

FINANCING THE FUTURE:

IDA's Role in the Evolving Global Aid Architecture

April 2024

Development Finance

International Development Association

The World Bank Group

Table of Contents

List of acronyms	4
Foreword	5
Executive summary	6
I. INTRODUCTION	8
II. KEY TRENDS IN OFFICIAL FINANCIAL FLOWS	9
Steady increase in official flows to LICs and LDCs	9
Strong focus on health	11
Tackling global challenges: climate as an example	11
III. THE NEED FOR REBALANCING IN THE GLOBAL AID ARCHITECTURE	13
Higher volumes, but greater complexity	13
Global trend 1: aid increasingly circumvents recipient government budgets	15
Global trend 2: the rapid rise of unleveraged, earmarked funds	17
Global trend 3: a proliferation of donor channels	17
Global trend 4: aid is increasingly fragmented	19
Towards greater balance and complementarity in the global aid architecture	20
IV. IDA'S COMPARATIVE ADVANTAGES IN A FRAGMENTED AID LANDSCAPE	22
IDA shows the power of the country-driven model	22
As debt risks increase, IDA is fostering debt sustainability	23
V. A NEW PLAYBOOK TO ENHANCE IDA'S EFFECTIVENESS	24
VI. CONCLUSION—IDA AS A PARTNER OF CHOICE	24

Box

Box 1: Terminology used for types of flows	9
--	---

Figures

Figure E1: WBG financing in 2021	6
Figure E2: IDA model multiplies financing	7
Figure 1: Official financial flows to LDCs/LICs and MICs	10
Figure 2: IDA share in total multilateral OFF commitments	10
Figure 3: Share of ODA allocated to health and education	11
Figure 4: Climate-related development finance: top donors	12
Figure 5: Climate finance from the World Bank Group	12
Figure 6: Aid flows have grown steadily, accompanied by rising private finance levels	14
Figure 7: A number of emerging economies have become top donors over the last 20 years	15
Figure 8: The majority of aid transactions bypassed government systems	16
Figure 9: Funds channeled through facilities that don't leverage donor contributions increased 16-fold	16
Figure 10: Development assistance for health, by priority program	17
Figure 11: Rising aid flows have led to a rapid proliferation of donors and donor agencies	18
Figure 12: The overall aid landscape in health has become complex	19
Figure 13: Increased donor proliferation has led to the fragmentation of aid flows	20
Figure 14: IDA replenishment size over time	21
Figure 15: Composition of OFF commitments to IDA countries at high risk of debt distress (red light)	23

List of Acronyms

AfDF	African Development Fund
AsDF	Asian Development Fund
BRICS	Brazil, Russia, India, China, South Africa
COVID	Coronavirus disease
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DRS	Debtor Reporting System
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
LDC	Least-developed country
LIC	Low-income country
MDB	Multilateral development bank
MIC	Middle-income country
NGO	Nongovernmental organization
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OFF	Official financial flows
OOF	Other official flows
WBG	World Bank Group

FOREWORD

I am pleased to present this report on the evolving global aid architecture and the role of the International Development Association (IDA) in addressing its challenges. The report describes the increasingly complex relationship between donors and recipient countries and the inefficiencies that have emerged—including a reduction in the volume of concessional resources available to the poorest countries, especially for those struggling with debt and fragile situations. It also lays out a strong rationale for investing in the IDA21 replenishment for better financial and development outcomes.

The past two decades have seen significant changes in the aid landscape. Donor channels have proliferated, leading to more than 200 donor agencies in some countries. Earmarked aid has also increased rapidly, with official financial flows being split into smaller portions. Additionally, recipient government budgets are being circumvented, with only 40 percent of official financing flows going through national budgets. These trends have reduced aid effectiveness, increased transaction costs for recipient countries, and resulted in missed opportunities for leveraging scarce concessional resources.

These trends underline the critical and irreplaceable role of IDA in today's development landscape. As the global solidarity fund for the poor, IDA is the world's primary source of concessional development financing. Since its inception in 1960, it has provided 115 countries with US\$533 billion in support through national budgets, transforming hundreds of millions of lives. Thirty-six nations have graduated from IDA recipient status, with many returning as donors. As the world's largest horizontal development finance platform, IDA provides a foundation upon which the development community

can support governments to achieve the Sustainable Development Goals.

IDA's unique hybrid financial model combines partner contributions with capital market borrowing at low interest rates, enabling it to leverage additional resources for the poorest countries. Every IDA donor dollar is multiplied between three- and fourfold for recipient countries. As the only triple-A fund for the world's poorest countries, IDA provides unmatched financial efficiency for donors.

Furthermore, IDA is a vital forum for coordinating and aligning various stakeholders, including governments, civil society organizations, and other development partners. By convening and partnering with these stakeholders, IDA helps to minimize circumvention and streamline initiatives. And with its global footprint, convening power, knowledge generation, policy access, and financial leverage, IDA plays an essential role in creating a more effective, less fragmented aid environment.

To address the heightened needs of client countries caused by the COVID-19 pandemic, donors agreed to the unprecedented acceleration of IDA20, providing a lifeline to beneficiary countries. Now that client countries are struggling to deal with the polycrisis and are catching up on their paths to the Sustainable Development Goals, we need to act with determination and urgency to achieve a robust and ambitious IDA21 replenishment. Join us in aiding the 1.3 billion people living in the world's poorest countries.

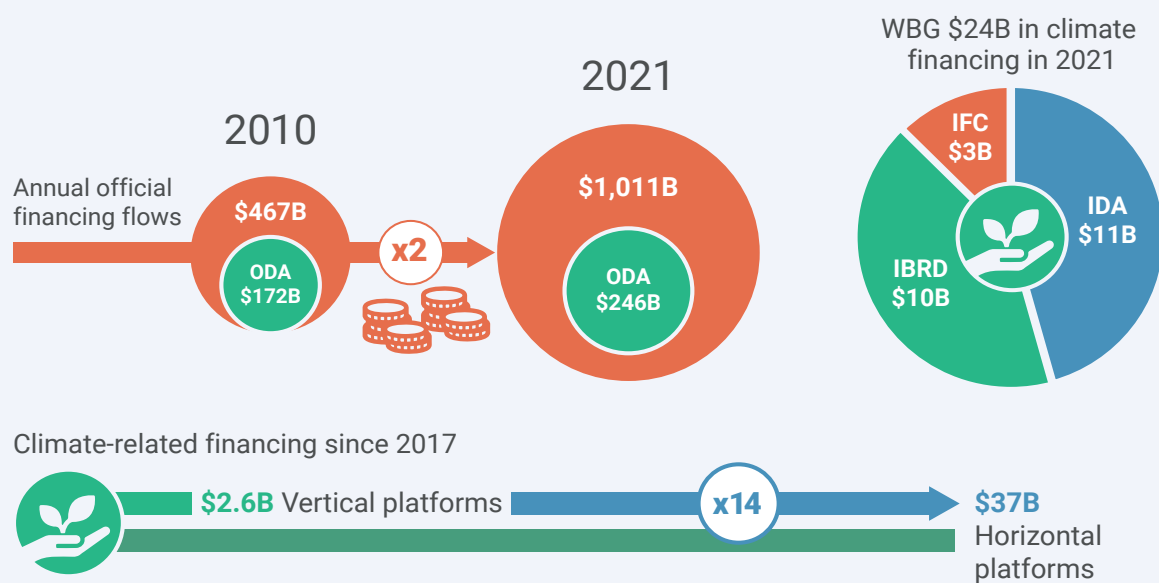
Axel van Trotsenburg

Senior Managing Director
The World Bank Group

Executive Summary

- i. **The global aid architecture faces significant challenges as the need for development finance continues to escalate.** Official financial flows (OFF) to developing countries have increased over the past two decades and reached US\$1 trillion in 2021—yet they remain below the rapidly growing demand for development finance. The estimated average annual spending needed to address the global challenges of climate change, conflict, and pandemics is US\$2.4 trillion per year for developing countries between 2023 and 2030, which far exceeds available development resources. There has been a strong focus on health and a high priority for climate-related financing, especially for the World Bank Group, with IDA as a key provider of concessional climate finance.

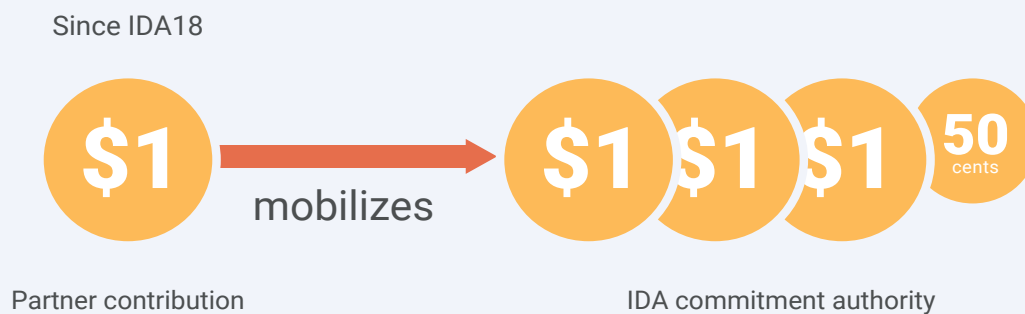
Figure E1: WBG climate financing in 2021



- ii. **Over the last 20 years the aid architecture has become increasingly complex, with a shift towards fewer concessional resources.** During this period, there has been significant circumvention of government budgets, and an expansion of earmarked aid unsupported by leverage. Donor channels have continued to multiply and aid transactions have become more fragmented. This has led to increased competition for concessional resources, even as individual concessional financing and grants are shrinking, especially for countries struggling with debt and fragile situations. And while the emergence of new players such as non-Development Assistance Committee donors is welcome, the larger number of donors has added complexity to existing coordination challenges.
- iii. **The International Development Association (IDA) stands out as a key player in addressing these challenges.** With its comparative advantages, IDA has the potential to play a central role in integrating and rebalancing different development approaches in a coherent framework. In broad terms, the two main development approaches are horizontal platforms—referring to multilateral development banks and other organizations that allocate resources based on country needs—and vertical platforms, which are unleveraged facilities that focus on specific sectors or themes. As the world’s largest horizontal development finance platform, IDA provides a foundation upon which other forms of aid can work together to achieve the Sustainable Development Goals.

