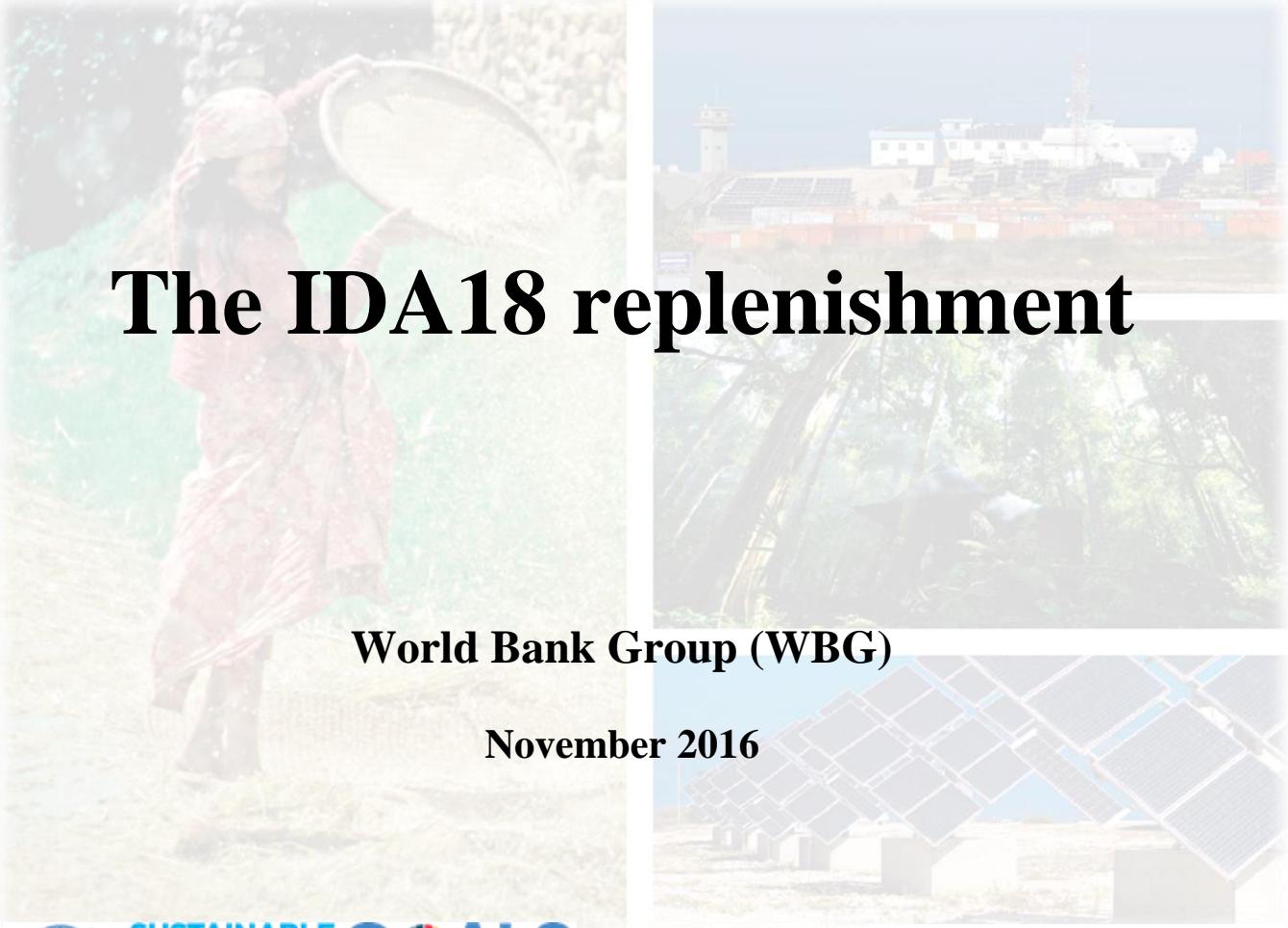


INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series



The IDA18 replenishment

World Bank Group (WBG)

November 2016



More Information

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**The IDA18 replenishment
World Bank Group (WBG)**

Summary of AAAA Commitments on concessional public finance:

