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November 30, 2007.**

**Note that the report will be updated by November
20th to reflect the discussions on bracketed
paragraphs of Sections 2 A and 3 B and C.**

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IDA15

[This draft Report reflects the views of management and further revisions will be made in subsequent drafts. Therefore, all conclusions and recommendations in this draft Report are tentative until final agreement is reached]

Additions to IDA Resources: Fifteenth Replenishment

[IDA: The Platform for Achieving Results at the Country Level]

ACRONYMS AND ABBREVIATIONS

AAA	Analytical and Advisory Activities	LTSE	Long-Term Strategic Exercise
ACS	Advance Commitment Scheme	M & E	Monitoring and Evaluation
ARPP	Annual Report on Portfolio Performance	MDB	Multilateral Development Bank
CAS	Country Assistance Strategy	MDG	Millennium Development Goal
CASCR	Country Assistance Strategy Completion Report	MDRI	Multilateral Debt Relief Initiative
CASPR	Country Assistance Strategy Progress Report	MIGA	Multilateral Investment Guarantee Agency
CPIA	Country Policy and Institutional Assessment	M&E	Monitoring and Evaluation
DAC	Development Assistance Committee	MTR	Mid-Term Review
DeMPA	Debt Management Performance Assessment Tool	NCBP	Non-Concessional Borrowing Policy
DSA	Debt Sustainability Analysis	NSDS	National Strategy for Development of Statistics
DSF	Debt Sustainability Framework	ODA	Official Development Assistance
DPO	Development Policy Operations	OECD	Organization for Economic Cooperation and Development
EC	European Commission	OPCS	Operational Policy and Country Services
ESW	Economic and Sector Work	PBA	Performance-Based Allocation
HDI	Human Development Index	PCPI	Post-Conflict Performance Indicators
HIPC	Heavily Indebted Poor Country	PDO	Project Development Objective
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome	PEFA	Public Expenditure and Financial Accountability
HNP	Health, Nutrition and Population	PIU	Project Implementation Unit
IBRD	International Bank for Reconstruction and Development	PREM	Poverty Reduction and Economic Management
ICR	Implementation Completion Report	PRS	Poverty Reduction Strategy
IDA	International Development Association	PSD	Private Sector Development
IEG	Independent Evaluation Group	QAG	Quality Assurance Group
IFC	International Finance Corporation	QSA	Quality of Supervision Assessment
IL	Investment Lending	RBCAS	Results-Based Country Assistance Strategy
IMF	International Monetary Fund	RMS	Results Measurement System
ISR	Implementation Status Report	SDR	Special Drawing Rights
ISN	Interim Strategy Note	TFSCB	Trust Fund for Statistical Capacity Building
		UN	United Nations

TABLE OF CONTENTS

Executive Summary	i
A Summary of Conclusions and Recommendations	
Introduction	1
Section I: Supporting IDA Countries in Achieving Millennium Development Goals	2
A. Progress and Challenges in Achieving the MDGs	2
B. Enhancing Aid Effectiveness to Achieve the MDGs	3
C. IDA's Support for MGDs through the Country-Based Model	5
D. Broad Strategic Directions for IDA Going Forward	5
E. Key Developments since the IDA14 Replenishment Discussions	9
Section II: The Role of IDA in the Global Aid Architecture	12
A. IDA's Role at the Country, Regional and Global Levels	12
B. IDA's Role in Ensuring Debt Sustainability	15
Section III: IDA's Country-Level Effectiveness	17
A. Development Outcomes and Resource Allocation	17
B. Achieving and Measuring Results	19
C. Progress in Harmonization and Alignment	21
Section IV: IDA's Effectiveness in Fragile States	23
A. Strategy, Instruments and Operational Response in Supporting Fragile States	24
B. Financing for Fragile States	25
C. A Systematic Approach to Arrears Clearance	26
Section V: Managing IDA's Financial Resources	27
A. Commitment Authority	27
B. Replenishment Effectiveness	30
C. Contribution Procedures	31
Section VI: Financing of Debt Relief and Arrears Clearance	32
A. The HIPC Initiative	32
B. The MDRI	33
C. Financing of Arrears Clearance Operations	34
Section VII: Recommendation	35
 <u>Annexes</u>	
Annex 1: IDA's Performance-Based Allocations System for IDA15	37
Annex 2: IDA15 Objectives and Actions	40
Annex 3: Draft Resolution	50
Annex 4: Documents Provided for the IDA15 Replenishment	63

EXECUTIVE SUMMARY

[To be written after the Dublin meeting]

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

[To be written after the Dublin meeting]

INTRODUCTION

1. ***An important channel for multilateral aid.*** Since its inception in 1960, the International Development Association (IDA) has played a pivotal role in the global aid architecture. It is the largest multilateral channel for providing concessional financing to developing countries with per capita incomes mainly below US\$1,065.¹ Working with client countries and donors, IDA helps poor countries achieve broad-based growth, reduce poverty, and improve living standards of the poor. Given its poverty focus, IDA directs a large share of its resources to countries where people earn less than two dollars a day.²

2. ***A vital role in the global aid architecture.*** With the global aid architecture becoming more complex, IDA's role in developing countries has become all the more important. Not only does IDA provide direct financing, policy advice, and knowledge services to client countries but it also serves as a platform for the effective delivery of overall aid. To perform its dual role, IDA relies on its unique core strengths: the scale of its financial resources; extensive knowledge base and the quality of its policy advice; global reach combined with local presence; multi-sectoral perspective; and its convening power. IDA's ability to adapt to individual country circumstances, to act as a "first mover" when appropriate, and to leverage funding from other partners to scale up poverty-reducing interventions allows it to play a vital role in reaching the poor. A "critical mass" of funding is needed for IDA to serve as a platform for other development partners to achieve strategic coherence in development assistance programs, to obtain results at the country level.

3. ***IDA's sources of funding.*** IDA's resources come mainly from contributions by governments of its donor countries. The number of donors has grown over time to [44], to include both developed and middle-income developing countries. Donors provide resources according to arrangements reached during periodic replenishment negotiations held every three years. Other sources of IDA funding include repayments on outstanding credits, IDA investment income, and net income transfers from IBRD and IFC.

4. ***The Fifteenth replenishment of IDA.*** Representatives of donor governments ("the IDA Deputies") and representatives of borrower countries (collectively referred to in this report as the "Participants"), negotiated the Fifteenth Replenishment of IDA's resources under the Chairmanship of Mr. Vincenzo La Via, Chief Financial Officer of the World Bank Group.³ To make the discussions transparent and to solicit views from a range of stakeholders, Participants consulted with African opinion leaders in Maputo, Mozambique in June 2007 and invited comments from civil society on the draft Deputies' report. In addition, IDA's external website contains all policy papers discussed at these meeting as well as summaries of the discussions. This report contains the Participants' recommendations on the policy and financial framework that would

¹ IDA's operational per-capita income cut off in FY08.

² Based on definition provided in Chen and Ravallion (2004) "How Have the World's Poorest Fared Since the Early 1980s?" World Bank Research Observer, Vol. 19, No. 2, pp. 141-169.

³ IDA15 meetings: March 5-6, 2007 at Paris, France; June 28-30, 2007 at Maputo, Mozambique; October 23, 2007 at Washington D.C., USA; [November 12-13, 2007 at Dublin, Ireland; and December 13-14, 2007 at Berlin, Germany.]

underpin IDA's support for poverty reduction during the IDA15 period (July 1, 2008 to June 30, 2011).⁴

5. **Noteworthy points.** The IDA15 replenishment discussions were noteworthy for several reasons. *First*, the discussions focused on consolidating, strengthening, and fine tuning many significant changes in the policy framework that were put in place during past replenishments, including those relating to the grants framework, results measurement system, resource allocation system, and assistance to post-conflict countries. *Second*, Participants examined IDA's role in a complex global aid architecture and concluded that IDA plays a unique role in reaching the poor, integrating multiple donor programs, supporting country ownership, and acting flexibly and quickly, to provide results at the country level. *Third*, Participants reviewed IDA's role in enhancing effectiveness of aid at the country level through harmonization and alignment as well as through its leadership on the results agenda. *Fourth*, Participants reassessed IDA's work in fragile states and recommended that it continue to strengthen its operational, procedural and organizational role in these countries, in addition to fine tuning its financing arrangements to better respond to their needs. *Fifth*, Participants reviewed IDA's resource allocation system to ensure that resources flow to countries achieving results. They also agreed to simplify and streamline the PBA system to further enhance its transparency and effectiveness. While reaffirming their support for all poor countries, Participants urged IDA to direct more than half its assistance to countries in Sub-Saharan Africa, if warranted by performance.

6. **Organization of the Deputies' report.** The report is organized in six sections. Section I provides the backdrop against which the IDA15 discussions took place. The next three sections contain the three special themes selected by Participants at the first meeting of IDA15 discussions held in Paris in March 2007. These are: IDA's role in the global aid architecture (Section II), IDA's role in ensuring effectiveness of aid at the country level (Section III), and IDA's role in fragile states (Section IV). Section V contains a discussion on the management of IDA's resources. Section VI discusses financing of debt relief and arrears clearance.

SECTION I. SUPPORTING IDA COUNTRIES IN ACHIEVING MILLENNIUM DEVELOPMENT GOALS

A. Progress and Challenges in Achieving the MDGs

7. **Significant progress.** Recent data point to encouraging signs of progress on several fronts in IDA countries. Real GDP per capita grew by 5.5 percent annually between 2003 and 2006 in IDA countries; more than twice the average growth rate of 2.2 percent between 1990 and 2003. This strong growth is associated with a decline in poverty, with extreme poverty falling by two percentage points between 2002 and 2004, continuing the trend since 1999. If the growth momentum of the past 15 years continues, it is likely that the global rate of extreme income poverty will be halved between 1990 and 2015.⁵ In the human development area, some progress has been made towards the

⁴ Beginning with the IDA13 period, borrower representatives have participated in the replenishment discussions, providing borrower country perspectives on the issues under discussion. However, in a formal sense, the recommendations are those of the Deputies.

⁵ 2006 Global Monitoring Report, page 21.

Millennium Development Goals (MDGs). In addition, other outcome indicators for financial management and investment climate also showed positive change, with the regulatory obstacles to private sector development consistently reduced between 2003 and 2006. Progress in access to basic infrastructure was strong in all regions, and the average rate of improvement for IDA countries as a whole has surpassed that of non-IDA developing countries,⁶ especially in household electrification rates as well as an expansion of the telecommunications sector.

8. ***But daunting challenges remain.*** While IDA countries as a whole have improved outcomes in the recent past, progress varied by indicator and remained uneven across countries. Despite gains made so far, “the end of poverty is not imminent.”⁷ While current trends suggest that the goal on halving extreme poverty by 2015 would likely be reached, it will not be met in Africa. Besides, progress towards MDGs in the human development area falls well short of what is needed to achieve many of the targets on time. Neither Africa nor South Asia are likely to meet any of the human development goals – universal primary education, greater gender parity in education, reduced child and maternal mortality and incidence of disease, and improved water and sanitation.⁸ Meanwhile, recent studies show that the impact of climate change on developing countries will undermine progress towards MDGs.⁹ Daunting challenges persist, with less than 10 years remaining until 2015 – the target year for reaching the MDGs. These challenges require IDA and its development partners to redouble their efforts in support of growth and development in IDA countries to improve the lives of millions of people.

B. Enhancing Aid Effectiveness to Achieve the MDGs

9. ***Progress supported by increased ODA flows.*** While progress made so far in IDA countries has been to a large extent the result of their own efforts, policies, and resources, it has also been supported by increased Official Development Assistance (ODA) flows. In Monterrey in 2002, the international community pledged to support the efforts of developing countries in achieving the MDGs. Since that time, ODA, which is the main form of resource transfers to IDA-eligible countries has been steadily rising. ODA reached its highest level in 2005 at US\$106.8 billion, boosted in large part by debt relief operations. This rising trend was reversed slightly in 2006, with ODA falling to US\$103.9 billion at current prices.¹⁰ Preliminary estimates suggest that ODA may fall further in 2007 as the debt relief amounts taper off. To achieve the MDGs, ODA needs to resume its growing trend and donors will therefore need to scale up aid in the coming years.

10. ***The way aid is delivered is critical.*** While aid volumes are important, the way in which it is delivered also matters. Recent trends in ODA and in the global aid architecture pose challenges to the effectiveness of aid at the country level. Some of these challenges include:

⁶ Non-IDA developing countries in this section refer to 69 developing countries that are not eligible for IDA grants or credits in FY08. They are mainly middle-income, IBRD client countries.

⁷ The World Bank (October 2007). “*Meeting the Challenges of Global Development: A Long-Term Strategic Exercise for the World Bank Group.*”

⁸ 2006 Global Monitoring Report.

⁹ See *IDA at work* note at <http://siteresources.worldbank.org/IDA/Resources/IDA-Environment.pdf>

¹⁰ In 2006, ODA at 2005 prices and exchange rates reached US\$ 101.3 billion, therefore resulting in a real decline of 5.1 percent over the previous year.

- *A decline in aid for core development programs.* While overall ODA has increased (growing on average 11.4 percent per year during 2001-05), ODA for core development programs¹¹ has not grown as quickly (4.6 percent per year over the same period). IDA-eligible countries in particular have received less ODA for core development programs than they did on average during the early 1990s.
- *A shift from infrastructure to social sectors.* Over the last two decades, a rising share of social sectors in total sector-allocable ODA to low-income countries (from 29 percent in the early 1990s to 52 percent between 2001 and 2004)¹² has been accompanied by a declining share of infrastructure and production (from 59 percent to 38 percent over the same period). The decline in infrastructure is particularly noticeable in Sub-Saharan Africa.
- *An increasingly complex aid architecture.* The global aid architecture has become complex, with: (i) a proliferation of donor channels providing ODA; (ii) fragmentation of ODA flows through an increasing number of donor-funded activities with decreasing financial size; and (iii) a significant degree of earmarking of aid resources for specific uses or for special-purpose organizations, including through the increasing number and size of global programs or “vertical funds.”¹³ Also changing the global aid architecture significantly in the recent years is the growing importance of non-DAC or “emerging” donors.

11. While the new sources of aid bring much needed resources to help developing countries reach their MDGs, the accompanying fragmentation and proliferation of aid reduces its effectiveness in several ways by:¹⁴ (i) presenting additional challenges to harmonizing and aligning aid, which results in rising transactions costs for recipient countries and donors; (ii) potentially creating wasteful duplication and overlap in the delivery of aid; (iii) causing competition for scarce skills in recipient countries; and (iv) distorting sectoral allocations of public spending by possibly reflecting global rather than recipients’ priorities as aid flows become increasingly earmarked for individual purposes.

12. ***The country-based development model.*** These trends in ODA and the global aid architecture highlight the need for a country-based development model as the means to make effective use of scaled-up ODA at the country level – a view reflected in the Paris Declaration on Aid Effectiveness. The country-based model provides a platform upon which different ways of delivering aid – traditional bilateral and multilateral ODA, emerging non-DAC donors, and vertical funds for global public goods – can work together in an integrated manner to achieve results at the country level.

13. The introduction of the Poverty Reduction Strategy (PRS) approach in 1999 was an important step in the evolution of the country-based model which put recipient country governments in the driver’s seat, brought a clearer focus on poverty reduction,

¹¹ Refers to total ODA excluding selected special-purpose grants such as debt relief, administrative costs of donors, and emergency assistance.

¹² Social sectors, in the OECD/DAC classification, include education; health and population; water and sanitation; government and civil society; and conflict, peace and security.

¹³ See IDA (2007). “*Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows.*”

¹⁴ Ibid.

emphasized national ownership of the development effort, and created accountability for development results. If aid-delivery mechanisms and approaches are framed in the context of national development strategies, their goals would be mutually reinforcing, making it possible to achieve much needed balance and complementarity.

C. IDA's Support for MDGs through the Country-Based Model

14. ***IDA and the country-based model.*** Alignment with PRS is the cornerstone of IDA's support to the country-based model and the Country Assistance Strategy (CAS) provides the anchor for IDA's support at the country level. Thus, IDA effectively has multiple strategies – one CAS or ISN for each country – which evolve over time to adapt to countries' evolving challenges and priorities. The CAS facilitates harmonization and alignment with country priorities by taking into account national development programs as well as other donor activities, thereby maximizing impact on the ground. The CAS also makes it possible for IDA's program to reconcile global concerns and national priorities at the country level.

15. ***Financing volumes, quality and results.*** Within the country-based model, IDA is able to provide financial assistance on a large scale to countries that continue to rely on ODA as the main form of external financing. The scale of IDA's financial assistance, underpinned by its strong focus on quality, is central to the achievement of the MDGs. Assessments by the Independent Evaluation Group (IEG) show a continuous improvement of the impact of the Bank's operations measured in terms of project outcomes, sustainability, and contribution to institutional development.¹⁵

D. Broad Strategic Directions for IDA Going Forward

16. ***An inclusive and sustainable globalization.*** In parallel with the IDA15 replenishment discussions, the World Bank Group is discussing its way forward in catalyzing "inclusive and sustainable globalization," fostering growth with care for the environment, and improving the living standards of people. The broad framework for the Bank Group's strategy was spelt out by President Zoellick in his note to the Development Committee¹⁶ and captured in his discussions with Participants during the meeting held in Washington D.C. in October. The President's vision for the World Bank Group rests on the Long Term Strategic Exercise (LTSE), which provides some of the building blocks for long-term strategy.¹⁷ The LTSE paper points out that economic growth alone would not suffice to make substantial progress in poverty reduction, unless it is both inclusive and sustainable.

17. ***Relevant themes for IDA.*** Four of the six strategic themes highlighted by the President resonate well with the topics discussed by Participants in the IDA15 discussions. These are: (i) "helping to overcome poverty and spur sustainable growth in the poorest countries, especially in Africa;" (ii) "addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state;" (iii) "playing a more active role with regional and global public goods on issues crossing national borders, including climate change, HIV/AIDS, malaria, and aid for trade;" and (iv)

¹⁵ See IDA (2007). "The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model." p. 16.

¹⁶ World Bank (October 2007). "Note from the President to the World Bank." DC2001-0025.

¹⁷ The World Bank (2007). *Op. cit.*

“fostering a knowledge and learning agenda across the Bank Group to support its role as a brain trust of applied experience.”