- iv. **IDA’s role in providing concessional climate finance has been crucial in helping least-developed and low-income countries address climate change challenges.** IDA has also played a vital role in providing much-needed concessional finance to countries at high and moderate risk of debt distress, thereby fostering debt sustainability and promoting sustainable development.
- v. **IDA’s unique hybrid financial model is a game-changer that multiplies development financing for the poorest countries.** This model combines partner contributions with capital market borrowing at low interest rates, leveraging IDA’s triple-A rating. The adoption of this hybrid model in the eighteenth IDA replenishment significantly expanded its financial capacity. For every US\$1 of partner contributions, IDA now mobilizes between US\$3 and US\$4 in commitments, compared to a 1:2 ratio in previous replenishments.

Figure E2: IDA model multiplies financing



- vi. **This type of financial innovation is crucial, not least because donor contributions to concessional multilateral development banks are falling in real terms.** The ability to generate additional resources is particularly important in the context of increasing global challenges, growing complexity in development aid, and rising demand for development finance.
- vii. **IDA’s comparative advantages and its ability to address global challenges at the country level make it a crucial player in the evolving global aid landscape.** As the demand for development finance continues to grow, IDA’s role in providing concessional finance, fostering debt sustainability, and strengthening partnerships will be essential in addressing the challenges of the current global aid architecture.
- viii. **As part of its Evolution process, the World Bank is implementing a new playbook to strengthen development impact.** The playbook will enhance IDA’s effectiveness by supporting country priorities, addressing global challenges through country programming, and driving development with speed, scale, and impact.
- ix. **To respond to the needs of the present and future, IDA needs greater financial firepower.** With its global footprint and convening power, ability to generate knowledge, policy access, and financial leverage, IDA provides a lifeline for the 1.3 billion people living in the world’s poorest countries. Achieving this development mission requires a significant expansion of IDA’s financing capacity. The forthcoming IDA21 replenishment should set a financial goal that matches global ambition with the necessary commitment to end poverty on a livable planet.

I. Introduction

- 1. Developing countries have benefited from a significant increase in the volume of official financial flows (OFF) over the past two decades.** OFF to developing countries more than tripled in real terms during 2000–21, with the largest increase occurring in 2020 in the wake of the pandemic. The volume of OFF increased by an average 6 percent annually from 2000 through 2019, and then surged by 19 percent in 2020, with most of the increase that year coming from multilateral development banks (MDBs) that led the financing response to the pandemic. The share of OFF provided by MDBs increased over the period and jumped to 51 percent in 2020, overtaking bilateral commitments for the first time in two decades.
- 2. Nonetheless, the financial resources available to developing countries remain woefully inadequate for the magnitude of challenges they face.** The estimated average annual spending needed to address climate change, conflict, and pandemics is US\$2.4 trillion per year for developing countries between 2023 and 2030—an amount that far exceeds available resources.¹ It is therefore critical to expand available development finance, to ensure that it can be scaled up to meet the challenges of our time, and to catalyze additional resources, including from the private sector.
- 3. To effectively address multiple global challenges, the global aid architecture needs to be rebalanced.** Significant changes in the aid structure over the past two decades have increased the burdens on recipient countries. There have been high levels of circumvention, with only 40 percent of OFF going through recipients' national budgets; a growing share of facilities that provide no leveraging; a proliferation of donor channels, leading some countries to deal with more than 200 donor agencies; and increasing fragmentation of transactions.
- 4. This paper discusses the critical role of IDA in the global aid architecture.** First, it summarizes the main facts of OFF over the past two decades (section II). Second, it provides an overview of trends in the global aid architecture over the same period (section III). Finally, it shows how IDA is well-equipped to address the current regional and global priorities amid a complex and competitive global aid architecture (section IV). Brief concluding remarks are presented in section V.

¹ Development Committee (2023). *Evolution of the World Bank Group – A Report to Governors*. DC2023-0002, April.

II. Key trends in official financial flows

5. **This section examines the allocation of OFF to recipient countries, analyzing trends in official development assistance (ODA) grants, ODA concessional loans, and non-ODA financing.** The analysis identifies patterns in the flow of concessional and non-concessional official financing based on income groups, countries facing debt distress, and type of provider using the latest data available at the time of printing. The main definitions and terminology used for the different types of financial flows throughout this report are presented in Box 1.

Box 1: Terminology Used for Types of Flows

- **Official financial flows (OFF)** consist of official development assistance and other official flows.
- **Official development assistance (ODA)** consists of resource flows (grants, loans, and equity) to countries and territories on the Development Assistance Committee (DAC) List of ODA Recipients and to multilateral agencies that are undertaken by the official sector, with the promotion of economic development and welfare as the main objective, and at concessional financing terms. In addition to financial flows, technical cooperation is included in ODA. Equity provided by the official sector excludes foreign direct investment, which is included under private flows.
- **Other official flows (OOF)** consist of transactions by the official sector with countries on the DAC List of ODA Recipients that do not meet the conditions for eligibility as ODA.
- **Private flows** consist of flows at market terms financed out of external private sector resources (i.e., changes in holdings of private long-term assets held by residents of the reporting country) and private grants (i.e., grants by nongovernmental organizations, or NGOs, and other private bodies, net of subsidies received from the official sector).

STEADY INCREASE IN OFFICIAL FLOWS TO LICs AND LDCs

6. **OFF to least-developed countries (LDCs) and low-income countries (LICs) increased at a faster rate than to middle-income countries (MICs) over the last two decades.** From 2000 to 2021, total OFF to LDCs and LICs increased by 277 percent, from US\$26 billion to US\$98 billion. In comparison, OFF to MICs grew by 167 percent, from US\$75 billion to US\$200 billion. In absolute terms, therefore, OFF to MICs remain larger than flows to LDCs and LICs. The increase to MICs was largely driven by less concessional resources (OOF), which grew fourfold from US\$29 billion to US\$116 billion. MDBs played a significant role in this increase, providing US\$109 billion to MICs in 2021, or 89 percent of all OFF to MICs over the entire period (Figure 1).²
7. **IDA accounts for 43 percent of total multilateral ODA grants to LDCs/LICs.** From 2016 to 2021, IDA grants to LDCs/LICs increased sixfold, from US\$2 billion to US\$12 billion. In comparison, total ODA grants from multilateral donors to LDCs/LICs increased from US\$6 billion to US\$20 billion during the same period (Figure 2). For MICs, ODA grant flows from MDBs have remained constant, but ODA loans saw a sharp increase in 2020. The significant increase in IDA grants has enabled the provision of much-needed concessional resources to the most vulnerable countries at a time when their debt positions have deteriorated. During this period, four countries had their external debt distress downgraded from low to moderate risk, 15 countries moved from moderate to high risk—and two moved from low to high risk.³

² In per capita terms, OFF to LDCs/LICs increased by 137 percent (from US\$38 to US\$90) and ODA grants doubled between 2000 and 2021.

³ From 2016-21, Benin, Kenya, Papua New Guinea, Rwanda, Senegal, and Uganda were downgraded from low to moderate risk, and Cabo Verde, Comoros, Republic of Congo, Ethiopia, the Gambia, Guinea-Bissau, Haiti, Kenya, Laos, Mozambique, Papua New Guinea, Samoa, Sierra Leone, South Sudan, St. Vincent and the Grenadines, Tonga, and Zambia were downgraded from moderate to high risk or in distress.