The Addis Ababa Action Agenda (AAAA) recognizes that the allocation of concessional public finance should take into account a recipient country's needs and ability to mobilize resources. The Addis Agenda focuses on the special needs of different country groups, particularly LDCs and other vulnerable countries. In addition, the Addis Agenda recognizes the importance of addressing the financing gap that many countries experience when they graduate to middle income country (MICs) status. Specifically, the Addis Agenda:

- *Recognizes the importance of focusing the most concessional resources on those with greatest needs and the least ability to mobilize other resources (52, Mol 10.b)*
- *Commits to take into account level of development of recipients, including income level and vulnerability, as well as the nature of the project being funded, (when determining the) level of concessionality (73)*
- *Commits to consider appropriately the specific development needs of MICs; Acknowledges that ODA and other concessional finance remain important for MICs (71)*
- *Encourages shareholders in multilateral development banks to develop graduation policies that are sequenced, phased and gradual (72)*
- *Commits to couple graduation process of least developed countries with appropriate measures to not jeopardize development progress (73)*

The Proposed IDA18 Policy and Financing package responds to many AAAA Commitments:

Responding to heightened global ambitions and escalating risks, IDA18 presents a bold paradigm shift in how it mobilizes finance to support a significant policy package to help IDA clients achieve their development goals. With sufficient donor support, the Eighteenth Replenishment of IDA (IDA18), with a base case of USD75 billion, could be the largest replenishment in IDA's 56-year history and heralds a significant step change in its policy and financing framework.

The first ever public credit rating of IDA, a triple-A rating was announced by two rating agencies in September 2016. In addition to supporting the escalating demand for IDA resources, the ground-breaking IDA18 financing package – introducing market leverage and new financing instruments – could represent a paradigm shift and a new level in IDA's efficient use of partner resources. IDA's balance sheet will be optimized by introducing a hybrid financing model that blends partners' grant contributions with capital market debt, thereby making it possible to scale up support for all IDA countries including IDA FCS.

IDA18 could arguably be one of the most concrete and significant proposals to date on the AAAA to scale up the financing needed to achieve the SDGs. With the innovations put forward, IDA18 could dramatically increase the impact of partner contributions, generating about three dollars of financing commitments for every one dollar from partners, an increase from the 2:1 ratio in IDA17. This new hybrid financing model is a major and decisive step towards IDA balance sheet optimization, with further steps to be explored in

future replenishments as the policies supporting the transformational IDA18 proposal evolve and as lessons emerge from its implementation.

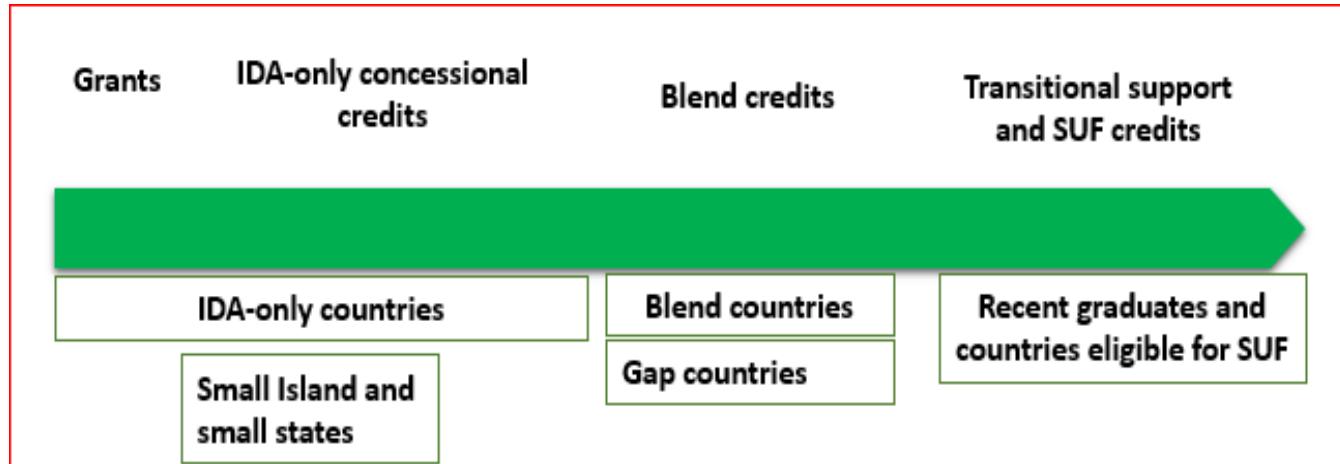
Underpinned by this transformative financing package and with continued strong partner support, an array of new measures and instruments are under discussion in IDA18 to help clients achieve their SDGs ambitions. These include proposed revisions to the allocation framework to scale up support to FCS, adjustments to the concessionality of assistance, and support for a smooth and lasting graduation from IDA for IDA graduates:

