

**SPECIAL PURPOSE FINANCIAL STATEMENTS AND INTERNAL CONTROL
REPORTS OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION**

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MANAGEMENT'S REPORT REGARDING EFFECTIVENESS OF INTERNAL CONTROLS OVER EXTERNAL FINANCIAL REPORTING

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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Management's Report Regarding Effectiveness of Internal Controls Over External Financial Reporting

August 2, 2007

The management of the International Development Association (IDA) is responsible for the preparation, integrity, and fair presentation of its published special purpose financial statements. The special purpose financial statements have been prepared in accordance with accounting principles described in Note A to IDA's special purpose financial statements and, as such, include amounts based on informed judgments and estimates made by management.

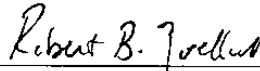
The special purpose financial statements have been audited by an independent accounting firm, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Executive Directors and committees of the Board. Management believes that all representations made to the independent auditors during their audit were valid and appropriate. The independent auditors' report accompanies the audited special purpose financial statements.

Management is responsible for establishing and maintaining effective internal control over external financial reporting for financial presentations in conformity with accounting principles described in Note A to IDA's special purpose financial statements. The system of internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified. Management believes that internal controls for external financial reporting, which are subject to scrutiny by management and the internal auditors, and are revised as considered necessary, support the integrity and reliability of the external financial statements.


There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

IDA assessed its internal control over external financial reporting for financial presentations in conformity with accounting principles described in Note A to IDA's special purpose financial statements as of June 30, 2007. This assessment was based on the criteria for effective internal control over external financial reporting described in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management believes that IDA maintained effective internal control over external financial reporting presented in conformity with accounting principles described in Note A to IDA's special purpose financial statements, as of June 30, 2007. The independent accounting firm that audited the special purpose financial statements has issued an attestation report on management's assessment of IDA's internal control over external financial reporting.

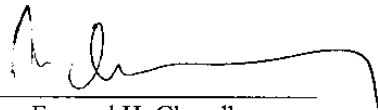
The Board of Executive Directors of IDA has appointed an Audit Committee responsible for monitoring the accounting practices and internal controls of IDA. The Audit Committee is comprised entirely of Executive Directors who are independent of IDA's management. The Audit Committee is responsible for recommending to the Board of Executive Directors the selection of independent auditors. It meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of IDA in addition to reviewing IDA's reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over external financial reporting and any other matters which they believe should be brought to the attention of the Audit Committee.



Robert B. Zoellick
President



Vincenzo La Via
Chief Financial Officer



Fayeul H. Choudhury
Vice President and Controller



Charles A. McDonough
Deputy Controller

REPORT OF INDEPENDENT ACCOUNTANTS ON MANAGEMENT'S
ASSERTION REGARDING EFFECTIVENESS OF INTERNAL
CONTROLS OVER EXTERNAL FINANCIAL REPORTING

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INDEPENDENT ACCOUNTANTS' REPORT

President and Board of Executive Directors
International Development Association

We have examined management's assertion, included in the accompanying *Management's Report Regarding Effectiveness of Internal Controls over External Financial Reporting*, that the International Development Association ("IDA") maintained effective internal control over external financial reporting presented in conformity with the accounting principles described in Note A to IDA's special purpose financial statements as of June 30, 2007, based on the criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("the COSO report"). Management is responsible for maintaining effective internal control over external financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations of internal control over external financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the effectiveness of the internal control over external financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that IDA maintained effective internal control over external financial reporting presented in conformity with the accounting principles described in Note A to IDA's special purpose financial statements as of June 30, 2007, is fairly stated, in all material respects, based on the criteria established in the COSO report.

Deloitte & Touche LLP

August 2, 2007

Member of
Deloitte Touche Tohmatsu

INDEPENDENT AUDITORS' REPORT ON SPECIAL
PURPOSE FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

President and Board of Executive Directors
International Development Association

We have audited the accompanying special purpose statement of sources and applications of development resources of the International Development Association as of June 30, 2007 and 2006, including the summary statement of development credits and statement of voting power and subscriptions and contributions as of June 30, 2007 and the related special purpose statements of income, comprehensive income, changes in accumulated deficit, and cash flows for each of the three fiscal years in the period ended June 30, 2007. These special purpose financial statements are the responsibility of the International Development Association's management. Our responsibility is to express an opinion on these special purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying special purpose financial statements were prepared to reflect the sources and applications of development resources, operations, and cash flows of the International Development Association to comply with Article VI, Section 11 (a) of the Articles of Agreement of the International Development Association, as discussed in Note A to the special purpose financial statements, and are not intended to be a presentation in conformity with the accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the sources and applications of development resources of the International Development Association as of June 30, 2007 and 2006, and the results of its operations and its cash flows for each of the three fiscal years in the period ended June 30, 2007 in conformity with the accounting principles described in Note A to the special purpose financial statements.

This report is intended solely for the information and use of the Board of Governors, management, and members of the International Development Association. However, under the International Development Association's Articles of Agreement, this report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

August 2, 2007

Member of
Deloitte Touche Tohmatsu

STATEMENT OF SOURCES AND APPLICATIONS OF DEVELOPMENT RESOURCES

June 30, 2007 and June 30, 2006

Expressed in millions of U.S. dollars

	2007	2006
Applications of Development Resources		
Net Resources Available for Development Activities		
Due from banks		
Unrestricted currencies	\$ 48	\$ 838
Currencies subject to restriction	25	23
	73	861
Investments—Notes B and F		
Investments—Trading (including securities transferred under repurchase or security lending agreements of \$10,476 million—June 30, 2007; \$9,601 million—June 30, 2006)	18,505	16,336
Net payable on investment securities transactions	(1,073)	(483)
	17,432	15,853
Nonnegotiable, noninterest-bearing demand obligations on account of member subscriptions and contributions		
	7,320	6,932
Receivable from the International Bank for Reconstruction and Development—Note D		
	70	210
Payable for development grants—Note I		
	(4,642)	(3,630)
Other resources, net—Note G		
	836	750
Total net resources available for development activities	21,089	20,976
Resources Used for Development Credits		
(Summary Statement of Development Credits, Notes E and F)		
Total development credits	126,974	149,054
Less undisbursed balance	24,517	22,026
Development credits outstanding	102,457	127,028
Less accumulated provision for debt relief	12,216	45,133
Total resources used for development credits outstanding	90,241	81,895
Total Applications of Development Resources	\$111,330	\$102,871

	<u>2007</u>	<u>2006</u>
Sources of Development Resources		
<i>Member subscriptions and contributions</i> (see Statement of Voting Power and Subscriptions and Contributions, and Note C)		
Unrestricted	\$167,612	\$139,935
Restricted	<u>314</u>	<u>305</u>
Subscriptions and contributions committed	167,926	140,240
Less subscriptions and contributions receivable—Note C	31,178	10,048
Less unamortized discounts on advance subscriptions and contributions	<u>292</u>	<u>166</u>
Subscriptions and contributions paid-in	136,456	130,026
<i>Deferred amounts receivable to maintain value of currency holdings</i>	<u>(230)</u>	<u>(232)</u>
	136,226	129,794
<i>Transfers—Note D</i>	9,538	8,585
<i>Accumulated other comprehensive income—Note J</i>	10,169	8,014
<i>Accumulated deficit (Statement of Changes in Accumulated Deficit)</i>	<u>(44,603)</u>	<u>(43,522)</u>
<i>Total Sources of Development Resources</i>	<u><u>\$111,330</u></u>	<u><u>\$102,871</u></u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

STATEMENT OF INCOME

For the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	2007	2006	2005
Income			
Development credits—Note E			
Service charges	\$ 702	\$ 800	\$ 872
Commitment charges	42	62	82
Investments, net—Note B	548	24	1,011
Total income	<u>1,292</u>	<u>886</u>	<u>1,965</u>
Expenses			
Development grants—Note I	2,195	1,939	2,035
Administrative—Notes G and H	976	954	891
Amortization of discount on subscriptions and contributions	196	36	25
Total expenses	<u>3,367</u>	<u>2,929</u>	<u>2,951</u>
Operating Loss	(2,075)	(2,043)	(986)
Effect of exchange rate changes before Heavily Indebted Poor Countries (HIPC) Debt Initiative and Multilateral Debt Relief Initiative (MDRI)	429	161	(187)
Write-down on sale of development credits—Note E	(27)	—	—
Net Loss before HIPC Debt Initiative and MDRI	(1,673)	(1,882)	(1,173)
HIPC Debt Initiative and MDRI—Income (Expenses)—Note E			
Changes to the accumulated provision for debt relief	592	(32,960)	(1,325)
Contribution from the HIPC Debt Initiative Trust Fund	—	176	200
Total for HIPC Debt Initiative and MDRI	<u>592</u>	<u>(32,784)</u>	<u>(1,125)</u>
Net Loss	<u><u>\$ (1,081)</u></u>	<u><u>\$ (34,666)</u></u>	<u><u>\$ (2,298)</u></u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net Loss	\$(1,081)	\$(34,666)	\$(2,298)
Other comprehensive income (loss)—Note J			
Currency translation adjustment on development credits, payable for development grants and accumulated provision for MDRI	<u>2,155</u>	<u>(357)</u>	<u>(549)</u>
Comprehensive income (loss)	<u><u>\$1,074</u></u>	<u><u>\$(35,023)</u></u>	<u><u>\$(2,847)</u></u>