Figure 1: Official financial flows to LDCs/LICs and MICs

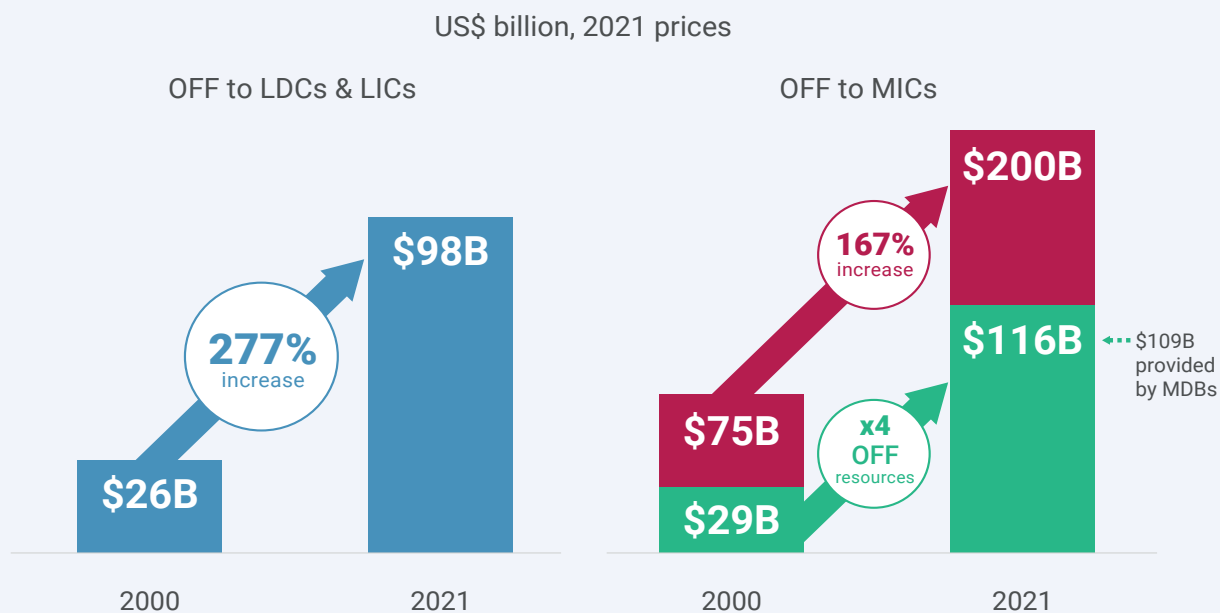
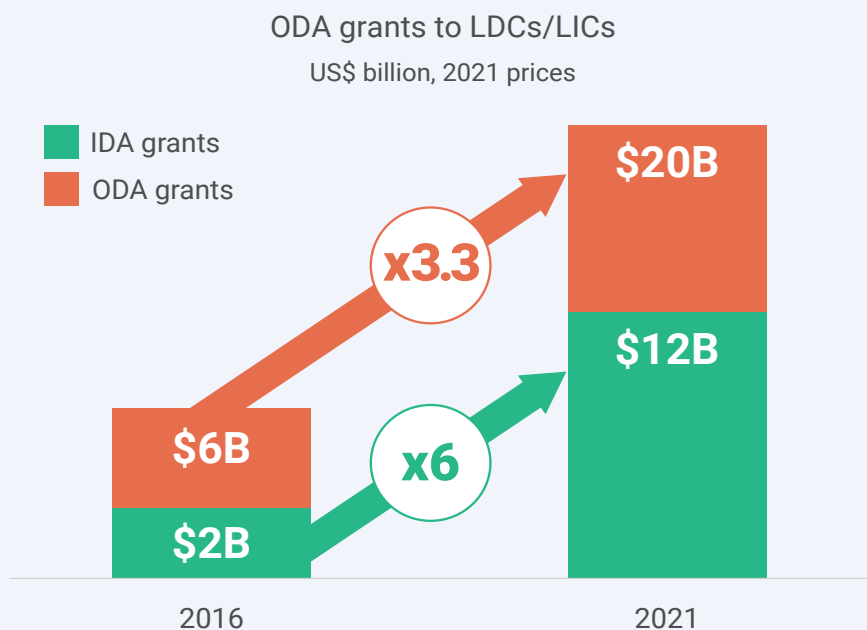


Figure 2: IDA share in total multilateral OFF commitments

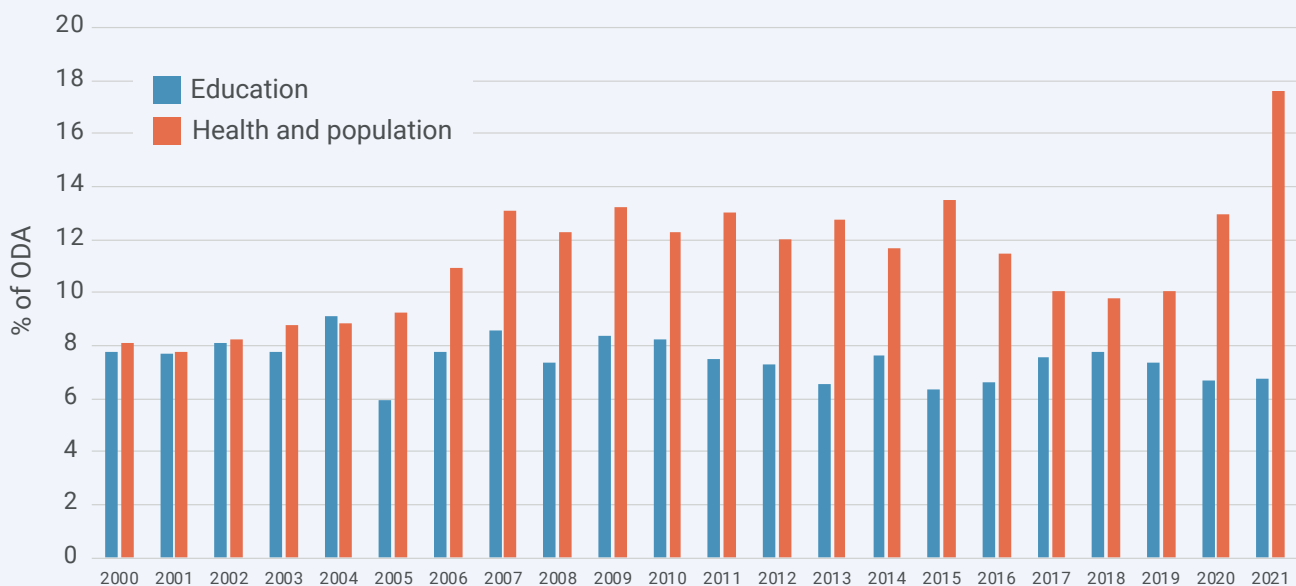


Source: OECD DAC Creditor Reporting System (CRS).

STRONG FOCUS ON HEALTH

8. **At the sector level, health received the largest share of OFF from vertical platforms.** Health accounted for 46 percent of total OFF allocated from such platforms, followed by multi-sector/cross-cutting activities (13 percent), and humanitarian aid (7 percent).⁴ These were followed by the energy and education sectors, with 4 percent each of total OFF. The share of ODA allocated to health has increased since 2000, despite a decrease just before COVID-19, while the share of ODA to education has remained relatively stable over time with decreases in recent years (see Figure 3). Overall, there has been a notable increase in ODA grants to social sectors, particularly health and other social infrastructure and services. These sectors have witnessed a surge in the volume of grants provided by IDA, especially when compared to pre-pandemic years. IDA grants have increased from 10.5 percent (US\$2.1 billion) and 9.8 percent (US\$1.9 billion) of IDA’s ODA commitments in 2019 to 16 percent (US\$5.1 billion) and 17 percent (US\$5.3 billion) in 2021, respectively.

Figure 3: Share of ODA allocated to health and education



Source: OECD DAC CRS.

TACKLING GLOBAL CHALLENGES: CLIMATE AS AN EXAMPLE

9. **The World Bank Group (WBG) has played a pivotal role as the primary provider of climate financing, underscoring its commitment to addressing climate challenges.** Over the last five years, the WBG’s climate finance has averaged US\$22 billion a year (Figure 4)—an amount that has been growing steadily and reached US\$29 billion in 2022.⁵

⁴ DAC-reported humanitarian aid includes expenditure on emergency response (material relief assistance and services, emergency food aid, and relief and coordination services); reconstruction and rehabilitation; and disaster prevention and preparedness.

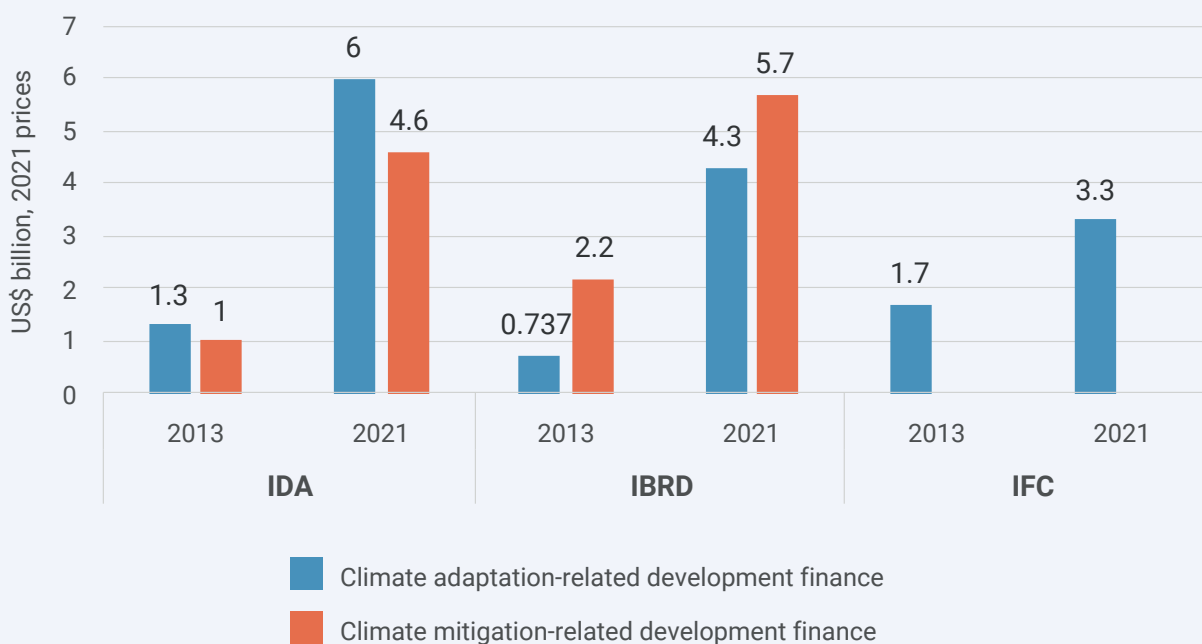
⁵ Climate co-benefits are used to determine the WBG’s own contributions to climate finance. The Group’s own contributions and the external funds it manages on behalf of others constitute the overall climate finance that it reports.

