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The IDA Deputies: A Governance Issue

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I. Introduction and Summary

1. The role played by the Deputies of the International Development Association (IDA) in the decision-making processes of the World Bank Group (WBG) is a subject of interest for several reasons:

- Firstly, the grouping has no legal status in the IDA Articles of Agreement and yet appears to play a decisive role in the formulation of policies and processes relating to IDA activities, including the conditionalities attached to IDA grants and credits;

- Secondly, there is an issue whether the recommendations made in their periodic reports by the Deputies are confined to the concessionary window (IDA) or whether they have spillover effects on policies and operations of the commercial window (IBRD) and of other public institutions, such as the Regional Development Banks (RDBs) as well as on private and official bilateral lenders

- Thirdly, there is the question of the role that IDA beneficiaries play in the deliberations of the IDA Deputies, and if this role is considered to be marginal, what factors account for this situation and what, if anything, can be done to correct it.

Taken together, these three questions add up to a substantive issue of governance that goes to the role of extra-constitutional interventions in the global aid architecture in which IDA, as the world's largest source of multilateral aid to poor countries, plays a pivotal place at the sectoral, country, regional and global levels, including its support for debt sustainability. The following sections of the paper discuss the issues outlined above and a concluding section considers ideas for improving the governance of IDA.

II.. Evolution of IDA Deputies Role

2. IDA began operations in November 1960 as a concessionary window of the World Bank Group, with its own Articles of Agreement and with a nominal capital of $ 1 billion. Because of the different sources on which IDA would largely depend (budgetary grants as opposed to market borrowing in the case of IBRD), some IDA members were characterized as “donors” and classified as Part I countries while potential “recipients” were classified as Part II countries. IDA started with Part I members subscribing three-quarters of the initial capital but it was recognized that IDA would require periodic additions to its resources (designated as “replenishments”) that would have to be approved by a two-thirds majority of IDA’s total voting power. While the power to authorize additional subscriptions and to determine the related terms and conditions were non-delegable and could be exercised only by the Board of Governors, policy-making and IDA’s general operations fall within the responsibility of IDA’s Executive Directors under a broad delegation of authority given to them by the IDA Board of Governors.

3. From the inception of IDA and through the first replenishment (1965-68) , negotiations were primarily conducted between Bank Management and the principal donor countries, with the largest contributors to IDA’s initial resources (France, Germany, Italy, U.K. and the USA) holding informal meetings to discuss the total amount of an increase in the resources of IDA and the proportion of the total amount that each country might be prepared to contribute. A formal cast to these meetings was given in 1967, in the wake of prolonged and contentious discussions by Bank Management with the US Administration for the second replenishment (1969-71) when the Governor for the Netherlands proposed breaking the impasse by convening a special conference of high level representatives of Part I countries – at the level of Ministers – “preceded if necessary by one or two meetings of their Deputies”[1] for reaching a final agreement. The reference in the quoted sentence is probably the

[1] The IDA Deputies: An Historical Perspective (IDA 13, November 2001). The following three paragraphs of this paper draw on this document.

beginning of the IDA Deputies as a formal grouping of officials working in national capitals, separate and distinct from their representatives resident at IDA headquarters in Washington, who, in their capacity as Executive Directors, operated under a split mandate of being both representatives of their countries and officers of a multilateral institution. Moreover, the Deputies tended to be national officials higher up in the hierarchy and closer to the ultimate decision-makers in their respective countries and their insistence on having a dominant role in the replenishment exercises stemmed from the fact that contributions to IDA funding are grants that come directly from national budgets and are therefore of keen interest to their parliamentary taskmasters. [2]

4. The replenishment reports in the earlier years setting forth the agreed funding arrangements included the size of each replenishment and relative burden sharing among donors, effectiveness and advance commitment mechanisms and payments procedures etc., These were drafted in the format of Executive Director reports. By the time of IDA 8 (1988-90), however, the documents began to be drafted as Deputies' Reports, that is, as recording the consensus of the Deputies, to which a draft Board of Governors resolution was attached. While the drafts were presented by Management to IDA Executive Directors for their review, discussion and approval, prior to being transmitted to the Board of Governors, experience indicated that "there have been no changes made to the Deputies' report by the Board before it is sent to the Board of Governors for approval"[3]

