

**Overview  
Of  
The Agreement for the Fifteenth Replenishment of the International Development  
Association (IDA-15)**

**By  
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**IDA Financing**

The World Bank's soft loan arm, IDA, is the largest multilateral channel for concessional financing for developing countries with per capita incomes mainly below \$1,065. IDA complements the World Bank's other lending arm—the International Bank for Reconstruction and Development (IBRD)—which serves middle-income countries with capital investment and advisory services. The IBRD and IDA are known as “The World Bank.”

The World Bank espouses the goals: 1) catalyzing inclusive and sustainable globalization, 2) fostering shared growth with care for the environment; and 3) improving the living standards of people with the overall aim of reducing global poverty. These goals are sought primarily through Bank efforts to improve investment regimes in recipient countries and, thereby, promote and expand the role of the private sector in developing countries. The Attachment provides a more detailed account of the goals and objectives set forth in the December 2007 *Agreement* governing the fifteenth replenishment, or 3-year funding cycle, of IDA (IDA-15).

During 2007, 45 donor governments negotiated the *Agreement* which includes the financing, terms and conditions for (IDA-15). They agreed to finance IDA-15 at the unprecedented level of \$41.6 billion, which will support 82 eligible countries (39 of which are in Africa) from July 1, 2008 through June 30, 2011.

IDA provides credits, or concessionary, which have no interest charges. Governments repay these credits over 35 to 50 years, including a 10-year grace period. IDA also provides grants to countries at risk of debt distress.

IDA transfers half of its resources to Sub-Saharan Africa. In Fiscal Year (FY) 2006, this amounted to \$4.75 billion. This compares to \$37 billion in grants from donor governments (i.e., bilateral donors) to the region. Notwithstanding the financial dominance of bilateral donors in the region, IDA is the most powerful player in most of the region.

In FY06, the IBRD and IDA committed \$23.6 billion to recipient countries. However, according to the IMF, net flows from the institutions to recipient governments were only \$1.8 billion, given the high level of repayments of loans and credits.

The sources for IDA-15 financing in the amount of \$41.6 billion are itemized in the Box, below. *Three precedents were set in this replenishment:* 1) China has become an IDA donor; 2) IDA accepted contributions from private firms (small contributions from Japanese banks); and 3) The World Bank's private sector affiliate, the International Finance Corporation (IFC) made its first significant contribution to IDA in the amount of \$1.75 billion.

The IFC is increasing active in partnering with IDA, signifying the increased reliance upon the private sector as an engine for growth. In 2008, IDA and the IFC set up a joint secretariat which is setting the ground rules for the collaboration and identifying the projects which they will co-finance.

Box

### Sources of IDA financing

(1) *Donor governments.* \$25.1 billion provided by 45 donor countries. New IDA donors are: China, Cyprus, Egypt, Estonia, Latvia and Lithuania. In addition, donors contributed \$6.3 billion for debt relief.

(2) *Private sector.* For the first time in history the World Bank accepted small private sector contributions to the IDA-15 replenishment. Now the Bank has put in place a framework for accepting such contributions.

(2) *Reflows on outstanding credits,* which in FY07, amounted to about \$1.7 billion or \$4 billion or \$5 billion over three years.<sup>1</sup>

(3) *IDA investment income* of approximately \$2 billion.<sup>2</sup>

(3) *Transfers from other parts of the World Bank Group.* For IDA-15, transfers totaled \$3.9 billion; the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) each contributed half (\$1.75 billion).

IDA estimates that approximately 40% of its operations are amenable to co-financing. The IDA-15 *Agreement* specifies areas for collaboration, through joint work on the investment climate (including removing barriers for female entrepreneurs; Micro, Small and Medium Enterprises (MSME), particularly in Africa, and the promotion of public-private partnerships (PPPs), including and in basic services – health care, education, and water.

<sup>1</sup> Reflows are projected to rise to a high of \$4 billion/year during the decade 2018-2027 and diminish sharply thereafter. See: IDA, "IDA's Long-Term Financial Capacity," February 2007.