STATEMENT OF CHANGES IN ACCUMULATED DEFICIT

For the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Accumulated deficit at beginning of the fiscal year	\$(43,522)	\$ (8,856)	\$(6,558)
Net loss for the fiscal year	<u>(1,081)</u>	<u>(34,666)</u>	<u>(2,298)</u>
Accumulated deficit at end of the fiscal year	<u><u>\$(44,603)</u></u>	<u><u>\$(43,522)</u></u>	<u><u>\$(8,856)</u></u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

STATEMENT OF CASH FLOWS

For the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005

Expressed in millions of U.S. dollars

	2007	2006	2005
Cash Flows from development activities			
Development credits			
Disbursements	\$ (7,290)	\$ (7,682)	\$ (7,750)
Principal repayments	1,753	1,680	1,620
Development credits sold	17	—	—
Reimbursements received from the HIPC Debt Initiative Trust Fund for principal repayments forgiven	—	349	393
Net cash used in development credit activities	(5,520)	(5,653)	(5,737)
Development grants			
Disbursements	(1,289)	(1,228)	(1,200)
Net cash used in development activities	(6,809)	(6,881)	(6,937)
Cash Flows from Member subscriptions and contributions	5,734	7,394	5,667
Transfers	1,093	927	1,159
Cash Flows from operating activities			
Operating loss	(2,075)	(2,043)	(986)
Adjustments to reconcile operating loss to net cash provided by operating activities			
Development grants	2,195	1,939	2,035
Amortization of discount on subscriptions and contributions	196	36	25
Net changes in other development resources	29	88	(137)
Net cash provided by operating activities	345	20	937
Effect of exchange rate changes on unrestricted cash and liquid investments	426	169	(185)
Net Increase in unrestricted cash and liquid investments	789	1,629	641
Unrestricted cash and liquid investments at beginning of the fiscal year	16,691	15,062	14,421
Unrestricted cash and liquid investments at end of the fiscal year	<u>\$17,480</u>	<u>\$16,691</u>	<u>\$15,062</u>
Composed of:			
Due from banks—Unrestricted currencies	\$ 48	\$ 838	\$ 915
Investments	17,432	15,853	14,147
	<u>\$17,480</u>	<u>\$16,691</u>	<u>\$15,062</u>
Supplemental Disclosure			
Increase (decrease) in ending balances of development credits outstanding, resulting from:			
Exchange rate fluctuations	\$ 2,587	\$ 577	\$ (574)
Principal repayments forgiven under HIPC Debt Initiative	(96)	(458)	(391)
Development credits written off under HIPC Debt Initiative and MDRI	(32,555)	—	—
Sale of development credits	(44)	—	—

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

June 30, 2007

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Afghanistan	\$ 506	\$ 135	\$ 371	0.36%
Albania	925	173	751	0.73
Angola	485	134	351	0.34
Armenia	1,070	168	902	0.88
Azerbaijan	813	204	609	0.59
Bangladesh	10,718	1,006	9,712	9.48
Benin	358	195	163	0.16
Bhutan	104	24	80	0.08
Bolivia	368	124	245	0.24
Bosnia and Herzegovina	1,200	202	998	0.97
Botswana	6	—	6	0.01
Burkina Faso	731	318	413	0.40
Burundi	867	62	805	0.79
Cambodia	611	99	512	0.50
Cameroon	488	305	183	0.18
Cape Verde	267	23	245	0.24
Central African Republic	412	20	392	0.38
Chad	990	57	933	0.91
Chile	3	—	3	*
China	9,959	24	9,935	9.70
Colombia	3	—	3	*
Comoros	123	4	119	0.12
Congo, Democratic Republic of	2,687	398	2,290	2.24
Congo, Republic of	307	11	296	0.29
Costa Rica	1	—	1	*
Côte d'Ivoire	1,967	108	1,859	1.82
Djibouti	161	23	139	0.14
Dominica	29	4	25	0.02
Dominican Republic	10	—	10	0.01
Ecuador	14	—	14	0.01
Egypt, Arab Republic of	1,515	44	1,471	1.44
El Salvador	11	—	11	0.01
Equatorial Guinea	49	—	49	0.05
Eritrea	517	91	426	0.42
Ethiopia	1,834	1,220	614	0.60
Gambia, The	276	9	267	0.26
Georgia	950	145	805	0.79
Ghana	1,489	490	998	0.98
Grenada	42	10	32	0.03
Guinea	1,339	75	1,263	1.23
Guinea-Bissau	313	11	302	0.29
Guyana	11	1	10	0.01
Haiti	512	1	511	0.50
Honduras	580	221	359	0.35
India	29,016	4,394	24,622	24.03
Indonesia	2,132	740	1,392	1.36

SUMMARY STATEMENT OF DEVELOPMENT CREDITS

(continued)

June 30, 2007

Expressed in millions of U.S. dollars

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Iraq	\$ 411	\$ 411	\$ —	—%
Jordan	41	—	41	0.04
Kenya	3,790	967	2,824	2.76
Korea, Republic of	42	—	42	0.04
Kyrgyz Republic	672	47	625	0.61
Lao People's Democratic Republic	695	36	659	0.64
Lesotho	321	39	282	0.28
Liberia	109	—	109	0.11
Macedonia, former Yugoslav Republic of	384	—	383	0.37
Madagascar	1,133	427	706	0.69
Malawi	224	58	166	0.16
Maldives	84	12	72	0.07
Mali	778	438	340	0.33
Mauritania	377	212	165	0.16
Mauritius	9	—	9	0.01
Moldova	367	99	268	0.26
Mongolia	390	79	311	0.30
Montenegro ^b	79	25	54	0.05
Morocco	18	—	18	0.02
Mozambique	1,197	385	812	0.79
Myanmar	776	—	776	0.76
Nepal	1,608	123	1,485	1.45
Nicaragua	442	146	296	0.29
Niger	281	62	220	0.21
Nigeria	3,528	1,827	1,701	1.66
Pakistan	9,304	602	8,702	8.49
Papua New Guinea	112	38	74	0.07
Paraguay	19	—	19	0.02
Philippines	194	—	194	0.19
Rwanda	265	83	182	0.18
St. Kitts and Nevis	1	—	1	*
St. Lucia	53	10	44	0.04
St. Vincent and the Grenadines	22	5	17	0.02
Samoa	86	15	71	0.07
São Tomé and Príncipe	14	5	9	0.01
Senegal	1,071	481	590	0.58
Serbia	741	170	571	0.56
Sierra Leone	111	36	75	0.07
Solomon Islands	46	1	45	0.04
Somalia	437	—	437	0.43
Sri Lanka	2,589	314	2,275	2.22
Sudan	1,277	—	1,277	1.25
Swaziland	3	—	3	*
Syrian Arab Republic	20	—	20	0.02
Tajikistan	391	47	344	0.34
Tanzania	2,463	1,293	1,170	1.14
Thailand	68	—	68	0.07
Togo	701	—	701	0.68

<i>Borrower or guarantor</i>	<i>Total development credits</i>	<i>Undisbursed development credits^a</i>	<i>Development credits outstanding</i>	<i>Percentage of development credits outstanding</i>
Tonga	\$ 24	\$ 7	\$ 17	0.02%
Tunisia	25	—	25	0.02
Turkey	62	—	62	0.06
Uganda	1,451	710	742	0.72
Uzbekistan	108	77	31	0.03
Vanuatu	13	—	13	0.01
Vietnam	7,217	3,220	3,997	3.90
Yemen, Republic of	2,403	453	1,950	1.90
Zambia	452	171	281	0.27
Zimbabwe	504	—	504	0.49
Subtotal members ^c	<u>126,771</u>	<u>24,403</u>	<u>102,366</u>	<u>99.91</u>
Bank of the States of Central Africa ^d	18	8	10	0.01
Caribbean Development Bank ^e	24	—	24	0.02
West African Development Bank ^f	<u>148</u>	<u>101</u>	<u>47</u>	<u>0.05</u>
Subtotal regional development banks	190	109	81	0.08
African Trade Insurance Agency ^g	11	5	6	0.01
Other ^h	<u>2</u>	<u>—</u>	<u>2</u>	<u>*</u>
Total—June 30, 2007 ^c	<u>\$126,974</u>	<u>\$24,517</u>	<u>\$102,457</u>	<u>100.00%</u>
Total—June 30, 2006	<u>\$149,054</u>	<u>\$22,026</u>	<u>\$127,028</u>	

* Indicates amounts less than \$0.05 million or less than 0.005 percent.

NOTES

- Of the undisbursed balance at June 30, 2007, IDA has entered into irrevocable commitments to disburse \$256 million (\$239 million—June 30, 2006).
- Includes Montenegro's assumption of a portion of the credits formerly made by IDA to Serbia and Montenegro (SaM) effected through an Assumption Agreement dated January 18, 2007 (Note C).
- May differ from the sum of individual figures shown due to rounding.
- These development credits are for the benefit of Cameroon, Chad, Central African Republic, Republic of Congo, Gabon and Equatorial Guinea.
- These development credits are for the benefit of Grenada and territories of the United Kingdom (Associated States and Dependencies) in the Caribbean region.
- These development credits are for the benefit of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo.
- Represents development credit extended to the African Trade Insurance Agency (ATI) as implementing agency for the benefit of Burundi, Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia.
- Represents development credits made at a time when the authorities on Taiwan represented China in IDA (prior to May 15, 1980).

