

World Bank Group

International Development Association (IDA)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$843,200,000	\$950,000,000	\$0	\$950,000,000

In 1960, under the leadership of the Eisenhower Administration, IDA was created as the soft loan affiliate of the IBRD to promote sound economic management and poverty reduction among its poorest developing country members.¹ IDA provides concessional loans and grants to the poorest countries around the world to create the social and economic conditions needed to achieve sustainable growth and poverty reduction. The majority of IDA funding comes from periodic replenishments from donor countries, though repayments from past loans, investment income, and transfers from World Bank net income are also important sources of IDA resources.

The Administration has requested \$950 million for FY06 for the first of three payments under the U.S. commitment to the 14th replenishment of International Development Association (IDA-13), covering the period July 2005 through June 2008.

The total size of IDA-14 is \$34.4 billion; of this, \$20.7 billion is to be covered by new commitments from donor countries and the remainder by repayment reflows on previous loans, investment income and by direct income transfers from the World Bank. The total U.S. commitment to IDA-14 is \$2.85 billion. Treasury will be closely working with IDA to ensure that the performance and other reform commitments agreed to in the replenishment negotiations are implemented in a timely and effective manner.

The U.S. secured a number of key reforms in the IDA-14 agreement (reached February 2005), including: the significant expansion in the IDA results measurement system; a sharp increase in the provision of grants; promotion of private sector development; and expanded transparency.

Key Facts

- The U.S. share of IDA-14 is approximately 13%.
- In terms of voting shares, the U.S. is the single largest shareholder in IDA with 14.3%.
- The annual U.S. commitment to the IDA-14 replenishment (\$950 million) will represent a nominal increase of \$100 million over the annual base commitment under the previous replenishment (IDA-13) excluding \$300 million in incentive contributions for which IDA met the criteria.

¹ Notes: Internet website: www.worldbank.org/ida

All institutions in the World Bank Group use the World Bank Fiscal Year: July 1- June 30.

- In WBFY04, IDA made commitments of \$9.1 billion. This is up from WBFY03 commitments of \$7.3 billion.
- The largest share of IDA resources went to Africa (\$4.1 billion or 46% of total commitments) and South Asia (\$3.0 billion or 33% of total commitments).
- During WBFY04, 27% of IDA operational financing went for education and health; 25% for law, justice and public administration; 21% for transportation, energy and mining; 19% for agriculture, water and environment; and 8% for finance and industry/trade.
- During WBFY04, 18% of total IDA operational financing was in the form of grants, a major IDA-13 policy objective of the United States. WBFY05 grant usage is being planned at about 25%, which will bring the IDA-13 annual average to the midpoint of the indicative IDA-13 range (18-21%).
- Currently, 78 countries are eligible to use IDA resources. Nearly all IDA-eligible countries have per capita income below \$865 with limited or no ability to borrow on market terms.
- Twenty-four countries have graduated from IDA.
- South Korea and Turkey, former IDA borrowers, are now IDA donors.

Supporting U.S. Objectives

IDA-14 Reforms

Measuring Results: As the result of strong U.S. leadership during the IDA-13 period, IDA initiated a performance measurement system, including baseline data, outcome indicators and progress targets. This system focused on: (1) primary schooling completion rates; (2) measles immunization rates; (3) time and cost to start a business; and (4) number of diagnostics completed (for example – Public Expenditure Reviews).

The IDA-14 performance measurement system will significantly scale up the approach taken during the IDA-13 period. This results-oriented approach will increase the effectiveness of IDA's development projects and programs. Specifically, the new system will include: (1) *fourteen country outcome indicators* (e.g., under-5 child mortality, access to roads, primary school completion rate, and time required for business start-up); (2) *output indicators* measuring IDA's contribution in the health, education, water supply and transportation sectors; (3) *country-level institutional indicators* (number of results-based country assistance strategies (CASs) prepared, with all of those initiated after January 2005 being results-based); and (4) *project-level indicators* (i.e., percent of projects with satisfactory outcome ratings). Furthermore, the IDA-14 Agreement stipulates that World Bank Management work to ensure that 100 percent of IDA investment projects and development policy loans include indicators connected to a timeline with baseline data and periodic assessments of project and program performance against defined expectations.