<sup>2</sup> At the end of 2006, IDA had liquid assets of \$17 billion, including about \$8 billion in accelerated donor contributions. The average annual rate of return on these invested assets from 2001-2006 was about 4.5%. See source in footnote 1.

PPP projects have been politically controversial and oftentimes perform poorly in areas that affect poor peoples' lives more directly than other types of projects. In health and education, only 38% of IFC's projects have positive development outcomes. Success rates are also low in agriculture (50%) and manufacturing and services (50%). These averages would be significantly lower if they represented the success rates in low-income countries, as opposed to all countries.

The World Bank's outcomes in some basic services also lag in terms of performance. The Bank's *Health, Nutrition and Population (HNP) Strategy* (April 2007) states that "the quality of the HNP portfolio has been the lowest performing, below all Bank sectors average for project outcomes" (p. 38) and that, according to preliminary findings of the Bank's Quality Assurance Group (QAG), only 66% of projects were rated "moderately satisfactory" or better. (p. 40)

### Patterns of IDA and IFC Commitments

The FY07 commitments of IDA and the IFC – standing at \$11.9 billion and \$8.2 billion, respectively – were the highest in the history of these institutions.

Three billion dollars (\$3 billion) of IFC commitments were extended to IDA countries and \$1.4 billion to Sub-Saharan Africa, up from only \$140 million in FY03. Of the \$1.4 billion, advisory services represented 62% of all spending.

<b>Fiscal Years 2006 and 2007</b>		
<b>World Bank Group</b>	<b>FY07*</b>	<b>FY06*</b>
IBRD	12.8	14.1
IDA	11.9	9.5
IFC	8.2	6.7
MIGA	1.4	1.3
<b>TOTAL</b>	<b>34.3</b>	<b>31.6</b>
*Billions of Dollars		

### Table 2. FY07 Top Ten IDA Borrowers\* (\$million)

<a href="#">India</a>	2251
<a href="#">Pakistan</a>	885
<a href="#">Nigeria</a>	750
<a href="#">Vietnam</a>	712
<a href="#">Ethiopia</a>	630
<a href="#">Uganda</a>	540
<a href="#">Tanzania</a>	432
<a href="#">Kenya</a>	395
<a href="#">Indonesia</a>	389
<a href="#">Bangladesh</a>	379

(\* ) Including guarantees

Half of IDA's assistance (approximately \$5.8 billion) is directed to sub-Saharan Africa where the need for assistance is great. According to the IMF's *Regional Economic Outlook* (April 2008), the real per capita GDP of sub-Saharan Africa (excluding South Africa and Nigeria) is \$398 per year, a significant decrease since 1980.

As shown in Table 2, the concentration of IDA resources in four Asian countries – India, Pakistan, Indonesia and Bangladesh – is also great, totaling approximately \$4.7 billion in FY07.

### US Contributions to IDA

In the just-concluded negotiations of the fifteenth replenishment of IDA (IDA-15), the US Administration pledged \$3.7 billion to IDA for fiscal years 2009-2011, or \$1.23 million per year. This represents an increase of 30% over the US contributions to IDA-14. The US contribution to IDA-15 was topped by the UK contribution of \$4.3 billion, so for the first time since IDA's creation in 1960, the US has dropped from the largest to the second largest donor to IDA.

The US administration also requested \$42 million to cover a portion of the U.S. arrears to IDA which total \$385.6 million. The US share of total donor funds was 20%, on average, for many years, but in this decade, it has dropped sharply to 15%. The US voting shares on the Boards of Directors of the IDA have declined as shown in Box 2, below.

Notwithstanding these increases, the US share of total donor contributions and its share of votes has declined because other countries (especially the UK) have made greater increases in their level contributions more than the US has. In addition, the decline in the dollar relative to the basket of currencies used by the institutions translates into a decline in the real value of US contributions.