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS

June 30, 2007

Expressed in millions of U.S. dollars

<i>Member^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Part I Members			
Australia	211,357	1.27%	\$ 2,604.47
Austria	120,425	0.72	1,452.71
Belgium	192,729	1.16	2,455.99
Canada	462,791	2.77	6,345.67
Denmark	169,299	1.02	2,726.08
Finland	102,458	0.61	1,007.64
France	687,398	4.12	12,612.15
Germany	1,076,549	6.45	19,734.68
Greece	45,962	0.28	141.29
Iceland	42,791	0.26	44.17
Ireland	60,966	0.37	374.09
Italy	432,716	2.59	6,776.91
Japan	1,676,530	10.05	28,858.06
Kuwait	90,524	0.54	813.20
Luxembourg	47,099	0.28	163.89
Netherlands	346,481	2.08	6,334.90
New Zealand	51,753	0.31	239.81
Norway	172,928	1.04	2,764.13
Portugal	48,714	0.29	232.17
Russian Federation	51,361	0.31	297.84
Slovenia	40,878	0.25	21.57
South Africa	50,798	0.30	149.71
Spain	122,219	0.73	2,293.11
Sweden	328,687	1.97	5,374.55
Switzerland ^b	188,489	1.13	2,421.70
United Arab Emirates	1,367	0.01	5.58
United Kingdom	858,061	5.14	18,275.67
United States	2,158,302	12.94	38,981.03
Subtotal Part I Members ^{b,c}	9,839,632	59.00%	\$163,502.77
Part II Members			
Afghanistan	16,857	0.10	1.29
Albania	36,599	0.22	0.33
Algeria	27,720	0.17	5.10
Angola	57,909	0.35	8.24
Argentina	134,439	0.81	69.84
Armenia	15,132	0.09	0.58
Azerbaijan	7,860	0.05	0.91
Bangladesh	100,314	0.60	7.61
Barbados	39,219	0.24	1.05
Belize	13,784	0.08	0.26
Benin	23,105	0.14	0.69
Bhutan	34,663	0.21	0.08
Bolivia	51,788	0.31	1.48
Bosnia and Herzegovina	38,077	0.23	2.43
Botswana	32,495	0.19	1.62
Brazil	282,228	1.69	583.67
Burkina Faso	41,732	0.25	0.74

<i>Member ^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Burundi	36,060	0.22%	\$ 1.02
Cambodia	22,642	0.14	1.39
Cameroon	34,991	0.21	1.48
Cape Verde	8,320	0.05	0.10
Central African Republic	23,029	0.14	0.69
Chad	16,890	0.10	0.68
Chile	31,782	0.19	4.47
China	332,400	1.99	43.96
Colombia	77,701	0.47	24.69
Comoros	13,141	0.08	0.11
Congo, Democratic Republic of	56,767	0.34	4.34
Congo, Republic of	38,923	0.23	0.73
Costa Rica	12,480	0.07	0.25
Côte d'Ivoire	46,863	0.28	1.48
Croatia	59,878	0.36	5.78
Cyprus	48,466	0.29	1.20
Czech Republic	79,859	0.48	75.80
Djibouti	6,441	0.04	0.20
Dominica	26,014	0.16	0.12
Dominican Republic	27,780	0.17	0.58
Ecuador	47,252	0.28	0.92
Egypt, Arab Republic of	79,574	0.48	7.12
El Salvador	6,244	0.04	0.40
Equatorial Guinea	6,167	0.04	0.41
Eritrea	31,162	0.19	0.13
Ethiopia	39,529	0.24	0.73
Fiji	19,462	0.12	0.77
Gabon	2,093	0.01	0.63
Gambia, The	19,444	0.12	0.34
Georgia	41,519	0.25	0.94
Ghana	66,391	0.40	3.18
Grenada	20,627	0.12	0.13
Guatemala	37,397	0.22	0.55
Guinea	33,987	0.20	1.34
Guinea-Bissau	6,790	0.04	0.17
Guyana	23,460	0.14	1.04
Haiti	24,871	0.15	0.99
Honduras	43,282	0.26	0.42
Hungary	124,659	0.75	73.79
India	488,525	2.93	60.63
Indonesia	130,075	0.78	14.92
Iran, Islamic Republic of	15,455	0.09	5.69
Iraq	15,669	0.09	1.02
Israel	60,421	0.36	42.21
Jordan	24,865	0.15	0.41
Kazakhstan	4,106	0.02	1.89
Kenya	58,781	0.35	2.41
Kiribati	11,777	0.07	0.08

STATEMENT OF VOTING POWER AND SUBSCRIPTIONS AND CONTRIBUTIONS *(continued)*

June 30, 2007

Expressed in millions of U.S. dollars

<i>Member^a</i>	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Korea, Republic of	107,096	0.64%	\$ 1,065.47
Kyrgyz Republic	8,751	0.05	0.51
Lao People's Democratic Republic	22,867	0.14	0.66
Latvia	40,225	0.24	0.93
Lebanon	8,562	0.05	0.56
Lesotho	38,272	0.23	0.23
Liberia	22,467	0.13	0.95
Libya	17,478	0.10	1.35
Macedonia, former Yugoslav Republic of	34,011	0.20	1.07
Madagascar	44,794	0.27	1.34
Malawi	44,374	0.27	1.00
Malaysia	68,189	0.41	3.78
Maldives	40,284	0.24	0.05
Mali	35,336	0.21	1.25
Marshall Islands	4,902	0.03	0.01
Mauritania	35,623	0.21	0.67
Mauritius	49,657	0.30	1.26
Mexico	102,666	0.62	138.32
Micronesia, Federated States of	18,424	0.11	0.03
Moldova	612	*	0.68
Mongolia	24,389	0.15	0.29
Montenegro ^d	44,271	0.27	0.72
Morocco	79,602	0.48	5.40
Mozambique	19,523	0.12	1.73
Myanmar	55,655	0.33	3.04
Nepal	41,409	0.25	0.71
Nicaragua	43,282	0.26	0.43
Niger	19,302	0.12	0.67
Nigeria	74,183	0.44	4.62
Oman	37,068	0.22	1.37
Pakistan	156,805	0.94	14.44
Palau	3,804	0.02	0.03
Panama	10,185	0.06	0.03
Papua New Guinea	45,445	0.27	1.20
Paraguay	20,258	0.12	0.40
Peru	29,494	0.18	2.29
Philippines	16,583	0.10	6.43
Poland	361,284	2.17	81.95
Rwanda	23,612	0.14	1.00
St. Kitts and Nevis	13,778	0.08	0.17
St. Lucia	30,531	0.18	0.23
St. Vincent and the Grenadines	34,787	0.21	0.11
Samoa	21,741	0.13	0.12
São Tomé and Príncipe	9,714	0.06	0.09
Saudi Arabia	556,643	3.34	2,258.21
Senegal	50,925	0.31	2.47
Serbia ^e	52,017	0.31	6.86
Sierra Leone	38,112	0.23	0.98
Singapore	11,000	0.07	36.41
Slovak Republic	53,523	0.32	17.61
Solomon Islands	518	*	0.11

<i>Member</i> ^a	<i>Number of votes</i>	<i>Percentage of total votes</i>	<i>Subscriptions and contributions committed</i>
Somalia	10,506	0.06%	\$ 0.95
Sri Lanka	72,188	0.43	4.20
Sudan	25,784	0.15	1.32
Swaziland	19,022	0.11	0.42
Syrian Arab Republic	10,351	0.06	1.20
Tajikistan	20,568	0.12	0.46
Tanzania	53,758	0.32	2.25
Thailand	75,798	0.45	4.56
Timor-Leste	558	*	0.35
Togo	23,243	0.14	1.02
Tonga	26,061	0.16	0.10
Trinidad and Tobago	14,309	0.09	1.75
Tunisia	2,793	0.02	1.89
Turkey	107,538	0.64	142.37
Uganda	48,099	0.29	2.50
Ukraine	1,762	0.01	7.61
Uzbekistan	746	*	1.48
Vanuatu	13,821	0.08	0.25
Vietnam	19,203	0.12	1.96
Yemen, Republic of	49,574	0.30	2.11
Zambia	60,030	0.36	3.55
Zimbabwe	20,957	0.13	4.97
Subtotal Part II Members ^c	<u>6,838,634</u>	<u>41.00%</u>	<u>\$ 4,935.78</u>
Total—June 30, 2007 ^{b,c}	<u>16,678,266</u>	<u>100.00%</u>	<u>\$168,438.55</u>
Total—June 30, 2006 ^b	<u>15,714,559</u>	<u>100.00%</u>	<u>\$140,752.74</u>

* Indicates amounts less than \$0.05 million or less than 0.005 percent.