Grants: Due to strong U.S. leadership during IDA-14 negotiations, IDA adopted a new debt sustainability framework to serve as the analytical base for determining grant eligibility. As a result, IDA will allocate grant financing when countries are at risk of experiencing debt distress. Under the framework, 47 countries are projected to receive grant financing, of which, 42 will receive 100 percent of their IDA assistance in the form of grants. This agreement represents a crucial step toward ending the lend-and-forgive approach to multilateral development assistance and ensuring long-term debt sustainability in the poorest countries.

Under IDA-14 grants are projected to be approximately 31 percent of all IDA financing, which represents a 60 percent increase over the IDA-13 level. Approximately 45 percent of IDA assistance to the poorest countries (IDA-only) will be provided on grant terms (60 percent for HIPC). This outcome signifies significant progress toward fulfilling President Bush's initiative calling for 50 percent of IDA's assistance to the poorest countries being provided as grants.

Performance allocations: The IDA-14 agreement further emphasizes the importance of maintaining a significant difference in the level of resources that the best performers and the poorest performers receive. The purpose of financing allocations is to put money where it has the best chance to do well. Financing allocations hold countries accountable for their policy performance – allocations are determined on the basis of monitorable criteria addressing economic management, structural policies, policies for social inclusion, and governance. Furthermore, allocations are also influenced by the country's performance on pre-existing IDA projects.

- Today, the best policy performers in IDA will receive almost seven times more resources per capita than the poorest performers. For every \$1 per capita lent to the median IDA performer in WBFY93-95, about \$1.20 went to the best performers and \$0.85 to the poorest performers. By WBFY99-01, the spread had widened, with \$1.77 per capita going to the best performers and \$0.57 to the poorest performers. The Bank's strategy for FY05-07 envisions an even wider spread, with \$1.64 per capita going to the best performers and \$0.24 to the poorest performers.
- For the IDA-13 period, 17 countries had their allocations significantly reduced (compared with IDA-12) due to poor governance ratings. In June 2002, the Board successfully pressed the Bank to reduce Nigeria's lending levels due to poor performance – an example of the allocation process at work.

Transparency: As the culmination of consistent U.S. pressure over the last several years, the IDA-14 agreement commits the World Bank to full disclosure of the numerical ratings for the Country Policy and Institutional Assessments (CPIAs) beginning with the WBFY05 exercise. Transparency of the CPIA will ensure that shareholders, borrowers, and other stakeholders have full access to the information that determines how IDA allocates limited resources to poor countries.

In addition, the IDA-14 agreement calls on the World Bank Board to implement other important transparency reforms. Specifically, the Board is to: (1) disclose Board minutes; (2) strengthen procedures for documenting public consultation processes; (3) make interim results of projects

during their execution publicly available; and (4) require an independent audit or assessment of internal management controls and procedures for meeting operational objectives.

These directives expand on the significant advancements that the World Bank has initiated in recent years. Currently, all of the following documents had been disclosed since the new information disclosure policy took effect: CASs, Project Appraisal Reports, Tranche Release Documents, HIPC initiative documents, Poverty Reduction Strategy Papers, Joint Staff Assessments, and Implementation Completion Reports. In addition, all environmental assessment reports, resettlement instruments and indigenous people's development plans associated with projects that required the preparation of these documents were disclosed to the public. Evaluation reports from the independent Operations Evaluation Department are now systematically being disclosed, and the Board of Directors monthly calendar is posted on the external Website.

The Bank has also adopted a translation framework that provides a more systematic and consistent approach to translation and that makes documents more easily accessible to a wider audience. The Bank has also strengthened its Public Information Centers in country offices and is developing outreach programs that more effectively provide information on World Bank operational activities.