5. This acknowledgement of zero adjustment being made to the Deputies' report by the Executive Directors is a telling indicator of a governance issue since the Deputies, as noted earlier, have no place in the IDA Articles of Agreement. This becomes a more significant issue if it is found that the Deputies' reports go beyond the strictly financial terms and conditions of the replenishment exercise. Some issues that came up in the earlier

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[2] The World Bank History notes that "the donor members of the Bank had an intense self-interest in the funding of IDA. They needed to hold IDA accountable – as they as governments were accountable – for the use of their taxpayers' money. It was inevitable, therefore, in a Bank-housed IDA, for great tensions to build between the institutions appetite for autonomy and the demands of its Part I owners for accountability". (Kapur, Lewis and Webb: The World Bank – Its First Half Century, Vol 1, Brookings, 1997), p. 1133

[3](*vide* paragraph 35 of Development Committee Document DC 2007-0024 dated 10/11/07).

replenishments included principles governing voting rights arrangements (in IDA-3), burden-sharing issues (IDA-4 and IDA-7), denominating donor contributions in SDR (IDA-5), switching the denomination of IDA credits from US dollars to SDR (IDA-6), restricting the use of part of their contributions (IDA-7) and harmonizing donor voting rights between IDA and IBRD (IDA-8).

6. From IDA-9 onwards, however, policy issues that would generally be considered as falling within the jurisdiction of the Executive Board began to feature in the Deputies' Reports. In their report on the Ninth Replenishment (1991-93), one of the key issues advocated was the adoption by borrowing countries of environmentally sustainable policies and demands that the Bank increase its collaboration with the IMF. IDA-10 (1994-96) intensified the focus on environmentally-related issues (including progress made in carrying out environmental assessments) and prescribed that IDA was to maintain separate rising trends for both sectoral and anti-poverty programs. This report also began to emphasize governance matters (typically, a euphemism for control of corruption in public services) and the efficiency of public sector management and extended its span of attention to such issues as the role of women in development planning and the allocation of non-development spending, including military expenditures. IDA-12 (2000-02) included specific recommendations for greater emphasis on governance factors in the rationing criteria for allocation of scarce IDA resources, the need for a private sector development strategy and public disclosure of Country Assistance Strategy (CAS) papers.

7. The expansion of the prescriptive role of the Deputies in policy and operational matters was speeded up from IDA-13 onwards, with growing emphasis being placed on poverty-reduction strategies targeted to the achievement of the Millennium Development Goals (MDGs); the devising of a new results measurement system; improving how IDA works with development partners, and operational matters relating to transparency, disclosure and accountability. Significant recommendations were included in the IDA-14 Report covering the allocation of IDA resources based on country performance and a new approach to grant allocation that focused on the likelihood of debt distress as the primary determinant of eligibility for grant financing. The Deputies Report launching IDA-15 provides further refinements on the allocation criteria and financing framework. Three special themes

centering on IDA's role were identified for treatment: (i)IDA's role in the global aid architecture;(ii) country-level effectiveness and (iii) addressing the special challenges of states coming out of conflict or seeking to avoid breakdown of the state (i.e. fragile states).[4] It is therefore not surprising that a perception has grown that "in discharging their responsibilities during the replenishment process, the IDA Deputies have become involved in IDA policy-making, which is the responsibility of IDA Executive Directors..(and)..calls have been made to review the role of IDA Deputies vis-à-vis the role of the Board"[5]