NOTES

- See Notes to Special Purpose Financial Statements—Note A for an explanation of the two categories of membership.
- \$512.3 million of Switzerland's subscriptions and contributions have not been included in the Statement of Sources and Applications of Development Resources at June 30, 2007 and June 30, 2006 since this represents the difference between the total cofinancing grants of \$580.1 million provided by Switzerland directly to IDA borrowers as cofinancing grants between the fourth and the ninth replenishments of IDA resources, and the July 1992 contribution by Switzerland of \$67.8 million.
- May differ from the sum of individual figures shown due to rounding.
- Montenegro became a member of IDA on January 18, 2007 (Note C).
- Serbia assumed the membership of Serbia and Montenegro (SaM) in IDA in July 2006 (Note C).

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

NOTE A—ORGANIZATION, OPERATIONS AND SIGNIFICANT ACCOUNTING AND RELATED POLICIES

Purpose and Affiliated Organizations

The International Development Association (IDA) is an international organization that was established on September 24, 1960. IDA's main goal is reducing poverty through promoting sustainable economic development in the less developed areas of the world included in IDA's membership, by extending concessionary financing in the form of grants, development credits and guarantees. IDA has three affiliated organizations, the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Each of these other organizations is legally and financially independent from IDA, with separate assets and liabilities, and IDA is not liable for their respective obligations. Transactions with these affiliates are disclosed in the notes that follow. The principal purpose of IBRD is to promote sustainable economic development and reduce poverty in its member countries, primarily by providing loans, guarantees and related technical assistance for specific projects and for programs of economic reform in developing member countries. IFC's purpose is to encourage the growth of productive private enterprises in its member countries through loans and equity investments in such enterprises without a member's guarantee. MIGA was established to encourage the flow of investments for productive purposes between member countries and, in particular, to developing member countries by providing guarantees against noncommercial risks for foreign investment in its developing member countries.

Summary of Significant Accounting and Related Policies

Due to the nature and organization of IDA, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions and contributions and other development resources. These financial statements are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America or with International Financial Reporting Standards. These special purpose financial statements have been prepared to comply with Article VI, Section 11(a) of the Articles of Agreement of IDA, and are prepared in accordance with the accounting policies outlined below.

The preparation of these special purpose financial statements requires management to make estimates

and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant judgments have been used in the computation of estimated fair values of development credits and accumulated provision for the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI).

On August 2, 2007, the Executive Directors approved these financial statements for issue.

Reclassifications

Certain reclassifications of the prior years' information have been made to conform to the current year's presentation.

Basis of Accounting

IDA's special purpose financial statements are prepared on the accrual basis of accounting. That is, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

IDA follows a special basis of accounting for member subscriptions and contributions and for development credits as described under the discussion on significant accounting policies below.

Translation of Currencies

IDA's special purpose financial statements are expressed in terms of U.S. dollars for the purpose of summarizing IDA's financial position and the results of its operations for the convenience of its members and other interested parties.

IDA is an international organization which conducts its operations in Special Drawing Rights (SDRs) and U.S. dollars. Applications of development resources and sources of development resources are translated at market exchange rates in effect at the end of the accounting period, except Member Subscriptions and Contributions which are translated in the manner described below. Income and expenses are translated at either the market exchange rates in effect on the dates of income and expense recognition, or at an average of the exchange rates in effect during each month. Translation adjustments relating to the revaluation of development credits and development grants denominated in SDRs are reflected in Accumulated Other Comprehensive Income. Other translation adjustments are shown in the Statement of Income.

Member Subscriptions and Contributions

Recognition

Member Subscriptions and Contributions committed for each IDA replenishment are recorded based upon the full amount of Instruments of Commitment received from members upon effectiveness of the relevant replenishment. Prior to effectiveness, only a portion of the Instruments of Commitment received are recorded as Subscriptions and Contributions committed. A replenishment becomes effective when IDA receives Instruments of Commitment from members for subscriptions and contributions of a specified portion of the full replenishment. Amounts not yet paid in, at the date of effectiveness, are recorded as Subscriptions and Contributions Receivable and shown as a reduction of Subscriptions and Contributions Committed. These receivables become due throughout the replenishment period (generally three years) in accordance with an agreed maturity schedule. The actual payment of receivables when they become due from certain members is conditional upon the respective member's budgetary appropriation processes.

The Subscriptions and Contributions Receivable are settled through payment of cash or deposit of nonnegotiable, noninterest-bearing demand notes. The notes are encashed by IDA as provided in the relevant replenishment resolution over the disbursement period of the credits committed under the replenishment.

In certain replenishments, donors have had the option of paying all of their subscription and contribution amounts in cash before they become due, and thereby receiving discounts. In addition, some replenishment arrangements have incorporated an accelerated encashment schedule. In these cases, IDA and the donor agree that IDA will invest the cash and retain the income. The related subscription and contribution are recorded at the full undiscounted amount. The discount is recorded as unamortized discount on contributions (a reduction of Subscriptions and Contributions Committed) and amortized over the projected encashment period.

Under the provisions governing replenishments, IDA must encash the notes or similar obligations of contributing members on an approximately *pro rata* basis. As discussed in the previous paragraph, donors sometimes contribute resources on an advanced or an accelerated basis. IDA holds these resources until they become available for disbursement on a *pro rata* basis.

Transfers to IDA from IBRD are recorded under Sources of Development Resources and are receivable upon approval by IBRD's Board of Governors.

For the purposes of its financial resources, the membership of IDA is divided into two categories: (1) Part I members, which make payments of subscriptions and contributions provided to IDA in convertible currencies which may be freely used or exchanged by IDA in its operations and (2) Part II members, which make payments of ten percent of their initial subscriptions in freely convertible currencies, and the remaining 90 percent of their initial subscriptions, and all additional subscriptions and contributions in their own currencies or in freely convertible currencies. Certain Part II members provide a portion of their subscriptions and contributions in the same manner as mentioned in (1) above. IDA's Articles of Agreement and subsequent replenishment agreements provide that the currency of any Part II member paid in by it may not be used by IDA for projects financed by IDA and located outside the territory of the member except by agreement between the member and IDA. The local currency portion of subscriptions of Part II members are recorded as restricted under Member Subscriptions and Contributions unless released under an agreement between the member and IDA or used for administrative expenses. The cash paid and notes deposited in nonconvertible local currencies for the subscriptions of Part II members are recorded either as currencies subject to restriction under Due from Banks, or as restricted notes included under Nonnegotiable, noninterest-bearing demand obligations on account of member subscriptions and contributions.

Following adoption by the Board of Governors on April 21, 2006 of a resolution authorizing additions to IDA's resources to finance the Multilateral Debt Relief Initiative (MDRI), any pledges received in the form of Instruments of Commitments for financing MDRI are recorded and accounted for in their entirety. Therefore, the full value of all Instruments of Commitments received is recorded as subscriptions and contributions. Correspondingly, the Instruments of Commitments are also recorded as subscriptions and contributions receivable in the Statement of Sources and Application of Development Resources.

Under IDA's Articles of Agreement, a member may withdraw from membership in IDA at any time. When a government ceases to be a member, it remains liable for all financial obligations undertaken by it to IDA, whether as a member, borrower, guarantor or otherwise. The Articles provide that upon withdrawal,

IDA and the government shall proceed to a settlement of accounts. If agreement is not reached within six months, standard arrangements are provided. Under these arrangements, IDA would pay to the government the lower of the member's total paid-in subscriptions and contributions or the member's proportionate share of IDA's net assets. These funds would be paid as a proportionate share of all principal repayments received by IDA on loans made during the government's membership.

Valuation

The subscriptions and contributions provided through the Third Replenishment are expressed in terms of "U.S. dollars of the weight and fineness in effect on January 1, 1960" (1960 dollars). Following the abolition of gold as a common denominator of the monetary system and the repeal of the provision of the U.S. law defining the par value of the U.S. dollar in terms of gold, the pre-existing basis for translating 1960 dollars into current dollars or any other currency disappeared. The Executive Directors of IDA decided, that until such time as the relevant provisions of the Articles of Agreement are amended, the words "U.S. dollars of the weight and fineness in effect on January 1, 1960" in Article II, Section 2(b) of the Articles of Agreement of IDA are interpreted to mean the SDR introduced by the International Monetary Fund as the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being equal to \$1.20635 for one SDR (the 1974 SDR), and have also decided to apply the same standard of value to amounts expressed in 1960 dollars in the relevant resolutions of the Board of Governors.

The subscriptions and contributions provided through the Third Replenishment are expressed on the basis of the 1974 SDR. Prior to the decision of the Executive Directors, IDA had valued these subscriptions and contributions on the basis of the SDR at the current market value of the SDR.

The subscriptions and contributions provided under the Fourth Replenishment and thereafter are expressed in members' currencies or SDRs and are payable in members' currencies. Beginning July 1, 1986, subscriptions and contributions made available for disbursement in cash to IDA are translated at market exchange rates in effect on the dates they were made available. Prior to that date, subscriptions and contributions which had been disbursed or converted into other currencies were translated at market exchange rates in effect on dates of disbursement or conversion. Subscriptions and contributions not yet available for disbursements are translated at market exchange rates in effect at the end of the accounting period.

