



**IDA15**

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**IDA15 SECOND REPLENISHMENT MEETING**

**KEY ISSUES**

**International Development Association  
Concessional Finance and Global Partnerships Vice Presidency (CFPVP)  
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### *Abbreviations and Acronyms*

CEM	Country Economic Memorandum
DAC	Development Assistance Committee
DSA	Debt Sustainability Analysis
GAAP	Generally Accepted Accounting Principles
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
JASs	Joint Assistance Strategies
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
ODA	Official Development Assistance
PBA	Performance-Based Allocation
PCPI	Post-Conflict Performance Indicators
PER	Public Expenditure Review
PRS	Poverty Reduction Strategies
PRSC	Poverty Reduction Support Credit
SDR	Special Drawing Rights
SWAPs	Sector Wide Approaches
UN	United Nations

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## **IDA15 Second Replenishment Meeting Key Issues**

1. At their meeting in March 2007, IDA participants selected three special themes for the IDA15 replenishment: (i) IDA's role in the global aid architecture at the country, regional and global level; (ii) the effectiveness of IDA's assistance at the country level; and (iii) IDA's role in fragile states. The first and third themes are the subject of discussion for the second meeting in Maputo. IDA's country level effectiveness, which is closely tied to its role in the aid architecture, will be discussed during the third meeting. This paper highlights the key issues contained in the papers prepared for the second replenishment meeting.

### **Context**

2. Recent trends in Official Development Assistance (ODA) and in the global aid architecture pose important challenges to the effectiveness of aid flows in the future. In particular, the proliferation of funding channels, fragmentation of aid flows, and significant degree of earmarking have raised transaction costs and created sectoral funding imbalances at the country level.<sup>1</sup> In addition, aid for core development programs<sup>2</sup> has not grown as fast as total ODA.

3. ODA flows continue to be the main source of funding for low-income countries, particularly in Africa. IDA is the largest provider of multilateral ODA to these countries with disbursements in the order of US\$80 billion during 1994-2005. The IDA15 period (FY09-11) will be a critical time for the donor community to scale up assistance to developing countries in support of their efforts towards achieving the Millennium Development Goals (MDGs) by 2015. The Development Assistance Committee (DAC) secretariat projects a 30 percent increase in overall aid flows by 2010.

### **IDA's Role in the Aid Architecture**

4. As discussed in the paper *The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model*, IDA performs a dual role in the international aid architecture. First, through its country-based approach, IDA directly provides a range of financing and knowledge services in support of countries' priorities and needs as identified in their Poverty Reduction Strategies (PRS). Second, IDA supports a platform for the broader delivery of aid by all development partners.

5. The ability to perform this dual role depends on the volume of financing it can offer and how IDA integrates this financing with its knowledge base - its country

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<sup>1</sup> See IDA (2007). *Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows*. Paper presented at the first meeting of the IDA15 Replenishment negotiations, Paris, March 5-6.

<sup>2</sup> Total ODA excluding selected special-purpose grants such as debt relief, administrative costs of donors, and emergency assistance.

expertise, technical skill, cross sectoral and global experience as well as its research capacity.

6. IDA's reliance on sound analytics, operational quality and attention to performance and results maximizes the development impact of its operations. A key factor in this regard is IDA's ability to draw on lessons learned from past experiences and to adapt and transfer this knowledge from country to country.

7. IDA supports a broader platform, *inter alia*, by conducting analytical work, both from sectoral and multi-sectoral perspective (PERs, CEMs, Poverty Assessments, DSAs, etc). This work underpins IDA's operations and informs government policy and interventions by other donors. The knowledge-base, quality of its operations and multilateral nature, give IDA the credibility to bring partners together around common objectives. This convening power has helped to increase the effectiveness and strategic coherence of overall ODA, e.g., through greater harmonization and alignment. The credibility also allows IDA to act as a "first mover" and leverage funds to scale up critical activities.

8. IDA's country driven approach also underpins its role in addressing regional and global issues that ultimately need to be tackled at the country level. IDA can assist in addressing the cross border dimensions of certain problems, such as climate change, through its analytical capacity, ability to design and deliver complex regional projects and forge consensus among the countries involved. The demand for such projects has increased dramatically and is expected to be maintained in the future. IDA can also play a part in addressing global issues by leveraging and managing funds from other sources, e.g. for the Avian Flu initiative.