18. ***Broad strategic directions.*** The LTSE concludes that the two-pillar framework that has underpinned the World Bank Group’s – and IDA’s – work over the last few years remains a valuable “expository device.” Within the framework of a country-based model, the first pillar focuses on building a strong climate for investment, jobs, and sustainable growth and the second pillar on empowering the poor to encourage their participation in development. Equity and inclusion are central to the two-pillar framework as they influence the workings of both the investment climate and the empowerment of the poor.¹⁸ The LTSE paper also notes that two additional perspectives need to be weaved into the two-pillar framework: institutions and governance processes (particularly in fragile states) as well as global public goods, including environmental sustainability. Consistent with this approach, IDA’s focus on the two-pillar framework will be complemented by several cross cutting issues such as improving governance, fostering gender equality, and addressing global challenges, including environmental issues such as climate change.

19. ***Private sector-led growth, agriculture, and infrastructure investments.*** Policies for sustained, broad-based economic growth are important for a sound poverty reduction strategy. In turn, growth can only be sustained in the long run if it is underpinned by a vigorous, thriving private sector.¹⁹ A healthy investment climate is a crucial element in any strategy focusing on promoting sustained growth and poverty reduction. Government policies and behaviors are important for a sound investment climate, as they can decisively influence “the security of property rights, approaches to regulation and taxation (both at and within the border), the provision of infrastructure, the functioning of finance and labor markets, and broader governance features such as corruption. Improving government policies and behaviors that shape the investment climate drives growth and reduces poverty.”²⁰

20. IDA supports private sector-led growth through its financial assistance – including funding for infrastructure as well as development policy operations that support policy reforms – and non-lending activities. IDA’s main focus is on helping governments in client countries promote a sound business environment, where private initiative and competitive markets can flourish, and private investment can be attracted and retained. IDA’s work on private sector development is complemented and enhanced through IFC’s and MIGA’s private sector investment activities. IDA collaborates with IFC in many IDA countries through: joint work on investment climate; joint approaches to public private partnerships; and joint work on MSME support in Africa. In addition, IDA and IFC continue innovative approaches, including the use of the promising Output-Based Aid (OBA) projects in IDA countries to harness private activity to meet development goals.

21. In IDA countries, *agriculture* often accounts for a large share of GDP and employment. Therefore, growth in agricultural incomes is essential to stimulate broad-based growth in the overall economy, reduce poverty and ensure food security. IDA’s

¹⁸ See The World Bank (2005). “*World Development Report 2006: Equity and Development.*”

¹⁹ World Bank (2002). “*Private Sector Development Strategy: Directions for the World Bank Group.*”

²⁰ World Bank (2004). *World Development Report 2005. A Better Investment Climate for Everyone.* September, p. 1.

role as an effective partner in agriculture is important for improving economic competitiveness and ensuring equitable distribution of benefits. Given the diverse constraints to agricultural development, especially in Africa and South Asia, interventions have to be multifaceted and coordinated across a range of activities. Going forward, in accordance with the findings of the 2008 World Development Report and the recommendations of a recent IEG report,²¹ IDA will renew its focus on the agricultural sector.

22. *Infrastructure services* have been shown to contribute to poverty reduction and private-sector-led economic growth by lowering costs and expanding market opportunities for businesses, thereby increasing productivity and improving the business environment. Improved health and education outcomes can also result from better infrastructure. However, considerable gaps remain in access to infrastructure services. In the developing world, it is estimated that 1.1 billion people are without safe water, 1.6 billion are without electricity, 2.4 billion without sanitation, and more than 1 billion without access to an all-weather road or telephone services. The gap in access reflects at least in part a huge infrastructure investment shortfall. Closing the infrastructure access and investment gaps is a necessary step to achieve meaningful development results and to meet the MDGs.

23. While IDA remains the largest multilateral source of physical infrastructure financing, there is a strong case for scaling up IDA's support to infrastructure to help close the infrastructure investment gap. IDA's financial support for infrastructure services, combined with policy dialogue and institutional capacity building would, where appropriate, also help crowd in private sector financing to ensure a sustainable, private-sector-led growth in IDA countries.

24. *Investing in people.* To lay the foundations for sustained growth, IDA invests in people by improving the quality and extending the reach of social services to the poor.

- IDA's *Health, Nutrition and Population (HNP) strategy*²² aims at supporting countries in their efforts to improve the health conditions of the poor and the vulnerable and prevent them from becoming destitute as a result of illness. The objectives of the strategy are to: improve the level and distribution of key HNP outcomes, outputs, and system performance to improve living conditions, particularly for the poor; strengthen financial protection to prevent destitution due to illness; enhance financial sustainability; and improve governance, accountability and transparency. In view of the changes in the architecture for development assistance for health, IDA will support country efforts by: renewing focus on results; strengthening client country efforts to have well-organized and sustainable health systems; ensuring synergy between health system strengthening and priority disease interventions;²³

²¹ See IEG (2007). "Agriculture in Sub-Saharan Africa: An IEG Review." The report found that the agricultural sector has been neglected both by governments and the donor community, including the World Bank. It finds that the Bank's limited and, until recently, declining support has been largely piecemeal and "sprinkled" across several critical areas such as research, extension, credit, seeds, roads, and policy reforms, but with little recognition of the synergy between them.

²² World Bank (2007). "Healthy Development: The World Bank Strategy for Health, Nutrition, and Population Results."

²³ Also see IDA (2007). "The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model."

advising client countries on a intersectoral approach to HNP results; and increasing selectivity, improving strategic engagement, agreeing with global partners on division of labor to achieve results at the country level.

- IDA's *education* sector strategy focuses on achieving basic education for all while focusing on the poorest children and girls to ensure gender parity, early childhood interventions, innovative delivery and systemic reform.²⁴ An update of the strategy in 2005 takes into account changes in the international aid architecture, including the Education for All Fast Track Initiative; recognizes the impact of HIV/AIDS on education; accounts for learning gaps across and within countries; addresses greater demand for secondary education; and considers role of tertiary education and lifelong learning in promoting knowledge-driven economic growth. To maximize the impact of education on growth and poverty alleviation, IDA emphasizes three themes: integrating education in a country-wide perspective; broadening the strategic agenda through a system-wide approach; and becoming more results oriented. These themes ensure that education is looked at within the context of overall development strategies and in specific macroeconomic and sectoral contexts.

- *Social Protection and labor* policies contribute to human development by managing the income and welfare risks that affect vulnerable groups. IDA's broad policy objectives²⁵ are to: improve earning opportunities and the quality of jobs; improve security for households and communities through better management of risks; and provide assistance for vulnerable groups, to improve equity and reduce extreme poverty. In support of these objectives, IDA focuses on labor markets (including eliminating harmful child labor) and job creation; expanding pensions and old-age income support; strengthening social safety nets; using social funds as community-based mechanisms to improve access to social services for the poor and other vulnerable groups; and encouraging governments to integrate disabled people into their poverty alleviation efforts. Going forward, to pursue its work on social protection, IDA will strengthen cross-sectoral activities, better integrate knowledge-managing activities and incorporate poverty and social impact analysis into policy development.²⁶

25. ***Cross-cutting themes.*** IDA will focus on several themes that complement and cut across the twin pillars of growth and investment in people. These include:

- ***Governance:*** In the mutual accountability framework agreed upon in the Monterrey Consensus, good governance plays a major role because it is important for the development performance of a country.²⁷ The recent

²⁴ World Bank (1999). "Education Sector Strategy," and World Bank (2005). "Education Sector Strategy Update: Achieving Education for All, Broadening our Perspective, Maximizing our Effectiveness."

²⁵ World Bank (August, 2000). "Social Protection Strategy: From Safety Net to Springboard." R2000-1060.

²⁶ OPCDM (July, 2007). "Sector Strategy Implementation Update FY06." Draft Report.

²⁷ See Swaroop, V. and S. Rajakumar (2002). "Public Spending and Outcomes: Does Governance Matter?" World Bank Policy Research Working paper No. 2840.

Governance and Anticorruption strategy²⁸ aims at helping developing countries identify their priorities for improving governance and articulate and implement programs responding to those priorities in a manner that is sustainable in the long run. The governance strategy would be implemented at the country, project and global levels. At the country level, the focus would remain on strengthening state capacity and accountability (through improving public financial management of revenues and expenditures, procurement, auditing, the judiciary, and legal reforms, as well as cross-cutting civil service and transparency reforms), expanding private sector reforms, and engaging systematically with a broad range of stakeholders. At the project level, the focus will be on actions to mitigate fiduciary risks (through strengthening country systems, tailoring projects to manage specific sectoral risks, mitigating risks upstream on high-risk projects, etc). At the global level, the Bank will support harmonized approaches with other international actors. The strategy is being further elaborated to strike a balance between short-term signaling in cases of fraud or corruption and the longer-term efforts to build capacity. Going forward, there will also be additional focus on working with other partners, who may be better equipped to deal with certain aspects of governance.

- *Gender*: Empowerment of women is important for achieving MDGs and promoting shared economic growth. The World Bank's Gender Action Plan²⁹ recognizes that expanding economic opportunities for women is "smart economics" and notes that their increased participation in the labor force and associated increased earnings lead to reduced poverty and faster growth. The Gender Action Plan targets women's empowerment in economic sectors, mostly infrastructure, agriculture, private sector development and finance. The way ahead includes: intensifying gender mainstreaming in Bank and IFC operations and in economic and sector work; mobilizing resources to implement and scale up initiatives that empower women economically; improving knowledge and statistics on women's economic participation and relationship between gender equality, growth and poverty reduction; and undertaking targeted communications campaign to foster partnerships on the importance of women's economic contributions.
- *Climate change*: The impact of climate change is expected to be even more severe for developing countries, putting the achievement of the MDGs at risk. IDA's response to the challenge of climate change has been developed as part of the Bank's Clean Energy Investment Framework (CEIF).³⁰ Its main elements are: (i) improving access to clean energy; (ii) supporting the transition to a low carbon development trajectory; and (iii) supporting adaptation to climate change. IDA is able to link global issues with country strategies and to invest in global public goods at the country level. As such,

²⁸ World Bank (2007). "Strengthening World Bank Group Engagement on Governance and Anticorruption."

²⁹ The World Bank (2006). "Gender Equality as Smart Economics: A World Bank Group Gender Action Plan (Fiscal Years 2007-10)."

³⁰ World Bank (2007). "Clean Energy for Development Investment Framework: The World Bank Group Action Plan." DC2007-0002.

IDA's project selection and design decisions will be affected by changing climatic circumstances in each country.³¹

E. Key Developments since the IDA14 Replenishment Discussions

26. ***The Multilateral Debt Relief Initiative (MDRI)***. The MDRI was proposed in June 2005 and its implementation began on July 1, 2006³² after its approval by IDA's Board of Executive Directors.³³ Under the MDRI, 100 percent of eligible debts of IDA, the African Development Fund (AfDF), and the International Monetary Fund (IMF) were cancelled for countries that reach completion point under the Heavily Indebted Poor Countries (HIPC) Initiative. The MDRI aims to: deepen debt relief to HIPCs while safeguarding the long-term financial capacity of IDA and AfDF; and encourage the best use of additional donor resources for development by allocating them to low-income countries on the basis of performance. To ensure that the financing cost of the MDRI does not compromise IDA's financial strength and capacity to support low-income countries in the medium to long term, donors agreed to finance IDA's MDRI costs on a "dollar-for-dollar" basis.

27. ***The Non-Concessional Borrowing Policy (NCBP)***. The provision of debt relief and grants increases borrowing space for low-income countries, which presents both opportunities and challenges. If borrowing and lending do not take place at a pace consistent with countries' debt-carrying capacity, it would contribute to the risk of unsustainable debt burdens within a few years. In response to these risks, IDA's NCBP was approved by the Board of Executive Directors in July 2006.³⁴ The NCBP rests on two pillars: enhancing creditor coordination around the Debt Sustainability Framework (DSF) and discouraging non-concessional borrowing through disincentives (also see [Section II B](#)).

28. ***Key policy decisions and discussions at the IDA14 Mid-Term Review***. At the IDA14 Mid-Term Review, IDA's policy framework was further strengthened through discussions on several key topics. These include discussions on:

- The continued use of joint Bank-Fund Debt Sustainability Framework (DSF) as the analytical foundation for IDA's grant eligibility system and the confirmation that IDA's financing terms for IDA-only countries³⁵ would be based on Bank-Fund debt sustainability analyses (DSAs) going forward.
- A framework for assessing the readiness of countries to make productive use of development policy operations (DPO) was developed. There was broad agreement for the continuation of the arrangements stipulated in the IDA14

³¹ For details, see IDA (2007). "The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model."

³² IDA (2006). "IDA's Implementation of the Multilateral Debt Relief Initiative." IDA/R2006-0042, March.

³³ IDA (2006). *Additions to Resources: Financing the Multilateral Debt Relief Initiative*. Resolution No. 211 adopted on April 21, 2006.

³⁴ IDA (2006). "IDA Countries and Non-Concessional Debt: Dealing with the Free-Rider Problem in IDA14 Grant-Recipient and Post-MDRI Countries."

³⁵ Countries with per capita income below IDA operational cut-off and no access to IBRD resources.

report³⁶ and for the Executive Directors to be informed through the annual Medium Term Strategy and Finance paper of the past DPO share for IBRD and IDA and the outlook for future years.

- The role of governance in IDA's Performance-Based Allocation (PBA) system,³⁷ the regional project program pilot,³⁸ progress on the implementation of IDA's Results Measurement System,³⁹ and IDA's work in developing the private sector through the Africa Region MSME program⁴⁰ and the Output-Based Aid projects.⁴¹

29. **Ongoing reforms.** IDA also began an important process of reforming and modernizing its operational policies to improve its operational effectiveness. Key reforms adopted in the past few years include:

- The new policy on Additional Financing, adopted in May 2005, which permits IDA to scale up successful operations with greater speed and efficiency to enhance the results on the ground; and provide additional financing in response to intervening emergencies.
- The new policy on Rapid Response to Crises and Emergencies, adopted in February 2007.
- As part of implementation of the new Rapid Response policy and of IDA's overall effort to improve the effectiveness of its response to fragile states in particular, IDA also adopted organizational and staffing changes relating to its work in fragile states, designed to enhance IDA's local presence and help attract qualified staff to working on fragile states. In addition, the Multilateral Development Banks have agreed on a shared approach to identification of fragile situations and more importantly, to protocols governing how to decide the division of labor at the country level according to comparative advantages of each institution and to explore recruitment methods for local staff that limit distortions to local labor markets.
- IDA has also commenced an important reform of consolidating and modernizing policies governing investment lending, so as to improve effectiveness, efficiency and responsiveness of this key lending instrument. It is aimed at creating a single principles-based umbrella policy for investment lending.

30. **Transparency and accountability in IDA.** Finally, IDA aims to meet the highest standards of transparency in its operations, policies, and publications and recognizes its responsibility of making wide-ranging information available to IDA countries and the

³⁶ If the projected share of DPO commitments by IDA exceeds 30 percent for any future year, it was agreed that Management would seek additional guidance from IDA's Executive Directors.

³⁷ IDA (2006). "IDA's Performance-Based Allocation System: A Review of the Governance Factor."

³⁸ IDA (2006). "IDA14 Mid-Term Review of the IDA Pilot Program for Regional Projects."

³⁹ IDA (2006). "IDA14 Results Measurement System: A Mid-Term Review Report."

⁴⁰ IDA (2006). "A Review of the Joint IDA-IFC Micro, Small and Medium Enterprise Pilot Program for Africa."

⁴¹ IDA (2006). "A Review of the Use of Output-Based Aid Approaches."

international development community. IDA has taken several steps in recent years to increase its openness, transparency and accountability and will continue its leadership in this area by taking additional steps during IDA15, including through:

- *IDA Replenishment discussions:* IDA replenishment discussions continue to be open and transparent, with representatives from borrowing countries taking part in them. In addition, consultations are held with regional stakeholders during the replenishment meetings to solicit their views on challenges confronting IDA countries and their development partners.⁴² Moreover, all policy papers discussed at the replenishment meetings are posted on the external web before they are discussed with the Participants and comments are sought from Civil Society Organizations on the draft Deputies' report.
- *Country Performance Assessments:* To enhance transparency of its resource flows, IDA will continue to publicly disclose the performance assessments on which they are based. Specifically, IDA will continue to post the Country Policy and Institutional Assessment (CPIA) ratings on its external website. In addition, IDA Country Performance Ratings and their components will also continue to be disclosed. During IDA15, IDA will make further efforts to enhance transparency. As part of these efforts, IDA will disclose the Post-Conflict Performance Indicators (PCPI) during IDA15, after review by an external panel. Finally, IDA will make allocations and commitments available to IDA's Executive Directors for information at the end of each fiscal year, so that they can be tracked.
- *Financial flows from extractive industries:* IDA will continue commitments made during the IDA14 replenishment discussions to enhance transparency of revenue flows to governments from extractive industry projects. IDA's financial assistance to a project with significant impact on revenues will continue to be predicated upon the government having in place, or committing to establish, a system for accounting for revenues and their use. The government should also have in place, or commit to establish, a system of independent auditing of such revenue receipts and the public dissemination of results. IDA will continue to monitor the implementation of these systems and take appropriate actions if they are not implemented.
- *Disclosure:* To broaden the understanding of development issues, stimulate debate and create public support, IDA will continue to share information on IDA policies and operations. As such, IDA makes available project, policy, strategy and evaluation documents to the public on its external website.⁴³ The World Bank will continue its efforts to disseminate information and its research, including through strengthening Public Information Centers around the world. Finally, IDA will publicly disclose the results of the independent comprehensive assessment of IDA's controls framework, including internal

⁴² During the second IDA15 meeting held in Maputo in June, Participants had day-long discussions with opinion leaders from African countries.

⁴³ On March 8, 2005, the Board approved a number of revisions to the Bank's policy on the disclosure of information (<http://www1.worldbank.org/operations/disclosure/>) to reaffirm the Bank's commitment to ensuring increased transparency about its activities (also see "World Bank Disclosure Policy: Additional Issues – Follow-up Consolidated Report" (Revised), February 14, 2005, for details).

controls over IDA operations and compliance with its charter and policies following approval of disclosure by the Board of Executive Directors.

