

IDA18 First Replenishment Meeting – Co-Chairs’ Summary
Paris, France
March 14-15, 2016

IDA Deputies and Borrower Representatives (Participants) met in Paris, France, for the first meeting of the IDA18 Replenishment. As per the IDA18 governance arrangements, the meeting was co-Chaired by Ms. Sri Mulyani Indrawati, Managing Director and Chief Operating Officer of the World Bank and Ms. Dédé Ekoué, international expert in development and former Minister of Planning and Development of Togo. Participants were joined by observers from other multilateral development institutions (AfDB, AsDB, and IFAD). Participants welcomed opening remarks made by Mr. Bruno Bézard, Director General of the French Treasury on behalf of the Minister of Finance and Public Accounts. Mr. Bézard characterized the year 2015 as a turning point in raising new global ambitions with regard to financing for development, the Sustainable Development Goals (SDGs), and climate change. Acknowledging many global challenges, he urged Participants to set the stage for a strong IDA18 that would help IDA implement the plans needed to reach these new ambitious goals. Urging focus on the poorest and most fragile countries with special attention to debt sustainability concerns, he also called upon the World Bank Group (WBG) to strengthen its tools to help with the refugee crisis. Participants also welcomed remarks by video by President Jim Yong Kim who spoke about the WBG strategic directions, underlining the urgency of the challenge of poverty reduction and stressing the importance in that regard of a robust replenishment of IDA. Reflecting IDA’s efforts to strengthen clients’ representation and voice, Participants included fourteen borrower representatives, up from nine in IDA17.

Strategic Directions for IDA18

Participants called for strong coherence between the ongoing Forward Look discussions and the IDA18 replenishment, while recognizing the importance of a timely conclusion of the IDA18 process. They agreed that the Strategic Directions paper reflects the context for the IDA18 replenishment including: the urgent and persistent development challenges of IDA countries; the importance of protecting hard-won development gains in the face of global headwinds; achieving the WBG Twin Goals and contributing to the implementation of the ambitious goals set out in the key recent agreements (SDGs, COP21, Sendai, and the Addis Ababa Action Agenda). Given the challenges that IDA countries are facing and the ambitious development agenda, Participants emphasized the need to scale up and mobilize resources to deliver results, as outlined in the “Billions to Trillions” paper and the critical importance of concessional and non-concessional financing as well as debt sustainability for IDA countries. They also stressed the continued importance of IDA’s results-oriented country-based model; welcomed IDA’s regional approaches to development and support through IDA’s Crisis Response Window (CRW); and emphasized IDA’s role in supporting South-South cooperation in knowledge, trade and investment.

Participants broadly supported “**Toward 2030: Investing in Growth, Resilience and Opportunity**” as the **Overarching Theme** for IDA18. With respect to the **Special Themes** for IDA18, they agreed to carry forward and deepen the IDA17 focus on **Climate Change, Gender Equality, and Fragility, Conflict and Violence**. With respect to Climate Change, many Participants stressed the urgency of addressing this issue given the resource pressures it exerts on IDA countries. They acknowledged the importance of supporting IDA countries implement their respective INDCs under the Paris Climate Agreement. They also highlighted the importance of climate preparedness, resilience and response, the need to work on adaptation and

mitigation, as well as the unique vulnerabilities of small island states. With respect to Gender Equality, Participants emphasized the importance of fully implementing the new Gender Strategy, including enhancing economic empowerment, integrating gender further across the full spectrum of policy dialogue, programs and projects, and improving the collection of sex-disaggregated data. Regarding Fragility, Conflict and Violence (FCV), Participants requested Management to broaden the definition of Fragile- and Conflict-affected States (FCSs) to better capture the heterogeneity of FCV challenges and provide tailored solutions. They asked that options to address forced displacement be explored, in line with IDA's mandate and its complementary role vis-à-vis other development and humanitarian actors. A few Participants suggested broadening the consideration of forced displacement to include other forms of migration. Participants also asked Management to ensure that IDA remains a long term partner for FCSs and urged the strengthening of IDA's effectiveness in these countries – including through enhanced in-country presence – and to explore options to scale up IDA's engagement in FCSs. There was broad support for reviewing options for increasing IDA's allocations for FCSs. They also stressed the need for strengthening partnerships, including with humanitarian agencies. Participants welcomed the addition of a new special theme of **“Economic Transformation and Jobs,”** and requested Management to put a strong emphasis on: new and upgraded infrastructure, including energy and transport; spatial economic transformation; private sector development, including economic diversification and trade; job creation; and regional economic cooperation and integration. Participants also endorsed the proposal to add a fifth special theme on **“Governance and Institution Building”**, which could include an emphasis on improving domestic resource mobilization, curbing illicit financial flows, strengthening public financial management and improving public sector capacity.