9. IDA's ability to provide a platform for others does not mean, however, that it plays a leading role among donors in every sector or country. IDA can also follow and support the lead of other development partners. Determining when IDA should lead and when it should follow will necessarily need to be done at the country level in dialogue with other partners.

### ***Tackling the Challenges of a Fragmented Aid Architecture***

10. The increased complexity of the global aid architecture coupled with new global priorities (such as those associated with climate change) pose additional challenges to aid effectiveness and the achievement of the MDGs. In this context, IDA's role in supporting the country-based model has become even more critical.

11. Going forward, IDA proposes to *intensify efforts* in four areas in order to better fulfill its dual role: (i) *strengthening complementarity with vertical approaches to aid delivery*, by placing greater focus on strengthening country's systems for public service delivery; (ii) *ensuring appropriate sectoral funding*, by significantly scaling up funding for infrastructure, which is vital for growth, and filling sector-specific funding gaps in the social sectors; (iii) *addressing new global challenges linked to climate change*, by focusing on adaptation to climate change and sustainable management of natural

resources in IDA countries; and (iv) *enhancing alignment and harmonization*; for instance by stepping up coordination with other donors through the preparation of Joint Assistance Strategies (JASs), contribution to program-based approaches, and continued decentralization of staff to field offices.

### ***Fragile States***

12. IDA's country-based focus allows it to adapt both over time and across countries to specific circumstances. This ability is apparent in the differentiated approach IDA has adopted to address the diverse needs of fragile states, e.g., taking into account the direction and pace of governance change in these countries. As noted in *Operational Approaches and Financing in Fragile States* a number of measures have been taken to increase the effectiveness of IDA's response. They include: a policy of continued operational readiness even in situations where IDA financing is not possible; reforms to strengthen IDA's rapid response capacity; and increased focus on organizational and Human Resources issues including increased numbers of field-based staff. In addition, the World Bank's partnership with the United Nations in fragile states has strengthened in recent years, and will be further bolstered by the adoption of a common recovery planning process and agreed fiduciary framework for collaboration in post-crisis situations.

13. In terms of financing, IDA caters to the majority of the active fragile states through regular PBA allocations, often in the form of grants.<sup>3</sup> In some carefully ring-fenced situations IDA has deviated from the PBA system to provide exceptional allocations to post-conflict and re-engaging fragile states. While these exceptions have generally worked well, Management has identified areas for improvement, which are listed below.

14. With respect to **post-conflict allocations**, changes would be proposed that would: (i) link post-conflict allocations to changes in the overall size of the IDA envelope; (ii) strengthen the review process of the Post-Conflict Performance Indicators (PCPI) rating exercise and prepare for eventual disclosure of these ratings; and (iii) lengthen the phase-out period of post-conflict allocations from three to six years, bringing the total period of post-conflict allocation to a maximum of ten years.

15. With respect to **countries re-engaging with IDA** which did not qualify for exceptional post-conflict allocations, the following improvements are proposed: (i) elaboration of clear criteria for eligibility; (ii) establishment of guidelines for determining the size of exceptional allocations; and (iii) extension of the phase-out period from exceptional to regular PBA allocations from three to five years.

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<sup>3</sup> Of the 34 fragile states in FY07, 7 were in arrears and 27 received IDA support. Seventeen of them received regular PBA allocations. As a group fragile states received 57 percent of their assistance in the form of grants compared to 8 percent for non-fragile states. In addition, a majority of fragile states have benefited significantly from debt relief under HIPC and MDRI initiatives.

16. In the non-active fragile states the size of the arrears presents an obstacle to IDA's ability to engage when the appropriate time comes. As set out in *Further Elaboration of a Systematic Approach to Arrears Clearance*, Management would propose that **arrears clearance** support<sup>4</sup> be provided to those HIPC eligible IDA countries in arrears to IDA and/or IBRD as of December 31st, 2006.<sup>5</sup> The countries face diverse circumstances notably as regards their financial capacity. The consistent application of common rules and criteria may therefore lead to differing financial solutions across countries. Each clearance operation, including the size of the exceptional allocation of IDA funds, would be subject to a number of conditions and to approval by the Board of Executive Directors.

17. Regarding IDA **pre-arrears** clearance grants, which currently apply only to post-conflict countries, it is proposed to: (i) extend their use in countries where arrears clearance is delayed for reasons unrelated to a country's track record; (ii) implement flexibly the condition that requires other creditors to agree not to make net withdrawals of financial resources; and (iii) broaden eligibility for such grants to all countries declared eligible for exceptional arrears clearance support from IDA.