Private Sector Development: The IDA-14 agreement calls on IDA to further exploit synergies with other members of the World Bank Group, in particular the IFC, the private sector arm of the World Bank Group, to encourage innovation in support of private sector development, and devote significant resources during IDA-14 to such innovative programs. The agreement directs IDA to provide expanded support for micro-, small-, and medium-sized enterprises (MSMEs) through market-based approaches; strengthened analytic/diagnostic work and technical assistance; increased coverage of investment climate assessments (ICAs); and greater incorporation of these diagnostics into country assistance strategies.

These directives further innovative programs initiated during the IDA-13 Replenishment, such as the IDA-IFC SME Initiative for Africa. This initiative will commit up to \$225 million over three to four years, to provide an integrated package of interventions to support micro, small and medium enterprise development in Africa. The first IDA credit under the program, for Nigeria, was approved in December 2003. Another example of collaboration between IDA and IFC is the Pamir Private Power Credit for Tajikistan; a \$10 million credit approved in FY02 that benefits consumers by ensuring a reliable supply of electricity in the Gorno Badakshan region of Tajikistan, in a financially, environmentally, and socially sustainable manner, with private sector involvement.

Key IDA Achievements in WBFY04

IFI Collaboration

IDA has undertaken a number of activities to improve collaboration with other MDBs, the International Monetary Fund (IMF), and other international organizations:

- The World Bank, along with the United Nations, joined the Iraq International Advisory Board (IAMB) and played a central role in carrying out a development needs assessment during summer 2003. At the October 2003 Madrid donor conference, the Bank pledged \$5 billion for Iraq in reconstruction assistance. The World Bank and UN have set up an International Reconstruction Fund Facility (IRFF) to ensure swift, flexible, and coordinated donor financing for priority investments in Iraq. The Facility helps donors channel their resources to the Iraq reconstruction effort. So far 24 donors have committed about \$1 billion to the Facility.
- A protocol on supporting countries preparing Poverty Reduction Strategy Papers (PRSPs) was agreed on among the MDBs and the IMF. The World Bank and the IMF work together to assist borrowers to develop their own PRSPs, which are required for countries to be eligible for HIPC debt relief. The PRSPs guide Bank and Fund future lending programs for all IDA and Poverty Reduction and Growth Facility (PRGF)-eligible countries.
- The World Bank is co-administering a trust fund for Afghanistan in collaboration with the UNDP, the Asian Development Bank and the Islamic Development Bank.
- The international community has requested that the World Bank and the IMF intensify their efforts to promote financial system integrity with an emphasis on building country capacity in Anti-Money Laundering and Combating Financing for Terrorism. The Bank and Fund have been increasing their efforts to diagnose weaknesses in their clients' financial systems as well as providing technical assistance to vulnerable countries. The Bank unit responsible for this collaboration is the Financial Market Integrity unit, which brings together all of the above efforts through its responsibility for a Bank-wide program and related annual budget.
- Intensified coordination among MDBs includes regular meetings of the heads of the institutions and several technical working groups that work on harmonization and convergence in MDB practices. To avoid duplication and enhance effectiveness, the World Bank has signed memoranda of understanding (MOU) with the African Development Bank, the Inter-American Development Bank and the Asian Development Bank.

Increasing Productivity and Raising Living Standards

The U.S. has urged the MDBs to focus on productivity growth which is the surest way to increase economic growth, raise living standards and reduce poverty. Examples of WBFY04 activities that supported this mission include:

- Bangladesh: A \$15.5 million IDA credit will create the institutional and policy environment needed to address inadequate power supply coverage, which has been identified as a constraint to private investment and economic growth
- Dem. Republic of Congo: A \$120 million IDA credit will increase the competitiveness of the economy by: improving the investment climate; supporting reform of public enterprises; stimulating economic diversification and development in the Katanga region; and facilitating the reintegration of retrenched workers in the local economy.