8. While this paper focuses on the role of the Deputies of IDA, it is important to recognize that the influence attributable to the Deputies emerges out of a broader movement of thought and action on the part of donor governments, as these are articulated through numerous channels, including the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) mechanisms, the rules of the Paris Club and other creditor groupings as well as through instruments devised in cooperation with other multilateral institutions, of which the IMF is perhaps the most important. Low income countries (LICs) have become subject to two layers of overlapping jurisdiction, one applied to recipients of the IMF's Poverty Reduction and Growth Facility (PRGF) and signaling mechanisms(such as PSI) and the other applying to IDA recipients. It is not easy to disentangle which institution is the source of any particular initiative but together they constitute a compendium of conditionalities that applies to low-income countries. While it would not therefore be correct to attribute their imposition to the IDA Deputies exclusively, there is a sense in which it is the IDA Deputies who hold much the stronger hand in the exercise, if only because the IMF's mandate restricts its concessionary financial involvement in any member-country to a limited duration whereas IDA remains the largest source of concessionary funding for poor countries and maintains a broad-range, longer-term relationship with all eligible countries.[6]

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[4] A detailed discussion of these themes is covered in IDA 15 Final Report titled Additions to IDA Resources: Fifteenth Replenishment and subtitled IDA: The Platform for Achieving Results at the Country Level (Approved by the Executive Directors of IDA on 02/28/08)

[5] para 31, op.cit. fn 3.

[6] Moreover, as stated in the IDA 15 Final Report, "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

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III. Criteria for Access to IDA Resources

9 . This section addresses specific elements that relate to IDA grant-making and lending criteria that become the basis for conditional access to IDA resources. The three basic criteria determining eligibility are (i) per capita income cut-off in FY 2008 of US $ 1,065; (ii) insufficient creditworthiness to permit access to IBRD and (iii) a good track record of policy performance. Over the years, a number of considerations have been added to ration the scarce concessionary resources of IDA. These include each eligible country's performance as assessed by the Country Policy and Institutional Assessment (CPIA) which covers not only an appraisal of the government's policies but also of the institutions in place to implement them. The CPIA is supplemented by an appraisal of the performance of the existing project portfolio and the combined rating is scaled up or down depending on the strength of the country's governance performance, resulting into the country's performance Rating (CPR). The CPR rating becomes the primary key for estimating a country's initial share of IDA allocations with population size and per capita income helping to determine its final share.

10. A second set of rules applies to deciding whether any portion of the country's IDA allocation should be offered as grants. "IDA-only" countries are eligible for grants, thus excluding "IDA-blend" countries (i.e., those with creditworthiness sufficient to provide them with limited access to borrowing on commercial terms from the IBRD). The primary criterion for grant-eligibility is the likelihood of debt distress; this is measured under the Joint Bank-Fund Debt Sustainability Framework (DSF) which provides a forward-looking assessment of the risk of debt distress using a baseline scenario, a standard set of stress tests, and where necessary, alternative scenarios that take account of country-specific vulnerabilities. This framework stands on two pillars: (1) a "static" pillar based on a one-year "snapshot" of the DSF matrix of policy-dependent external debt burden thresholds and (2) a "dynamic" pillar – an assessment of debt distress risk based on a forward looking Bank-Fund Debt Sustainability Assessment (DSA) that assesses debt trajectories relative to the same matrix and the impact of alternative scenarios and stress tests on these debt trajectories. The

aid (given its) global reach combined with local presence; multi-sector perspective and its convening power" (op.cit. fn. 4), Para 2.

matrix consists of a set of indicator thresholds of two “stock” and one “flow” external debt indicators, viz (i) the ratio of the Net Present Value (NPV) of public and publicly guaranteed (PPG) external debt to GDP; (ii) the ratio of NPV of PPG external debt to exports; and (iii) the ratio of the service on PPG external debt to exports.

11. These quantitative measures are combined with judgments on countries’ policies and institutions as well as their vulnerability to external shocks. The appropriate credit and grant mix for each country is then determined according to its debt distress category, with a process established to translate DSF risk ratings into IDA “traffic lights”. The traffic lights come in three colors: green corresponds to a low risk of debt distress; yellow to a moderate risk and red to a high risk of debt distress or actually being judged to be in debt distress. A configuration of credits and grants by traffic lights is then given as follows: a green light results in an allocation of 100 percent IDA credits; yellow light results in an allocation of 50 percent of IDA credits and 50 percent as grants and red light results in an allocation of 100 percent grants.[7] However, some allowance is made for changed country circumstances that are not reflected in available DSAs or in borderline cases. The annex Table lists configurations of debt distress categories and traffic lights for 2008 and illustrates the reliance of IDA grant allocation criteria on the DSF/DSA frameworks and their dominant role in ranking the creditworthiness of its clients.