31. Against the backdrop for the report provided in this section, the following sections summarize agreements reached during the IDA15 replenishment meetings on a series of operational, policy and financial recommendations to reinforce the effectiveness of IDA. Sections II-IV summarize discussions on the **three special themes** picked by Participants for the IDA15 replenishment discussions. The policy papers on which these sections are based are shown in Annex 4 of this report.

SECTION II. THE ROLE OF IDA IN THE GLOBAL AID ARCHITECTURE

32. Participants examined the role of IDA in an increasingly complex aid architecture as the **first special theme** of the IDA15 replenishment discussions. They reiterated that the challenges associated with donor proliferation and aid fragmentation reinforce the importance of anchoring aid delivery in a country-based development model to make it more effective. Along with these challenges to aid effectiveness, Participants also focused on IDA's role in emerging regional and global issues, which include the spread of HIV/AIDS and other health concerns, and the preservation of global environmental commons. Finally, going beyond debt relief, Participants looked at IDA's role in ensuring that recipient countries adopt prudent debt management strategies.

A. IDA's Role at the Country, Regional and Global Levels

33. On average since the 1970s, around 70 percent of overall ODA is provided through bilateral channels and 30 percent through multilateral channels. This ODA has been provided by a growing number of donors in recent times, with around 56 bilateral donors and more than 230 multilateral organizations, funds and programs.⁴⁴ With so many channels available for donors to provide aid, Participants discussed what makes IDA a distinctive channel for delivering aid in order to achieve results at the country level.

34. **IDA's dual role.** Participants recognized that IDA's role in supporting the country-based model has become even more important in a complex aid architecture. IDA's importance stems from its unique strengths which include its extensive expertise at the country level; integrated multi-sectoral approach to development; ability to draw on global experience; depth of analytical and research capabilities; and its focus on results and quality standards. Participants noted that these strengths enable IDA to tailor its assistance to different country circumstances; help ensure coherence between macroeconomic stability and long-term development goals through cooperation with the IMF; act as a "first mover" to tackle critical development challenges and introduce policy innovations; leverage funds from other sources of aid; and act as a convener when needed. As such, Participants delineated the dual role of IDA in:

- Providing direct financing and knowledge services to client countries in support of their priorities and needs; and

⁴⁴ See IDA (2007). "The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model."

- Providing a platform upon which other forms of aid can operate effectively to achieve results at the country level.

35. ***Selective interventions.*** Despite its key role in offsetting adverse effects of donor proliferation, aid fragmentation, and earmarking and its wide-ranging expertise on key development-related issues, Participants emphasized that IDA should not always play a leading role among donors in every sector or country. They noted that in some situations, depending on country-specific circumstance, other key donors and organizations such as the regional Development Banks or a UN agency would be better suited to provide leadership. In this regard, consistent with the country-based model, Participants pointed out that the sectoral composition of IDA assistance should be decided in the context of CASs. They stressed that the CAS process helps IDA achieve selectivity at the country level, resulting in country-appropriate choice of sectoral interventions and assistance instruments.

36. ***Support to regional and global programs and priorities.*** Participants recognized that IDA's strengths at the country level allow it to also play a pivotal role in addressing regional and global issues. They pointed out that IDA supports the global public goods agenda by mainstreaming and integrating global programs into national development strategies, and by investing directly in global commons at the country level. They noted that, over the years, IDA has played these roles with regard to protection of environmental commons, communicable diseases, reforms in international trade system, production and dissemination of global development knowledge, and the fostering of global financial stability. IDA also draws on its analytical knowledge, ability to design complex regional projects, and capacity to forge consensus to foster regional integration. In recognition of this, there is a strong demand for IDA's regional projects, particularly in Sub-Saharan Africa; this demand is expected to remain strong during IDA15.

37. ***Focus areas going forward.*** To respond effectively to emerging challenges in the global aid architecture, Participants encouraged IDA to intensify its efforts in *four main areas*: (i) strengthening complementarity with vertical approaches to aid delivery; (ii) ensuring appropriate sectoral funding; (iii) addressing the challenge of climate change; and (iv) enhancing alignment and harmonization

38. ***Strengthening complementarity with vertical approaches to aid delivery.*** Participants emphasized the need for balance and complementarity between vertical and horizontal aid. They pointed out that IDA can support the integration of horizontal and vertical aid by providing a 'horizontal platform' upon which the vertical funds can operate effectively. Participants underscored that the long-term effectiveness of aid channeled through vertical programs depends on fiscal sustainability, a supportive policy environment – including policy measures in related sectors – and broader capacity building measures. They stressed that IDA plays an important role in identifying and supporting such policies. Participants noted that, going forward, CASs, sectoral strategies and country analytical work would need to pay more attention to the interplay between vertical funds and the country-based model.

39. ***Ensuring appropriate sectoral funding.*** Participants stressed the importance of taking into account overall – not just IDA – ODA flows going to each sector when deciding on the sectoral composition of assistance in the CAS. Participants underscored the need for sufficient funding for infrastructure, both at the national and the regional

levels to close the infrastructure access and investment gaps. They further noted that, while overall ODA for the social sectors has gone up, a significant part of this increase – particularly for health – is provided through vertical funds. Despite this increase in overall ODA to social sectors, Participants concluded that there is room for enhanced involvement by IDA in these sectors in ways that draw on IDA’s sectoral comparative advantages, and provide additional volumes that reinforce complementarity and balance. In this context, in the health sector, they agreed with the recent World Bank strategy for Health, Nutrition, and Population,⁴⁵ which emphasizes IDA’s core sectoral comparative advantage in health system strengthening.

[Paragraphs 41-45 have not yet been discussed with Participants and will be updated following discussions in Dublin in November 2007. At present, these paragraphs contain management’s views based on the papers posted on IDA’s external website]

40. *Addressing the challenge of climate change.* [Among the emerging global challenges to development, climate change has gained impetus and urgency. The poorest countries and communities are likely to suffer the most from the impact of climate change because of their location, low incomes, and low institutional capacity, as well as their greater reliance on climate-sensitive sectors like agriculture.

41. Adaptation efforts to adjust to ongoing and potential effects of climate change are the main priority in IDA countries. In addition to adaptation, selective mitigation actions – such as expanding access to clean energy (including through regional projects) as well as financing improved land management and reduced deforestation programs – can help support development efforts in IDA countries while reducing global green house gas emissions.

42. IDA is the appropriate platform to ensure that funding for climate action works for development. In particular, IDA’s primary focus on growth and poverty reduction can increase climate resilience in low-income economies by helping them to diversify their economies. IDA can use its strengths in directly supporting countries – its lending and non-lending instruments, its multi-sectoral perspective, and its role as a platform for provision of aid by all donors – to mainstream climate actions in the countries most at risk from climate change. In support of this, IDA will expand its analytical work, mainstream climate actions in country assistance strategies (CASs), integrate adaptation actions in IDA investments, scale up disaster preparedness, develop innovative insurance products such as intermediation of weather derivatives in IDA countries, and leverage carbon finance to increase access to new technology. IDA will also ensure the long term sustainability of development projects by integrating climate change adaptation and risks into project design from the outset.

43. Finally, IDA’s role on climate change will continue to complement IDA’s core poverty reduction mandate. IDA will focus on adaptation investments which reduce the negative impact of climate change and yield net benefits that are competitive with alternative development projects. IDA will collaborate with the UN system, other Multilateral Development Banks (MDBs), bilateral donors, the GEF and other

⁴⁵ World Bank (2007). “*Healthy Development. The World Bank Strategy for Health, Nutrition, and Population Results.*”

specialized funds, and the private sector to maximize the impact of climate change assistance and interventions.]

44. *Enhancing alignment and harmonization.* Participants welcomed IDA's continued focus on alignment and harmonization, as a key element of its efforts to further enhance country level effectiveness. They welcomed IDA's approach to advance harmonization and alignment in its operations which focuses on country-level implementation underpinned by a supportive policy and procedural framework at the institutional level and by corporate oversight through internal review and monitoring. See section III C for details.

45. *The need for a "critical mass" of funding.* To enable IDA to play the platform role expected of it, Participants underscored the need for a "critical mass" of funding and a strong replenishment for IDA, particularly in light of lost reflows under the MDRI. They pointed out that the volume of financial assistance by IDA ultimately enhances its ability to effectively deploy its strengths at the country level.

B. IDA's Role in Ensuring Debt Sustainability

46. *Going beyond debt relief.* Participants recognized IDA's role in improving debt sustainability prospects in client countries, which went beyond the provision of debt relief under the HIPC Initiative and the MDRI. *First*, IDA plays a key role in helping ensure debt sustainability through its support of growth-promoting policies. *Second*, the World Bank, jointly with the IMF, developed and implemented the debt sustainability framework (DSF) for low-income countries and has produced forward-looking debt sustainability analyses (DSAs). *Third*, IDA operationalized the DSF by linking grant eligibility for IDA-only countries to debt distress risk ratings emerging from the DSAs. *Fourth*, IDA implemented the non-concessional borrowing policy (NCBP) to help grant and MDRI-eligible IDA countries avoid a rapid re-accumulation of debt. *Fifth*, the Bank and the IMF continued creditor outreach activities to increase the effectiveness of the DSF. *Finally*, the Bank, together with the IMF, enhanced efforts toward capacity building for stronger debt management in low-income countries.

47. *Continue to strengthen the DSF.* Participants noted the transition of the DSF to a more mature phase of implementation. They welcomed the gradual improvement in the quality and analytical rigor in forward-looking DSAs. Going forward, Participants encouraged IDA to continue strengthening the application of the DSF by: (i) conducting a more systematic analysis of total public debt, including domestic debt; (ii) scrutinizing the underlying macroeconomic assumptions more carefully; (iii) paying more attention to the precautionary features of the DSF, such as retrospective analysis of departures from the assumptions of previous DSAs; (iv) increasing use of customized stress tests; and (v) providing guidance on the appropriate pace of new borrowing in countries with debt-burden indicators well below the debt-burden thresholds.

48. *DSF and IDA grant allocation.* Participants strongly supported the DSF as the basis for the grant-allocation system in IDA15, which is an important element of IDA's toolkit to help address debt sustainability challenges in low-income countries.⁴⁶ They

⁴⁶ Participants agreed on three exceptions to grant eligibility in IDA15. First, Kosovo continues to be eligible for grants in IDA15 as long as its status as part of Serbia under United Nations' Administration remains unchanged. If its status changes, there would be a need to reconsider the relationship between

endorsed continuing the use of country-specific debt distress risk ratings based on the forward-looking DSAs for determining the mix of grants and credits for IDA-only countries.⁴⁷ They also agreed that when translating risk ratings into traffic lights some element of judgment should continue to be incorporated for those instances where changed country circumstances are not reflected in available DSAs for borderline cases. They agreed that this should continue to be subject to a Bank-wide clearance process and carefully monitored.

49. ***DSF outreach.*** Participants noted that the effectiveness of the DSF hinges on its broader use by both creditors and borrowers alike. They strongly supported the joint Bank and IMF outreach activities to encourage other creditors to harmonize their lending practices broadly along the lines suggested by the risk assessments contained in joint Bank-Fund DSAs. They also welcomed the steps taken to make the DSF more accessible, in particular through dedicated DSF webpages on the Bank and IMF external websites.

50. ***The NCBP.*** Participants agreed that IDA's NCBP is an important element of IDA's role in helping prevent grant-and MDRI-eligible countries from rapidly re-accumulating debt, thus improving their debt sustainability prospects. Participants noted that relatively few country cases have been discussed to date under the NCBP largely due to lack of information on new borrowing and the time lag in receiving such information. Nonetheless, they recognized the policy contributed to improve adherence to the borrower's external debt reporting requirements to the Bank's Debt Reporting System. Participants encouraged the continued application of the NCBP, particularly the ongoing creditor outreach. They also urged IDA to continue to follow-up on new reported cases of non-concessional borrowing and to inform the IDA Board of any decision to apply a disincentive mechanism ahead of Board presentation of the next IDA project in the affected country.

51. ***Efforts to strengthen management of debt.*** Participants underlined the importance of debt management, especially in countries benefiting from the MDRI. They welcomed the joint World Bank-IMF efforts towards building capacity for stronger debt management in low-income countries by: (i) conducting training workshops on the DSF for IDA borrowers; (ii) expanding the use of the pilot Debt Management Performance Assessment Tool (DeMPPA) tool that measures and enables the monitoring of government debt management performance over time; and (iii) developing a medium-term debt management strategy toolkit and advisory services for IDA borrowers drawing on DSAs. Participants noted that the most effective means of attaining debt sustainability in low-income countries is through strengthened debt-management capacity and encouraged management to consider accelerating its efforts in this crucial area. Participants underscored that the joint World Bank-IMF efforts in this area will complement ongoing outreach to creditors and help reinforce sustainable lending practices.

the World Bank and post-status Kosovo. Second, regardless of its debt sustainability outlook, Timor Leste will receive the grant element (i.e., 60 percent) of its allocation on grant terms in IDA15 because of its ongoing post-conflict status and constraints to its ability to contract external borrowing. Third, pre-arrears clearance allocations continue to be on grant terms so as to support recovery efforts by post-conflict and re-engaging countries.

⁴⁷ When DSAs are unavailable, a country's grant eligibility will be based on the comparison between its latest available debt burden indicators and the applicable external debt thresholds of the DSF.

SECTION III. IDA'S COUNTRY-LEVEL EFFECTIVENESS

52. *A sharpened focus on results.* Participants examined the role of IDA in ensuring effectiveness at the country level to achieve results as the **second special theme** of the IDA15 discussions. To do so, they looked at three sub-themes: (i) the relationship between IDA's Performance-Based Allocation (PBA) system and country level outcomes; (ii) IDA's role in monitoring and measuring results; and (iii) IDA's role in harmonization and alignment of aid.

A. Development Outcomes and Resource Allocation

53. *PBA system and results.* Participants welcomed the review of IDA's Performance-Based Allocation (PBA) system, which reaffirmed that more concessional IDA resources were being directed to countries where results were being achieved.⁴⁸ They noted four main findings of the review. *First*, countries sustaining good policy and institutional performance over several decades will open up a sizeable advantage in terms of development outcomes over a country with low performance ratings, assuming all other factors remain equal. *Second*, in countries where the quality of policies and institutions undergo a major change, there could be substantial changes in outcomes for decades. For example, in terms of the Human Development Index (HDI), strong improvers of policies and institutional performance advance at twice the average rate while poor performers see static or declining development outcomes. *Third*, African countries as a group face a much more difficult development challenge – controlling for policies and institutions as well as for HIV/AIDS prevalence rates, they progressed on average at half the speed of countries in other regions over the past two decades in terms of HDI (although this slow progress has been reversed somewhat during the past decade). *Fourth*, country policy and institutional performance matters for success of IDA projects. In fact, country performance matters not only during the initial stages of the project but improvements during the life of the project also increase its chances of being successful.

54. *Centrality of the PBA system, with ring-fenced exceptions.* Based on the findings of the review, Participants reiterated the centrality of IDA's PBA system in allocating scarce aid resources because it directs more resources to countries with good policy and institutional performance, which in turn are correlated with better country-and-project level results. They noted that the PBA system makes IDA effective at the country level by: (i) providing a check on excessive aid allocations to poorly-performing countries, and directing resources to better-performing countries; (ii) improving the stability and predictability of aid resource flows where this is most needed – to those countries maintaining a stable or improving performance; and (iii) helping provide a standard through the use of performance ratings, which separate exogenous factors that make development more or less challenging in different countries or regions. In this regard, Participants recognized that selective deviations from the PBA system through capping allocations to some countries, exceptional allocations to post-conflict countries (see [Section IV](#)) and topping-up funds for regional projects take into account exogenous factors affecting long-term development.

⁴⁸ IDA (2007). “*Selectivity and Performance: IDA's Country Assessment and Development Effectiveness.*” The results control for three factors: initial outcome levels, HIV/AIDS and the Africa region.

55. ***Simplification of the PBA formula.*** While participants noted that IDA's PBA system, with its carefully ring-fenced exceptions was working well, they recognized that the formula has become complex over time. The formula has evolved over past replenishments, taking into account new analytical research, changing donor priorities and lessons gathered during implementation. While these modifications over successive replenishment cycles have enhanced the effectiveness of the PBA system in directing funds to countries where results are being achieved, it has had the unintended consequence of becoming complex. To make the system more effective at the country level by enhancing transparency of resource flows, Deputies thus agreed to simplify the formula using a linear transformation (details in [Annex 1](#)). In addition, Deputies also agreed to changes in the portfolio performance ratings to lower volatility in IDA allocations ([Annex 1](#)).

56. ***Enhancing effectiveness in small states.*** Participants recognized the importance of IDA's support to small states with populations of 1.5 million or less given their vulnerability. Focusing on financial assistance provided by IDA to small states, Participants agreed to raise the base allocation of SDR1.1 million per year (or SDR3.3 million per replenishment period) provided to all countries to SDR1.5 million per year (or SDR4.5 million per replenishment period) to benefit the small states where base allocations constitute an important part in overall allocations. This increase keeps IDA's assistance to small states constant in real terms since IDA9. Moreover, Participants agreed to raise the cap on IDA allocations from SDR13.2 to SDR19.8 to adjust for dollar inflation since IDA9. Such an increase would be in line with IDA's performance orientation since small states more likely to reach this cap would be the better performing ones. Micro states, with very small populations and large fixed costs, would also benefit.

57. ***Regional projects.*** Participants reiterated their support for IDA's regional project program as a way to promote regional integration, especially in Sub-Saharan Africa. In recognition of their support, Participants agreed to increase the topping-up funds to support regional projects from SDR200 million to SDR250 million at the IDA14 Mid-Term Review. In view of the continuing strong demand for IDA's regional projects, Participants proposed a further increase of SDR[] per year during the IDA15 period. In addition, while IDA's regional project program has generally worked well so far, Participants recognized that some countries with small IDA allocations, including the small states, were having difficulty participating in regional projects given the limited size of performance-based allocations. This is because the IDA regional project program requires participating countries to contribute a third of the cost of their participation in regional project from their country allocations and the remaining two-thirds is topped up from resources set aside for this purpose. Given that regional integration is particularly important for countries with small allocations to overcome diseconomies of scale, Participants agreed to limit country contributions to regional projects to 20 percent of the annual performance-based allocations. While this ceiling applies to all countries, Participants noted that it is likely to be binding primarily in the case of countries with small allocations. Participants requested management to provide an overall review of the regional program, as well as the experience with the cap, at the IDA15 Mid-Term Review.