Figure 4: Climate-related development finance: top donors



Source: OECD DAC (climate-related development finance statistics).
 Note: Analysis excludes UN agencies, which do not report to the database.

Figure 5: Climate finance from the World Bank Group



Source: OECD DAC (climate-related development finance statistics).

10. **IDA stands out as the largest provider of concessional climate finance to LDCs and LICs globally.** Both adaptation- and mitigation-related development finance have risen significantly: IDA’s adaptation-related funding increased from US\$1.3 billion to US\$6 billion between 2013 and 2021, and mitigation-related funding increased from US\$1 billion to US\$4.6 billion. Similar trends are evident in the International Bank for Reconstruction and Development (IBRD) and, for mitigation-related development finance, the International Finance Corporation (IFC) (Figure 5).
11. **Beyond finance, the World Bank’s knowledge, most recently shared through its Country Climate and Development Reports, is a public good that can inform all climate-related interventions.** Tackling climate change is inherently cross-sectoral and interdisciplinary, requiring whole-of-government responses across myriad agencies as well as private sector players and civil society organizations. This in turn demands a level of collaboration that the WBG is uniquely well-placed to deliver.

III. The need for rebalancing in the global aid architecture

12. **Over the last 20 years, the global aid landscape has become increasingly complex.** Government budgets are being significantly circumvented and earmarked aid unsupported by leverage has risen. In addition, donor channels have continued to proliferate while aid transactions are fragmented. This section discusses these trends and their implications for donor coordination, the need for rebalancing the global architecture, and missed opportunities for leveraging scarce concessional resources.⁶

HIGHER VOLUMES, BUT GREATER COMPLEXITY

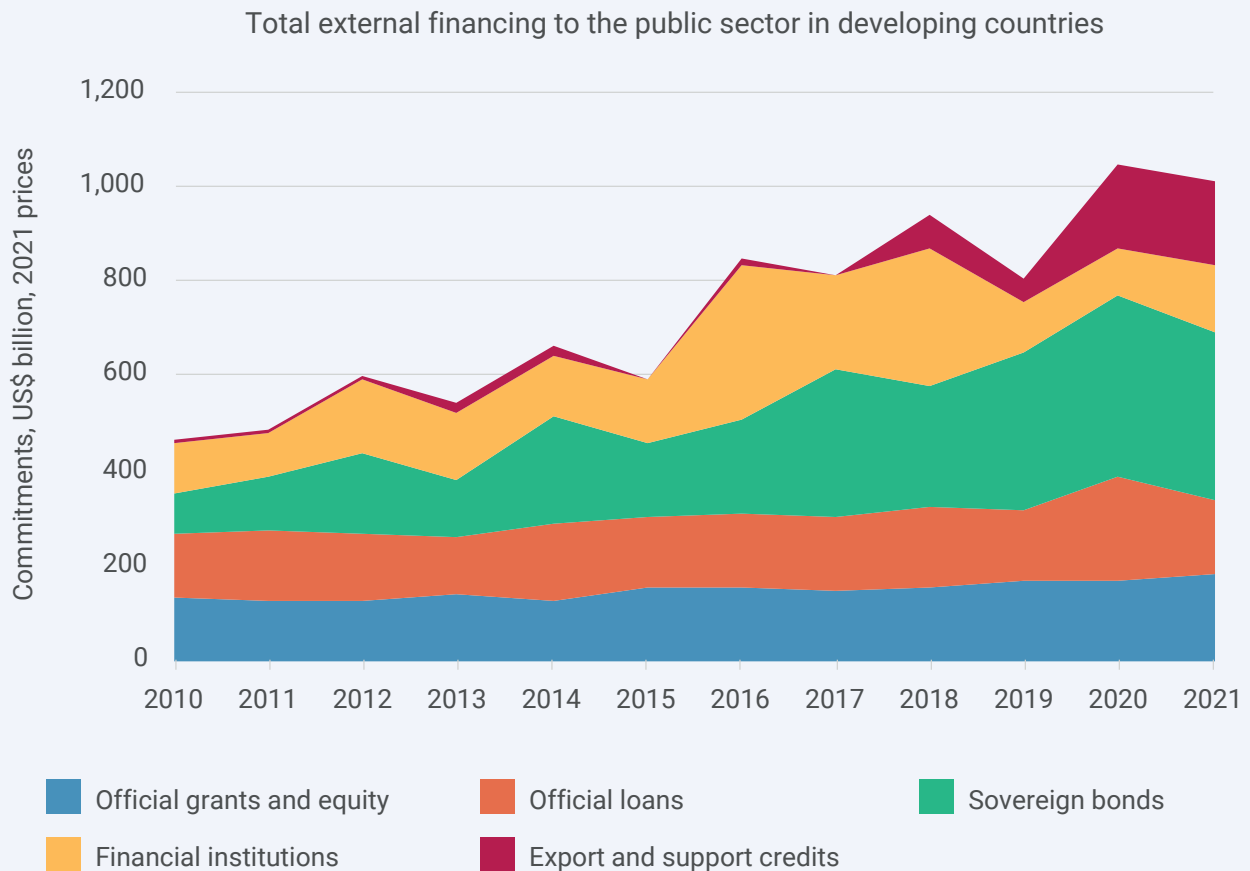
13. **Although public and private financial flows to developing countries have been growing, several trends undermine aid effectiveness.** From 2010 to 2021, cumulative commitments from public and private financial flows amounted to US\$8.8 trillion in real terms (at 2021 prices). During this period, the development community focused on leveraging public finance to catalyze additional resources, particularly from the private sector. Annual OFF more than doubled, from US\$467 billion to US\$1,011 billion, but much of that was not ODA. From 2010 to 2021, ODA increased from US\$172 billion to US\$246 billion, benefiting several sectors with a sizable increase in financing for emergencies at home and abroad (financing refugees in donor countries and humanitarian aid). The shares of loans and grants remained relatively stable over the period (Figure 6).
14. **The WBG continued to be the leading provider of loan financing and the leading multilateral provider of grants.** During 2010–21, official loan commitments by multilateral and bilateral agencies amounted to US\$1.9 trillion, with 63 percent provided by MDBs and 37 percent by bilaterals. The WBG provided the highest volume of loan financing with a combined US\$427.7 billion, followed by China, the International Monetary Fund, the Asian Development Bank, and Japan (Figure 7).⁷ Over the same period, about half of

⁶ The analysis presented in this section draws primarily on the datasets of the Organisation for Economic Co-operation and Development (OECD), and specifically the OECD CRS. This is complemented by WBG data, including the Debtor Reporting System (DRS), World Development Indicators, and Finance and Accounting databases. The country coverage, therefore, only includes DAC members. For greater detail, see *A Changing Landscape: Trends in Official Financial Flows and the Aid Architecture*, World Bank, 2021.

⁷ Data from the OECD CRS and World Bank DRS at 2021 prices, excluding grants, on a commitment basis. These figures capture only loan commitments as no comprehensive data is available for grants, particularly for sovereign donors not reporting consistently to the OECD DAC. If grants were to be taken into account, the shares from multilateral institutions and from bilateral development partners that provide significant amounts of grant financing would be larger.

bilateral loans to developing countries came from emerging economies, such as China, Russia, India, and Saudi Arabia. When it comes to ODA grants, during 2010–21 MDBs provided US\$232 billion, of which IDA, the world’s single largest provider of grants, accounted for 26 percent (US\$60 billion), followed by the Global Fund (US\$44 billion), the United Nations International Children’s Emergency Fund (US\$16 billion), and the African Development Bank (US\$13 billion).⁸

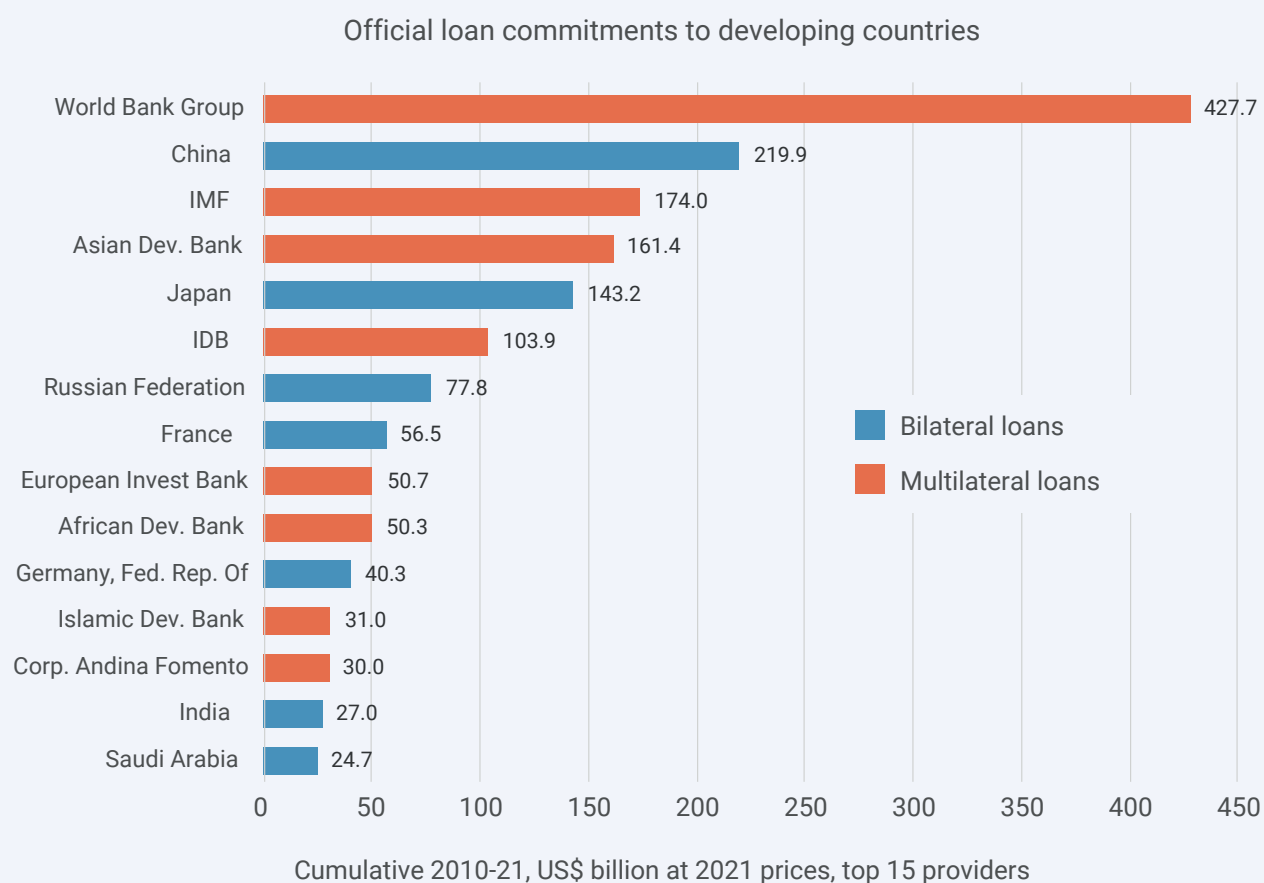
Figure 6: Aid flows have grown steadily, accompanied by rising private finance levels