12. However, the Deputies’ recommendations on eligibility for grants has generated another layer of conditionality following the launching in 2006 of IDA’s Non-Concessional Borrowing Policy (NCBP) . Under this policy, IDA can deny grant eligibility if a country’s government or other public sector entities contract or guarantee new loans from alternative sources of financing which threaten to defeat the debt sustainability objective that IDA grants are intended to achieve. The policy designed to act as a disincentive for non-concessional borrowing by IDA clients and is implemented through ceilings on allowable borrowing on commercial terms (the ceilings being typically set at zero). The NCBP has been criticized for

[7] However, to prevent any perverse incentives to neglect debt-sustainability considerations in order to qualify for 100 percent grant treatment, a discount factor is applied to the allocation for countries in that category. (For details on this and other aspects of DSF and DSA frameworks, see IDA 15 paper titled The Role of IDA in Ensuring Debt Sustainability: A Progress Report (September 2007).

its restrictive effects on client country freedom to enter into debt contracts and is being refined to allow for exceptions to such ceilings, although the ostensible rationale is not for reducing constraints on debtor governments but "to provide borrowers with some leverage with the creditor in obtaining the best possible financing terms for potential investment".[8] For an additional discussion of NCBP conditionality, see Para 15 below.

IV Spillover Effects

13. The IDA Deputies' influence has been exerted most directly on its sister-agency, the IBRD. The World Bank History has characterized the relationship between the two as a "seamless web" that was "made unmistakable by their shared management, staff and organizational structure" and as producing a "profound effect" on the Bank.[9] While there was initially a desire on the part of some in the Bank leadership to maintain a certain institutional distance from a new agency with a poor country focus (presumably a fear that the association might threaten the triple A rating on IBRD bonds), this reluctance was gradually overcome by the insistence of Bank practitioners that IDA work be done with the same care and prudence that applied to IBRD operations. But the influence was bound to work in both directions. The attention given to poverty alleviation and social sectors in IDA programs and projects drew the Bank staff into the same fields for IBRD lending once these new subjects "developed standing and competence within the house".[10] It was, after all, the same people who managed the work of the nonconcessional and concessional programs and who applied the same project appraisals, negotiating and supervising methodologies to their work and thus made it possible to classify some borrowers as "IDA-blend" countries; the application of IDA Deputies' recommendations would thus apply, over time, to IBRD lending priorities as

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[8] For details, see Annex 4 of IDA (2006b) titled "Principles that would guide exceptions to non-concessional borrowing ceilings". Curiously, the ceilings are attributed to IMF/PRGF programs but the Annex proceeds to mention "a number of country-specific and loan-specific factors" that would be taken into account in the NCBP to assess whether an exception to the zero-ceiling using the proposed benchmark is warranted. It is not clear whether these specific factors are to be "taken into account" in IDA programs or that all NCBP ceilings are applied only to IDA programs that happen to be a part of a PRGF transaction.

[9] Vol 1, p.1132, *ob.cit., fn 2, supra*.

[10] *Ibid*

well. The same influence has gradually seeped into process conditionalities relating to transparency, disclosure and accountability, and the last-mentioned has resulted in an exposure for IBRD operations to the same intensity of public scrutiny that was inevitable for its sister agency that was funded by taxpayer grants.[11]

14. Similar effects on other lending and guarantee agencies under the WBG rubric – the International Finance Corporation (IFC) and the Multinational Investment Guarantee Agency (MIGA) -- are less readily discerned. Although the IFC has a separate mandate for funding private sector enterprises and does not require the member-government guarantees that are necessary for lending/guarantee transactions under the Articles of Agreements of IBRD and IDA, the growing engagement of these two agencies in private sector-led growth strategies has led to a call for greater collaboration with IFC.[12] A more significant development is the decisions taken in 2007 to transfer a portion of the profits of IFC (as was done already in earlier years from IBRD profits) for funding IDA operations.[13]