Article IV, Section 2(a) and (b) of IDA's Articles of Agreement provides for maintenance of value payments on account of the local currency portion of the initial subscription whenever the par value of the member's currency or its foreign exchange value has, in the opinion of IDA, depreciated or appreciated to a significant extent within the member's territories, so long as, and to the extent that, such currency shall not have been initially disbursed or exchanged for the currency of another member. The provisions of Article IV, Section 2(a) and (b) have by agreement been extended to cover additional subscriptions and contributions of IDA through the Third Replenishment, but are not applicable to those of the Fourth and subsequent replenishments.

The Executive Directors decided on June 30, 1987 that settlements of maintenance of value, which would result from the resolution of the valuation issue on the basis of the 1974 SDR, would be deferred until the Executive Directors decide to resume such settlements. These amounts are shown as Deferred Amounts Receivable to Maintain Value of Currency Holdings.

Development Credits

In fulfilling its mission, IDA makes concessional loans to the poorest countries. These development credits are made to or guaranteed by member governments or to the government of a territory of a member (except for development credits which have been made to regional development institutions for the benefit of members or territories of members of IDA). In order to qualify for lending on IDA terms, a country's per capita income must be below a certain level and the country may have only limited or no creditworthiness for IBRD lending. Development credits carry a service charge of 0.75 percent and generally have 35- or 40-year final maturities and a 10-year grace period for principal payments. A new hard-term lending window was established in the Fourteenth Replenishment. Eligibility for this window is restricted to creditworthy IBRD/IDA blend countries with per capita incomes below the IDA operational cut-off and an active IBRD lending program. Lending terms include a 35-year maturity, including 10 years of grace, and an interest charge in addition to standard IDA charges. The interest rate is set for each fiscal year and is derived from the fixed-rate equivalent of IBRD's lending rate reduced by 200 basis points.

Commitment charges on the undisbursed balances of IDA credits are set annually by the Board of Executive Directors of IDA. Development credits are carried in the Special Purpose Financial Statements at the full face amount of the borrowers' outstanding obligations.

It is the practice of IDA to place in nonaccrual status all development credits made to or guaranteed by a member government or to the government of a territory of a member if principal or charges with respect to any such development credit are overdue by more than six months, unless IDA's management determines that the overdue amount will be collected in the immediate future. In addition, if loans by IBRD to a member government are placed in nonaccrual status, all development credits to that member government will also be placed in nonaccrual status by IDA. On the date a member's development credits are placed in nonaccrual status, charges that had been accrued on development credits outstanding to the member which remained unpaid are deducted from the income from development credits of the current period. Charges on nonaccruing development credits are included in income only to the extent that payments have actually been received by IDA. If collectibility risk is considered to be particularly high at the time of arrears clearance, the member's credits may not automatically emerge from nonaccrual status, even though the member's eligibility for new credits may have been restored. A decision on the restoration of accrual status is made on a case-by-case basis.

There is significant credit risk in the portfolio of development credits. Management continually monitors this credit risk. No provision for credit losses, other than accumulated provision for the HIPC Debt Initiative and MDRI, has been established.

The repayment obligations of IDA's development credits funded from resources through the Fifth Replenishment are expressed in the development credit agreements in terms of 1960 dollars. In June 1987, the Executive Directors decided to value those development credits at the rate of \$1.20635 per 1960 dollar on a permanent basis. Development credits funded from resources provided under the Sixth Replenishment and thereafter are denominated in SDRs; the principal amounts disbursed under such development credits are to be repaid in currency amounts currently equivalent to the SDRs disbursed.

Development Grants

IDA is authorized to provide a significant portion of financing beginning with the Thirteenth Replenishment as development grants. The annual net income transfers from IBRD for fiscal years 1997 through 2007 also authorized the use of such funds for IDA development grants.

Effective July 1, 2005, development grants are charged to income upon approval by IDA's Executive Directors. In previous periods, development grants were charged to income upon signing of the grant agreement by the recipient country.

Commitment charges on the undisbursed balances of IDA grants are set annually by the Board of Executive Directors of IDA.

Guarantees

IDA provides guarantees for loans issued in support of projects located within a member country that are undertaken by private entities. These financial guarantees are commitments issued by IDA to guarantee payment performance by a borrower to a third party.

Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred, and called when a guaranteed party demands payment under the guarantee. IDA would be required to perform under its guarantees if the payments guaranteed are not made by the borrower and the guaranteed party called the guarantee by demanding payment from IDA in accordance with the terms of the guarantee.

At inception of the guarantees, IDA records the fair value of the obligation to stand ready.

In the event that a guarantee is called, IDA has the contractual right to require payment from the member country that has provided the counter guarantee to IDA, on demand, or as IDA may otherwise direct.

Guarantee fee income received is deferred and amortized over the period of benefit.

The unamortized balance of the deferred guarantee fee income and the unamortized balance of the obligation to stand ready are included in Other Resources, net on the Statement of Sources and Applications of Development Resources.

HIPC Debt Initiative

The HIPC Debt Initiative was launched during 1996 as a joint effort by bilateral and multilateral creditors to ensure that reform efforts of HIPC countries would not be put at risk by unsustainable external debt burdens. As part of this process, the HIPC Debt Initiative Trust Fund was established on November 7, 1996. It is administered by IDA and constituted by funds of donors including IBRD, to help beneficiaries reduce their overall debt, including IDA debt.

Under the Enhanced HIPC Framework, which was approved by IDA's Executive Directors on January 27, 2000, implementation mechanisms include: (i) partial forgiveness of IDA debt service as it comes due, to be reimbursed to IDA by the IBRD/IDA component of the HIPC Debt Initiative Trust Fund; and (ii) in the case of countries with a substantial amount of outstanding IBRD debt, partial refinancing by IDA

resources (excluding transfers from IBRD) of outstanding IBRD debt.

Upon approval of debt relief for a country under the Enhanced HIPC Initiative by the Executive Directors of IDA, the principal component of the estimated debt relief costs is recorded as a reduction of the disbursed and outstanding development credits under the accumulated provision for debt relief, and as a charge to income.

This estimate is subject to periodic revision. The accumulated provision for HIPC Debt Initiative is reduced when debt relief is provided by IDA.

Upon signature by IDA of the country specific legal notification, immediately following the decision by the Executive Directors of IDA to provide debt relief to the country (the decision point), the country becomes eligible for debt relief up to the nominal value equivalent of one third of the net present value of the principal component of the total HIPC debt relief committed to the specific country. A completion point is reached when the conditions specified in the legal notification are met and the country's other creditors have confirmed their full participation in the debt relief initiative. When the country reaches its completion point it becomes eligible for the full amount of debt relief provided under this initiative.

MDRI

Debt relief provided under the MDRI is in addition to existing debt relief commitments provided by IDA and other creditors under the HIPC Debt Initiative. Additional resources for financing IDA's costs of providing debt relief under MDRI will be provided by donors over time under a resolution of IDA's Board of Governors adopted on April 21, 2006. Such resources are added to IDA's resources and are accounted for as subscriptions and contributions.

Provision for HIPC Debt Initiative and MDRI

Following the Executive Directors' approval of IDA's participation in the MDRI, IDA provided in full for the estimated probable write-off of the principal component of debt relief to be delivered under the MDRI for the HIPC eligible countries confirmed by the Executive Directors as eligible for relief at that time. Subsequently, IDA makes additional provisions for new pre-decision point countries deemed to have met the HIPC Initiative income and indebtedness criteria, as determined by the Executive Directors.

The adequacy of the accumulated provision for HIPC and MDRI is based on both quantitative and qualitative analyses of various factors, including

estimates of decision and completion points dates. IDA periodically reviews these factors and reassesses the adequacy of the accumulated provision for HIPC and MDRI. Adjustments to the accumulated provision are recorded as a charge or addition to income.

The provision is recorded as a reduction of the disbursed and outstanding developments credits under the accumulated provision for debt relief and as a charge to income. Following the start of the MDRI implementation on July 1, 2006, the applicable development credits are written off when the country reaches the completion point and the related provision reduced accordingly.

Cash and Liquid Investments

IDA considers unrestricted cash as well as securities held in the investment portfolio, as an element of liquidity in the Statement of Cash Flows, since they are readily convertible to known amounts of cash.

IDA carries its investment securities and related financial instruments at fair value, using trade date accounting. The first-in-first-out (FIFO) method is used to determine the cost of securities sold in computing the realized gains and losses on these instruments. Both realized and unrealized gains and losses are included in income from Investments on the Statement of Income.

Securities Purchased Under Resale Agreements, Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at historical cost. IDA receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to IDA under the repurchase and security lending arrangements and the securities transferred to counterparties under the resale agreements have not met the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on IDA's Statement of Sources and Applications of Development Resources and securities received under resale agreements are not recorded on IDA's Statement of Sources and Applications of Development Resources.

NOTE B—INVESTMENTS

As part of its portfolio management strategy, IDA invests in the following financial instruments.

Asset-backed Securities: IDA may only invest in asset-backed securities with a AAA credit rating.

Currency Swaps: IDA is authorized to enter into currency swaps including currency forward contracts.

Futures: IDA generally closes out most open positions in futures contracts prior to expiration. Therefore, cash receipts or payments are mostly limited to the change in market value of the futures contracts. Futures contracts generally entail daily settlement of the variation margin.