- Honduras: A \$20 million credit will increase the economic benefits and environmental services derived from forest ecosystems in selected low-income municipalities.

Education and Health

Economic research and historical experience indicate that more and better education is an essential ingredient for higher productivity growth. President Bush has called upon the World Bank and the other MDBs to increase their funding of education. The World Bank is the single largest source of external finance for health and education lending in developing countries. HIV/AIDS has emerged as a key health priority for the World Bank. In response, it has committed about \$1.7 billion through grants, loans and credits for programs to fight HIV/AIDS. The Multi-Country HIV/AIDS Program (MAP) for Africa has committed more than \$1 billion to 28 countries to fight HIV/AIDS. In the Caribbean, the Bank has made available \$155 million through the Caribbean MAP to fight HIV/AIDS. Of this, US\$104 million has been committed in 7 countries and one regional project.

- India: A \$500 million IDA credit will help to provide universal elementary education by establishing, constructing, and extending primary schools; providing training in educational management; and providing salaries to teachers hired under the program.
- Mauritania: A \$21 million IDA grant will limit the spread of HIV/AIDS by focusing on vulnerable groups such as women and youth, defense and other uniformed personnel.
- Mali: A \$15 million IDA grant will support the government's five-year national strategy of reducing the spread of HIV/AIDS through policy reform, capacity building, increased awareness, voluntary testing to prevent new infections, and increased access to treatment and care.
- Tanzania: A \$65 million IDA credit/grant will improve the management of health resources and the quality of health services through reforms and institutional capacity building.

Promotion of Market-Oriented Economies and Private Sector Development

In FY04, a number of IDA-financed projects helped countries reform their economies through privatization, the promotion of foreign investment and a number of other market-oriented activities. During WBFY04, nine country investment climate assessments (ICAs) were prepared, exceeding the condition established by the IDA-13 negotiations. ICAs seek to systematically collect and analyze objective indicators of the investment climate in order to help countries identify priorities for reform and monitor progress on improving the investment climate. IDA efforts to promote market-oriented economies and private sector development include:

- Senegal: A \$45 million IDA credit will work to stimulate private investment through an improved investment climate, greater private participation in economic activities and policy sector reform.

- Honduras: A \$28 million IDA credit will help to improve the country's investment climate, and boost firms' productivity and export capacity, thereby promoting economic growth and reducing poverty and inequality.
- Pakistan: A \$150 million IDA credit will help rehabilitate the national highway network, thereby lowering transportation costs.

Anti-Corruption/Governance

The World Bank remains the clear leader among the MDBs in developing cutting-edge analytic work and diagnostic tools, providing the largest amount of finance to support good governance programs, and working closely with countries on programs to target corruption. During FY04, anti-corruption efforts continued to be mainstreamed into all new country assistance strategies, and 24 new governance and public sector reform projects totaling \$3.4 billion were approved, accounting for roughly 17 percent of total Bank lending. From FY97 to the end of FY04, the cumulative amount of funds committed to governance-related projects was \$14 billion, representing 192 projects. These projects have financed more than 600 anti-corruption programs and governance initiatives in nearly 100 countries, including training judges, organizing workshops, and teaching investigative reporting to journalists. Examples include:

- Afghanistan: An \$80 million IDA credit will help to deepen, broaden, and sustain reforms underway in the area of public administration and fiscal management.
- Nepal: A \$70 million IDA credit will improve the effectiveness of the civil service and strengthen financial management and accountability.
- Ethiopia: A \$100 million IDA credit will promote good governance and accountability by improving the scale, efficiency, and responsiveness of public service delivery at the federal, regional, and local levels.
- Sierra Leone: A \$25 million IDA grant will help establish a functioning local government system and improve inclusiveness, transparency and accountability of public resource management at all levels of government.
- Bosnia-Herzegovina: A \$34 million IDA credit will support fiscal policy reforms through government expenditure efficiency and improving public sector financial and budgetary management.