- *With sufficient donor support, proposals under IDA18 would double resources to fragile and conflict situations* and provide US\$2 billion to help refugees and their host communities, for example, through the provision of basic services, job training and creation, and bolstering of government finances that have been strained by the inflow of refugees. IDA18's proposal to scale up its focus on conflict and fragility builds on years of work to rebuild institutions and economies, and put in place the building blocks people need to resume peaceful and productive lives. Differentiated approaches are being taken to tackle the full spectrum of fragility and better target efforts to address the root causes of fragility and forced displacement. The proposed IDA18 policy package places an increased emphasis on promoting employment and private sector development in these challenging environments, and a regional approach to address cross-border dimensions. Thirteen million of the world's 20 million refugees originate in IDA countries; 95 percent of the 13 million are from fragile and conflict states.
- With sufficient donor support proposals under IDA18 would significantly increase financing for the *Regional Program*, where demand for resources to expand regional integration and infrastructure has consistently outstripped supply. This includes a proposed regional sub-window for refugees;
- With sufficient donor support proposals under IDA18 could expand financing to promote resilience through crisis preparedness and response, including through a scaled up and enhanced Crisis Response Window (CRW) and by introducing a new contingent financing instrument for IDA. In addition to a proposal to scale up support under the CRW, options to adjust the financing terms are being considered for countries where a natural disasters cause significant damage, and where warranted by a change in a country's debt distress risks in the aftermath of the disaster. The IDA18 Proposal also responds to the demand for additional options for contingent financing for crisis preparedness and response, by proposing to introduce the Catastrophe Deferred Draw-Down Option (CAT-DDO) for IDA countries;
- With sufficient donor resources a new *IFC-MIGA Private Sector Window (PSW)* could be introduced to mobilize increased private sector investment in IDA countries with a focus on FCS. The proposed PSD will be implemented through unprecedented collaboration among IDA, IFC and MIGA to scale up their work in the most challenging markets and provide greater end-to-end support for real impact.
- Proposals under IDA18 could increase non-concessional financing available, and hence provides flexibility for potentially transformational projects and for supporting IDA18 graduates, which still have significant poverty and lingering vulnerabilities, while facing a sharp drop in World Bank financing. Proposed transitional support on IBRD terms aims to help ensure a smooth and lasting graduation from IDA for the IDA18 graduates (Bolivia, Sri Lanka and Vietnam).

- The package of adjustments proposed in IDA18 could greatly enhance *IDA's engagement in small states*. This ranges from a significantly higher proposed base allocation, to favorable lending terms, special consideration of small size in leveraging the Regional IDA window, and aligning terms under the regional program to a country's risk of debt distress.

The IDA18 proposal builds on the IDA continuum of financing products and terms that take into account the increasing variation in countries' development (see figure 1). Financing terms for IDA-only countries are linked to each country's risk of debt distress, providing grants to those with the high risk, a mixture of grants and credits to those at moderate risk, and highly concessional credits to those at low risk. Recognizing the special vulnerabilities, the most concessional IDA lending terms for small-island states are proposed to be available to all IDA-eligible small states in IDA18. For countries that have been above a certain income threshold (the operational cutoff) for more than two years, grant financing is no longer available, and the financing is on slightly harder, but still concessional "blend terms". These "blend terms" are also available to those "blend" countries which have access to both IDA and IBRD. The IDA18 proposal would add non-concessional terms – IBRD terms – to the continuum of terms available to eligible IDA clients. These resources are proposed to be channeled through the proposed IDA18 Scale-up Facility (SUF) for transformational projects on IBRD lending terms, and to help IDA18 graduates (Vietnam, Sri Lanka and Bolivia) achieve a smooth and lasting graduation, and to support them in building sustainable market access.