Source: OECD CRS and DRS.

⁸ Data on ODA grants from the OECD CRS, at 2021 prices, and in commitment terms.

Figure 7: A number of emerging economies have become top donors over the last 20 years



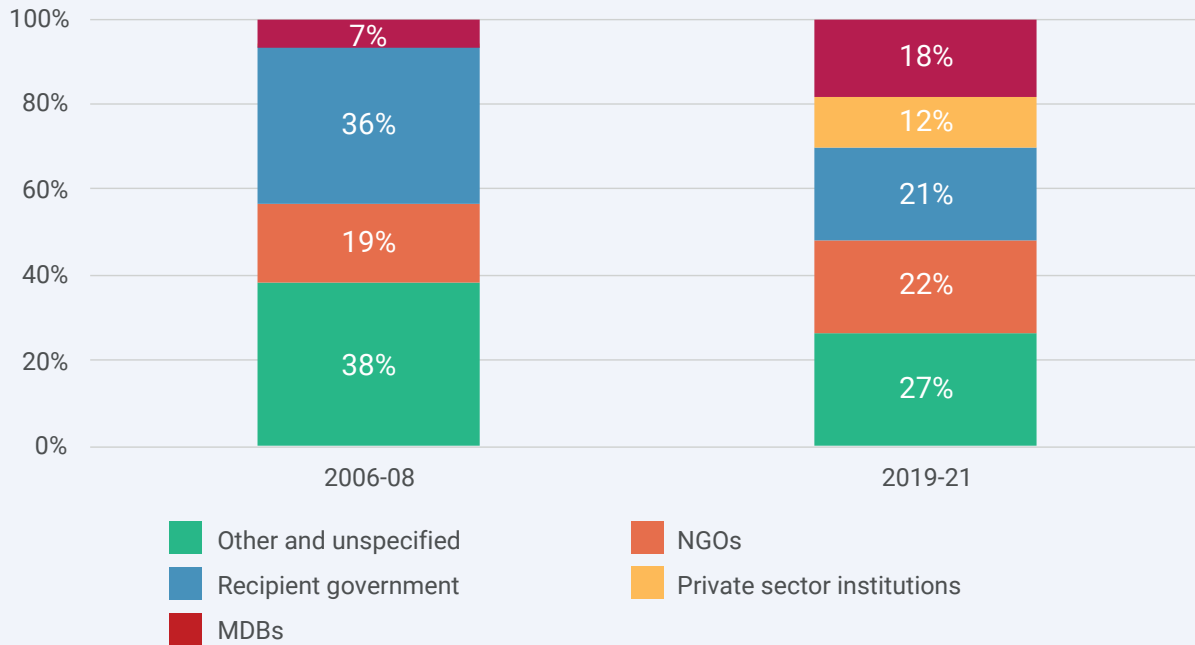
Source: OECD CRS and DRS.

GLOBAL TREND 1: AID INCREASINGLY CIRCUMVENTS RECIPIENT GOVERNMENT BUDGETS

- 15. While OFF to developing countries have more than tripled, the funds increasingly circumvent recipient government budgets.** By 2021, nearly four out of five projects were implemented by non-government entities and the majority were implemented through project-type interventions. One-fourth of the transactions were channeled through NGOs in the last decade, of which more than two-thirds (17 percent overall) were implemented by donor-based NGOs (Figure 8). More than half of the funds bypass country budgets due to the use of nongovernmental channels like donor governments (12 percent), MDBs (11 percent), and NGOs (7 percent), undermining the effectiveness of aid. In comparison, IDA provided 92 percent of OFF to the government agencies directly.
- 16. Over two-thirds of DAC donors channeled less than 10 percent of OFF through recipient governments.** More than half of the financing provided by all donors bypassed the recipient government. Of the 29 DAC donors, six channeled less than 10 percent and 12 channeled less than 5 percent of financing through recipient governments. Japan is an exception, as it provides a significant share of OFF in the form of ODA loans for infrastructure. In transaction terms, bilateral donors used NGOs to implement one-third of the activities, of which three-quarters were through donor-based NGOs.

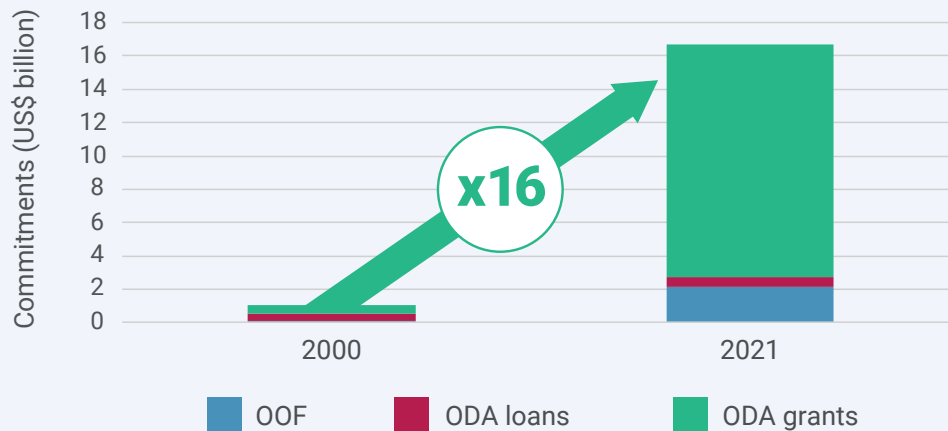
17. **MDBs almost always work through recipient governments to address global challenges and country priorities.** Projects financed by MDBs must meet rigorous fiduciary standards—including for procurement and financial management—and comply with environmental and social safeguards. MDB financing of government agencies and use of their standards and policies also helps improve the capacity of borrowers and develop country systems or markets. Some of the large MDBs—including IBRD, IDA, New Development Bank, Asian Development Bank, Inter-American Development Bank, and African Development Bank—facilitated this by routing more than 75 percent of their financing to the government agencies.

Figure 8: The majority of aid transactions bypassed government systems



Source: OECD DAC CRS.

Figure 9: Funds channeled through facilities that don't leverage donor contributions increased 16-fold

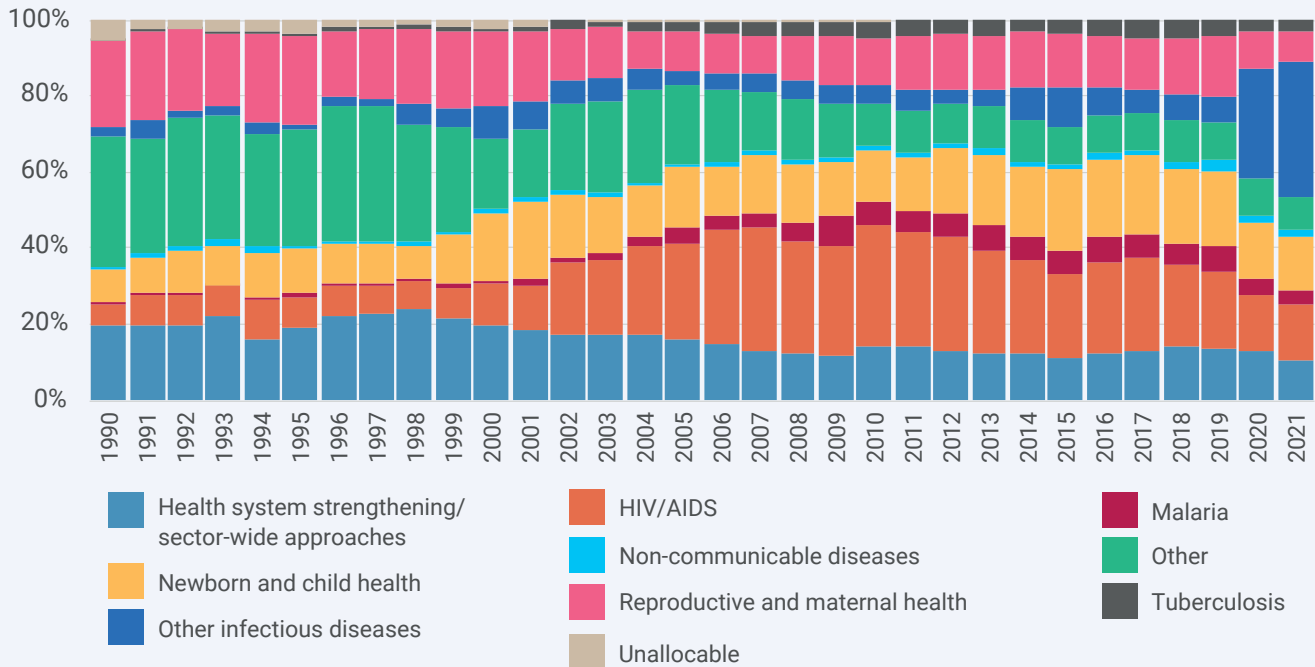


Source: OECD DAC CRS.