Government and Agency Obligations: Obligations issued or unconditionally guaranteed by governments of member countries require a minimum credit rating of AA- if denominated in a currency other than the

home currency of the issuer, otherwise no rating is required.

Obligations issued by an agency or instrumentality of a government of a member country, a multilateral organization or any other official entity other than the government of a member country require a minimum credit rating of AA-.

Options: IDA invests only in exchange-traded options. The initial price of an option contract is equal to the premium paid by the purchaser and is significantly less than the contract or notional amount.

Time Deposits: IDA may only invest in time deposits issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.

A summary of IDA's investments, by instrument, at June 30, 2007 and June 30, 2006 is as follows:

In millions of U.S. dollars equivalent

	<i>Carrying Value</i>	
	<i>2007</i>	<i>2006</i>
Government and agency obligations	\$13,264	\$ 11,206
Time deposits	11,702	11,579
Asset-backed securities	3,798	3,193
Gross investment holdings	28,764	25,978
Securities purchased under resale agreements	556	592
Repurchase agreements and securities loans	(10,819)	(10,237)
Receivable from currency and interest rate swaps	1,831	1,269
Payable for currency and interest rate swaps	(1,827)	(1,266)
Investments—Trading	18,505	16,336
Receivable from securities traded	2,774	716
Payable for securities traded ^a	(3,847)	(1,199)
Net payable on investments securities transactions	(1,073)	(483)
Investments	17,432	15,853
Cash held in Investment portfolio ^b	37	816
Net Investment Portfolio	\$17,469	\$16,669

a. As of June 30, 2007, IDA had \$400 million (\$59 million—June 30, 2006) of short sales included in Payable for securities traded.

b. This amount is included in Unrestricted Currencies under Due from Banks on the Statement of Sources and Applications of Development Resources.

A summary of the currency composition of investments at June 30, 2007 and June 30, 2006 is as follows:

Gross investment holdings

In millions of U.S. dollars equivalent

	2007		2006	
	Carrying value	Average Repricing (years) ^a	Carrying value	Average Repricing (years) ^a
Euro	\$12,778	1.98	\$12,099	2.00
Japanese yen	2,824	2.56	1,963	1.10
Pounds sterling	2,101	2.38	1,607	2.00
U.S. dollars	9,941	3.50	9,888	2.19
Other	1,120	0.28	421	0.35
Total	<u>\$28,764</u>	<u>2.53</u>	<u>\$25,978</u>	<u>1.98</u>

a. *The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.*

Net Investment Portfolio

In millions of U.S. dollars equivalent

	2007		2006	
	Carrying value	Average Repricing (years) ^a	Carrying value	Average Repricing (years) ^a
Euro	\$6,535	3.78	\$ 6,427	3.45
Japanese yen	2,327	3.10	2,429	0.87
Pounds sterling	1,274	3.86	1,061	2.96
U.S. dollars	7,324	4.79	6,751	3.16
Other	9	†	1	†
Total	<u>\$17,469</u>	<u>4.12</u>	<u>\$16,669</u>	<u>2.94</u>

† *Indicates amounts not meaningful.*

a. *The average repricing represents the remaining period to the contractual repricing or maturity date, whichever is earlier. This indicates the average length of time for which interest rates are fixed.*

For the purpose of risk management in the investment portfolio, IDA is party to a variety of financial instruments, certain of which involve elements of credit risk. Credit risk exposure represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contracts. IDA limits trading to a list of authorized dealers and counterparties. Credit limits have been established for each counterparty by type of instrument and maturity category.

In addition, IDA has entered into master derivatives agreements which contain legally enforceable close-

out netting provisions. These agreements may further reduce the gross credit risk exposure related to the swaps shown below. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

The credit risk exposure and contract value, as applicable, of these financial instruments at June 30, 2007 and June 30, 2006 (prior to taking into account

any master derivatives agreements or collateral arrangements that have been made) are given below:

In millions of U.S. dollars equivalent

	2007	2006
Exchange traded Futures and options		
• Notional Long position	\$14,917	\$14,539
• Notional Short position	58	93
Currency swaps		
• Credit exposure	11	4
Interest rate swaps		
• Notional principal	80	1,975
• Credit exposure	1	37

Exchange traded instruments are deemed to have no material credit risk. All outstanding futures and options contracts at the end of June 30, 2007 and June 30, 2006 were interest rate contracts.

As of June 30, 2007, IDA had received \$562 million (\$602 million—June 30, 2006) of securities under resale agreements. Of these instruments held by IDA, \$215 million (\$479 million—June 30, 2006) has been transferred under repurchase or security lending agreements. None of these securities have been included in the assets of IDA.

During the fiscal year ended June 30, 2007, IDA maintained a line of credit with an independent financial institution. The facility, totaling \$1 billion, was created for the joint benefit of IBRD, IDA and MIGA. The line of credit is used to cover any overnight overdrafts that may occur due to failed trades. The terms of this facility provide for a usage fee on any outstanding balance at 0.15% per annum and fluctuating interest per annum on the overnight borrowings calculated at 200 basis points above the Federal Funds Rate. In addition, IDA maintained an intra-day overdraft facility of \$1 billion with another independent financial institution for the joint benefit of IBRD, IDA and MIGA. The terms of the facility provide for a basic annual overdraft usage fee of \$325,000 and a daily overnight borrowing fee calculated at the rate of 12.5 basis points per annum above the provider's monthly average daily effective Federal Funds Rate.

NOTE C—MEMBER SUBSCRIPTIONS AND CONTRIBUTIONS

Subscriptions and Contributions Receivable: At June 30, 2007, receivables from subscriptions and contributions were \$31,178 million (\$10,048 million—June 30, 2006) of which \$382 million (\$585 million—June 30, 2006) was due and \$30,796 million (\$9,463 million—June 30, 2006) was not yet due.

Subscriptions and contributions due at June 30, 2007 were as follows:

In millions of U.S. dollars equivalent

<i>Amounts initially due</i>	
July 1, 2006 through June 30, 2007	\$ 1
June 30, 2006 and earlier	381
Total	<u>\$382</u>

Subscriptions and contributions not yet due at June 30, 2007 will become due as follows:

In millions of U.S. dollars equivalent

<i>Period</i>	
July 1, 2007 through June 30, 2008	\$ 4,813
July 1, 2008 through June 30, 2009	1,454
Thereafter	24,529
Total	<u>\$30,796</u>

Restricted notes on account of member subscriptions at June 30, 2007 were \$50 million (\$46 million—June 30, 2006).

Fourteenth Replenishment (IDA14): The IDA14 replenishment was approved by the Board of Governors on April 13, 2005 and effective on January 24, 2006.

During the period July 1, 2005 to June 30, 2008, IDA is expected to provide concessional financing of about \$33 billion (SDR 22 billion), net of the structural financing gap in donors' contributions, and includes a significant portion to be provided as grants. Of this amount, new donor contributions are expected to total about \$22 billion (SDR 15 billion), including contributions for forgone reflows due to debt relief provided by IDA under the HIPC Debt Initiative and MDRI.

Donors agreed to provide HIPC-related contributions to IDA to cover IDA's HIPC costs during the Fourteenth Replenishment. Such contributions can be made either directly to IDA or through the World Bank component of the HIPC Trust Fund, which are then transferred to IDA. Donors receive voting rights for these contributions.

As of June 30, 2007, IDA had received HIPC-related contributions of \$1,146 million which have been

recorded in subscriptions and contributions paid in on the Statement of Sources and Applications of Development Resources.

Donor Financing of MDRI: Resources for financing IDA's costs of providing debt relief under MDRI are being provided by donors under the Board of Governors' resolution adopted in April 2006. These resources are accounted for as subscriptions and contributions.

As of June 30, 2007, 32 donors to the MDRI had issued Instruments of Commitment (IoCs) totaling \$25,184 million at the agreed replenishment exchange rate, representing 69% of total costs based on the MDRI resolution; this includes firm (unqualified) donor commitments covering 11% of the total costs based on the MDRI resolution. IoCs can contain unqualified or qualified commitments. Under an unqualified commitment a contributing member agrees to pay a specified amount of its subscription and contribution without qualification. A qualified commitment is still subject to obtaining necessary parliamentary or legislative approvals. Subscriptions and contributions made under IoCs become available for commitment for development credits, development grants and guarantees by IDA in accordance with the IDA commitment authority framework as approved by the Executive Directors. Under the MDRI resolution, contributions provided under qualified commitments will become available for IDA's commitment authority once the IoC becomes unqualified.

The following table summarizes by donor country the IoCs received under the MDRI resolution as of June 30, 2007.