B. Achieving and Measuring Results

[This section has not yet been discussed with Participants and will be updated following discussions in Dublin in November 2007. At present, this section contains management's proposals to strengthen the IDA Results Measurement System, based on the paper posted on IDA's external website]

58. ***IDA's focus on results.*** The IDA Results Measurement System (RMS) was launched in 2002 during the IDA13 replenishment and enhanced in IDA14 to strengthen IDA's focus on results. The RMS focuses on two forms of effectiveness: *development or country-level effectiveness* which refers to the achievement of sustainable improvements in outcomes on the ground in IDA countries, and *agency effectiveness* which means the work that organizations in the donor community do to ensure that their business practices conform to the principles of good aid management, have enabling effects on country capacity and institutions, and thus contribute to country-level effectiveness.

59. ***Two-tiered system.*** Following that logic, IDA RMS is a two-tiered system. Tier 1 monitors aggregate progress on 14 selected country outcome indicators grouped into four categories: growth and poverty reduction, public financial management and investment climate, infrastructure, and human development. Tier 2 monitors IDA's contribution to development outcomes using indicators of the quality and effectiveness of IDA programs as well as examples of the outputs that IDA produces in four sectors. While inherent difficulties remain in attributing specific development outcomes to particular actions by IDA, the RMS significantly contributed to strengthening result-orientation of IDA programs and projects and Management will continue its efforts to further improve the management for results during IDA15.

60. ***Tier 1: Monitoring Country Outcomes.*** Tier 1 RMS provides an overview of the economic and social progress of IDA countries during the IDA14 period. To further strengthen usefulness of Tier 1 indicators, management proposes two specific actions by IDA15 MTR: (i) review Tier 1 private sector development indicators in view of the increased emphasis on private sector in IDA15 and closer collaboration between IFC and IDA; and (ii) review the feasibility of developing a Public Expenditure and Financial Accountability (PEFA)-based aggregate indicator to measure the quality of IDA countries' public financial management and to replace the current "number of HIPC benchmarks met" indicator, which is no longer suitable for future assessments.

61. ***Statistical capacity building.*** The IDA RMS has contributed to the awareness of the lack of good quality data needed for informed decision making by the governments as well as the developing partners. In this regard, IDA has a role as the platform for donors and developing countries to work together in the area of statistical capacity building under the framework of PARIS21 as well as the regular Roundtables on Results. Internally, a Bank-wide committee and an external advisory panel on statistical capacity building (established in 2006) led the effort to significantly scale up support for building statistical capacity, which was launched at the Spring Meetings of the World Bank in April 2007. A major achievement of these Bank-wide efforts has been the completion of National Strategies for the Development of Statistics (NSDSs) for the majority of IDA countries.

62. While progress has been made, there remains an urgent need to close the statistical gaps in IDA countries, especially in Sub-Saharan Africa, and forge progress in implementation of the NSDSs. IDA will continue its efforts to: (i) advocate for improvements in the quality and frequency of data collection and reporting in IDA countries; (ii) strengthen links between statistical capacity building and public sector budget and civil service systems/reforms so that incentives for generating and using data are in place; and (iii) where appropriate, to provide resources for investments in national statistical systems. Consequently, in order to strengthen IDA's platform role in building statistical capacity in IDA countries, management proposes to adopt a two-track approach. *First*, in each IDA CAS, require a more comprehensive discussion of weaknesses in country statistical systems and their use in decision making. When relevant, follow up, as appropriate, in DPOs, Investment lending (ILs), Analytical and Advisory Activities (AAA), CAS Progress Report (CASPRs), CAS Completion Report (CASCRs) and Implementation Completion Report (ICRs). *Second*, explore the potential for expanding and redesigning the existing Trust Fund for Statistical Capacity Building (TFSCB) to provide a mechanism to primarily finance and co-finance as well as to supervise investments in statistical capacity and implementation of NSDSs.

63. In addition, management proposes to develop a web-based data standards system to help IDA countries track their progress towards meeting internationally accepted norms of data coverage, frequency, and timeliness. Subscribers to the system can provide information about their data compilation and dissemination practices for posting on the World Bank's Bulletin Board (similar to IMF's Dissemination Standards Bulletin Board), allowing monitoring of the quality of development statistics. Management also intends to intensify its efforts with donors and partners to identify 'lead donors' for work in selected priority countries and accelerate efforts to develop a sector wide approach to building statistical capacity in these priority countries.

64. ***Tier 2: Monitoring IDA's Contribution to Country Outcomes.*** The second tier of the RMS monitors IDA's contribution to development effectiveness across three levels of the Bank's work - program, project, and aggregate outputs – while acknowledging that outcomes at the country level cannot be attributed to IDA alone.

65. The implementation of the RMS during IDA14 has contributed to positive shifts in the Bank's internal "results culture." To ensure greater responsiveness to the IDA RMS, a Results Steering Group was formed to foster greater attention to managing for results throughout the Bank. IDA is implementing training programs in developing results frameworks and using them systematically during project supervision and at completion to report on outcomes. In addition, revised ICR guidelines have been issued to help with more specific measurement of project achievements.

66. Management took several steps in support of the commitments made during the IDA14 Mid-Term Review, and there has been progress in Tier 2 indicators since then. In particular, Results-based Country Assistance Strategies (RBCASs) have been mainstreamed across all client groups; quality at entry remains high as evidenced by an increased percentage of projects with information on baselines, well defined Result Frameworks and institutional arrangements for project monitoring and evaluation (M&E); outcomes as measured by the Independent Evaluation Group (IEG) continue to remain high, despite the Bank's increasing lending commitments.

67. Despite the progress, some areas of weakness remain, especially in IDA's ability to assess key aspects of IDA contribution to country outcomes as well as to track development outcomes. A results-based CAS, which links IDA programs and projects to country priorities and systems, is one of the key instruments for IDA to ensure and monitor its contribution to country outcomes. Moving the frontier further from monitoring the number of RBCASs to monitoring their quality, management proposes two actions: (i) to monitor CASCR self-ratings and their independent validation by IEG; and (ii) to enhance the quality of CAS Results Frameworks by strengthening the emphasis on results in the corporate review process.

68. With respect to the IDA portfolio, management proposes introducing additional measures to improve the quality of outcome indicators, the availability of baselines for key outcome indicators at entry in IDA projects, and the quality of output and outcome reporting in ICRs for IDA operations. Regarding quality at entry of IDA operations, which is highly correlated with satisfactory project outcomes and serves as a leading indicator of project results, management proposes to track the percentage of operations whose outcome indicators in the project documents cover key aspects of the Project Development Objectives. To better monitor the quality of supervision, management proposes to also track the percentage of projects with adequate baselines for key outcome indicators. To improve the quality of output and outcome reporting in ICRs for IDA operations, management proposes to take two actions. First, in addition to monitoring the two measures agreed at IDA14 replenishment,⁴⁹ management will also track the percentage of ICRs that report on key outputs and outcomes from the results framework. Second, to address weaknesses in reporting on Tier 2 output indicators, management will, based on collaborative efforts between Networks and Regions, develop lists of output indicators for 4-5 sectors by IDA15 MTR to allow a more accurate indicative aggregation of sector-specific outputs.]

C. Progress in Harmonization and Alignment

[This section has not yet been discussed with Participants and will be updated following discussions in Dublin in November 2007. At present, this section contains management's proposals to strengthen the harmonization and alignment, based on the paper posted on IDA's external website]

69. *[IDA's approach to implementation.* IDA's approach to advance harmonization and alignment in its operations focuses on country-level implementation – helping to build capacities and to strengthen ownership, aligning IDA assistance on country priorities, and working under country leadership to pursue harmonization with other donors – underpinned by a supportive policy and procedural framework at the institutional level and by corporate oversight through internal monitoring and reporting. In this regard, IDA made some changes in its operational policies and procedures, including the updating of CAS guidelines requiring that assistance programs be based on national development strategies, and the ongoing simplification of Bank operating processes, which has facilitated, for example, the pooling of funds and joint analytic work, and widening procurement eligibility. Recent guidance on the use of country systems, good practice principles for the application of conditionality, as well as the

⁴⁹ Namely: (a) the share of IDA operations that successfully achieve (or are likely to achieve) their development outcomes, and (b) the percentage of projects with satisfactory ICR quality.

governance and anti-corruption strategy, will also provide clearer direction to assist staff in harmonization and alignment efforts. Furthermore, IDA has some ongoing work on improving staff and management incentives and capacity to implement aid-effectiveness actions at the country level.

70. **IDA's contribution.** IDA's contribution to the implementation of the Paris Declaration on Aid Effectiveness can be seen in the newly available data from the 2006 Paris Declaration baseline survey as well as a range of other surveys and assessments. Its role in promoting harmonization and alignment is important not only in its own activities, but for the development community as well. IDA made progress in critical areas such as having a large proportion of its disbursements reflected in governments' budget estimates and the significantly increased use of program-based approaches for its disbursements. IDA also supported countries in building a strong platform for the implementation of the Paris Declaration through its work on strengthening countries' financial, safeguard and results systems; its analytical work which helps to inform the development of countries' poverty reduction strategies; and helping countries to establish appropriate frameworks which allow the use of program-based approaches by all development partners.

71. **Areas for improvement.** Going forward, IDA will focus on areas where further progress would likely result in enhancing country-level effectiveness. These include paying closer attention to staff and management incentives, developing country capacity by decreasing reliance on parallel PIUs, and providing an analytical framework that can assist IDA's and Region's consideration of decentralization through laying out options to better calibrate and target expertise needed and define cost effectiveness in light of budget implications.

72. To further strengthen IDA's role harmonization and alignment, IDA will focus on "second generation" reforms, including

- issuing guidelines on PIUs that will require that integration of PIUs into government structures become the default option for IDA projects, with any proposal to establish a new parallel PIU (for example, due to governance concerns) being clearly justified in project documentation;
- reviewing IDA's performance on predictability of disbursements and discussing any needed actions at IDA15 Mid-Term Review;
- providing Regional management support to and monitoring of IDA's actions at the country level to assist in the preparation and implementation of country-led strategies or plans for harmonization and alignment;
- updating CAS good practice guidance to recognize and encourage joint or collaborative CAS preparation, provide guidance on how best to manage this work and encourage such collaborative work when it makes sense from a country perspective;
- leading an effort to gain agreement with other lenders and donors on harmonized requirements in a range of legal documentation;

- stepping up efforts to help countries upgrade their procurement policies and procedures and ensure their efficient implementation, working in collaboration with other donors;
- facilitating and supporting partner countries' efforts to incorporate nontraditional partners—vertical funds, non-DAC donors, and the private sector—in harmonization and alignment actions;
- carrying out – jointly with other interested donors – a survey of selected IDA country programs and the total amounts of co-financing and of pooled and parallel financing leveraged through IDA's budgetary support and investment lending.

73. **Decentralization.** IDA has achieved significant decentralization of staff and this has entailed budgetary as well as other trade-offs. The Africa region, in implementing its action plan, is pursuing an ambitious decentralization of internationally recruited staff to country offices. The region will continue to progressively move sector leaders to the field, and it aims to have most task team leaders working on two or three countries, and based in one of them. To assist IDA's and Region's consideration of decentralization, management is currently analyzing different models of staff location and developing an approach to measure cost effectiveness and better define it in the light of budget implications.]

SECTION IV. IDA'S EFFECTIVENESS IN FRAGILE STATES

74. **Fragile states pose special challenges for IDA.** As a **third special theme**,⁵⁰ Participants noted that fragile states represent a critical challenge for IDA: while they are home to less than 19 percent of the total population in IDA-eligible countries, they account for over one third of the extreme poor, almost two fifths of all child deaths and one third of 12 year olds who did not complete primary school. Participants noted that these poor development outcomes in fragile states were a result of several challenges: weak institutions, poor governance, unstable political environments, and in some cases, ongoing violence or lingering effects of past severe conflicts. Participants recognized that these challenges made development assistance to fragile states inherently risky – weak institutions undermine effectiveness of aid and high vulnerability to renewed conflict increases the risks that any incipient gains made could be reversed. Engaging in fragile states can also create reputational and fiduciary risks for IDA.

75. **But IDA should strengthen its engagement.** Despite these challenges, Participants reiterated the need for IDA to strengthen its engagement in fragile states, where there are high concentrations of extreme poverty and low levels of social development. They noted that even if the probability of donor interventions (in the form of projects and programs) being successful is relatively low, improvements in social indicators accruing from successful interventions could be high because these countries start from very low levels of development. Participants also maintained that disengagement and failure to address the problems of fragile states imposes costs on the neighboring countries: a strong response from IDA is hence in the interests of all its members, as progress in these

⁵⁰ IDA (2007). "Operational Approaches and Financing in Fragile States."

environments will produce positive spillover effects and help protect the development gains made in the stronger performers.

A. Strategy, Instruments and Operational Response in Supporting Fragile States

76. ***IDA's key objectives in fragile states.*** Participants encouraged IDA to continue adapting its core strengths in support of the key objectives of state building and peace building in fragile states. While recognizing that *state building* can be complex, Participants noted that IDA has a crucial role to play by: supporting government processes to develop budget priorities; leading analytical work on economic and governance issues; financing policy reform; financing infrastructure and basic service delivery through the state; supporting transparent public-private partnerships; and building public financial management systems, including for the management of natural resource revenues. Participants also noted that IDA has an important supporting role in furthering *peace-building* goals in fragile states through its core competencies in economic and development issues, by adapting economic and social programs to support peace-building goals and by participating in integrated programs with other partners.

77. ***Differentiating approaches based on country circumstances.*** Participants recognized that fragile states are heterogeneous and supported the differentiation of IDA's role, strategies and operational approaches depending on the direction and pace of governance change. Participants supported a larger role for IDA in *post-conflict/peace-building transition or in gradually improving scenarios*, where there is a reasonable level of government capacity to act as a conduit for development finance to help it implement pro-poor policies and adhere to basic governance standards. In *prolonged crisis scenarios*, where government capacity is non-existent or severely constrained, Participants agreed that IDA should focus on maintaining operational readiness to scale up engagement when feasible. In a *deteriorating governance/rising conflict risk scenarios*, Participants recognized IDA's comparative advantage was in focusing on economic dialogue, transparency and ring-fenced social protection programs, working together wherever possible with other development partners to decrease conflict risk.

78. ***Strengthening research and results monitoring.*** Participants urged IDA to continue and strengthen its research and operational good practice work on fragile states. Participants noted a particular need to focus attention on strengthening operational approaches to situations of deteriorating governance and rising conflict risk and ensuring operational readiness in situations of prolonged crisis, where international approaches are less well developed than post-conflict situations. Participants urged IDA to continue focusing on results. In this context, Participants welcomed the multi-donor results framework tool developed by the World Bank and other partners to assist national authorities in post-conflict and political transition situations. Participants further urged IDA to work with other donors to develop better indicators for measuring progress on state-building and peace building activities in fragile states.

79. ***Working together better in fragile states.*** Recognizing that support for state-building and peace-building roles requires coordinated action, Participants encouraged IDA to continue its partnership with the UN and other donors. In this regard, they noted that IDA, in response to an IEG evaluation of World Bank's work in fragile states, has increased its participation in shared strategies with other donors to strengthen cooperation at the country level. They also noted IDA has improved collaboration with the UN at

several levels and welcomed the work by the World Bank and the UN on a new partnership agreement in response to crises and emergencies, urging that this reinforce collaboration while ensuring flexibility to adapt to different country environments and borrower needs. In addition, they welcomed the role played by IDA in coordinating joint needs assessments and recovery plans and external financing needs in several countries. Participants also urged IDA to continue working with regional institutions in leading dialogue on conflict prevention and governance. Participants encouraged IDA to continue working with the UN, EC and other bilateral donors at the OECD-DAC to revise the guidance for integrated post-conflict recovery planning, which aims at greater coherence among political, security, development, and humanitarian actors in fragile transitions.

80. ***World Bank's organizational and operational reforms.*** Participants supported the steps taken by the World Bank's Board of Executive Directors to fine tune IDA's organizational, policy and procedural approaches to better respond to the needs of the fragile states, learning from its experience and in close cooperation with other actors. Participants welcomed the new policy on rapid response in crisis and emergencies approved by the Board in February 2007. The Bank will report on progress under the new rapid response policy during FY09. They recognized that there are fiduciary risks involved in working in emergency situations and noted the risk-mitigation measures put in place by the Policy. They encouraged measures to further strengthen operational support and build on lessons learned, together with increased field presence and enhancing human resource systems to attract staff and reward strong performance in these tough environments. Participants particularly stressed the need to look not only at human resource incentives but at the skills and experience of staff working in fragile states. Finally, Participants urged IDA to report on progress on human resources reforms, cooperation with the UN and other actors, implementation of DAC Principles and the adaptation of country assistance strategies to fragile and conflict-affected environments at the IDA15 Mid-Term Review.

B. Financing for Fragile States

81. ***A review of IDA's financing arrangements.*** Participants welcomed a review of IDA's financing arrangements in fragile states. Participants noted that fragile states face very different challenges and governance environments and require different financing approaches. From a financing perspective, Participants noted that fragile states fall into four categories: (i) countries receiving allocations based on IDA's PBA system; (ii) countries receiving exceptional post-conflict allocations; (iii) countries receiving exceptional allocations upon re-engaging with IDA after a prolonged period of inactivity but which did not qualify for post-conflict assistance; and (iv) countries that do not receive IDA financing because they are in arrears on IDA repayments.

82. ***PBA system and fragile states.*** Participants recognized that the financing for fragile states based on the PBA system, with carefully ring-fenced exceptions for post-conflict and re-engaging countries, was working well. The PBA system calibrates IDA resources to many fragile states in line with their governance and policy performance. Participants noted while *volumes* of resources were set by the PBA system, the *terms* of IDA's assistance to fragile states to address their special needs were made possible by changes introduced during the recent replenishment rounds. In particular, the IDA14 grants framework directs grants to debt-distressed countries, many of which are fragile

states. In addition, many fragile states are also expected to receive debt relief from IDA through the HIPC Initiative and MDRI.