GLOBAL TREND 2: THE RAPID RISE OF UNLEVERAGED, EARMARKED FUNDS

18. **The volume of aid earmarked for specific sectors or themes has ballooned.** There has been significant growth in the share of ODA provided through unleveraged facilities. Between 2000 and 2021, total grant commitments from these facilities grew by an average of 27 percent per year (Figure 9). This trend is particularly prominent in the health sectors, with donors increasingly channeling funds through priority programs (Figure 10). From 2010 to 2019, vertical facilities provided developing countries with a higher volume of ODA grants than horizontal platforms. However, when the COVID-19 pandemic hit in 2020, horizontal platforms responded by increasing ODA grant financing by nearly 50 percent compared with 2019 (US\$15.3 billion provided from horizontal compared with US\$12.3 billion from vertical platforms). This continued into 2021, with grant commitments from both types of organizations rising slightly, to US\$15.7 billion from horizontal compared with US\$13.9 billion from vertical facilities.

Figure 10: Development assistance for health, by priority program



Source: IHME, 2021.

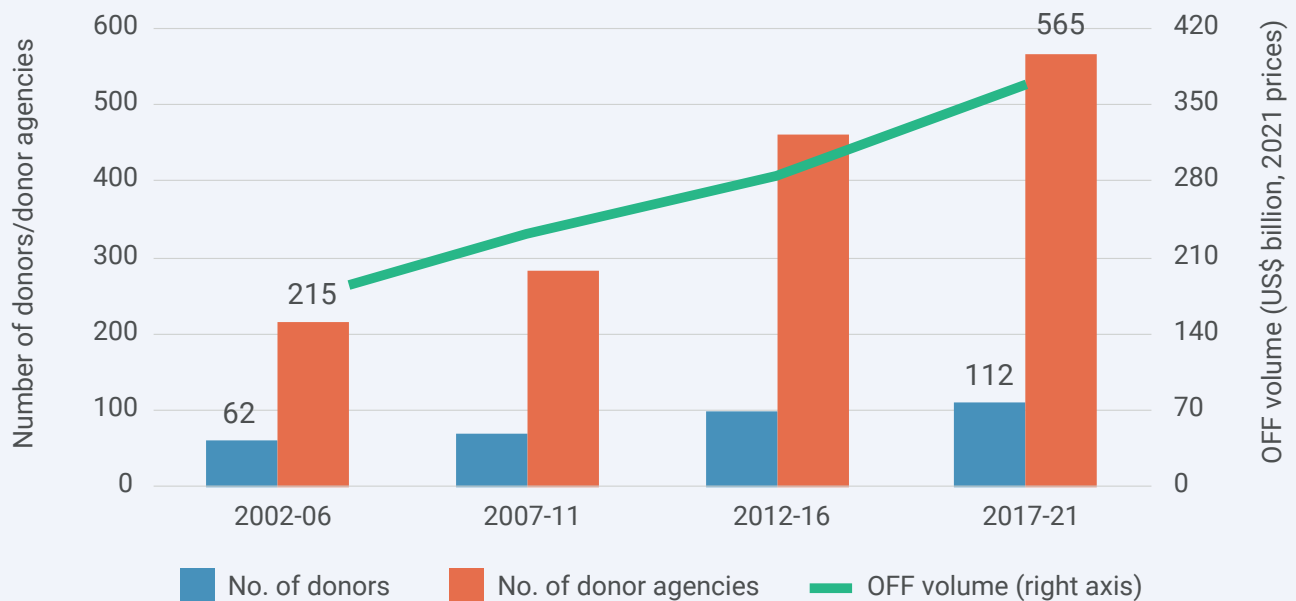
GLOBAL TREND 3: A PROLIFERATION OF DONOR CHANNELS

19. **The number of donors and donor aid channels has continued to multiply, introducing ever-increasing complexity.** The number of international organizations, funds, and programs is now much higher than the number of developing countries they were created to assist. The number of providers of official finance has increased from an average of 62 in 2002–06 to 112 in 2017–21, reflecting the emergence of new donors and the creation of new multilateral institutions (Figure 11). Notably, the number of entities providing finance has more than doubled: from 215 during 2002–06 to 565 in 2017–21. In total, 350 new entities—288 of

which are bilateral and 62 of which are multilateral—started to provide development finance. In 2002–06, only about one-fifth of donors (13 out of 62) had five or more entities apiece, but by 2017–21, this had increased to almost one-third (34 out of 112). This trend is also reflected in the health sector and has made the overall aid landscape more complex, with an increase in the number of donor agencies and a complex flow of funds (see Figure 12).

20. **The proliferation of aid channels is a burden on LICs with already weak implementation capacity.** In Ethiopia, the average number of donor agencies has increased by 24 percent from 2002–16 to 2017–21, leaving the country to now manage more than 200 donor agencies. In Mozambique and Nepal, the number of agencies grew by 21 percent and 17 percent respectively, and each now manages over 170 agencies. Countries such as Tajikistan (with a population of under 10 million), Rwanda (population 13 million), Malawi (population 19 million), and Mali (population 21 million), have 130, 171, 140, and 191 agencies, respectively. This translates to one agency for just 72,000–135,000 citizens on average. This proliferation has led to increased effort and coordination costs for both providers and recipients. Recipient countries dealing with multiple donors struggle to handle multiple requirements for project audits, environmental assessments, procurement reports, financial statements, and project updates. The large number of entities can also limit policy leverage, and it is not uncommon for different entities to pursue conflicting policies. Overall, donor administration and coordination in this crowded landscape have become much more complex.

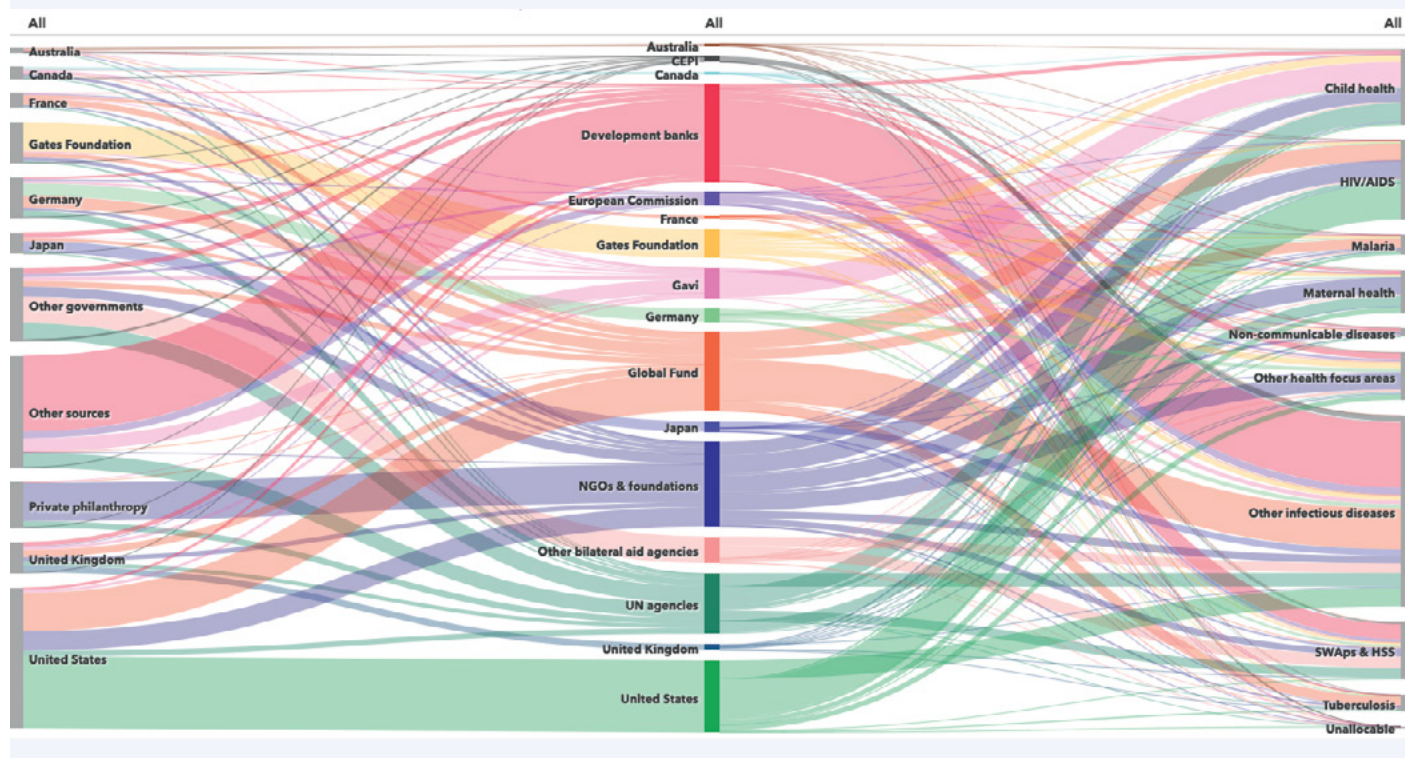
Figure 11: Rising aid flows have led to a rapid proliferation of donors and donor agencies



Source: OECD DAC CRS.

