet the demands of the 21st century poverty agenda.

- Do Deputies agree that the broad challenges and strategic directions identified in this paper are appropriate?
- Do Deputies agree with the proposed overarching theme and special themes for IDA17?

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