Post-Conflict Assistance

IDA currently works in 35 conflict-affected countries supporting international efforts to break cycles of conflict and resume peaceful development. IDA's work in this area in FY04 includes:

- Angola: A \$33 million IDA grant to demobilize 85,000 UNITA and 33,000 FAA ex-combatants, support their return to civilian life, provide access to income-generating activities, and assist their social and economic reintegration.

- Dem. Republic of Congo: A \$454 million IDA credit/grant to improve health through reconstruction of infrastructure, such as: transport; water and electricity supply, and through the delivery of education, health, and community development services.
- Kosovo: A \$15 million IDA grant to strengthen economic policy and planning capacities, improve the business environment to encourage growth and jobs, and restructure the critical mining and energy sectors.

Disaster Assistance

The World Bank is the world's largest provider of disaster reconstruction and recovery funding. Since 1980, the Bank has lent more than \$40 billion for over 550 disaster-related projects. This figure includes more than \$14 billion for about 150 emergency recovery projects, and projects with components aimed at preventing and mitigating disasters. Throughout 2004, IDA stepped in to assist countries affected by natural disasters and helped countries strengthen their disaster recovery preparedness. In particular, the World Bank, working closely with the Asian Development Bank, has been very active in responding to the Asian Tsunami disaster, which affected over a dozen countries. Examples of disaster reconstruction projects include:

- Sri Lanka: A \$75 million IDA credit will re-build approximately 46,000 homes that were destroyed by the Asian Tsunami disaster. The majority of the recipients will be poor, conflict-affected families.
- Eritrea: A \$15 million IDA grant will help those affected by drought by financing activities in land resources, agricultural support services, energy and roads, and civil works.
- Ethiopia: A \$60 million IDA grant will help drought-affected families survive the crisis, protect productive assets, and develop sustainable livelihoods.

Environmental Improvement

- Madagascar: A \$40 million IDA grant will expand the country's protected areas network to include key missing habitats, establish conservation sites in natural forests and transfer forest management responsibilities to communities.
- Tanzania: A \$4.5 million IDA credit will contribute to the sustainable use of the natural resources of Lake Victoria and its catchments.
- Yemen: A \$24 million IDA loan will assist the government in containing the depletion of groundwater in the Sana's Basin aquifer.

Labor

IDA routinely includes a review and analysis of core labor standards (CLS) in the Bank's Country Assistance Strategies (CASs). The IDA-13 agreement emphasizes the importance of

eliminating harmful child labor and making labor markets more equitable and inclusive. It also encourages IDA to strengthen its consultations and collaboration with international organizations, such as the International Labor Organization (ILO), in its work with countries on labor issues.

Combating Terrorism and Money Laundering (Also, please see the IBRD section for further discussion)

- Nepal: A \$16 million IDA technical assistance credit will support financial sector reform in order to create a commercially viable banking system overseen by a modern and effective central bank.
- Pakistan: A \$26.5 million IDA credit will support broad financial sector reform and help revitalize the State Bank of Pakistan.

Program Assessment Rating Tool (PART)

The PART evaluation conducted by OMB in 2003 gave IDA high scores in Management (100) and Planning (71) but a lower score in identifying purpose (60). The evaluation stated that it was difficult to determine IDA's effectiveness given the lack of a system to sufficiently measure, monitor, and evaluate overall results and, accordingly, gave IDA a low rating (33) for results/accountability. However, the evaluation pointed to encouraging developments from the IDA-13 negotiation, especially initiation of a performance measurement system and establishment of interim indicator targets in health, education, and private sector development. IDA received an overall score of 56, due in large part to the low score in the program results section.

The PART evaluation noted that the World Bank manages the IDA program well on a project-specific level. Successful implementation of the new IDA-14 measurable results system will give IDA the tools to track its progress in meeting development objectives across the board.