Figure 12: The overall aid landscape in health has become complex

Flows of global health financing, 2021
Total dollars spent for all sources, channels, and health focus areas: US\$67.3 billion

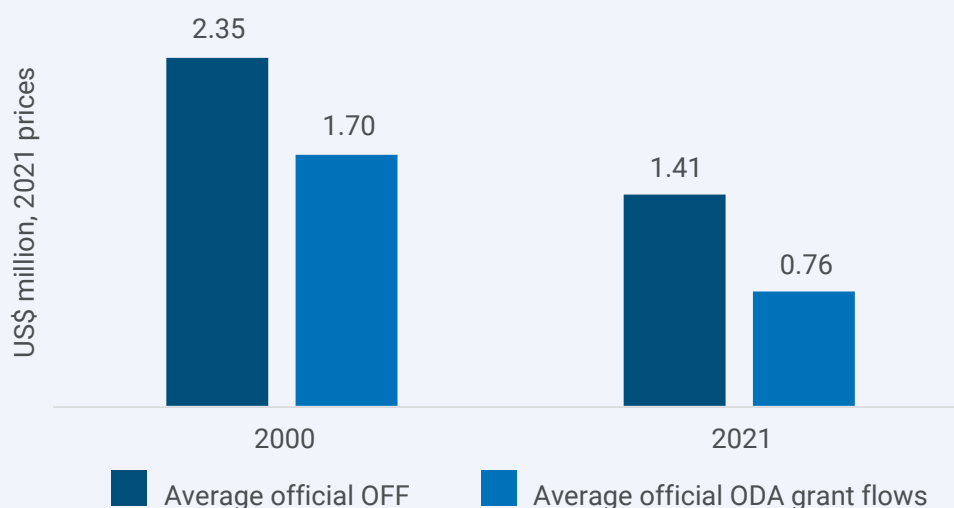


Source: IHME, 2021, <https://vizhub.healthdata.org/fgh/>

GLOBAL TREND 4: AID IS INCREASINGLY FRAGMENTED

21. **As aid channels have proliferated, aid has become increasingly fragmented.** Fragmentation manifests in different forms, including a higher number of donor-funded transactions and lower financial size of aid commitments and projects. The fragmentation of ODA further taxes the institutional capacity of LICs and increases transaction costs. Between 2000 and 2021, the volume of OFF grew by 218 percent in real terms while the number of transactions grew by 427 percent. ODA grants dominated as the main type of financing, rising from 36,830 transactions (72 percent) in 2000 to 236,797 transactions (88 percent) in 2021. Fragmentation is compounded by the fact that more than 60 percent of OFF activities in the last decade have been free-standing experts and technical assistance. Technical assistance is often criticized because of the high cost of international experts and for being too fragmented and uncoordinated.
22. **An average ODA grant is now half the size of what it was 20 years ago.** Between 2000 and 2021, the size of ODA grants in real terms halved, from an average of US\$1.7 million to US\$0.8 million (Figure 13). Equity investments fell to one-third of their earlier values, from US\$11.8 million to US\$3.6 million. The reduction in the average size of grants is especially concerning because these tend to go to developing countries with lower income levels and weaker capacity, and the higher transaction costs place a disproportionate burden on them.

Figure 13: Increased donor proliferation has led to the fragmentation of aid flows



Source: OECD DAC CRS.

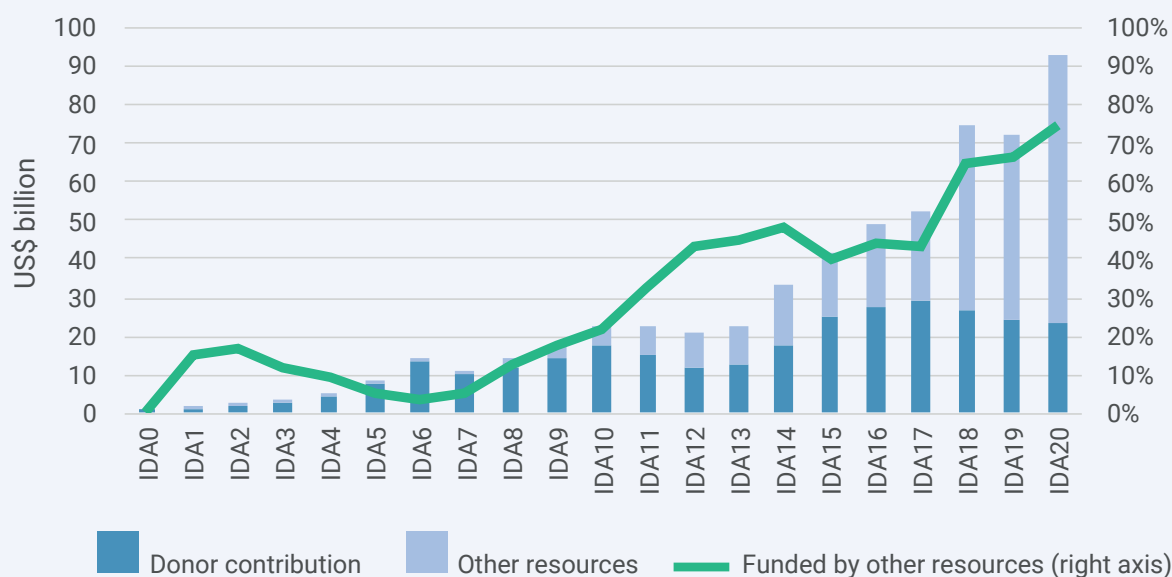
TOWARDS GREATER BALANCE AND COMPLEMENTARITY IN THE GLOBAL AID ARCHITECTURE

23. **To address these issues, a balanced and complementary approach is needed to aid delivery.** This means finding ways to combine the advantages of both horizontal and vertical approaches while mitigating their limitations through opportunities for co-financing and partnerships between vertical funds and MDBs. By doing so, we can ensure that urgent financing needs are met, economies of scale are achieved, and scarce resources are effectively mobilized for the benefit of developing countries.
24. **While MDBs are well placed to improve aid coordination and address developing countries’ financing gaps, their concessional arms face falling donor contributions in real terms.** MDBs play a crucial countercyclical role in helping countries withstand financial crises. They also collaborate to ensure their respective financing options fit within a coherent framework and incentive structure and coordinate on common approaches on resource allocation, graduation criteria, regional initiatives, support to fragile and conflict-affected situations, and crisis response. However, new donor contributions to the three largest concessional MDB arms—IDA, the African Development Fund (AfDF), and the Asian Development Fund (AsDF)—have declined by 15 percent in nominal terms over the last three replenishments.^{9,10}
25. **IDA’s substantial unearmarked resources bring positive development to the 1.3 billion people living in client countries.** IDA’s financing architecture is a robust and efficient performance-based framework for allocating resources as unearmarked support to the poorest countries, supported by five windows focused on thematic areas. Over past replenishments, IDA financing volumes have increased significantly, with a proportionally higher share targeting the countries with the highest needs.

⁹ Donor contributions to MDB funds fell by US\$5.6 billion over the period. Contributions to IDA16, AfDF12, and AsDF10 totaled US\$36.4 billion, while contributions to IDA19, AfDF15, and AsDF13 totaled US\$30.8 billion.

¹⁰ See International Development Association (2022), *Building Back Better from the Crisis: Toward a Green, Resilient and Inclusive Future. Additions to IDA Resources: Twentieth Replenishment*. The World Bank.

Figure 14: IDA replenishment size over time¹¹



Source: World Bank data.

26. **IDA’s hybrid financial model offers unique value for money among MDBs with concessional business models, as it leverages partner contributions at scale.** The eighteenth IDA replenishment (IDA18) saw the adoption of an innovative hybrid financial model, in which partner contributions are complemented by capital market borrowings at low interest rates, supported by IDA’s triple-A rating. This has allowed IDA to significantly expand its financial capacity and better support client needs. Since IDA18, each US\$1 dollar of partner contributions has mobilized US\$3.5 in IDA commitments, up from a 1:2 ratio in IDA17. The success of the model builds on IDA’s capital strength, its unique mandate and development role, its track record of prudent financial management policies, timely repayment of outstanding loans by client countries, and continued strong financial support from IDA’s contributing partners—all of which underpin confidence from capital markets and IDA’s triple-A rating. As shown in Figure 14, more than 70 percent of the IDA19 and IDA20 replenishments were funded from resources other than partner contributions, up from 65 percent in IDA18 and between 40 and 50 percent in the six previous replenishments before the model was introduced.
27. **In addition to its resources, IDA uses the full weight and experience of the WBG to support client countries.** Bringing in both IFC and the Multilateral Investment Guarantee Agency and working as one WBG have significantly increased the role of the private sector in client countries, which has become more critical as governments try to stimulate economic recovery and job creation following the COVID-19 crisis. The introduction of the Private Sector Window in IDA18 allowed IDA funds to leverage other WBG investments by about six times in private investment finance in some of the world’s most challenging markets. In IDA20, this window continued to reinforce such collaboration by mitigating private sector risks with a special focus on IDA fragile and conflict-affected situations, exemplifying IDA’s role as a catalyst of private financing in the world’s toughest markets.
28. **The next section will elaborate on IDA’s comparative advantages and the role it can play in a rebalanced global aid architecture.**

¹¹ Note that IDA19 was shortened to two years so that IDA20 could be accelerated by one year, which meant a significant increase in donor contributions on a yearly basis.