Participants asked that **resilience** and broader crisis prevention, preparedness and response be considered in a holistic manner in the context of all the special themes but also to inform IDA's overall program. They called for closer coordination between IDA and other development and humanitarian agencies in the poorest countries in line with its mandate. They also discussed the use of existing mechanisms – e.g. CRW, Regional Window and possibly country allocations – to support crisis preparedness and response.

Private Sector Engagement. Participants recognized that the special themes all touch upon the role the private sector plays in development. They welcomed the presentation by IFC and MIGA. Participants urged Management to present a paper with proposals at the next replenishment meeting for a joint IDA, IFC and MIGA approach to private sector development in IDA countries, including in FCS. The proposals should include options for innovative, tailored approaches for IDA's enhanced cooperation with IFC and MIGA – as a one World Bank Group – as well as demonstrate how IFC and MIGA can step up their work supporting private sector investment in IDA countries, beginning by doing more with existing instruments and resources. Some Participants asked about the possibility for IDA to take private sector risk on its own balance sheet.

Lessons from IEG Evaluations

Participants welcomed the IEG report on *Learning from IDA Experience: Lessons from IEG Evaluations* and emphasized IEG's role in promoting learning and improving development effectiveness in IDA countries. In line with the findings of the report, Participants encouraged Management to strengthen feedback loops to capture and integrate lessons into projects for better results. The value of selectivity was also highlighted. On specific themes, Participants highlighted the importance of analyzing country-specific drivers of fragility and conflict, and

integrating them into operations and strategies. Participants welcomed the report's finding that IDA country strategies show improved integration of gender. Looking ahead, they encouraged increased attention to youth and labor markets, agriculture, and small and medium enterprises over IDA18. Participants also called for IEG to focus on IDA's response to crises, as well as climate change, particularly the impact of the climate screening introduced in IDA17.

Results Update

Participants welcomed Management efforts to ensure that the IDA18 Results Measurement System (RMS) reflects the WBG's Twin Goals and IDA18 Special Themes. They also encouraged efforts to align the RMS with the WBG Corporate Scorecard and with the SDGs to the extent possible. They urged Management to simplify and manage the number of indicators/tiers in the RMS, supporting either holding steady or reducing the number of indicators, to maintain its usefulness as a monitoring tool – while stressing that it was important to retain measures that enable the monitoring of Bank efficiency. Participants highlighted the value of including client feedback in the RMS and encouraged the use of World Bank beneficiary surveys in that respect. Given the importance of data, they also asked Management to make efforts to improve data quality, sex-disaggregated data and continue supporting statistical capacity building in IDA countries. They requested more exchange of information and interaction between the Bank and borrower countries on result management to ensure greater ownership by clients. Participants also encouraged enhanced use of impact evaluations.

Graduation

Participants considered the recommendation for Bolivia, Sri Lanka and Vietnam to **graduate** at the end of IDA17 and agreed that these countries made significant progress in the recent past. Given the recent global economic headwinds, however, they expressed concern about vulnerabilities still facing these countries and the risk of reversal or stalling progress on poverty reduction. On balance, Participants requested to keep the issue of graduation of the three countries at the end of IDA17 under review. They also requested more clarity on a transitional support mechanism – including on volumes and terms – in the June meeting as well as on IBRD's capacity to support new graduates. On possible adjustments to graduation criteria – raising the GNI cutoff and supplementing it with additional indicators – Participants agreed to maintain IDA's current holistic graduation process, which balances rules with flexibility. They also underscored the importance of transparency and equity in the process, and of informing the process by an understanding of possible reductions in overall financing flows. On ensuring better coordination, Participants urged IDA to play a broader leadership role in coordinating efforts within and outside the World Bank, to smooth transition for graduating countries to non-concessional finance, including preparing countries better and earlier for IDA graduation through the Graduation Task Force. Some Participants requested information on the Graduation Task Force's work on Bolivia, Sri Lanka, and Vietnam at the June meeting. Some Participants also asked to review whether the flexibility in the contractual accelerated clause allows for smoothing graduations.

IDA18 Key Financial Issues

Participants welcomed Management's review of IDA's financial capacity and leveraging options. They confirmed that IDA's highest priority is to provide concessional financing for the poorest countries.