83. ***Post-conflict countries.*** Participants supported lengthening the duration of exceptional assistance to post-conflict countries from 7 to 10 years by doubling the phase-out period from 3 to 6 years. They maintained that these exceptional allocations during the phase-out period should continue to be calibrated on a case-by-case basis, based on country performance as measured by the Post-Conflict Performance Indicators (PCPIs). In this context, Participants welcomed the proposed public disclosure of PCPIs during the IDA15 period, after review by an external panel. Participants also supported linking the share of post-conflict allocations in overall allocations to changes in the overall replenishment size. Further, Participants agreed that some post-conflict countries could be graduated from receiving exceptional allocations earlier than 10 years depending on country circumstances. Participants agreed to the retention of additional flexibility in deciding post-conflict allocations in the first year as agreed during the IDA13 replenishment discussions.

84. ***Countries re-engaging with IDA after a prolonged period of inactivity.*** Participants agreed to the lengthening of duration of exceptional allocations to countries re-engaging with IDA after a prolonged period of inactivity from 3 to 5 years, including three years of phase-out to PBA allocations. They noted that if country performance does not improve, then countries should be “graduated” from receiving exceptional allocations before the end of 5 years. They agreed that the level of resources made available would be around half of what would be provided under the post-conflict allocation system.

85. [These financing arrangements for post-conflict and re-engaging countries are contingent upon receiving the proposed increase in IDA15 commitment authority, without which implementation of these changes would take away resources from other countries in the PBA pool.]

86. Management agreed to present an assessment of the lengthened phase-out for post-conflict and re-engagement allocations at the IDA15 Mid-Term Review.

C. A Systematic Approach to Arrears Clearance

87. ***Timely and adequate support from IDA.*** Participants noted that seven fragile states have arrears to IBRD and/or IDA, and that the arrears are large relative to country capacity to pay as well as to other available sources of financing. Once each country is ready for re-engagement, the arrears constitute a significant barrier to access to timely and adequate support for recovery from IDA, as well as to debt relief available under the HIPC Initiative and MDRI. Participants therefore endorsed management’s proposal for a systematic approach to help finance the clearance of these arrears using IDA resources.⁵¹

88. ***Coverage and conditions for support.*** The approach would cover IDA countries with arrears to IBRD and/or IDA as of December 31st, 2006 and grandfathered for eligibility under the HIPC Initiative but that have yet to reach the HIPC decision point.⁵²

⁵¹ See IDA (June 2007). “*Further Elaboration of a Systematic Approach to Arrears Clearance,*”

⁵² Two countries, Myanmar and Zimbabwe, would need to be grandfathered into HIPC before they could be eligible for exceptional arrears clearance support.

Eligible countries would only be able to receive exceptional arrears clearance support after meeting the Bank's requirements for re-engagement, as well as conditions for each operation to finance arrears clearance. Such conditions would include a medium-term growth-oriented reform program, satisfactory performance under an IMF program, and a financing plan that provides for the full clearance of arrears to the Bank and for the normalization of relations with other multilateral institutions where there are also arrears to those institutions. Participants noted that while there are moral hazards and other risks associated with exceptional support for arrears clearance, these risks are reduced by recent IDA policies relating to grants, debt relief and non-concessional borrowing.

89. **Tailored approach.** Participants also noted that while all of the seven countries in arrears are currently classified as fragile states their economic and financial capacity, and level of indebtedness, vary widely. These factors would affect the design of arrears clearance packages, including with respect to the share of arrears that each country would be expected to finance from its own resources. This share, and thus also the level of support required from IDA, would be determined through a detailed assessment prepared by Bank staff. Lastly, Participants noted that each arrears clearance operation, and thus also each exceptional arrears clearance allocation, would be subject to the approval of the Executive Directors.

SECTION V. MANAGING IDA'S FINANCIAL RESOURCES

[This section has not yet been discussed with Deputies and will be updated following the discussions. Therefore, changes will be made in this section following discussions held in Dublin and Berlin.]

90. [Deputies recognized that the IDA15 replenishment period (FY09-11) is a critical time for the donor community to increase assistance to developing countries to help them in their efforts to reach the MDGs by 2015. Towards this end, they endorsed a total replenishment of SDR [] billion during the IDA15 period, which would comprise the IDA15 commitment authority envelope.

A. Commitment Authority

91. **Sources of commitment authority.** IDA's commitment authority is backed by donor contributions, internal resources of IDA, by net income transfers from IBRD and IFC, and by other resources, as available. Donor contributions supporting IDA15 commitment authority are provided as part of the IDA15 replenishment itself as well as under the MDRI replenishment. The volume for each source of funding is as follows:

- Deputies endorsed SDR [] billion of total **donor contributions for the IDA15 replenishment.** IDA15 donor contributions comprise: (i) regular contributions of SDR [] billion, net of the structural financing gap;⁵³ (ii) contributions to cover IDA's debt relief costs under the HIPC Initiative during the IDA15 commitment period (FY09-11) of SDR [] billion; and (iii) contributions to finance arrears clearance operations of SDR [] billion.

⁵³ Including the structural financing gap, the total target volume of regular donor contributions is SDR [] billion.

- Deputies recognized the need to provide additional **donor contributions for the MDRI replenishment** of SDR [] billion, so as to cover IDA's debt relief costs due to the MDRI during the IDA15 disbursement period (FY09-19).
- Deputies acknowledged proposed commitments against IDA's **internal resources** in the amount of SDR [] billion, subject to approval by IDA's Executive Directors. Internal resources include credit repayments received from both current and past IDA borrowers, as well as resources drawn from IDA's liquid assets including investment income.
- Replenishment funding would also comprise expected **transfers** from IBRD net income in the amount of SDR [1.3] billion and from IFC net income in the amount of SDR [1.3] billion, in each case subject to availability of net income and annual approvals by the Boards.

92. *Donor contributions* of SDR [] billion continue to be the primary source of IDA's commitment authority, accounting for more than [] percent of the total resources supporting IDA15. Donor commitments for the IDA15 replenishment (subscriptions and contributions) of SDR [] billion as shown in [Table 1 of Annex 3](#) reflect the agreement reached among donors. Donor contributions for the MDRI replenishment of SDR [] billion are governed by the MDRI Resolution.⁵⁴ Under the terms of the MDRI Resolution, IDA has undertaken to reflect changes in actual and estimated costs of MDRI debt forgiveness by making adjustments to donor contributions to the MDRI every three years normally in conjunction with regular replenishments.⁵⁵ Tables 2(b) and 3 to the draft IDA15 resolution therefore reflect updated cost estimates for the MDRI as of September 30, 2007. Corresponding adjustments to reflect these updated amounts are also required in the payment schedule attached to each member's Instrument of Commitment for its MDRI subscription and contribution.⁵⁶ [Section VI](#) provides further information regarding donors' contributions to finance debt relief costs under the HIPC Initiative and the MDRI and for arrears clearance operations.

- *Prospective new members and donors.* Participants welcomed Cyprus, Egypt, Estonia, Latvia and Lithuania to the IDA15 discussions as new IDA members and new donors.

Participants noted that, in their view, there are still a number of countries that have the economic capability to contribute to IDA but have not yet done so. Participants acknowledged management's efforts to reach out to these countries and agreed that efforts should continue to encourage them to become IDA donors.

- *Burden-sharing.* Participants acknowledged the dual challenge of securing an adequate replenishment size while achieving an acceptable burden-sharing framework. Deputies noted that adjusted Gross National Income (GNI) remains a useful point of reference for IDA shares, but that it cannot be followed rigidly as the basis for determining replenishment shares. In view of substantial exchange

⁵⁴ "Additions to IDA's Resources: Financing the Multilateral Debt Relief Initiative": IDA Resolution No. 211 adopted by IDA's Board of Governors on April 21, 2006 (the "MDRI Resolution").

⁵⁵ See paragraphs 1(f), 2(c) and 2(d) of the MDRI Resolution.

⁵⁶ Members will be notified of the necessary amendments to their MDRI Instruments of Commitment and the payment schedule following adoption of the IDA15 Resolution by the Board of Governors.

rate movements in recent months and years, Deputies agreed that flexibility was required on the part of each donor for a successful outcome of the replenishment.

- *Pro rata provision.* Donor contributions become available in three equal tranches to the extent they are unqualified. It is the practice of some donors to deposit qualified instruments of commitment to IDA because payments are subject to annual legislative approvals. In view of this, since IDA7, donors under the pro rata provision, have restricted the use of part of their contributions in the event of any shortfall from donors whose contributions exceed 20 percent of the total. This provision did not apply in IDA14 since no single donor contribution accounted for 20 percent of total donor contributions. Deputies agreed to discontinue the use of the pro rata provision for IDA15 to ensure predictability of resources and protect the interests of IDA recipients.
- *Additional contributions.* Donors may, at any time, make additional contributions to the amounts shown in [Table 1 of Annex 3](#). Such contributions could reduce the financing gap and result in a corresponding increase in IDA's available commitment authority.
- *Contingent contributions.* Donors can link additional contributions to agreed actions and make such contributions contingent upon determination by IDA's Executive Directors that the measures specified have been taken [Insert any specific condition if any donor wishes to make a contingent contribution].
- *Voting rights.* Participants agreed that the existing IDA voting rights system continue for the IDA15 period.

93. **Internal Resources.** To increase IDA's commitment authority, Participants endorsed IDA's existing practice of using internal resources to complement donor resources. They supported the analysis presented during the replenishment discussions demonstrating that IDA would have an adequate level of internal resources to continue to support future replenishments. Participants noted that credit repayments constitute an important component of internal resources and recognized the impact of the MDRI, HIPC Initiative and IDA grants on credit reflows. They confirmed their commitment to compensate IDA for these forgone reflows on a "dollar-for-dollar" basis. Participants reviewed the structure of IDA's liquid resources and discussed management's projections regarding IDA's long-term financial capacity.

94. **IBRD and IFC Contributions.** Participants welcomed the undertaking for a planned record contribution of [\$3.5] billion from internal World Bank Group resources in support of an ambitious IDA15 replenishment. Participants noted that the ability of IDA to assist low-income countries over the next three years depends heavily on the agreed IDA15 funding package and that a critical component of this funding package was the continued ability of IBRD and IFC to contribute financial resources to IDA. Such transfers are approved annually by IBRD's Board of Governors and IFC's Board of Directors.⁵⁷ Participants emphasized the importance they attach to continued and substantial transfers from IBRD and IFC net income to IDA. They urged IBRD and IFC

⁵⁷ IFC's Board of Governors notes with approval the designation of retained earnings by IFC's Board of Directors.

to maintain their financial support to IDA15, consistent with IBRD's and IFC's financial priorities.

B. Replenishment Effectiveness

95. *Replenishment Effectiveness.* Deputies recommended that financing for IDA15 be made subject to an effectiveness condition similar to that used under previous IDA replenishments. The purpose of such a condition is to ensure that most donor financing, including contributions by major donors, is in place on time. Deputies recommended that IDA15 becomes effective when Instruments or Qualified Instruments of Commitment accounting for [] percent of the total donor contributions have been received by IDA. They recommended a target effectiveness date for the replenishment of December 15, 2008.

96. Deputies noted the expected limited availability of commitment authority for making grants at the start of the IDA15 period, before the replenishment becomes effective. Principal reflows derived from credits extended in replenishments prior to IDA11 cannot be used for the financing of grants as the associated replenishment resolutions did not authorize the making of grants. IDA would therefore need to rely on donor contributions to back new grant commitments during IDA15. Since many IDA countries receive their entire assistance in the form of grants, the timely availability of donor contributions to support commitment authority for grants is of particular concern.

97. In response to this concern, Deputies noted the importance of providing their Instruments of Commitment as early as possible, so as to advance the date of reaching the threshold for replenishment effectiveness.⁵⁸ Deputies also noted two options to address the constraint associated with the provision of grants, both of which were used with success in IDA14: (i) the continued use of the advance contribution scheme, and (ii) the use of conditional grants and convertible credits.

- *Advance Contribution Scheme.* In past IDA replenishments, some donors agreed that a share of their contributions could be used before the replenishment becomes effective. Under this Advance Contribution Scheme (ACS), one-third of the amount specified in a contributing member's Instrument of Commitment would be released for commitment authority purposes, provided that at least a defined minimum threshold volume of total donor Instruments of Commitment has been received. In view of the limited availability of commitment authority for grants during the first six months of IDA15, Deputies agreed to eliminate the threshold for the ACS, following the same procedure as in IDA14.

Consequently, unless stated otherwise by the donor, one-third of that donor's contributions will be released for commitment immediately upon receipt of the donor's Instrument of Commitment by IDA, or else upon effectiveness of the replenishment. The second and third tranches of donor contributions will be released at the beginning of each fiscal year, on July 1, 2009 and July 1, 2010, respectively.

⁵⁸ Some donors' budgetary and legislative timetables permit them to make their contributions at an early stage in the fiscal year.

- *Conditional grants and convertible credits.* Deputies noted two other options to address constraints on commitment authority: (a) using conditional grants; and (b) converting credits to grants. Grants during the first six months of IDA15 could be made conditional upon availability of sufficient commitment authority from donor contributions. Alternatively, IDA15 grant operations could be approved as credits in the first six months of IDA15 with an automatic conversion to grant terms as and when sufficient donor resources become available. Upon conversion, any IDA service and commitment charges paid under the credit would be refunded to the borrower. To the extent required, management would adopt a combination of conditional grants and conversion of credits into grants, as described above, following the same procedures that were used successfully in IDA14.

C. Contribution Procedures

98. *Payments.* Deputies recommended that the contribution and payment arrangements for donors continue as in previous replenishments. Donors will provide their contributions in the form of cash or notes in three equal annual installments. The first installment will be due 31 days after the replenishment becomes effective, which is expected by December 15, 2008, except for advance contributions which will be paid as specified by IDA. The second installment will be paid no later than January 15, 2010, and the third installment no later than January 31, 2011. IDA may agree to postponement of any payment under the terms of the IDA15 Resolution.

99. Deputies recommended that subscription and payment arrangements for non-donors continue as in previous replenishments. Subscription payments of non-contributing members will be fully paid in one installment and in national currency, either in cash or notes.

100. *Encashment.* Donor contributions will be encashed on an approximately *pro rata* basis among donors following the agreed regular encashment schedule ([Attachment II of the IDA15 Resolution](#)). Donors may, with the agreement of management, adjust their encashments to reflect their legal and budgetary requirements. Deputies agreed to indicate any special preferences in this regard to management when donors deposit their Instruments of Commitment. Deputies recognized that the timing of encashments affects IDA's resource base. They agreed that in exceptional cases, should unavoidable delays occur, IDA's encashment requests to the affected donor are expected to be adjusted to take into account any past payment delays by that donor and any related lost income to IDA. IDA may also agree with any member on a revised encashment schedule that yields at least an equivalent value to IDA.

101. *Valuation of contributions.* Deputies agreed to denominate their contributions in their respective national currencies if freely convertible, in SDRs, or, with the approval of IDA, in any convertible currency of another member country. They also agreed to determine the currency of payment for each donor contribution as of the date of conclusion of the IDA15 replenishment discussions. For the purpose of establishing the equivalence of value among different currencies and the SDR, donors agreed to use the average daily exchange rate for the period April 1, 2007, through September 30, 2007. To help maintain the value of contributions from donors with high inflation rates,

contributions from donors with domestic annual inflation of 10 percent or higher in 2004-2006 will be denominated in SDRs.⁵⁹

102. **IDA14 funds carried into IDA15 replenishment.** Deputies agreed that the IDA14 funds carried over into the IDA15 will be administered under the terms of the IDA14 replenishment with respect to financial management matters such as payment, encashment, and allocation of voting rights. For ongoing operational matters, such as commitment authority, IDA15 terms, conditions and procedures will apply.

103. **Reporting of contributions.** Participants requested management to report regularly to the Executive Directors on the status of each donor's commitment and actual contributions to IDA and to include this information in the Annual Report of the World Bank and other publications as appropriate.]

SECTION VI. FINANCING OF DEBT RELIEF AND ARREARS CLEARANCE

104. Participants reiterated their strong support for the HIPC Initiative and MDRI which provide debt relief to the world's poorest and most indebted countries. They noted the progress that has been made in the implementation of the enhanced HIPC Initiative since its adoption at the beginning of IDA12. They also noted IDA's implementation of the MDRI beginning FY07, the second year of the IDA14 period, and reviewed updated cost estimates for IDA's lost credit reflows and the status of donor financing for the MDRI. In addition, Deputies discussed the financing arrangements for exceptional IDA allocations for arrears clearance beginning in IDA15 and supported expanding the scope of the HIPC Trust Fund (which will be renamed as the Debt Relief Trust Fund, after approval of such amendments by the Executive Directors) to accept resources from donors and IBRD net income transfers for this purpose.

A. The HIPC Initiative

105. **Impact on IDA finances.** Participants reviewed the impact of HIPC debt relief on IDA's finances. They reaffirmed the basic HIPC principle that debt relief should not reduce IDA's capacity to support poverty reduction and development and should be additional to other IDA assistance. They noted that current resources available to finance IDA's debt relief costs will be fully utilized by the end of calendar year 2008, i.e., early in the IDA15 period. IDA will therefore need additional financing of about SDR [] billion during the IDA15 period to finance forgone credit reflows due to the HIPC Initiative.

106. **Two mechanisms.** Deputies supported the continued use of the two mechanisms introduced in IDA14 for donors' HIPC-related contributions: (a) contributing to IDA directly; or (b) channeling contributions through the Debt Relief Trust Fund. The HIPC-related contributions will be recorded separately from regular IDA contributions in order to ensure that HIPC debt relief is additional to other IDA assistance. As in IDA14, each donor's share will be determined based on the agreed burden-sharing and shown as a separate column in [Table 1 of Annex 3](#) of the IDA15 Resolution.

⁵⁹ Inflation is measured by the rate of change of the national Consumer Price Index (CPI), or the GDP deflator in case of donor countries for which the CPI is not available.

107. Donor funds provided directly to IDA will be treated in the same manner as regular contributions, becoming part of IDA's general resources. Donors can choose to submit one Instrument of Commitment that would include the amount of the HIPC-related contribution, or separate Instruments of Commitment for regular IDA contributions and HIPC-related contributions. Donors can pay their HIPC contributions in cash or promissory notes. Since these additional contributions will reimburse IDA for its forgone reflows during FY09-11, they will be drawn down over this three-year period. Donors will receive voting rights for contributions upon payment to IDA15.