IV. IDA’s comparative advantages in a fragmented aid landscape

IDA SHOWS THE POWER OF THE COUNTRY-DRIVEN MODEL

29. **A key attribute of the country-driven model is that development finance is allocated in line with national priorities.** This is achieved by emphasizing a “horizontal” approach to development, country ownership, program coherence, and donor harmonization. IDA is a pillar of the country-driven model: it is the largest horizontal development finance platform in the world, providing a foundation upon which other forms of aid—including vertical funds—can work together to achieve the Sustainable Development Goals. In this sense, a horizontal platform such as IDA can help “de-fragment” the global aid architecture. As discussed below, the distinct goals, focus, and approaches to delivering ODA can be reconciled as part of national development strategies, augmented to address emerging global challenges.
30. **IDA’s comparative advantages allow it to model successful implementation of the country-driven approach:**
- **It is a catalyst:** IDA is often the first among development partners to provide support in new and challenging areas, paving the way for other partners to follow. For example, IDA was one of the first development agencies to provide significant funding for issues related to the prevention (and later treatment) of HIV/AIDS.
 - **Creation and diffusion of development knowledge:** IDA is also a first-rate development knowledge platform, fostering diffusion of global knowledge at the local level and vice versa. Client countries benefit from a suite of country-level core diagnostics such as country economic memoranda, Public Expenditure Reviews, and Country Climate and Development Reports—in addition to influential global flagships such as the World Development Report and the Global Economic Prospects. The World Bank’s new Knowledge Compact for Action¹² will further spur alignment with global challenges, reflecting the Bank’s extended mandate.
 - **Global footprint combined with local presence:** Through its global reach, IDA helps client countries learn from—and adapt—experiences in different parts of the world. IDA also provides direct support to a variety of countries, thanks to its on-the-ground presence in the vast majority of eligible nations.
 - **Predictability and scale of financial resources:** IDA’s country engagement model provides client countries with predictable and at-scale development financing. This feature is complemented by IDA’s ability to respond quickly and effectively at times of crisis. As some observers have noted, “no other institution scaled up commitments more during the first year of the COVID crisis.”¹³

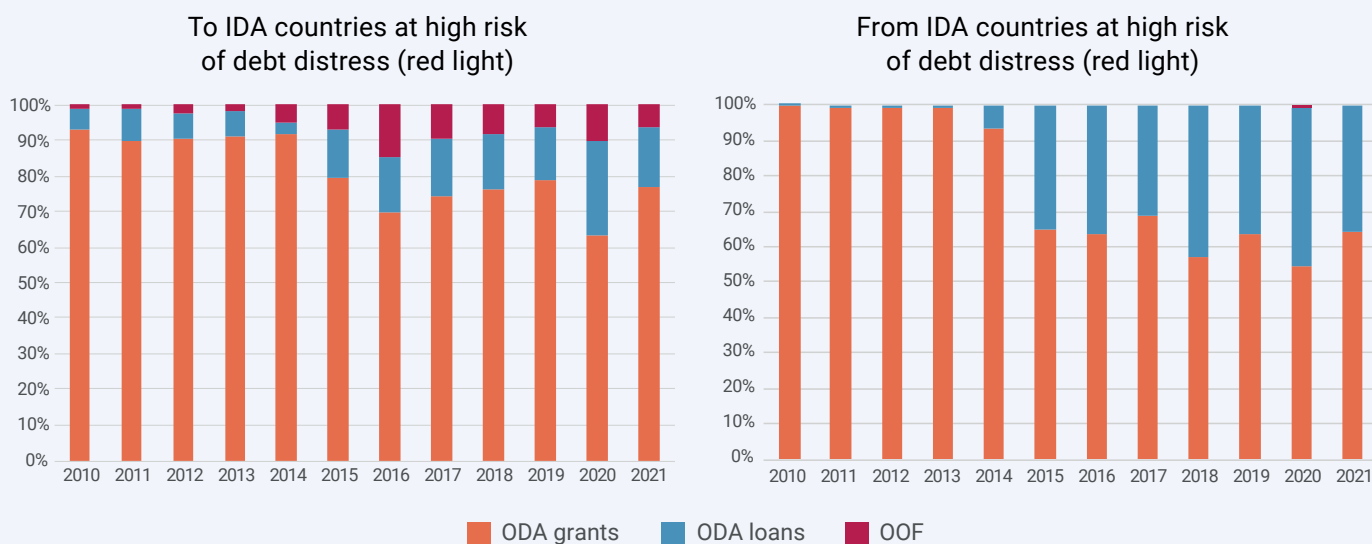
¹² World Bank (2023), *Ending Poverty on a Livable Planet: Report to Governors on World Bank Evolution*. Development Committee Meeting Paper, DC2023-0004, September 28.

¹³ Songwe, V. and R. Aboneaaj (2023). *An Ambitious IDA for a Decade of Crisis*. CGD Note, Center for Global Development, July.

AS DEBT RISKS INCREASE, IDA IS FOSTERING DEBT SUSTAINABILITY

31. **In key areas, concessionality has been declining.** The increase in OFF to countries in debt distress or at high risk of debt distress, from US\$25 billion in 2010 to US\$50 billion in 2021, has been accompanied by a concerning trend of reduced concessional terms. In 2010, 93 percent of OFF to this group of countries were in the form of ODA grants. However, by 2020, this ratio had dropped to only 63 percent, rising to 77 percent in 2021. At the same time, the share of less concessional resources (OOF) increased from 1 percent in 2010 to 10 percent in 2020, before falling to 6 percent in 2021 (Figure 15).
32. **These trends highlight the challenges developing countries face in financing their debt, particularly for those at high risk of debt distress.** The drop in the volume of concessional financing for these countries coincides with the most recent debt wave in developing countries, leading to a rapid acceleration in debt levels and a shift from concessional financing toward financial market and financing from non-Paris Club bilateral creditors.¹⁴ There are also coordination challenges arising from the emergence of new players in an increasingly complex donor landscape—including non-Paris club creditors, private creditors, domestic debt holders, and more complex debt instruments.¹⁵ In this context, the role of IDA becomes crucial.
33. **Over the period 2010-21, IDA has provided much-needed concessional finance to countries in debt distress.** IDA provided 49 percent of the total ODA grants and 44 percent of total ODA loans from MDBs to countries in debt distress and at high risk of debt distress (Figure 15). More recently, IDA provided large amounts of concessional resources to the poorest countries through positive net transfers. During the COVID-19 pandemic, IDA’s net transfers increased by 66 percent from US\$10.7 million in FY19 to US\$17.8 million in FY23.

Figure 15: Composition of OFF commitments to IDA countries at high risk of debt distress (red light)



Source: OECD DAC CRS.

¹⁴ See A. Kose et al. (2020), *Global Waves of Debt: Causes and Consequences*. Advance Edition. Washington, DC: The World Bank.

¹⁵ See C. Chuku et al. (2023), *Are We Heading for Another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the Pre-HIPC Era*, IMF Working Paper, Issue 079.

34. **IDA fosters debt sustainability by explicitly incorporating client countries' macroeconomic absorptive capacity into its financing.** This occurs through several mechanisms: (i) different degrees of concessionality for different income levels (IBRD vs. IDA blends vs. IDA-only); (ii) different degrees of concessionality for different levels of debt distress risk (IDA credits vs. IDA grants); (iii) allocative incentives through the Sustainable Development Finance Policy; and (iv) the requirement of a sustainable, consistent, and credible macro framework for every development policy financing operation. The implication is that IDA actively helps countries achieve and maintain macroeconomic balance—especially in a context where several LICs are severely indebted.

V. A new playbook to enhance IDA's effectiveness

35. **In the context of the Evolution, the World Bank is implementing new policies to support country priorities, address global challenges, and drive development with speed, scale, and impact.** The new playbook will allow IDA to enhance its effectiveness by:
- a) doubling down on efforts to better address both country development needs and global challenges by strengthening its country engagement model and establishing global challenge programs;
 - b) enhancing its crisis preparedness and response toolkit to help countries prepare for and respond to crises better and faster;
 - c) launching multiple initiatives to increase the efficiency and effectiveness of operations, aiming to quicken its pace and simplify its processes; and
 - d) deepening partnerships with MDBs.

VI. Conclusion—IDA as a partner of choice

36. **Today's daunting global challenges require urgent action by the international community to expand the volume and efficiency of concessional financing to developing countries.** Yet over the past 20 years, the global aid architecture has become increasingly complex and the volume of concessional resources available to the poorest countries has declined. In this context, IDA is a clear solution: it is a representative player with a global community of countries, incorporating 59 donors (both traditional and non-traditional, including all the BRICS) that form the world's largest fund for the poor. Its global footprint and ability to convene various stakeholders, including governments, civil society organizations, and other development partners, allows for better coordination and alignment of efforts. Furthermore, more than 90 percent of IDA's financing is channeled through the recipient governments, supporting national development strategies and efficient administration, and avoiding the problem of circumvention. Finally, IDA's unique hybrid financial model allows it to leverage financing, multiplying the resources available to the poorest countries. These intrinsic features position IDA as a key player to address the challenges of today's development landscape. It is therefore critical that IDA's financing capacity is protected and augmented as part of the forthcoming IDA21 replenishment.