In millions of U.S. dollars equivalent

<i>Country</i>	<i>Unqualified</i>	<i>Qualified</i>	<i>Total Received</i>
Australia	\$ 125	\$ —	\$ 125
Austria	61	—	61
Belgium	13	—	13
Canada	29	73	102
Czech Republic	4	14	18
Denmark	136	503	639
Finland	52	—	52
France	476	1,780	2,256
Germany	759	2,856	3,615
Greece	10	37	47
Hungary	5	—	5
Iceland	3	—	3
Ireland	73	—	73
Italy	29	1,419	1,448
Japan	106	—	106
Korea, Republic of	8	326	334
Kuwait	57	—	57
Luxembourg	37	—	37
Netherlands	223	828	1,051
New Zealand	10	38	48
Norway	130	484	614
Poland	2	9	11
Portugal	81	—	81
Russian Federation	32	—	32
Slovak Republic	*	—	*
Slovenia	*	11	11
South Africa	32	—	32
Spain	154	573	727
Sweden	225	834	1,059
Switzerland	22	—	22
United Kingdom	1,078	3,987	5,065
United States	100	7,340	7,440
Total	\$4,072	\$21,112	\$25,184

Membership: Following Montenegro's declaration of independence from Serbia on June 3, 2006, the Republic of Serbia assumed the membership of Serbia and Montenegro (SaM) in IDA in July 2006, retaining SaM's existing subscription and voting power.

On January 18, 2007, the Republic of Montenegro (Montenegro) became a member of IDA. At that time Montenegro agreed to assume responsibility for its portion of the financial obligations formerly undertaken by SaM with IDA.

NOTE D—TRANSFERS

At June 30, 2007 and June 30, 2006, cumulative transfers were comprised of:

In millions of U.S. dollars equivalent

<i>Transfers from</i>	<i>2007</i>	<i>2006</i>
IBRD	\$9,245	\$8,445
IFC	150	—
Trust Fund for Bosnia and Herzegovina	135	135
Trust Fund for Kosovo	4	4
Trust Fund for West Bank and Gaza	4	1
Total Transfers	<u>\$9,538</u>	<u>\$8,585</u>

IBRD's Board of Governors has approved aggregate transfers to IDA totaling \$9,157 million through June 30, 2007 (\$8,357 million—June 30, 2006) of which \$800 million was approved and transferred in September 2006 and \$140 million was transferred in January 2007. The aggregate transfers of \$9,245 million reported in the above table differs from the amount of aggregate transfers approved due to exchange rate movements on the value of transfers that were approved in SDR.

At June 30, 2007, \$70 million was receivable from IBRD (\$210 million—June 30, 2006) in accordance with the donor encashment schedule for IDA's Thirteenth Replenishment.

A grant of \$150 million was approved by IFC and received by IDA during the fiscal year ended June 30, 2007.

NOTE E—DEVELOPMENT CREDITS

Charges

Commitment charges on the undisbursed balances of IDA credits are set annually by the Board of Executive Directors of IDA. For the fiscal year ended June 30,

2007 the rate for undisbursed credits was set at 0.20 percent (June 30, 2006-0.30 percent). For the fiscal year ending June 30, 2008 the rate has been set at 0.10 percent.

All outstanding IDA credits carry a service charge of 0.75 percent per annum. This rate has been in effect since FY 1966.

In addition to the standard service charge of 0.75 percent per annum, there are interest charges on credits made under IDA's hard-term lending window which is available to eligible recipients. The interest charge is set for each fiscal year and is derived from the fixed-rate equivalent of IBRD's lending rate reduced by 200 basis points. For the fiscal year ended June 30, 2007 the rate for hard-term lending was set at 4 percent (June 30, 2006-3 percent). The rate is fixed for the life of the credit. During the fiscal year ended June 30, 2007, \$264 million in credits were approved under these terms (\$149 million in FY06). At June 30, 2007, \$178 million of development credits were outstanding under the hard-term lending window (\$nil—June 30, 2006). For the fiscal year ending June 30, 2008, the rate for hard-term lending has been set at 4.20 percent.

Currency Composition

The currency composition of IDA's development credits outstanding at June 30, 2007 and June 30, 2006 is as follows:

In millions of U.S. dollars equivalent

	<i>2007</i>	<i>2006</i>
USD	\$ 9,537	\$ 11,518
SDR	92,920	115,510
Development credits outstanding	<u>\$102,457</u>	<u>\$127,028</u>

Overdue Amounts

At June 30, 2007, there were no principal or charges on development credits in accrual status which were overdue by more than three months.

The following table provides a summary of selected financial information related to development credits in nonaccrual status for the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005:

In millions of U.S. dollars equivalent

	2007	2006	2005
Recorded investment in nonaccrual credits	\$5,663	\$5,961	\$6,390
Overdue amounts	\$1,194	\$1,053	\$ 877
Of which			
Principal	840	733	602
Charges	354	320	275
Service charge income recognized on credits in nonaccrual status	*	3	4
Service charge income not recognized as a result of credits being in nonaccrual status	42	43	52

* Indicates amount less than \$0.5 million.

A summary of borrowers with development credits or guarantees in nonaccrual status as follows:

In millions of U.S. dollars equivalent

<i>Borrower</i>	<i>June 30, 2007</i>		
	<i>Principal Outstanding</i>	<i>Principal and Charges Overdue</i>	<i>Nonaccrual Since</i>
Côte d'Ivoire	\$1,859	\$123	November 2004
Liberia	109	51	April 1988
Myanmar	776	234	September 1998
Somalia	437	162	July 1991
Sudan	1,277	429	January 1994
Togo	701	110	May 2002
Zimbabwe	504	85	October 2000
Total	<u>\$5,663</u>	<u>\$1,194</u>	

Effective November 27, 2006, all credits to, or guaranteed by, Central African Republic were restored to accrual status following the clearance of all overdue payments of principal and charges due to IDA by the borrower. As a result, income from credits for the fiscal year ended June 30, 2007 increased by \$16 million representing income that would have been accrued in previous fiscal years had these credits not been in nonaccrual status.

During the fiscal year ended June 30, 2006, all IDA development credits outstanding to SaM were restored to accrual status following management's determination that a suitable period of policy and payments performance had passed subsequent to the clearance of all arrears to IBRD in January 2002. As a

result, income from credits for the fiscal year ended June 30, 2006, increased by \$1 million, representing income that would have been accrued in previous fiscal years had these credits not been in nonaccrual status.

Accumulated Provision for HIPC Debt Initiative and MDRI

On June 23, 2006, the Executive Directors approved the implementation of the MDRI commencing July 1, 2006. During the fiscal year ended June 30, 2007, \$32,555 million of development credits outstanding to countries that had reached their completion points under the HIPC Debt Initiative were written off and the related provision reduced accordingly.

The following table provides the amount written off by country.

In millions of U.S. dollars equivalent

Country	Amount written off during FY 2007
Benin	\$ 689
Bolivia	1,506
Burkina Faso	822
Cameroon	908
Ethiopia	3,053
Ghana	3,769
Guyana	221
Honduras	1,103
Madagascar	1,891
Malawi	1,865
Mali	1,260
Mauritania	607
Mozambique	1,189
Nicaragua	970
Niger	967
Rwanda	866
São Tomé and Príncipe	69
Senegal	1,733
Sierra Leone	526
Tanzania	3,300
Uganda	2,923
Zambia	2,318
Total	<u><u>\$32,555</u></u>

Changes to the accumulated provision for HIPC Debt Initiative and MDRI for the fiscal years ended June 30, 2007 and June 30, 2006 are summarized below:

In millions of U.S. dollars equivalent

	June 30, 2007	June 30, 2006
Balance, beginning of the fiscal year	\$45,133	\$11,719
Changes to the accumulated provision	(592)	32,960
Principal component of debt relief forgiven	(96)	(458)
Development credits written off	(32,555)	—
Translation adjustment	326	912
Balance, end of the fiscal year	<u><u>\$12,216</u></u>	<u><u>\$45,133</u></u>
of which:		
HIPC	\$ 4,363	\$12,510
MDRI	\$ 7,853	\$32,623

The maturity structure of IDA's development credits outstanding at June 30, 2007 and June 30, 2006 were as follows:

In millions of U.S. dollars equivalent

2007		2006	
July 1, 2007 through June 30, 2008	\$ 2,940	July 1, 2006 through June 30, 2007 ^a	\$ 32,792
July 1, 2008 through June 30, 2012	10,323	July 1, 2007 through June 30, 2011	9,573
July 1, 2012 through June 30, 2017	18,309	July 1, 2011 through June 30, 2016	17,071
Thereafter	70,885	Thereafter	67,592
Total	<u><u>\$102,457</u></u>	Total	<u><u>\$127,028</u></u>

a. Includes amounts written off on July 1, 2006 under the MDRI.

Sale of credits under buy-down mechanism

Under the buy-down mechanism, IDA enters into an arrangement with third-party donors who make payments on the credits through a trust fund until the borrower reaches agreed performance goals. At that time the Trust Fund pays IDA an amount based on the present value of the principal reflows in return for the assignment of the debt due under the credit, which the trust fund then cancels. The difference between the nominal value of the credit and the amount received is

recognized as an expense when IDA receives the payment from the trust fund.

During the fiscal year ended June 30, 2007, two credits with a book value of \$44 million were sold for \$17 million under this buy-down mechanism to the Polio Eradication Trust Fund. This buy-down resulted in a charge against income of \$27 million.

Guarantees

Guarantees of \$189 million at June 30, 2007 (\$190 million—June 30, 2006) were not included in IDA's Statement of Sources and Applications of Development Resources. These outstanding amounts represent the maximum potential undiscounted future payments that IDA could be required to make under these guarantees.