Box 3. U.S. Share of Replenishments to IDA-15

	Total 3-year replenishment	Increase over IDA-14 replenishment	U.S. pledge to IDA-15 (annual/3 year)	Increase in US Contribution over IDA-14	U.S. Arrears	Budget Request for Arrears	U.S. Share (as % of donor Contributions)
International Development Association (IDA)	\$42 billion (2009-2011)	30%	\$1.277 bill/\$3.7 billion	30%	\$385.6 mill	\$42 million	15.0%

Table 4. Decline in the US Voting Share on IDA's Board of Executive Directors\*

	IDA-13	IDA-14	IDA-15
US Voting Share	12.1%	11.5%	10.8%

### Allocation of Assistance

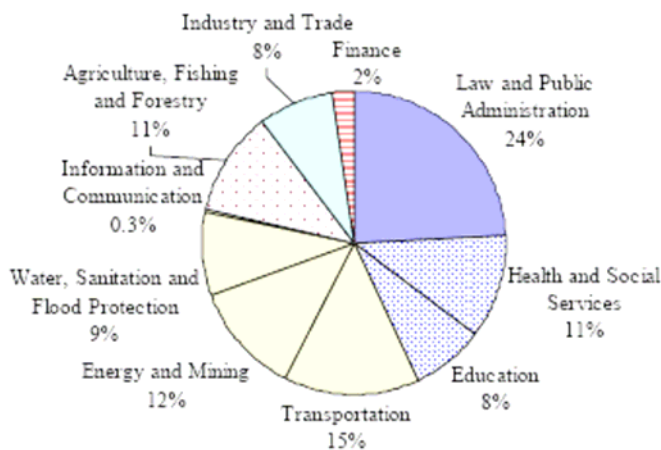
Over the last two decades, the allocation of aid shifted dramatically from infrastructure to the social sectors, particular in Africa. The Bank states that over the last two decades, the share of aid to the social sectors has risen (from 29% in the early 1990s to 52% in the period 2001-2005) while the share for infrastructure declined (from 59% to 38% over the same period). The institution's reports also describe that the primary reason for the decline of infrastructure can be attributed to structural adjustment programs, which marshaled government resources for debt servicing.

Since 2003, the Bank has orchestrated a shift back into infrastructure, including regional, or cross-border, infrastructure. The IDA-15 *Agreement* calls for each recipient government to set aside 20% of its aid allocation for regional projects, primarily in infrastructure. The extent to which the social sectors will suffer as a result of allocation of aid to infrastructure investment and government guarantees to private sector investors is unclear. Indeed, with growing shares of government expenditures financing subsidies for food and fuel, government priorities are shifting radically, in some cases.

Most infrastructure investments (particularly those which are cross-border) have a minimal impact on poverty and may, in fact, exacerbate poverty. As noted above, The Bank’s emphasis on promoting public-private partnerships in infrastructure, particularly water services, has been very controversial since such partnerships generally result in hikes in water fees and, often, project failure.

Many civil society organizations have pressured the Bank to improve the poverty-focus of its operations by employing “Poverty and Social Impact Assessments” (PSIAs) to identify prospective negative impacts of its infrastructure and other operations and mitigate them. The IDA *Agreement* emphasized the value of PSIAs and called for integration of the studies into Poverty Reduction Strategy processes of recipient countries.

**Chart 2: FY06 IDA Commitments for Investment Operations by Sector**



### **Sectoral Focus of IDA Conditionality**

One half of all policy conditions attached to IDA’s financial assistance (through Poverty Reduction Support Credits (PRSCs)) focus on government reforms of law and public administration. As noted below, the patterns of conditionality for middle-income countries, which receive Development Policy Loans (DPLs) are different than they are for low-income countries.

<b>Sectors</b>	<b>PRSCs</b>	<b>DPLs</b>
Law & Justice/Public Administration	50%	23%
Industry & Trade	13	27
Health & social services	10	5
Finance	6	20
Energy, Technology, Information & Comm	5	10
Education	8	4
Ag, fishing, forestry	5	10
Water & sanitation	3	1

### **Labor**

IDA-15 will focus on “social protection and labor” policies 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.” However, the Bank’s annual *Doing Business* Report promotes labor reforms that decrease security of households and wage earners and diminish the quality of jobs. For instance, the Bank calls for government to decentralize wage bargaining, which destroys collective bargaining systems at the national level, promotes contract jobs rather than permanent jobs, and rewards governments that diminish the level of job protection.