15. Another set of institutions to which IDA directs its outreach efforts in the debt sustainability area is the complex of the five regional development banks with a view to harmonizing their lending practices broadly on lines suggested by the risk assessments contained in joint Bank-Fund DSAs. A similar effort has been mounted with bilateral creditors under NCBP. In addition to controlling non-concessionary borrowing by IDA clients, this policy has the dual objective of constraining "free riders" i.e., *new* official or commercial lenders who seek to exploit the addition to borrowing capacity emerging from the debt relief provided by *previous* creditors (e.g., through the HIPC and MDRI

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[11] "The zone of independence around the Bank was diminished, when first, under IDA, the institution began to draw substantial public revenues from its members, and second, began intruding more aggressively into their policymaking." *Ibid*. Vol. 1, p.589.

[12] According to the IDA 15 Final Report "IDA collaborates with IFC in many IDA countries and will intensify this collaboration through: joint work on investment climate, including removing barriers for female entrepreneurs; joint approaches to public private partnerships and joint work on Micro, Small and Medium Enterprises support, particularly in Africa". *Op cit*., fn 4 *supra*.

[13] In the IDA-15 Final Report, the Deputies "emphasize the importance of continued and substantial transfers from the IBRD and IFC to IDA, subject to availability of net income and annual approval by their respective Boards". *Ibid*.

mechanisms) or garnered through the grant-making initiatives of IDA. The NCBP is a form of conditionality that applies to lenders offering credits on commercial terms and thus is an example of a powerful spillover effect from an IDA policy.

V. Role of IDA Recipients in Replenishment Exercises

16. There was no role for representatives of IDA clients in the deliberations of the IDA Deputies until FY 2002. At the start of the IDA 13 period, the Deputies decided to open up the replenishment process to IDA recipient countries and invited senior Borrower Representatives from six regions (one each from Latin America, ECA, South Asia and East Asia plus two from the African region) to take part in their meetings. In February 2003 the Deputies decided to enlarge the list by adding one Borrower Representative (from the Middle East and North Africa) and to introduce a system of "alternate Borrower Representatives" to ensure continuity of representation in case a "primary" representative is unavailable. In the IDA 14 period, two "primary" representatives were added, one each from South Asia and East Asia, bringing the total to nine plus three alternate representatives[14]. The "primary" representatives are selected by the Executive Directors (ED) associated with the respective borrowing country constituencies and ED Offices are responsible for providing them with back-up support. However, the Bank provides budget funds to representatives – who presumably are based in their national capitals – for facilitating consultations with regional constituencies and with their respective ED offices in Washington DC and defraying their travel costs for attending IDA replenishment meetings. Borrower representation has also been enhanced through a formal consultation process with regional opinion leaders and for this purpose some of the preparatory replenishment meetings have been held in IDA recipient countries (i.e., Ethiopia for IDA 13, Vietnam for IDA 14 and Mozambique for IDA 15) to enable a dialogue between IDA Deputies and representatives from local governments, civil society and academia. Given the large number of IDA clients, it has been inevitable that the choice of the primary and alternate Borrower Representatives be aligned with existing constituency groupings, creating a second tier of representation (albeit from national

[14] Material in this and the following paragraph is drawn from Development Committee document, Op. cit., fn 3 supra.

capitals) selected and supported by ED offices, and provided with Bank funding for their travels, thereby replicating the network of recipient representation already present on IDA's Board of Directors.

17. Meanwhile, on the donor side, the number of Deputies has been growing as a number of middle-income countries have joined the previous group of "Part I" members bringing the current list of IDA donors to 45. With major "Part II" countries like Brazil, China, Egypt and South Africa recently joining the list of donors, there is reason to wonder how much the Borrower Representatives could be contributing as value-added to the IDA replenishment process.[15] Some of the uneasiness on this score has been papered over by gradually moving away from speaking of Deputies and Borrower Representatives and referring to them collectively as Participants but behind the semantics is the cold wording of the first footnote in the IDA 15 Final Report which states that "Beginning with the IDA 13 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*"(Italics supplied).[16]

18. The persistence of the unease is reflected in the argument made at the start of the IDA 15 period against "opening issues on the relationship between the IDA Board and the IDA Deputies at this particular time" and that given the "complex negotiation process", there might be "unintended consequences".[17] Now that the negotiations for IDA 15 have been successfully concluded, the issue of the Board-Deputies relationship should go back to the drawing board.