108. Donors can also make HIPC contributions directly to the Debt Relief Trust Fund. Donors would sign contribution agreements with IDA, as administrator of the Debt Relief Trust Fund, specifying the contribution amount and payment modalities – in cash or in promissory notes to be drawn down over a three-year period. Donors will deposit their contributions in the World Bank component of the Debt Relief Trust Fund, and contributions will be transferred to IDA to reimburse IDA for its forgone credit reflows. Since these funds become part of IDA's general resources at the time of transfer from the Debt Relief Trust Fund to IDA's cash accounts, donors will receive additional voting rights in IDA following such transfers. Management will report periodically to donors on the status of their contributions to the Debt Relief Trust Fund.

B. The MDRI

109. ***Replacement of lost credit reflows.*** In the spring of 2006, donors and shareholders approved IDA's participation in the MDRI, which provides 100 percent cancellation of eligible debt owed to IDA by countries reaching the HIPC completion point. Starting on July 1, 2006 and over the next four decades of MDRI implementation, IDA cancelled an estimated amount of SDR [] billion (equivalent to USD [] billion) of credit reflows from eligible HIPC countries. Under the financing package agreed for the MDRI, donors have committed to compensate IDA's MDRI costs on a 'dollar-for-dollar' basis, over the duration of the cancelled credits. Donors committed to provide such compensation in addition to a baseline set at the level of their IDA14 contributions, in constant real SDR terms.⁶⁰ Participants reiterated the need for full replacement of the lost credit reflows due to the MDRI so as to ensure that the debt relief granted by IDA will be additional for recipient countries, providing further resources for their development efforts.

110. ***MDRI replenishment.*** Donor contributions for IDA's MDRI costs are recorded under a separate replenishment and added to IDA's general resources, following established IDA procedures. To preserve IDA's advance commitment capacity – under which IDA uses its stream of available future credit reflows to back future disbursements on approved credits and grants – Deputies acknowledged the need to provide unqualified, firm MDRI financing commitments over a rolling decade, thereby matching the

⁶⁰ Under the MDRI, donors agreed that the "contribution baseline would be indicative in nature and intended to demonstrate transparently the delivery of donors. The aggregate level of successive IDA replenishments will ultimately depend on each member's sovereign decision on its future contributions to regular IDA replenishments". Moreover, donors "affirmed their unanimous commitment to provide MDRI financing additional to donors' regular support to IDA in real terms with IDA14 as the baseline, and they emphasized that this commitment should be sustained over the entire 40-year period of IDA's foregone credit reflows." See paragraphs 39 and 42 of "Additions to Resources: Financing the Multilateral Debt Relief Initiative," approved by IDA's Executive Directors on March 28, 2006.

disbursement period of each future IDA replenishment. To back IDA15 commitment authority, Participants discussed the need for mobilizing additional, unqualified donor financing commitments over the disbursement period of IDA15 (i.e., FY09-19), amounting to SDR [] billion based on current estimates. This amount consists of: (a) firm financing for the period of FY09-16, estimated at SDR [] billion and concerns only those donors that have not yet provided such commitment during IDA14; and (b) firm financing for the period of FY17-19 so as to cover the outer years for the IDA15 disbursement period, estimated at SDR [] billion. The latter amount is sought from all donors, except those that have already financed their share of the 40-year total MDRI costs.

111. Participants noted that the value of IDA's lost credit reflows under the MDRI will continue to fluctuate over the 40-year period, and that the MDRI financing arrangements include a mechanism to adjust the compensatory amounts payable by donors in conjunction with every regular IDA replenishment. Participants reviewed the updated cost estimates for the MDRI, as of September 30, 2007, which provide the basis for updates to the MDRI cost tables and donor payment schedule. The tables attached to the draft IDA15 resolution therefore reflect the updated cost estimates.⁶¹ Corresponding adjustments to reflect these updated amounts are also required in the payment schedule attached to each member's Instrument of Commitment for its MDRI subscription and contribution. Donors noted that, in the Instrument of Commitment, each member had agreed to amend its Instrument of Commitment to reflect any such adjustment.

112. **Monitoring donor contributions.** Participants reaffirmed that there should be continued monitoring of donor contributions to the MDRI. For transparency, donor contributions to the MDRI will continue to be recorded separately from regular IDA replenishment contributions, as additional to donors' regular financial support to IDA. They noted that donor contributions to the MDRI have been reported in IDA's fiscal year 2007 financial statements and will continue to be reported regularly in IDA's future financial statements during the IDA15 period. Such reporting will contain information on the volume of debt relief delivered by IDA under the MDRI and the amount of compensatory donor resources received.

C. Financing of Arrears Clearance Operations

113. **Burden shares.** The cost of providing exceptional support for arrears clearance to countries eligible per the criteria set out in [Section III.C](#) and that could be expected to clear arrears before the end of the IDA15 period is estimated to be SDR [] billion. Donors agreed that this amount is included as part of IDA's overall new financing commitments during IDA15. Donors supported the use of their HIPC (i.e. IDA13) burden shares to finance arrears clearance operations in IDA15; this would be appropriate since exceptional support for arrears clearance frontloads HIPC debt relief, which IDA donors have committed to finance on an ongoing basis. Some donors expressed support to scale up their HIPC burden shares to close the structural gap for financing arrears clearance operations in IDA15.

114. **Set aside of resources.** Participants agreed that the resources provided to finance arrears clearance operations would be treated as a set-aside. Hence any unused resources

⁶¹ See Tables [] and [] in Attachment []

during the IDA15 period would be carried over into IDA16, and used to finance arrears clearance operations when the eligible countries become ready to re-engage. They also agreed that if the resources requested for IDA15 would be insufficient to cover the full cost of the exceptional support, the shortfall would be made up in IDA16, in the same manner that HIPC costs are updated at each replenishment based on use and availability of resources.

115. **Debt Relief Trust Fund.** Participants noted that the widening of the scope of the HIPC Debt Initiative Trust Fund (Debt Relief Trust Fund)⁶² to allow it to receive donor contributions for arrears clearance provided an additional avenue for donors to finance the cost associated with arrears clearance. They also noted that any donor making bilateral contributions towards coverage of arrears clearance costs into the arrears clearance window of the Debt Relief Trust Fund, ahead of IDA15, will have the option of having these contributions credited against the donor's burden-shared contributions for arrears clearance financing during IDA15. Similarly, in IDA15, donors have the option of contributing directly to IDA or channeling their contribution for arrears clearance through the Debt Relief Trust Fund. The Debt Relief Trust Fund would be able to receive contributions from IBRD net income, which would be used to address any remaining structural gap in the MDRI financing framework of IDA.

116. **IBRD debt.** In HIPC countries with debt to IBRD, participants also authorized IDA to provide IDA debt relief grants or credits where these would be necessary in order for the Bank to deliver its share of debt relief under the HIPC Initiative. Such debt relief grants from IDA (for interim HIPC relief on IBRD debt service payments) and prepayment by IDA of remaining IBRD claims at the HIPC completion point are an agreed part of the HIPC process, and were explicitly authorized in the IDA13 replenishment. The only countries for which such assistance could be required are Côte d'Ivoire and Zimbabwe, if Zimbabwe is reclassified as a HIPC. The amounts required for this purpose are not expected to be significant during the IDA15 period.

SECTION VII. RECOMMENDATION

117. Deputies proposed that the Executive Directors recommend to the Board of Governors the adoption of the draft IDA15 Resolution attached in [Annex 3](#).

⁶² Upon approval of amendments to the HIPC Trust Fund by the Executive Directors.

ANNEXES

ANNEX 1. IDA'S PERFORMANCE-BASED ALLOCATION SYSTEM FOR IDA15

I. Introduction

1. IDA's Performance-Based Allocation (PBA) system will continue to be the basis for the distribution of IDA resources during the IDA15 period. This annex provides an updated overview of the PBA system and highlights enhancements that were agreed during the IDA15 deliberations.⁶³ As in IDA14, the PBA allocations will be subject to (i) grants-related discounts and reallocations; and (ii) MDRI netting out and reallocation of compensatory resources.

II. PBA Overview

2. The performance of IDA countries is assessed annually using the Country Policy and Institutional Assessment (CPIA) ratings. The CPIA assesses each country's policy and institutional framework and consists of 16 criteria grouped into four equally weighted clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions ([Box AI.1](#)).⁶⁴ To ensure that the ratings are consistent with performance within and across regions, (i) detailed questions and definitions are provided to country teams for each of the six rating levels for each of the 16 criteria; and (ii) a Bank-wide process of rating and vetting a dozen "benchmark" countries is carried out to anchor the ratings in all IDA regions. This is followed by a process of institutional review of all country ratings before they are finalized.

Box AI.1: CPIA criteria

A. Economic Management

1. Macroeconomic Management
2. Fiscal Policy
3. Debt Policy

B. Structural Policies

4. Trade
5. Financial Sector
6. Business Regulatory Environment

C. Policies for Social Inclusion/Equity

7. Gender Equality
8. Equity of Public Resource Use
9. Building Human Resources
10. Social Protection and Labor
11. Policies and Institutions for Environmental Sustainability

D. Public Sector Management and Institutions

12. Property Rights and Rule-based Governance
13. Quality of Budgetary and Financial Management
14. Efficiency of Revenue Mobilization
15. Quality of Public Administration
16. Transparency, Accountability, and Corruption in the Public Sector

⁶³ For details, see IDA (February, 2007). "IDA's Performance-Based Allocation System: Options for Simplifying the Formula and Reducing Volatility," and IDA (September, 2007). "IDA's Performance-Based Allocation System: Simplifying the Formula and Other Outstanding Topics."

⁶⁴ For the detailed CPIA Questionnaire, see www.worldbank.org/IDA

3. IDA countries are informed of the assessment process, which is increasingly integrated into the country dialogue. Since IDA12, the CPIA and Country Performance Ratings for IDA countries were disclosed in quintiles. Starting in IDA14, the numerical ratings for each of the CPIA and Country Performance Ratings criteria have been fully disclosed on IDA's external website.⁶⁵

4. The CPIA underpins IDA's Country Performance Rating but is not its only determinant. Two additional steps are needed. *First*, to capture the quality of IDA's projects and programs management, the Bank's Annual Report on Portfolio Performance (ARPP) is used to determine a rating for each country's implementation performance. During the IDA15 replenishment discussions, three changes in the calculation of portfolio performance ratings were approved by the Deputies to reduce unwarranted volatility. Therefore, starting FY08, the ARPP scores are based on the percentage of actual IDA problem projects instead of actual plus potential problem projects. In addition, a quarterly average of actual problem projects is used instead of an end-year snapshot. Finally a revised conversion scale is used to convert the percent of actual problem projects into a rating. *Second*, a governance rating is calculated using cluster D of the CPIA. Starting FY08, the procurement factor was dropped from the calculation of the governance rating because this is obtained from the potential problem projects, which were dropped in the modification of portfolio performance ratings described in the first step.

5. Starting IDA15, the calculation of the IDA Country Performance Rating will be simplified to make the weights of the components explicit.

$$\text{Country Performance Rating} = (0.24 * \text{CPIA}_{A-C} + 0.68 * \text{CPIA}_D + 0.08 * \text{Portfolio})$$

$$\text{IDA country allocation} = f(\text{Country performance rating}^{5.0}, \text{Population}^{1.0}, \text{GNI/capita}^{-0.125})$$

Since the exponents of the Country Performance Ratings were rescaled to one, the exponent went up from 2 to 5 to maintain the same dispersion of ratings and therefore of allocations.

6. Starting IDA15, the base allocation will be increased from SDR1.1 million per year (SDR3.3 per replenishment) to SDR1.5 million per year (SDR4.5 million) to adjust for inflation since IDA9. Since base allocations form an important share of allocations to small states, they will likely benefit from this increase. In addition, the cap on per capita allocations will be raised from SDR13.2 to SDR19.8 to adjust for inflation since IDA9.

7. Two additional steps are required to arrive at a country's "final" allocation. First, grant allocations are discounted by 20 percent (9 percent for post-conflict countries) and 11 percent of this discounted amount is reallocated to all IDA-only countries, excluding gap and post-conflict countries. Second, for countries eligible for debt cancellation under the MDRI initiative, the debt service due in the relevant fiscal year is netted out from that year's allocation. These netted-out amounts are then redistributed to IDA-only countries, excluding gap countries.

⁶⁵ www.worldbank.org/IDA

8. Country allocations will vary annually with changes in the country's own performance and its performance relative to other countries, changes in eligibility for IDA resources and for IDA grants, and availability of IDA resources. The allocation norm is the basis for the financing scenario set out in CASs or ISN.
9. The following specific exceptions to the PBA formula have been agreed upon.
- First, "capped blend" countries with access, or potential access to IBRD receive less than their allocation norms due to their broader financing options;
 - Second, countries emerging from severe conflict can, under certain conditions,⁶⁶ be provided with additional resources in support of their recovery and in recognition of a period of exceptional need. The special post-conflict allocations may be provided for up to four years, plus six years of phase down to the performance-based norm. Such an extension of phase-out period would be based on country performance, measured using the Post-Conflict Performance Indicators. If such countries have large and protracted arrears to multilateral creditors, they may also be eligible for grants in the pre-arrears clearance period.
 - Third, for countries engaging with IDA after a prolonged period of inactivity on a basis of a strong transitional plan with concerted donor support, exceptional allocations can be provided for a period of two years, plus three years of phase-out to PBA norms. The level of resources provided will be half of what is provided to post-conflict countries. Eligibility is not automatic and continuation of exceptional support would depend on country performance. If such countries have large and protracted arrears to multilateral creditors, they may qualify for grants in the pre-arrears clearance period.
 - Fourth, in cases where the existing allocations would not allow for a sufficient response, additional allocations may be provided to IDA countries in the aftermath of major natural disasters.
 - Fifth, there is a special provision for selected regional integration projects, which began as a pilot program in IDA13. IDA15 period envisages up to [SDR400] million per year for such projects in topping up resources. These resources would be used to finance 2/3 of a country's share of the costs of a regional project, with the remaining 1/3 contribution from the country's IDA allocations. Beginning IDA15, a 20 percent ceiling will be placed on country contributions to regional projects.
 - Sixth, eligible countries can qualify for exceptional allocations to help finance the cost associated with the clearance of arrears to IBRD and/or IDA.⁶⁷

⁶⁶ IDA (2007). "Operational Approaches and Financing in Fragile States."

⁶⁷ IDA (2007). "Further Elaboration of a Systematic Approach to Arrears Clearance."

ANNEX 2. IDA15 OBJECTIVES AND ACTIONS

TABLE 1. TIER 1: IDA COUNTRY OUTCOME INDICATORS

Indicator	Unit	Countries of 81	Population covered (%)	Base year	Most recent year	Base value	Most recent value
1. Proportion of population below \$1/day poverty line	% of population						
2. Under 5 child mortality	Per 1000 live births						
3. HIV prevalence rate of women aged 15-24	% of female population aged 15-24						
4. Proportion of births attended by skilled health professionals	% of births						
5. Ration of girls to boys in primary and secondary education	%						
6. Primary school completion rate	% of population officially graduating						
7. Proportion of population with access to a safe water source	% of population						
8. Fixed lines and mobile telephone per 1,000 inhabitants	Per 1000 population						
9. Formal cost required for business start up	% of GNI per capita						
10. Time required for business start up	Days						
11. Public expenditure management	Number of benchmarks met						
12. GDP per capita	Constant 1995 \$US						
13. Access of rural population to an all-season road	% of rural population						
14. Household electrification rate	% of households						
Notes:							
[To be completed]							

TABLE 2. TIER 2: MONITORING IDA’S CONTRIBUTION TO COUNTRY OUTCOMES

Project level	FY08	FY09	FY10	FY11
1. Percent of IDA projects with satisfactory outcome ratings				
2. Percent of IDA projects with satisfactory rating quality at entry				
3. Percent of IDA operations whose outcome indicators in the PAD (for investment lending) and in the PD (for DPOs) cover key aspects of the PDO				
4. Percent of first IDA Implementation Status and Results Reports submitted during the fiscal year with adequate baselines for key outcome indicators				
5. Percent of IDA projects with satisfactory Implementation Completion Reports quality				
6. Percent of IDA Implementation Completion Reports that report on key outputs and outcomes from the results framework				
Country level	FY08	FY09	FY10	FY11
7. Percent of RBCASs with satisfactory ratings assessed by CASCR self-rating and IEG-validated CASCR review ratings				
Outputs	Projects exiting FY01-03	Projects exiting FY04-05	Projects exiting FY06-07	Projects exiting FY07-08
8. Health For example:				
• Number of hospitals built or rehabilitated				
• Number of health professionals trained				
• Number of children de-wormed				
• Number of insecticide treated bed nets distributed				
9. Education For example:				
• Number of classrooms built or rehabilitated				
• Number of teachers recruited				
• Number of teachers trained				
• Number of textbooks purchased				
• Number of pupils benefiting from school feeding program				
• Number of pupils receiving scholarships				
10. Water Supply For example:				
• Number of beneficiaries from water or sanitation interventions.				
• Number of new water connections				
• Number of new sanitation connections				
• Construction of sewers (km)				
11. Transportation For example:				
• Total roads built (km)				
• Total roads rehabilitated and/or maintained (km)				
• Total railroad constructed or rehabilitated (km)				

TABLE 3. MONITORABLE ACTIONS FOR IDA15

Measures in this Annex are summarized from the report and include some measures awaiting discussions with Participants