### **Allocating IDA’s Assistance**

Annually, each government’s performance is scored using an ideologically-biased instrument called the “Country Policy and Institutional Assessment” (CPIA). While the Bank produces performance scores for about 136 recipient governments, only the scores for low-income countries are disclosed to the public.

The instrument is intended to ensure that countries that are “good” performers (in macroeconomic, structural, social and governance areas) receive higher levels of IDA resources than poor performers. In fact, “good” performers receive seven times more assistance than “poor” performers which have the greatest need for resources.

It is intellectually preposterous that the CPIA formula presumes one set of “ideal” policies for all countries and all circumstances, however, the Bank’s Board of Governors and Board of Executive Directors has not questioned the legitimacy of this instrument.

### **Fragile and post-conflict states**

The IDA-15 *Agreement* calls for exceptional allocations of assistance to fragile and post-conflict states. Through the Bank's new State- and Peace-Building Initiative, IDA is strengthening its operational, procedural and organizational role in these countries and fine-tuning its financing arrangements to suit their needs. Out of 82 IDA-eligible countries, approximately 34 are "fragile states," including most of the "resource-rich" countries (Angola, the Central African Republic, the DR Congo, the Republic of Congo, Nigeria, Papua New Guinea, and Togo) and the number of such states is rising.

The importance assigned by the donor and creditor community to fragile states is evidenced by the creation of a Fragile States Facility at the African Development Bank and consideration of a special facility by the IMF's Board.

### **Features of the country-based model**

The IDA-15 *Agreement* emphasizes the fact that the institution uses a "country-based development model" to promote development. The first pillar of the model 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. In addition, the model would strengthen institutions and governance, particularly in fragile states and promote empowerment of women, as well as provide global public goods, including environmental sustainability.

The model is expected to provide a platform for harmonizing the activities of growing numbers of donors -- 56 bilateral donors and more than 230 multilateral organizations, funds and programs. Approximately 70% of official development assistance is provided by donor governments and 30% through multilateral channels. Aid levels from most donors are diminishing.

The country-level platform also aims to strengthen country systems, including those relating to health care, procurement, and public financial management. The Bank scores the performance of each country system. For instance, if the national system for financial management of country x gets a score of "A," then all donors and creditors are urged to channel their assistance through the national budget. The "tests" used by the Bank to produce scores for each country's systems are not value-neutral. For instance, some tests punish government procurement systems that require suppliers to adhere to core labor standards.

Strengthening country health systems is essential since many donors are earmarking aid for specific purposes, particularly diseases, e.g., HIV/AIDS, Tuberculosis, and Malaria. Earmarked aid for specific diseases is often not used in a productive way since country health care systems are often weak and governments lack the capacity to administer large amounts of earmarked aid.

### **Global public goods**

The Bank will play a more active role with regional and global public goods on issues crossing national borders, including climate change, infectious diseases, reforms in the international trade system and stability in the global financial system.

On climate change, the priority for IDA will scale-up its efforts to help countries adapt to socio-economic effects of climate change, complemented by mitigation actions such as expanding access to clean energy, including renewable energy, and improved forest and land management programs. IDA will scale-up its disaster preparedness efforts, leverage financing options to increase access to new technology and catalyze access to private sector insurance products, such as weather derivatives.

**Financial flows from Extractive Industries**

IDA will continue its efforts to enhance the transparency of revenue flows to governments from extractive industry projects. IDA will monitor the implementation of systems of accounting for revenues and their use.

**Achieving Development Results**

During this decade, the US Government has made “incentive-based” contributions to IDA to promote a “culture of results” at the institution. At the country-level, IDA focuses on monitoring the country outcomes listed in the box, below.