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[15] Some of the uneasiness on this score has been reflected in such mundane matters as the difficulty of seating over fifty –four delegates (45+9) around the table, with access to a microphone, and with opportunity to be heard during a typical two-to-three-day meeting.

[16]Op.cit., fn 3 *supra*

[17] The quoted phrases are taken from Para 36 of the Development Committee document DC 2007-0024 dated 10/11/07.

VI. Improving Deputies-Board Relationship

19. As recounted in previous sections, the power of the IDA Deputies to exert influence over IDA policies and programs has grown over the years and not necessarily in step with the growth of their contributions to IDA resources, since there has been a rising volume of IDA reflows and transfers from Bank profits (and latterly from IFC retained earnings) in recent years. Decisions under the HIPC and MDRI mechanisms have meant that a portion of contributions that would otherwise have been better used for financing new programs and projects have been diverted instead to providing debt relief and the policy inaugurated in FY 2006 of allocating 26 percent of annual financing in the form of grants means that a non-trivial portion of future IDA reflows are being surrendered. True, IDA Deputies have recommended that in addition to SDR 16.5 billion (equivalent to US $ 25.1 billion) for the IDA 15 Replenishment, that they would pledge substantial resources to achieve a total replenishment of SDR 27.3 billion (equivalent to US $ 41.6 billion) or an increase of xy percent over the IDA 14 total commitment figure. There can be no gainsaying that when it comes to issues of the size of donor contributions to IDA replenishments and the issues of burden-sharing among donors, the Deputies inevitably must exercise a dominant role in the exercise. However, their continuing intervention in how IDA policies are formulated sand implemented and how its resources are allocated, especially at country-level, sets up a tension with the IDA Board which is not abated by the transparently cosmetic device of attributing “Conclusions” to the “Participants” – which includes the nine “primary” Borrower Representatives – and where a whole range of the policy conditions are clustered, including such weighty matters as IDA’s role in ensuring debt sustainability (notably through the continued application of the NCBP) and the modalities of strengthening its country-level effectiveness (notably for playing its “platform” role and for working in fragile States). Only the funding issues are consigned to a brief final section where the “Deputies recommend” phrasing is employed. The introduction of the Borrower Representatives from IDA 13 onwards has thus created an intermediary link between the Final Report document and the

recipient representation on the IDA Board [18] while leaving with the Board the formal obligation – but not the substantive responsibility – of conveying this document to the Board of Governors for their approval of the accompanying Resolution.[19]

20. This distancing, in practice, of the IDA Executive Directors representing IDA recipient members has the effect of weakening the participation of developing and transition countries (DTC) in decision making that the creators of IDA had embedded in the voting schema of the Association and which is radically different from that to be found in the charters of the IBRD and the IMF. Voting power in IDA has two components: membership votes which are allocated to all members equally and subscription votes, which vary with the amount each member has subscribed. While the subscription votes of each Part I country correspond to its share of total cumulative Part I resources contributed to IDA (in successive replenishment exercises), the relative voting power of the Part II countries is maintained by allocating subscription votes to them at a nominal cost *of one vote for each $25*[20] *subscribed while membership votes are conferred without additional charge when subscriptions are made.* If Part II members were to subscribe to the full amount of subscription votes allocated to them, the Part II block would be holding about 48 percent of total IDA votes and their share would have been fully protected through the successive replenishments. The intent of the founders was clearly to ensure that recipients would have, and would maintain, a very substantive participation in all IDA decision making. This intent, however, has been subverted by the exceptional influence gained over the years by the IDA Deputies and by the failure of all Part II members to take up their allotted shares. The total unsubscribed subscriptions of DTC at the end of FY 2007 were 15.28 million and at $ 25 per vote would require an outlay of

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[18] As the Development Committee document points out: "Although the Board reviews and approves the conclusions of the IDA Deputies and Borrower Representatives as set out in the Deputies' Report, it would be difficult in practice for the Board not to approve the Deputies report" Para 35, *Ibid*.