Objectives	Recommendations/Actions	Product	Target Date
STRENGTHENING TRANSPARENCY AND ACCOUNTABILITY			
IDA's Internal Controls	<ul style="list-style-type: none"> To be inserted 		
Disclosure of CPIA and CPR	<ul style="list-style-type: none"> Continue to disclose the numerical CPIA and IDA Country Performance Ratings and their components on IDA's external website. 	<ul style="list-style-type: none"> CPIA Exercise 	Annual, ongoing
	<ul style="list-style-type: none"> Conduct a review of Post-Conflict Performance Indicators (PCPI) in preparation for public disclosure 	<ul style="list-style-type: none"> PCPI exercise. 	IDA15 Mid-Term Review
Harmonization of PBA Systems	<ul style="list-style-type: none"> Encourage other partners to align their resources with performance, and work with Regional Multilateral Banks toward greater harmonization of PBA systems. 	<ul style="list-style-type: none"> Ongoing consultations with Regional Multilateral Banks, including the PBA technical meeting held at Washington DC in January 2007 jointly hosted by IDA and IADB. 	Ongoing
ALLOCATING RESOURCES ACCORDING TO THE PBA SYSTEM			
Allocating IDA Resources According to the PBA System	<ul style="list-style-type: none"> Allocate IDA resources in accordance with PBA system, as set out in Annex 1. 	<ul style="list-style-type: none"> CPIA and Allocation Exercise 	Annual
	<ul style="list-style-type: none"> Simplify the PBA formula by adopting an additive functional form as described in Annex 1. In addition, lower unwarranted volatility in portfolio performance ratings. 	<ul style="list-style-type: none"> Allocation Exercise 	Annual
	<ul style="list-style-type: none"> Increase base allocation from SDR1.1 million to SDR1.5 million each year to help maintain IDA's assistance constant in real terms to the small states. 	<ul style="list-style-type: none"> Allocation Exercise 	Annual
	<ul style="list-style-type: none"> Place a 20 percent across-the-board ceiling on country contributions to regional projects. Prepare a report reviewing regional project performance, IDA's experience with scaling up regional projects, and adjustments to the ceiling on country contributions if necessary. 	<ul style="list-style-type: none"> Review IDA's Regional Project Program. 	Mid-Term Review
	<ul style="list-style-type: none"> Direct half of IDA's assistance to Africa, if warranted by performance, and support the efforts of these countries to use these resources effectively. 	<ul style="list-style-type: none"> IDA Lending Report 	Annual

Objectives	Recommendations/Actions	Product	Target Date
Regional Projects	<ul style="list-style-type: none"> Review MDRI Netting-out mechanisms and propose options for addressing new financing constraints in countries where new IDA allocations fall drastically as a result Continue to provide analytical and financial support to regional programs, in particular regional infrastructure, with due regard for country ownership. To help countries with small allocations participate in regional projects, place an across-the-board ceiling on country contributions at 20 percent of country PBA allocations. 	<ul style="list-style-type: none"> IDA15 Mid-Term Review Report PRSP, ESW, individual operations 	<p>Mid-Term Review</p> <p>Ongoing</p>
	<ul style="list-style-type: none"> Enhance cooperation among Regional Multilateral Banks to avoid overlap and to ensure that each institution's programs are based on its comparative advantage. 	<ul style="list-style-type: none"> Multilateral Development Bank Working Groups 	<p>Ongoing</p>
	<ul style="list-style-type: none"> Review IDA's regional project program in view of the scaling up and make adjustments to the ceiling on country contributions if necessary. 	<ul style="list-style-type: none"> Review of regional projects 	<p>IDA15 Mid-Term Review</p>
SPECIAL THEME I: IDA's ROLE IN THE INTERNATIONAL AID ARCHITECTURE			
Strengthening Complementarity with Vertical Approaches to Aid Delivery	<ul style="list-style-type: none"> Integrate analysis of global programs and Trust Funds in the programming of Country Assistance Strategies and sector strategies. 	<ul style="list-style-type: none"> Country Assistance Strategies and Sector Strategies 	<p>Ongoing</p>
Ensuring Appropriate Sectoral Funding	<ul style="list-style-type: none"> Monitor the sectoral composition of IDA's assistance, both on an aggregate and on a country-by-country basis. 	<ul style="list-style-type: none"> IDA Lending Report Country Assistance Strategies 	<p>Annual</p> <p>Ongoing</p>
Addressing Climate Change	<ul style="list-style-type: none"> Mainstream adaptive action in Country Assistance Strategies. 	<ul style="list-style-type: none"> Country Assistance Strategies 	<p>Ongoing</p>
	<ul style="list-style-type: none"> Improve climate adaptation and climate risk management. 	<ul style="list-style-type: none"> Pilot Climate Risk Assessments and Climate Change Screening Tools in 15-18 countries at greatest risk. 	<p>Over the IDA15 period.</p>
	<ul style="list-style-type: none"> Scale-up financial support to climate change adaptation. 	<ul style="list-style-type: none"> End-FY annual reviews/IDA15 Mid-Term Review. 	<p>Annual/Mid-Term Review</p>
	<ul style="list-style-type: none"> Further develop innovative insurance products. 	<ul style="list-style-type: none"> Report on use of insurance products. 	<p>Annual</p>

Objectives	Recommendations/Actions	Product	Target Date
	<ul style="list-style-type: none"> • Increase technology dissemination by tapping into carbon finance. 	<ul style="list-style-type: none"> • TBD 	TBD
Helping Ensure Debt Sustainability	<ul style="list-style-type: none"> • Continue to implement the IDA grant allocation framework using countries' risk of debt distress as primary grant eligibility criterion. 		Ongoing
	<ul style="list-style-type: none"> • Conduct regular DSF-style DSAs for all active IDA-only borrowers. 	<ul style="list-style-type: none"> • Board papers 	Ongoing
	<ul style="list-style-type: none"> • Provide regular updates on progress to date in dealing with the Non-Concessional Borrowing policy. 	<ul style="list-style-type: none"> • Board paper 	January, 2008
	<ul style="list-style-type: none"> • Develop a Medium-Term Debt Management Strategy toolkit and advisory services for IDA borrowers. 	<ul style="list-style-type: none"> • Pilot TA in 4-6 countries and roll out thereafter 	End-FY08
SPECIAL THEME II: ENHANCING COUNTRY-LEVEL EFFECTIVENESS			
Enhancing Harmonization and Alignment	<ul style="list-style-type: none"> • Implement Alignment and Harmonization action plan presented during the IDA14 MTR. 	<ul style="list-style-type: none"> • Paris Declaration Monitoring Surveys 2008 and 2010 	Ongoing
	<ul style="list-style-type: none"> • Issue guidelines on PIUs requiring that their integration into government structures become the default option for IDA projects. 	<ul style="list-style-type: none"> • Guidelines on PIUs 	FY09
	<ul style="list-style-type: none"> • Review IDA's performance with respect to predictability of disbursements at the country level and report on findings and planned actions at the IDA15 Mid-Term Review. 	<ul style="list-style-type: none"> • IDA15 MTR paper 	Mid Term Review
	<ul style="list-style-type: none"> • Carry out – jointly with other interested donors – a survey of selected country programs and the total amounts of co-financing and of pooled and parallel financing they leverage through IDA's budgetary support and investment lending. 	<ul style="list-style-type: none"> • Report of the survey. 	Accra High Level Forum, 2008
	<ul style="list-style-type: none"> • Regional management to support and monitor IDA's actions at the country level to assist in the preparation and implementation of country-led plans for harmonization and alignment. 	<ul style="list-style-type: none"> • Regional Alignment and Harmonization reports 	Ongoing
	<ul style="list-style-type: none"> • Update good practice guidance on joint/collaborative CAS preparation. 	<ul style="list-style-type: none"> • Good Practice Guidance Note 	2008

Objectives	Recommendations/Actions	Product	Target Date
	<ul style="list-style-type: none"> • Agree with other lenders/donors on common (harmonized) legal requirements for MOUs in joint financing operations. 	<ul style="list-style-type: none"> • Memoranda of Understanding 	Ongoing
	<ul style="list-style-type: none"> • Facilitate and support partner countries' efforts to incorporate non-traditional partners – vertical funds, non-DAC donors, and the private sector – in harmonization and alignment actions and undertake further analytic work on the changing aid architecture. 	<ul style="list-style-type: none"> • Conferences, Memoranda of Understanding, Analytical studies 	2008
	<ul style="list-style-type: none"> • Continue to implement and explore further options for decentralization. • Complete an analysis of different models of decentralization by types of clients and services, and develop an approach to better define cost effectiveness of decentralization in light of the budget implications. • In implementing its action plan, the Africa region will work towards: <ul style="list-style-type: none"> • Increasing by 50 percent, internationally recruited staff in the field by end-FY08, compared to FY06, and plans to have field-based positions for all new or vacant internationally recruited positions. • Progressively moving sector leaders to the field. 	<ul style="list-style-type: none"> • A report 	Mid-Term Review
Implementing the IDA Results Measurement System	<p><i>Country level outcomes: Tier 1</i></p> <ul style="list-style-type: none"> • Monitor and report on aggregate progress on 14 key country outcome indicators in Tier 1 of the IDA RMS. • Review Tier 1 PSD indicators to better reflect the Bank's increasing emphasis on the private sector • Review the feasibility of developing a PEFA-based aggregate indicator to measure the quality of countries' public financial management 	<ul style="list-style-type: none"> • IDA15 Results Measurement Progress Report 	Mid-Term Review

Objectives	Recommendations/Actions	Product	Target Date
	<p><i>Country Level: Tier 2</i></p> <ul style="list-style-type: none"> • Enhance the quality of CAS Results Frameworks by strengthening emphasis on results in the corporate review process. • Monitor self ratings in CASCRs and their independent validation by IEG. 	<ul style="list-style-type: none"> • CAS review process • IDA15 Results Measurement Progress Report 	<p>Ongoing</p> <p>Mid-Term Review</p>
	<p><i>Quality at Entry: Tier 2</i></p> <ul style="list-style-type: none"> • Percent of IDA projects with satisfactory quality at entry. • Percent of operations whose outcome indicators in the PAD (for investment lending) and in the PD (for DPO) cover key aspects of the PDO. 	<ul style="list-style-type: none"> • Quality At Entry Assessment • IDA15 Results Measurement Progress Report. 	<p>Annual</p> <p>Mid-Term Review</p>
	<p><i>Quality of Supervision: Tier 2</i></p> <ul style="list-style-type: none"> • Percent of ISRs with satisfactory outcome baseline data (defined as baseline availability for either one outcome or one intermediate outcome indicator). • Percent of first ISRs submitted during the fiscal year with adequate baselines for key outcome indicators. 	<ul style="list-style-type: none"> • Quality At Entry Assessment 	<p>Annual</p>

Objectives	Recommendations/Actions	Product	Target Date
	<p><i>Quality at Exit: Tier 2</i></p> <ul style="list-style-type: none"> • Percent of IDA projects with satisfactory outcome ratings • Percent of IDA projects with satisfactory Implementation Completion Reports quality • Percent of IDA Implementation Completion Reports that report on key outputs and outcomes from the results framework. • Monitor progress on selected aggregate project outputs in four sectors: health, education, transport and water. • Develop a list of uniform/standardized output indicators for 4-5 sectors 	<ul style="list-style-type: none"> • IEG reviews of ICRs • IEG reviews of ICRs • IDA15 Results Measurement Progress Report • IDA15 Results Measurement Progress Report. • IDA15 Results Measurement Progress Report 	<p>Annual</p> <p>Annual</p> <p>Mid-Term Review</p> <p>Mid-Term Review</p> <p>Mid-Term Review</p>
	<p><i>Analytical work</i></p> <ul style="list-style-type: none"> • A summary assessment of previous analyses of the AAA, current issues, future directions, and implications for Tier 2 metrics. 	<ul style="list-style-type: none"> • A report 	<p>Mid-Term Review</p>

Objectives	Recommendations/Actions	Product	Target Date
	<p>Statistical Capacity Building</p> <ul style="list-style-type: none"> In each IDA CAS, require a more comprehensive discussion of weaknesses in IDA country statistical systems and their use in decision making. When relevant, follow up in DPOs, ILs, AAA, CASPRs, CASCRs, and ICRs. Explore the potential for expanding and re-designing the existing TFSCB to primarily provide a mechanism to finance and co-finance as well as to supervise investments in statistical capacity and implementation of NSDSs. Jointly with donors and partners, intensify efforts to identify “lead donors” for work in selected priority countries and accelerate efforts to develop a sector-wide approach to building statistical capacity in these priority countries. Develop a web-based data standards system to help IDA countries track their progress towards meeting internationally accepted norms of data coverage, frequency, and timeliness. 	<ul style="list-style-type: none"> CAS/operational review process IDA15 Results Measurement Progress report IDA15 Results Measurement Progress report Web-based data standards system 	<p>Ongoing</p> <p>Mid-Term review</p> <p>Mid-Term review</p> <p>Mid-Term Review</p>
SPECIAL THEME: IDA’S ROLE IN FRAGILE STATES			
Operational Support and Financing Arrangements	<ul style="list-style-type: none"> Continue to strengthen IDA’s support to fragile states, with key objectives of supporting state building and peace building activities. 	<ul style="list-style-type: none"> PRSP, ISN/CAS, ESW, individual operations 	Ongoing
	<ul style="list-style-type: none"> Develop indicators to measure progress in state building and peace building activities. 	<ul style="list-style-type: none"> Guidance note 	December 31, 2008
	<ul style="list-style-type: none"> Prepare a multi-donor results framework tool to assist authorities in post-conflict and political transition situations. 	<ul style="list-style-type: none"> Joint World Bank-UN guidance note 	June 30, 2008
	<ul style="list-style-type: none"> Strengthen partnership with the UN, other donors and regional institutions in fragile states. 	<ul style="list-style-type: none"> Joint World Bank-UN partnership note 	June 30, 2008
	<ul style="list-style-type: none"> Continue working with the UN, EC and other bilateral donors at the OECD-DAC to revise the guidance for integrated post-conflict recovery planning. 	<ul style="list-style-type: none"> Joint World Bank-UN guidance note 	June 30, 2008

Objectives	Recommendations/Actions	Product	Target Date
	<ul style="list-style-type: none"> Report on progress on human resources reforms, cooperation with the UN and other actors, implementation of DAC Principles and the adaptation of country assistance strategies to fragile and conflict-affected environments. 	<ul style="list-style-type: none"> Progress report 	IDA15 Mid-Term Review
	<ul style="list-style-type: none"> Lengthen the duration of exceptional assistance to post-conflict countries from 7 to 10 years by doubling the phase-out period from 3 to 6 years. Calibrate exceptional assistance during the phase out period on a case-by case basis based on country performance as measured by the Post-Conflict Performance Indicators (PCPIs). 	<ul style="list-style-type: none"> PCPI and Allocation exercise 	Annual
	<ul style="list-style-type: none"> Link the share of post-conflict allocations in overall allocations to changes in the overall replenishment size. 	<ul style="list-style-type: none"> PCPI and Allocation exercise 	Annual
	<ul style="list-style-type: none"> Graduate some post-conflict countries from receiving exceptional allocations earlier than 10 years depending on country circumstances. 	<ul style="list-style-type: none"> PCPI and Allocation exercise 	Annual
	<ul style="list-style-type: none"> Retain additional flexibility in deciding post-conflict allocations in the first year as agreed during the IDA13 replenishment discussions. 	<ul style="list-style-type: none"> PCPI and Allocation exercise 	Annual
	<ul style="list-style-type: none"> Lengthen the duration of exceptional allocations to countries re-engaging with IDA after a prolonged period of inactivity from 3 to 5 years, including three years of phase out to PBA allocations. Calibrate exceptional assistance based on performance. Provide resources that would be around half of what would be provided under the post-conflict allocation system. 	<ul style="list-style-type: none"> PCPI and Allocation exercise 	Annual
	<ul style="list-style-type: none"> Implement systematic approach for arrears clearance for eligible countries. 	<ul style="list-style-type: none"> PCPI and Allocation exercise. 	Annual

ANNEX 3. DRAFT RESOLUTION

INTERNATIONAL DEVELOPMENT ASSOCIATION

BOARD OF GOVERNORS

(Draft)

Resolution No. _____

Additions to Resources: Fifteenth Replenishment

WHEREAS:

(A) The Executive Directors of the International Development Association (the “Association”) have considered the prospective financial requirements of the Association and have concluded that it is desirable to authorize a replenishment of the resources of the Association for new financing commitments for the period from July 1, 2008 to June 30, 2011 (the “Fifteenth Replenishment”) in the amounts and on the basis set out in the report of the IDA Deputies, “Additions to Resources: Fifteenth Replenishment,” (the “Report”), approved by the Executive Directors on, and submitted to the Board of Governors;

(B) The members of the Association consider that an increase in the resources of the Association is required and intend to take all necessary governmental and legislative action to authorize and approve the allocation of additional resources to the Association in the amounts and on the conditions set out in this Resolution;

(C) Members of the Association that contribute resources to the Association in addition to their subscriptions as part of the Fifteenth Replenishment (“Contributing Members”) are to make available their contributions pursuant to the Articles of Agreement of the Association (the “Articles”) partly in the form of subscriptions carrying voting rights and partly as supplementary resources in the form of contributions not carrying voting rights;

(D) Additional subscriptions are to be authorized for Contributing Members in this Resolution on the basis of their agreement with respect to their preemptive rights under Article III, Section 1(c) of the Articles, and provision is made for the other members of the Association (“Subscribing Members”) intending to exercise their rights pursuant to that provision to do so;

It is desirable to provide for a portion of resources to be contributed by members to be paid to the Association as advance contributions;

Additional subscriptions and contributions are to be authorized for Contributing Members to provide compensation for the Association’s debt forgiveness commitments under the Heavily Indebted Poor Countries (“HIPC”) Debt Initiative and to provide financing for arrears clearance operations by the Association;

It is desirable to reflect the updated cost estimates for debt cancellation under the Multilateral Debt Relief Initiative (MDRI) and resulting changes to the compensation amounts payable by donors to the replenishment of the Association’s resources to finance the MDRI in Tables 2(b) and 3 to this resolution.

(H) [Provision is made for the payment of additional subscriptions and contributions contingent upon progress on specified measures;]

(I) It is desirable to authorize the Association to provide financing in the form of grants, guarantees and the intermediation of risk management products in addition to loans; and

(J) It is desirable to administer any remaining funds from the replenishment authorized by Resolution No. [] of the Board of Governors of the Association (the “Fourteenth Replenishment”) as part of the Fifteenth Replenishment.

NOW THEREFORE THE BOARD OF GOVERNORS HEREBY ACCEPTS the Report as approved by the Executive Directors, **ADOPTS** its conclusions and recommendations **AND RESOLVES THAT** a general increase in subscriptions of the Association is authorized on the following terms and conditions:

1. **Authorization of Subscriptions and Contributions.**

(a) The Association is authorized to accept additional resources from each Contributing Member in the amounts specified for each such member in Columns [] of Table 1 attached to this Resolution, and each such amount will be divided into a subscription carrying voting rights and a contribution not carrying voting rights as specified in Table 2 attached to this Resolution.

a. As part of the resources described in paragraph 1(a) above, the Association is authorized to accept additional subscriptions and

contributions from Contributing Members to compensate the Association for the Association's debt forgiveness commitments under the HIPC Debt Initiative in the amounts and as specified in Column [] of Table 1 attached to this Resolution.