The existing guarantees issued by IDA expire between 2011 and 2026.

At June 30, 2007, liabilities related to obligations under guarantees of \$11 million (\$12 million—June 30, 2006), have been included in Other resources, net

on the Statement of Sources and Applications of Development Resources.

Segment Reporting

Based on an evaluation of its operations, management has determined that IDA has only one reportable segment.

Charge income comprises service charges and interest charges on outstanding development credit balances, commitment charges on undisbursed development credit balances and guarantee fee income.

For the fiscal year ended June 30, 2007, development credits to two countries generated in excess of ten percent of charge income. Loan income from these two countries was \$189 million and \$75 million.

The following table presents IDA's development credits outstanding and associated charge income, by geographic region, at June 30, 2007 and June 30, 2006.

In millions of U.S. dollars equivalent

Region	2007		2006	
	Charge Income	Development Credits Outstanding	Charge Income	Development Credits Outstanding
Africa	\$165	\$ 25,341	\$289	\$ 50,747
East Asia and Pacific	134	18,104	130	17,158
Europe and Central Asia	49	6,404	47	5,853
Latin America and the Caribbean	13	1,622	29	5,269
Middle East and North Africa	28	3,664	27	3,476
South Asia	355	47,322	340	44,525
Total	\$744	\$102,457	\$862	\$127,028

NOTE F—FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments: IDA carries its investments at fair value. These fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The fair value of short-term financial instruments approximates their carrying value.

Development Credits: IDA's development credits have a significant grant element because of the concessional nature of IDA's terms. Discounting the future cash flows from IDA's development credits using government reference rates represented by interest rates of government securities having similar maturity to the portfolio of development credits, provides an estimate for the grant element. Under the HIPC Debt Initiative, development credits identified for sale to the HIPC Debt Initiative Trust Fund are written down to their estimated net present value using currency specific Commercial Interest Reference Rates (CIRRs)

published monthly by the Organization for Economic Cooperation and Development (OECD). Using the six months average CIRRs as a discount rate provides an alternative estimate for the grant element.

Since IDA's development credits are denominated either in U.S. dollars or SDRs, currency specific rates have been used to discount the corresponding future cash flows for each currency component of the development credits before being aggregated to provide the composite results.

The grant element calculations consider interest rates, maturity structures and grace periods for the credits. They do not consider credit risk, portfolio seasoning, multilateral and sovereign credit preferences and other risks or indicators that would be relevant in calculating fair value. Estimating the impact of these factors is not practicable.

However, under either alternative, the estimated fair values of development credits outstanding are substantially lower than the \$102,457 million reflected

on the Statement of Sources and Applications of Development Resources at June 30, 2007 (\$127,028

million—June 30, 2006), as shown in the following table.

In millions of U.S. dollars equivalent

	2007		2006	
	<i>Government reference rate-based fair value</i>	<i>CIRR-based fair value</i>	<i>Government reference rate-based fair value</i>	<i>CIRR-based fair value</i>
Development credits outstanding	\$102,457	\$102,457	\$127,028 ^a	\$127,028 ^a
Less grant equivalent	(39,125)	(42,359)	(47,789)	(51,379)
Estimated value of development credits outstanding	<u>\$63,332</u>	<u>\$60,098</u>	<u>\$ 79,239</u>	<u>\$ 75,649</u>
Estimated grant element	38%	41%	38%	40%
	<i>Discount Rates Used</i>		<i>Discount Rates Used</i>	
Government reference rates				
- US dollar	5.03%		5.14%	
- SDR ^b	4.67%		4.46%	
CIRRs: Average of six months to June 30				
- U.S. dollar		5.64%		5.67%
- SDR		5.15%		4.86%

a. *Before the write-off related to MDRI.*

b. *Implies weighted average government reference rates of the component currencies contained in the SDR.*

Discounting the future cash flows from IDA's development credits using the standard 10 percent discount rate of the Development Assistance Committee (DAC) of the OECD, provides another alternative for the grant element. The estimated grant element based on this standard DAC rate for IDA's development credits is 63% as of June 30, 2007 (63%—June 30, 2006).

NOTE G—ADMINISTRATIVE EXPENSES

Administrative expenses represent IDA's share of such expenses jointly incurred by IBRD and IDA.

The allocation of expenses is based upon an agreed cost sharing formula that reflects the administrative costs of service delivery to countries that are eligible for lending from IBRD and IDA.

At June 30, 2007, a payable for administrative services to IBRD of \$360 million (\$364 million - June 30, 2006), and a receivable from IBRD for pension and other post retirement benefits of \$977 million (\$903 million - June 30, 2006) have been included in Other resources, net, on the Statement of Sources and Applications of Development Resources.

NOTE H—TRUST FUNDS ADMINISTRATION

IDA, alone or jointly with one or more of its affiliated organizations, administers on behalf of donors, including members, their agencies and other entities,

funds restricted for specific uses in accordance with administration agreements with donors. Specified uses include, for example co-financing of IDA lending projects, debt reduction operations for IDA members, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs, and research and training programs. These funds are held in trust with IDA and/or IBRD, and are held in a separate investment portfolio which is not commingled with IDA and/or IBRD funds, nor are they included in the development resources of IDA.

Trust fund execution may be carried out in one of two ways: Recipient-executed or IDA-executed.

Recipient-executed trust funds involve activities carried out by a recipient third-party "executing agency". IDA enters into agreements with and disburses funds to such recipients, who then exercise spending authority to meet the objectives and comply with terms stipulated in the agreements.

IDA-executed trust funds involve execution of activities by IDA as described in relevant administration agreements with donors which define the terms and conditions for use of the funds. Spending authority is exercised by IDA, under the terms of the administration agreements. The executing agency services provided by IDA vary and include for example, activity preparation, analytical and advisory activities and project-related activities, including procurement of goods and services.

In some trust funds, execution is split between Recipient-executed and IDA-executed portions. Decisions on assignment of funding resources between the two types of execution may be made on an ongoing basis; therefore the execution of a portion of these available resources may not yet be assigned.

IDA also enters into agreements for Limited Fiduciary arrangements under which IDA provides specific administrative or financial services with a limited fiduciary or operational role. These arrangements include, for example, administration of debt service trust funds, fiscal agency services and other more specialized limited funds management roles. Funds are held and disbursed in accordance with instructions from donors or, in some cases, external governance structure or body operating on behalf of donors.

The cash and investment assets held in trust by IDA as administrator and trustee at June 30, 2007 and June 30, 2006 are summarized below:

In millions of U.S. dollars equivalent

	<i>Total fiduciary assets</i>	
	<i>2007</i>	<i>2006</i>
IDA-executed	\$ 379	\$ 362
Recipient-executed	2,135	1,507
Limited Fiduciary arrangements	1,086	1,047
Execution not yet assigned	1,882	1,355
Total	\$5,482	\$4,271

During the fiscal year ended June 30, 2007, IDA, as executing agency, disbursed \$159 million of trust fund program funds (\$129 million—June 30, 2006).

IDA receives fees for administering trust funds. These are treated as a reduction of the administrative expenses shared with IBRD. During the fiscal year ended June 30, 2007, IDA recognized \$20 million (\$21 million—June 30, 2006, \$21 million—June 30, 2005) in fees for administering trust funds.

NOTE I—DEVELOPMENT GRANTS

A summary of changes to the amounts payable for development grants is presented below:

In millions of U.S. dollars equivalent

	<i>2007</i>	<i>2006</i>
Balance, beginning of the fiscal year	\$ 3,630	\$ 2,898
Commitments	2,195	1,939
Disbursements	(1,289)	(1,228)
Translation adjustment	106	21
Balance, end of the fiscal year	\$ 4,642	\$ 3,630

Effective July 1, 2005, development grants are charged to income upon approval by IDA's Executive Directors. In previous periods, development grants were charged to income upon signing of the grant agreement by the recipient country. Had this new policy been in place during the prior periods presented in these financial statements, the opening Accumulated Deficit balance of \$6,558 million as of July 1, 2005 would have been higher by \$123 million to \$6,681 million. Further, Development Grant expense amount for the fiscal year ended June 30, 2005 would have been lower by \$123 million.

For the fiscal years ended June 30, 2007 and June 30, 2006, the commitment charge rate on the undisbursed balances of IDA grants was zero percent. For the fiscal year ending June 30, 2008 the rate will continue to be zero percent.

NOTE J—ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting sources of development resources that are excluded from net income. For IDA, comprehensive income is comprised of income or loss after HIPC Debt Initiative and MDRI, currency translation adjustments on development credits, payable for development grants and accumulated provision for MDRI. These items are presented in the Statement of Comprehensive Income. The total accumulated other comprehensive income represents the cumulative translation adjustment on development credits and payable for development grants. The following table presents the changes in Accumulated Other Comprehensive Income balances for the fiscal years ended June 30, 2007, June 30, 2006 and June 30, 2005:

In millions of U.S. dollars equivalent

	<i>Accumulated Other Comprehensive Income</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
Balance, beginning of the fiscal year	\$8,014	\$8,371	\$8,920
Currency Translation Adjustment	2,155	(357)	(549)
Balance, end of the fiscal year	\$10,169	\$8,014	\$8,371