IDA has determined that 14 country outcomes are the most important to measure:

1. Proportion of population below \$1/day	8. Fixed lines and mobile telephones per 1000 inhabitants
2. Under 5 child mortality	9. Formal cost of business start up
3. HIV prevalence rate of women aged 15-24	10. Time required for business start-up
4. Proportion of births attended by skilled health personnel	11. Public expenditure management (# of benchmarks met)
5. Ratio of girls to boys in primary & secondary education	12. GDP per capita
6. Primary school completion rate	13. Access of rural population to an all-season road
7. Proportion of population with access to a safe water source	14. Household electrification rate.

Notably, any reference to employment or the natural environment are absent from this important monitoring system of results.

## **Selected Recommendations of Negotiators of IDA's 15<sup>th</sup> replenishment**

*An asterisk (\*) after the recommendation indicates that the IDA negotiators want the Bank to report on progress in IDA's Mid-Term Review in January 2010.*

### **A. The Role of IDA in the Global Aid Architecture**

#### **Support to National, Regional and Global Programs and Priorities**

- Scale up regional projects, especially in Sub-Saharan Africa

#### **Addressing the Challenge of Climate Change**

- Link IDA's approach to climate change with the institution's core mandate of poverty reduction and economic growth. Mainstream climate change actions – particularly in adaptation and access to clean energy – into the Country Assistance Strategies which IDA designs for each country.\*

#### **IDA's Role in Ensuring Debt Sustainability**

- Strengthen the application of the Debt Sustainability Framework, which determines each country's debt ceiling, and continue its use as the primary basis for allocating grants to debt-distressed countries.
- Continue applying IDA's Non-Concessional Borrowing Policy which reduces the allocation of assistance to any country that engages in non-concessional borrowing by 40%.

#### **Gender**

- Track progress on empowerment of women and gender outcomes of IDA operations.\*

### **B. IDA's Country-Level Effectiveness**

#### **Allocating IDA Resources**

- Simplify the Performance-Based Allocation formula and reduce unwarranted volatility in IDA allocations.
- Update the study of how IDA's process of allocating grants and credits among countries affects the development results in recipient countries. Using the Bank's aid allocation mechanism, the Country Policy and Institutional Assessment (CPIA), ensure that there is a balance between allocations to poor, needy countries and countries that are good performers in terms of their design and implementation of public policies.\*
- Place a ceiling on country contributions to regional projects – namely, 20% of IDA's allocation of assistance to each country should be devoted to such projects.\*

### **Achieving and Measuring Results**

- Strengthen the Results Measurement System.\*
- Develop lists of outcome indicators for four or five sectors.\*

### **Harmonization and Alignment**

- Review the application of conditionality and IDA adherence to Good Practice Principles on conditionality.
- Improve the implementation of Poverty and Social Impact Assessments to identify the prospective impacts of IDA operations.
- With regard to decentralization of IDA's operations, review the skills mix, staff incentives, costs and benefits to field deployment of staff with special attention to fragile states. Increase the number of internationally-recruited staff located in Africa by over 50% by the end of FY08 compared to FY06. Move toward a model whereby the majority of projects and programs are managed in the field.\*

### **IDA's Effectiveness in Fragile States**

- Report on progress in the following areas: providing incentives to staff to work in fragile states; cooperating with the UN and other actors; adapting the Bank's strategies to fragile and conflict-affected environments; and developing better indicators on state-building and peace-building activities in fragile states.\*
- Lengthen the period of time that post-conflict and reengaging states are eligible for higher allocations of aid than are warranted by country policy performance.\*
- Provide assistance to post-conflict and reengaging countries based upon performance as measured by Post-Conflict Performance Indicators. Have an external panel review the indicators and, then, disclose them to the public during IDA-15.

### **Replenishment of IDA Resources**

- Welcome the continued and substantial transfers from the IBRD and IFC to IDA.
- Cover IDA's costs of debt relief under HIPC and arrears clearance operations from IDA-15 resources.