- b. As part of the resources described in paragraph 1(a) above, the Association is authorized to accept additional subscriptions and contributions from Contributing Members to finance arrears clearance operations in the amounts and as specified in Column [] of Table 1 attached to this Resolution.
 - c. [As part of the resources described in paragraph 1(a) above, the Association is authorized to accept additional contingent subscriptions and contributions from Contributing Members in the amounts and as specified in Column [] of Table 1 attached to this Resolution (a "Contingent Contribution").]
- (b) The Association is authorized to accept additional resources from any member for which no contribution is specified in Table 2 and additional subscriptions and contributions from Contributing Members incremental to the amounts specified for each such member in Table 1;
 - (c) The Association is authorized to accept additional subscriptions from each Subscribing Member in the amount specified for each such member in Table 2.
 - (d) The rights and obligations of the Association and the Contributing Members in respect of the authorized subscriptions and contributions in paragraphs (a) and (b) above will be the same (except as otherwise provided in this Resolution) as those applicable to the ninety per cent portion of the initial subscriptions of original members payable under Article II, Section 2(d) of the Articles of Agreement (the "Articles") by members listed in Part I of Schedule A of the Articles.

2. **Agreement to Pay.**

- (a) When a Contributing Member agrees to pay its subscription and contribution, or a Subscribing Member agrees to pay its subscription, it will deposit with the Association an instrument of commitment substantially in the form set out in Attachment I to this Resolution ("Instrument of Commitment") and, with respect to its contribution for debt forgiveness under the HIPC Debt Initiative or for arrears clearance operations, a Contributing Member will either include such contribution in an Instrument of Commitment or make a Debt Relief Transfer Contribution, as defined and specified in paragraph 9(a) of this Resolution.

- (b) When a Contributing Member agrees to pay a part of its subscription and contribution without qualification and the remainder is subject to enactment by its legislature of the necessary appropriation legislation, it will deposit a qualified instrument of commitment in a form acceptable to the Association (“Qualified Instrument of Commitment”) and such member:
 - a. undertakes to exercise its best efforts to obtain legislative approval for the full amount of its subscription and contribution by the payment dates set out in paragraph 3(b) of this Resolution; and
 - b. agrees that, upon obtaining such approvals, it will notify the Association that any parts of its Qualified Instrument of Commitment have become unqualified.
- (c) [When a Contributing Member agrees to pay part of its subscription and contribution as a Contingent Contribution, it will so specify in its Instrument of Commitment or Qualified Instrument of Commitment and will stipulate which of the conditions set out in the Schedules to Attachment [] to this Resolution will apply to its Contingent Contribution.
]

3. **Payment.**

- (a) Each Subscribing Member will pay to the Association the amount of its subscription in full within 31 days after the date of deposit of its Instrument of Commitment; provided that if the Fifteenth Replenishment shall not have become effective by [December 15, 2008], payment may be postponed by the member for not more than 31 days after the Effective Date as defined in paragraph 6(a) of this Resolution.
- (b) Each Contributing Member that deposits an Instrument of Commitment that is not a Qualified Instrument of Commitment will pay to the Association the amount of its subscription and contribution in three equal annual installments no later than 31 days after the Effective Date or as agreed with the Association, January [15], 2010, and January [15], 2011; provided that:
 - (i) the Association and each Contributing Member may agree to earlier payment;
 - (ii) if the Fifteenth Replenishment shall not have become effective by December [15], 2008, payment of the first such installment may be postponed by the member for not more than 31 days after the date on which the Fifteenth Replenishment becomes effective;

- (iii) the Association may agree to the postponement of any installment, or part thereof, if the amount paid, together with any unused balance of previous payments by the Contributing Member concerned, is at least equal to the amount estimated by the Association to be required from that member up to the due date of the next installment for purposes of disbursements for financing committed under the Fifteenth Replenishment; and
 - (iv) if any Contributing Member deposits an Instrument of Commitment with the Association after the date when the first installment of the subscription and contribution is due, payment of any installment, or part thereof, will be made to the Association within 31 days after the date of such deposit.
- (c) If a Contributing Member has deposited a Qualified Instrument of Commitment and, upon enactment of appropriation legislation, notifies the Association that an installment, or part thereof, is unqualified after the date when it was due, then payment of such installment, or part thereof, will be made within 31 days after the date of such notification.
- (d) [Each Contributing Member making a Contingent Contribution, will pay its Contingent Contribution at the same time as payment of the annual installment next following the date of fulfillment of the conditions specified in its Instrument of Commitment.]

4. **Mode of Payment.**

- (a) Payments pursuant to this Resolution will be made, at the option of the member: (i) in cash, on terms agreed between the member and the Association; or (ii) by the deposit of notes or similar obligations issued by the government of the member or the depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand to the account of the Association.
- (b) The Association will encash notes or similar obligations of Contributing Members, on an approximately *pro rata* basis among donors, in accordance with the encashment schedule set out at Attachment II to this Resolution, or as agreed between a Contributing Member and the Association. With respect to a Contributing Member that is unable to comply with one or more encashment requests, the Association may agree with the member on a revised encashment schedule that yields at least an equivalent value to the Association.
- (c) The provisions of Article IV, Section 1(a) of the Articles will apply to the use of a Subscribing Member's currency paid to the Association pursuant to this Resolution.

5. **Currency of Denomination and Payment.**

- (a) Members will denominate the resources to be made available pursuant to this Resolution in SDRs, the currency of the member if freely convertible, or, with the agreement of the Association, in a freely convertible currency of another member, except that if a Contributing Member's economy experienced a rate of inflation in excess of ten percent per annum on average in the period [2004 -2006], as determined by the Association, its subscription and contribution will be denominated in SDRs or in any currency used for the valuation of the SDR and agreed with the Association.
- (b) Contributing Members will make payments pursuant to this Resolution in SDRs, a currency used for the valuation of the SDR, or, with the agreement of the Association, in another freely convertible currency, and the Association may freely exchange the amounts received as required for its operations. Subscribing Members will make payments in the currency of the member or in a freely convertible currency with the agreement of the Association.
- (c) Each member will maintain, in respect of its currency paid by it under this Resolution, and the currency of such member derived therefrom as principal, interest or other charges, the same convertibility as existed on the effective date of this Resolution.
- (d) The provisions of Article IV, Section 2 of the Articles with respect to maintenance of value will not be applicable.

6. **Effective Date.**

- (a) The Fifteenth Replenishment will become effective and the resources to be contributed pursuant to this Resolution will become payable to the Association on the date (the "Effective Date") when Contributing Members whose subscriptions and contributions aggregate not less than SDR [*amount equal to 60% of total contributions*] million shall have deposited with the Association Instruments of Commitment, Qualified Instruments of Commitment or HIPC Transfer Notifications (as defined in paragraph 9 (b) of this Resolution), provided that this date shall be not later than December [15], 2008, or such later date as the Executive Directors of the Association may determine.
- (b) If the Association determines that the availability of additional resources pursuant to this Resolution is likely to be unduly delayed, it shall convene promptly a meeting of the Contributing Members to review the situation

and to consider the steps to be taken to prevent a suspension of financing to eligible recipients by the Association

7. **Advance Contributions.**

- (a) In order to avoid an interruption in the Association's ability to commit financing to eligible recipients pending the effectiveness of the Fifteenth Replenishment, the Association may deem, prior to the Effective Date, one third of the total amount of each subscription and contribution for which an Instrument of Commitment has been deposited with the Association, or for which a Debt Relief Transfer Notification (as defined in paragraph 9(b) of this Resolution) has been received by the Association, as an "Advance Contribution", unless the Contributing Member specifies otherwise in its Instrument of Commitment or Debt Relief Transfer Notification.
- (b) The Association shall specify when Advance Contributions pursuant to subparagraph (a) are to be paid to the Association.
- (c) The terms and conditions applicable to contributions to the Fifteenth Replenishment shall apply also to Advance Contributions until the Effective Date, when such contributions shall be deemed to constitute payment towards the amount due from each Contributing Member for its subscription and contribution.
- (d) In the event that the Fifteenth Replenishment shall not become effective pursuant to paragraph 6(a) of this Resolution, (i) voting rights will be allocated to each member for the Advance Contribution as if it had been made as a subscription and contribution under this Resolution, and (ii) each member not making an Advance Contribution will have the opportunity to exercise its preemptive rights under Article III, Section 1(c) of the Articles with respect to such subscription as the Association shall specify.

8. **Commitment Authority.**

- (a) Subscriptions and contributions, will become available for commitment by the Association for financing to eligible recipients in three equal annual installments: (i) the first installment will become available to the Association for commitment from the Effective Date, provided that advance contributions may become available earlier under paragraph 7(a) of this Resolution; (ii) the second installment will become available from July 1, 2009, and (iii) the third installment will become available from July 1, 2010.
- (b) Any qualified part of a subscription and contribution notified under a Qualified Instrument of Commitment will become available for commitment by the Association for financing when the Association has been notified, pursuant to paragraph 2(c) of this Resolution, that such parts have become unqualified.
- (c) The Association may enter into financing commitments with eligible recipients conditional on such commitments becoming effective and binding on the Association when resources under the Fifteenth Replenishment become available for commitment by the Association.

9. **HIPC and Arrears Clearance Contributions.**

- (a) Contributing Members making an additional subscription and contribution to compensate the Association for forgiveness of debt under the HIPC Debt Relief Initiative or to finance arrears clearance operations, will do so either: (i) through an additional subscription and contribution to the Association's regular resources (a "Debt Relief Additional Contribution") or (ii) through a contribution to the HIPC Debt Initiative Trust Fund administered by the Association (a "Debt Relief Transfer Contribution").
- (b) Contributing Members making a Debt Relief Transfer Contribution will either (i) enter into a Contribution Agreement with the Association as administrator of the Debt Relief Trust Fund; or (ii) for Contributing Members that are already current contributors to the Debt Relief Trust Fund, send to the Association a notice of additional contribution, (each constituting a "Debt Relief Transfer Notification"). Such Debt Relief Transfer Notification will provide for a contribution to be made to the Debt Relief Trust Fund in the amount set forth in Columns [] and [] of Table 2 to this Resolution, each to be payable in three equal annual installments no later than 31 days after the Effective Date, January [15], 2010, and January [15], 2011; provided that the Association and each Contributing Member may agree to earlier payment.

- (c) When any amount of a Debt Relief Transfer Contribution is paid to compensate the Association for forgiveness of debt under the HIPC Debt Initiative or to finance arrears clearance operations, such amount of the Debt Relief Transfer Contribution will be treated as a subscription and contribution under the Fifteenth Replenishment.
10. **Authorization of Grants, Guarantees and Risk Intermediation.** The Association is hereby authorized to provide financing under the Fifteenth Replenishment in the form of grants and guarantees and through the intermediation of risk management products.
11. **Administration of IDA14 Funds under the Fifteenth Replenishment.**
- (a) On the Effective Date, any funds, receipts, assets and liabilities held by the Association under the Fourteenth Replenishment will be administered under the Fifteenth Replenishment, subject, as appropriate, to the terms and conditions applicable to the Fourteenth Replenishment.
 - (b) Pursuant to Article V, Section 2(a)(i) of the Articles of Agreement of the Association, the Association is authorized to use the funds referred to in paragraph 11(a) above, and funds derived therefrom as principal, interest or other charges, to provide financing in the forms of grants and guarantees under the terms, conditions and policies applicable under the Fifteenth Replenishment.
12. **Allocation of Voting Rights under Fifteenth Replenishment.** Voting rights calculated on the basis of the current voting rights system will be allocated to members for subscriptions under the Fifteenth Replenishment as follows:
- (a) Each Subscribing Member that has deposited with the Association an Instrument of Commitment will be allocated the subscription votes specified for each such member in Table 2 on the effective payment date pursuant to paragraph 3(a) of this Resolution. Each Subscribing Member will be allocated the additional membership votes specified in Column [c-3] of Table 2 on the date such member is allocated its subscription votes.
 - (b) Each Contributing Member that has deposited with the Association an Instrument of Commitment will be allocated one third of the subscription votes specified for each such member in Table 2 on each effective payment date pursuant to paragraph 3(b) of this Resolution. Each Contributing Member will be allocated the additional membership votes specified in Column [b-4] of Table 2 for its subscription on the date such member is allocated the first one third of its subscription votes.
 - (c) Each Contributing Member that has made a Debt Relief Transfer Contribution will be allocated a proportionate share of the subscription

votes specified for such member in Column [] of Table 2 from time to time and at least semi-annually following payment of any amount of its Debt Relief Transfer Contribution to compensate the Association for forgiveness of debt under the HIPC Debt Initiative or to finance arrears clearance operations.

- (d) [Each Contributing Member that has made a Contingent Contribution will be allocated subscription votes at the time and to the extent of payments made in respect of its related subscription and contribution.]
- (e) Each member that has deposited with the Association a Qualified Instrument of Commitment will be allocated subscription votes at the time and to the extent of payments made in respect of its subscription and contribution.
- (f) Any member that deposits its Instrument of Commitment after any of these dates will be allocated, within 31 days of the date of such deposit, the subscription votes to which such member is entitled on account of such deposit.
- (g) If a member fails to pay any amount of its subscription or subscription and contribution when due, the number of subscription votes allocated from time to time to such member under this Resolution in respect of the Fifteenth Replenishment will be reduced in proportion to the shortfall in such payments, but any such votes will be reallocated when the shortfall in payments causing such adjustment is subsequently made up.

Attachment I

INTERNATIONAL DEVELOPMENT ASSOCIATION

Additions to Resources: Fifteenth Replenishment

Instrument of Commitment

Reference is made to Resolution No. ____ of the Board of Governors of the International Development Association entitled "Additions to Resources: Fifteenth Replenishment", which was adopted on _____, 2008 ("the Resolution").

The Government of _____ **HEREBY NOTIFIES** the Association pursuant to paragraph 2 of the Resolution that it will make the _____^{68/} authorized for it in accordance with the terms of the Resolution in the amount of _____^{69/70}.

_____^{71/}
(Date)

(Name and Office)

^{68/} This form of Instrument of Commitment may be used for a Contributing Member's regular contribution and any HIPC Additional Contribution, either under separate instruments or combined. Contributing Members fill in the words "subscription and contribution" for both regular contributions and Debt Relief Additional Contributions; and Subscribing Members fill in the word "subscription" only.

^{69/} Pursuant to paragraph 5(a) of the Fifteenth Replenishment Resolution, members are required to denominate their subscription and contribution, or subscription only, as the case may be, in SDRs, in the currency of the member if freely convertible, or with the agreement of the Association in a freely convertible currency of another member. Payment will be made as provided in paragraph 5(b) of the Resolution.

⁷⁰ [For additional contingent contributions, add the following text " The Government of _____ **HEREBY NOTIFIES** the Association pursuant to paragraph 1(a)(ii) of the Resolution that it will make an additional subscription and contribution [with respect to fiscal year [] in the amount of _____, contingent upon the measures set forth in Schedule A hereto]; and an additional subscription and contribution with respect to fiscal year [] in the amount of _____, contingent upon the measures set forth in Schedule B hereto."]

^{71/} The instrument is to be signed on behalf of the member by a duly authorized representative.

Attachment II

Encashment Schedule for IDA15 Contributions

Table 1 – Contributions to the Fifteenth Replenishment

[To be completed]

Table 2 – Subscriptions, Contributions and Votes

[To be completed]

ANNEX 4. DOCUMENTS PROVIDED FOR THE IDA15 REPLENISHMENT

March 5-6, 2007 in Paris, France⁷²

Discussion papers:

Multilateral Debt Relief Initiative (MDRI): Update on Debt Relief by IDA and Donor Financing to Date (February 2007).

IDA's Long-Term Financial Capacity (February 2007).

Selectivity and Performance: IDA's Country Assessment and Development Effectiveness (February 2007).

Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows (February 2007).

IDA's Performance-Based Allocation System: Options for Simplifying the Formula and Reducing Volatility (February 2007).

IDA15 Replenishment Priorities: Proposed Special Themes (February 2007).

Selectivity and Performance: IDA's Country Assessment and Development Effectiveness (February 2007)

Background and Technical Notes:

Effective Foreign Exchange Rates for Use in the IDA15 Replenishment (February 2007)

June 28-30, 2007 in Maputo, Mozambique

Discussion papers:

IDA15 Financing Framework (June 2007).

Further Elaboration of a Systematic Approach to Arrears Clearance (June 2007).

The Demand for IDA15 Resources and Strategy for Their Effective Use (June 2007).

Operational Approaches and Financing in Fragile States (June 2007).

The Role of IDA in the Global Aid Architecture: Supporting the Country-Based Development Model (June 2007).

Background and Technical Notes:

IDA15 Second Replenishment Meeting: Key Issues (June 2007).

⁷² In addition, background notes and tables on financial issues were circulated to the Deputies over the course of the replenishment discussions.

Supplementary Note on Determining Volume, Duration and Pattern of Resources to Post-Conflict and Re-Engaging Countries (June 2007)

HIPC Paper:

HIPC Debt Relief Trust Fund Support for Regional and Sub-Regional Multilateral Creditors (June 2007)

October 23, 2007 in Washington, D.C., USA

Discussion papers:

IDA's Performance-Based Allocation System: Simplifying the Formula and other Outstanding Issues (September 2007).

The Role of IDA in Ensuring Debt Sustainability: A Progress Report (September 2007).

Background and Technical Notes:

IDA Commitments and Disbursements, FY95-07 (September 2007)

Conditional Arrears Clearance: Technical Note on Feasibility (September 2007)

Supplementary Note: IDA Allocations and Outcomes at the Country Level

November 12-13, in Dublin, Ireland

Discussion papers:

IDA's Role in Enhancing Country-Level Effectiveness: Strengthening Harmonization and Alignment

Focus on Results: The IDA14 Results Measurement System and Directions for IDA15

IDA and Climate Change: Making Climate Action Work for Development

Background and Technical Notes:

December 13-14, in Berlin, Germany