Participants broadly endorsed the **inclusion of Concessional Partner Loans (CPLs)** in the IDA18 financing framework – noting the importance of consistency with the approach for leveraging IDA’s equity and protection of IDA’s core grant financing model. Several Participants emphasized the need to continue having clear ground rules for the CPLs. Participants requested that details of the IDA18 CPL framework, based on the IDA17 framework, be presented at the meeting in June.

Participants supported Management’s proposal that: (i) the **reference exchange rate** should be the six-month average from March 1, 2016 through August 31, 2016; and (ii) the **threshold for determining countries that have high inflation** rates should continue to be an average annual inflation rate above 10 percent, over the three-year period 2013-2015.

Participants confirmed their support for the ambitious **leveraging of IDA’s equity**. Taking into account the high ambitions of the 2030 agenda and the importance of concessional funding for the poorest countries, Participants concurred that the leveraging should take place alongside a strong IDA18 replenishment, leading to additional resources and not risking general substitution – it was agreed that continued strong donor contributions to support IDA remains critical.

Participants generally agreed with Management’s assessment that a phased introduction focused on IDA18 will ensure the approach is appropriate to IDA’s and clients’ financial capacity, and that it can evolve and be calibrated over time consistent with implementation experience and decisions on WBG strategic directions, governance and financial capacity. The importance of a prudent and systematic approach to managing risks inherent in a leveraged financial model was emphasized. Many Participants underscored the need to explore whether a portion of leveraged resources can be provided to IDA countries on concessional terms, and to analyze the impact of such use of leveraged resources on IDA’s financial ratios. While some Participants expressed confidence in IDA’s capacity to use equity for leverage, others expressed caution and highlighted the importance of ensuring IDA remains capable of providing concessional resources for the poorest in the future. Several participants requested reviewing the level and evolution of IDA’s equity and scenarios on its outlook. To inform deliberations and decision-making in June, Participants also asked that Management further elaborate and shares with them and with the Board the feedback received from the internal risk analysis and external rating agency evaluations of the IDA+ proposals. Participants and Management agreed that any decision to leverage IDA would require confirmation of financial assumptions, completion of risk assessments, and full credit rating validation.

Participants supported **expanding the range of options of IDA’s lending products**, emphasizing that a flexible framework needs to balance the financial attractiveness and debt sustainability of new terms in different interest rate scenarios. Participants also welcomed exploring whether debt financing could enable the introduction of contingent instruments.

For the preliminary decisions in June, most Participants leaned toward **focusing on the IDA+1 and IDA Guarantee options** for IDA18 implementation and encouraged Management to present a proposal on these, while **emphasizing that IDA+2 should remain an option beyond IDA18**. It was also noted that the discussion of financing scenarios and leveraging approach needs to **take into account long term implications**, including WBG transfers. For decision-making, various Participants noted the importance of seeing further assessments and scenarios of expected lending volumes, loan projections, demand for concessional and non-concessional finance, the impact of interest rate movements, and different replenishment scenarios.

Participants recognized that the overall IDA financing framework and IDA+ financing terms will be important factors in determining **resource allocation principles**, also to be clarified and discussed in June. A number argued that the central overarching principle should be that any changes to resource allocation should lead to a larger share of concessional resources going to the poorest countries. Most participants expressed the view that the regular IDA allocation process should be followed for leveraged resources should they be offered on concessional terms, and supported the allocation of non-concessional resources through a simple and transparent framework consistent with the current structure and analysis of the debt sustainability prospects of IDA recipients.

For the **allocation of non-concessional resources**, Participants recognized that the framework will depend on demand and volume of leveraged funds available. Many Participants supported smoothing the graduation path for transition countries without substituting for IBRD. There was also support for strengthening areas where there is an overlap with the global agenda. Participants advocated for targeting any concessional leveraged resources for the poorest countries. Some Participants expressed concerns about recent graduates receiving IDA+ resources.

With regard to **set-asides**, most Participants cautioned that their number be limited and that most resources continue to be allocated through country envelopes – while others noted the importance of advancing key priorities. Participants emphasized the importance of the CRW to help IDA countries face crises. Participants also welcomed the proposal to expand the mandate of the Regional Window. They asked Management to develop a systematic approach and operational details for managing concessional and non-concessional resources under the Regional Window. Some Participants supported the introduction of a private sector set-aside.

Next Steps

Management informed Participants that the second meeting of the IDA18 Replenishment will be held in Nay Pyi Taw, Myanmar on June 21-24, 2016. In addition, a discussion with Participants will be held in April 2016 on the sidelines of the 2016 Spring Meetings.