Figure 1. Continuum of IDA Financing Terms expands in IDA18 Proposal

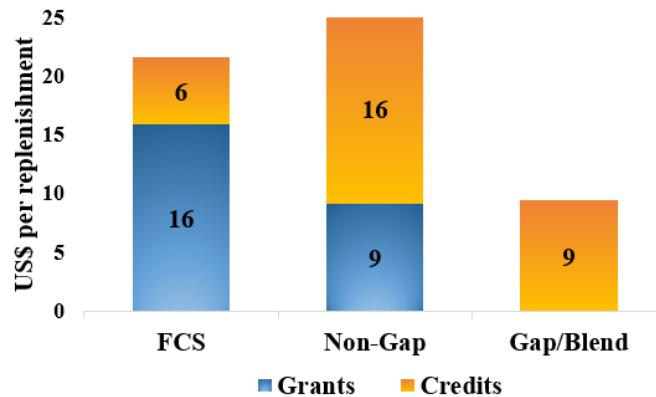


The integrated IDA18 financing framework allows for a better targeting of concessionality and delivering resources where they are needed most (Figure 2). Reflecting the performance orientation of the allocation framework proposed and the terms of IDA financing, non-FCSs IDA-only non-gap countries would benefit from the largest overall per-capita grant support in IDA financing (US\$26).¹ The overall per-capita

¹ Overall per-capita grant support refers to the per-capita grant component (i.e., pure grants plus the grant element of credits times the volume of credits).

grant support for FCS/FCV is slightly lower (US\$22), yet FCS/FCV would be the largest beneficiaries of pure grants in per-capita terms (US\$16, equivalent to three quarters of the overall per-capita grant support). Gap and Blend countries would benefit from much smaller per-capita grant support and – as per the grant allocation framework – they would not receive pure grants.²

Figure 2. Credit and Grants under the Proposed IDA18 Base Scenario by Country Group
(per capita terms)



Key to the IDA18 proposal is IDA's results focus which makes it uniquely well placed to maximize development impact and help clients reach the SDGs by 2030. The IDA18 package proposes to build on the IDA Results Measurement System which has evolved into a robust accountability and management framework that has contributed significantly to results monitoring at country, program and project levels. The IDA RMS will be consistent with and will fully reflect the spirit of the SDGs while continuing to fulfill its specific role of monitoring performance in IDA countries and IDA's own performance. While some SDG indicators are well established, for others, the availability and quality of data will be challenging for many countries. For several SDG indicators there is no established methodology for data collection, and there are measurement issues that may not be resolved over the IDA18 period. Hence, to align the IDA RMS with the SDGs, the new IDA RMS will focus on a set of relevant SDG indicators and/or targets in line with IDA's key engagement areas and its comparative advantage. The Proposed IDA18 RMS includes a higher level of ambition in the targets proposed, with revisions to better align the RMS to the SDGs, and with a sharpened focus on data quality, efficiency and selectivity.

In summary, the ambitious IDA18 proposals build on the progress IDA has made in recent years to respond to the heightened challenges and opportunities of its diverse client base. IDA's country-driven model allows countries to allocate IDA resources to national development priorities developed in consultation with government, parliament, civil society, private sector and other stakeholders, strengthening institutions and policy-making along the way. IDA's policy commitments and results tracking

² See IDA, “The Demand for IDA18 Resources and the Strategy for their Effective Use”, June 2016, Annex 6 for more details on the proposed adjustments to IDA's Performance Based Allocation Framework and its expected impact volumes and concessionality of IDA resources.

will be aligned with the 2030 agenda, and the terms of IDA support are consistent with country needs. The proposed integrated IDA18 financing model improves efficiency and targeting of funds, helping countries coordinate and target their scarce bilateral and multilateral aid resources across multiple sectors with less aid fragmentation and a lower burden on recipient countries.