18. It is also proposed that the estimated costs for arrears clearance be included in the IDA15 replenishment. Donor funding for arrears clearance would be reserved for this purpose and be added to the commitment authority only when actual clearance takes place. Further, the scope of the HIPC Trust Fund would be widened to receive donor contributions for arrears clearance and potential IBRD net income transfers to address any remaining structural gap in the MDRI financing framework of IDA.

## **IDA15 Financial Requirements**

19. Given IDA's critical role in supporting countries' efforts to reach the MDGs in a more complex aid environment, Management seeks an IDA15 replenishment of SDR 26.3 billion.<sup>6</sup> This represents a 20 percent increase over the original IDA14 envelope.

20. Such a replenishment level would support a diverse set of country strategies in all IDA operational regions, which reflect individual country needs, priorities, and capacity to absorb scaled-up assistance. Africa would receive over 50 percent of resources in IDA15 in this scenario. Furthermore, over 95 percent of the proposed increase would be allocated to Africa (SDR 2.5 billion) and South Asia (SDR 1.4 billion) – the regions farthest from attaining the MDGs.

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<sup>4</sup> Currently seven countries are in arrears to IDA, three of which also have arrears to IBRD. At US\$2.36 billion it is unlikely that they can be cleared entirely using domestic resources and/or countries' respective IDA allocations.

<sup>5</sup> Two countries, Myanmar and Zimbabwe, would thus need to be grandfathered into HIPC before they could be eligible for exceptional arrears clearance support.

<sup>6</sup> *The Demand for IDA15 Resources and The Strategy for their Effective Use, June 2007*, background paper for the IDA15 Maputo meeting.

21. This proposal is based on assumptions on country graduations and reactivations<sup>7</sup> and takes into account the inflation adjustment of 7.3 percent as agreed under the MDRI resolution.<sup>8</sup> It includes the costs of proposals made by Management in the background papers, regarding: (i) increasing the envelope for regional projects; (ii) extending the phasing out period for post-conflict and re-engaging countries; and (iii) arrears clearance. The proposal also includes a 5 percent real increase in the PBA envelope relative to the original IDA14 envelope. This increase would allow IDA to begin addressing identified investment gaps, notably in infrastructure and relative to climate change.

### *Specific Financing Issues*

22. The *IDA15 Financing Framework* paper analyzes the financing required from donors and IDA and World Bank Group internal resources to meet the proposed replenishment level. The paper raises the question of how to cover the “structural gap” for debt relief (HIPC and MDRI) costs, the burden shares to apply to the financing of arrears clearance as well as how to tackle the structural gap in the regular IDA contributions going forward. In the absence of a single lead donor, Management proposes that the use of the “pro rata clause” be discontinued so as to protect the interests of IDA client countries. Finally, donors planning to use an accelerated encashment schedule are requested to confirm their agreement to the reporting requirements following the anticipated switch to the Generally Accepted Accounting Principles (GAAP) rules.

### **Conclusion**

23. IDA can continue to effectively assist client countries and perform its platform role only if funding reaches a “critical mass”. With appropriate funding, IDA’s assistance can generate many benefits at the country level, namely: an appropriate sectoral balance across donor development assistance programs; the ability to scale up successful poverty reduction efforts through large-scale operations; and more extensive use of instruments which capitalize on donor harmonization efforts at the country level such as Poverty Reduction Support Credits (PRSCs) and Sector Wide Approaches (SWAPs). In addition, IDA’s knowledge base – a public good for all development partners – can be enhanced through learning that comes from implementing lending operations, across multiple sectors. Furthermore, IDA’s ability to provide a platform for other development partners is enhanced by being able to work with a broader range of stakeholders, and address a wider range of issues through a greater scope for policy dialogue and capacity building.

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<sup>7</sup> Between two and five countries are expected to reactivate (Liberia and Cote d’Ivoire already before IDA15, Togo during IDA15, while the reactivations of Zimbabwe and Sudan are given a 50 percent probability). Four countries are expected to graduate before IDA15 (Indonesia, Serbia, Montenegro and Albania).

<sup>8</sup> See IDA (2006). *Addition to IDA Resources: Financing the Multilateral Debt Relief Initiative*, Resolution No. 211 adopted on April 21, 2006.