[19] The Board Resolution states that "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......." (The capitalized letters are in the text of the Resolution).

[20] Based on exchange rates at the time of replenishment agreements.

US$382 million, not a trivial sum, but more than half of which is owing from emerging market economies and commodity producers holding or building large foreign exchange reserves. It should not be beyond the capacity of the latter group of countries to not only come up with their own subscriptions but also help out some of the poorer countries pay for their allocations in the framework of South-South solidarity.[21] This could be a first step in bringing the participation of DTC to a voting level commensurate with their interest in restoring the substantive role of the IDA Board of Directors in the replenishment exercises. Absent such demonstration of serious intent, it would be difficult to expect IDA Deputies to forego the influence they have gained in IDA policy and operational matters over the years.The increased voting power in IDA might also help to ameliorate industrial country influences in areas where IDA works closely with the IMF, but where the voting structure is much less favorable to low-income countries.

21. A second step would be for Bank Management to restrict negotiations with donors to the overall contours of a forthcoming replenishment, including its aggregate size and also seek agreement on a key for its distribution (e.g., as a percentage of GDP measured in PPP terms) instead of permitting burden-sharing issues to remain a contentious feature of the negotiations. Finally, all policy and operational matters, including allocation criteria, would be thrashed out in the IDA Board instead of being discussed at preparatory replenishment meetings.

[21] Some of the Part II members that have recently joined as IDA donors could require a portion of their contributions to be earmarked for this purpose along the lines of the “set-asides’ for arrears clearance.

Annex 1. Traffic lights for FY08 IDA allocations: IDA-only countries

(based on joint Bank-Fund LIC DSAs available as of end-June, 2007)

Country	FY08 traffic light		Debt stock indicators (2005, percent) 4/ NPV of debt-to-GDP	NPV of debt-to-exports	
Strong performance (CPIA>=3.75) 3/			*50*	*200*	
Bhutan	Red	1/	79	357	
Burkina Faso	Yellow				
Cape Verde	Green				
Ghana	Green				
Maldives	Green	1/	33	43	
Nicaragua	Yellow				
Samoa	Green				
Tanzania	Green				
Uganda	Green				
Vietnam	Green				
Medium performance (3.75<CPIA<3.25) 3/			*40*	*150*	
Bangladesh	Green				
Benin	Yellow				
Cameroon	Green				
Ethiopia	Yellow				
Guyana	Yellow				
Kenya	Green				
Kyrgyz Republic	Red				
Lesotho	Yellow				
Madagascar	Green				
Malawi	Yellow				
Mali	Green				
Mongolia	Yellow				
Mozambique	Green				
Nepal	Red				
Niger	Yellow				
Rwanda	Red				
Senegal	Green				
Yemen, Republic of	Yellow				
Zambia	Green				
Weak performance (CPIA<=3.25) 3/			*30*	*100*	
Afghanistan	Red				
Burundi	Red				
Cambodia	Yellow				
Central African Republic	Red				
Chad	Red				
Comoros	Red				
Congo, Democratic Republic of	Red	1/	107	389	
Congo, Republic of	Red				
Cote d'Ivoire	Red	1/	61	137	
Djibouti	Red				
Eritrea	Red	1/ 8/	42	675	
Gambia, The	Red				
Guinea	Red				
Guinea-Bissau	Red				
Haiti	Red				
Kiribati	Green	6/			
Lao People's Democratic Republic	Red				
Liberia	Red				
Mauritania	Yellow				
Moldova	Green				
Myanmar	Red	1/ 2/	N/A	128	
Sao Tome and Principe	Red	7/			
Sierra Leone	Yellow				
Solomon Islands	Red				
Somalia	Red	1/2/	N/A	1091	5/
Sudan	Red	1/	65	473	
Tajikistan	Red				
Togo	Red				
Tonga	Red				
Vanuatu	Green	1/	15	35	