

IDA17 REPLENISHMENT - SECOND MEETING**July 1-4, 2013****Chairperson's Summary**

The second meeting of the IDA17 Replenishment, hosted by the Government of Nicaragua in Managua during July 1-4, brought together the IDA Deputies and Borrower Representatives to discuss four papers that set out Management's proposed policy framework and range of possible financing scenarios for IDA17. The meeting included observers from countries which are considering becoming IDA donors (Azerbaijan, Indonesia and Thailand), observers from other institutions (the African Development Bank, the Asian Development Bank and the International Fund for Agricultural Development), from the g7+ Secretariat as well as representatives from Executive Directors' offices.

Maximizing Development Impact. Participants welcomed the presentations on the World Bank Group (WBG) Strategy and the change process, and on the IDA17 overarching theme of "Maximizing Development Impact". Participants underscored the need to align IDA17 with the WBG strategy, acknowledging that IDA is the main instrument for supporting the poorest countries in achieving the WBG twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. Overall, Participants appreciated the narrative on IDA17 which presents IDA as responding to the rapidly changing global landscape and highlights the need to place more focus on leveraging resources. The narrative also puts in context the rationale for the IDA17 overarching and special themes which respond to the evolving needs of IDA clients.

In the context of leveraging knowledge and private and public resources, Participants welcomed the One World Bank Group approach, including the emphasis on enhanced synergies among IDA, IFC and MIGA. The importance of earlier consultations with IFC in the formulation of country strategies and the right incentives for an engagement in IDA-only countries were noted. Participants also called for making more explicit the synergies with IBRD, emphasizing the importance of a "four-for-one" package in the context of IDA17, particularly in blend and graduating countries and including the further use of guarantees and IBRD enclave financing. They also requested elaboration on how to operationalize Joint Business Plans and track their contribution to the new World Bank goals. Participants welcomed the focus on leveraging public resources, which is IDA's traditional strength, and underscored the need to strengthen public financial management, including tax policy and administration.

On "value for money", there was recognition that the focus should be on both results and cost-effectiveness. Several Participants noted that value-for-money does not necessarily imply the least cost option, particularly in complex projects and fragile contexts. Many Deputies asked Management to develop indicators for the IDA17 Results Measurement System (RMS) that include measures of quality and costs effectiveness. Regarding the science of delivery, several Participants endorsed proposals for more systematic use of evidence-based methods in project design, and more flexibility in project implementation with monitoring and evaluation for mid-course corrections. Several Participants stressed the importance of providing appropriate funding for this purpose. There was also a call for IDA to promote knowledge transfer and help IDA countries to harness South-South cooperation, technology innovation and industrialization.

Participants made a number of suggestions to further strengthen the RMS, building on the strong achievements of IDA16. For IDA17, many Participants called for clearer links to the WBG goals and for a more coherent narrative and linkages among the various RMS Tiers and the Replenishment's themes. Participants underscored the need for a more ambitious RMS and some requested that Management continue to consult on the RMS before the next replenishment meeting. They called for the RMS to be a strategic and ambitious tool to manage for results, including for measuring knowledge results, and noted the need to be selective about which indicators are used. While limiting the number of indicators (now

80) seems necessary, clear priority should be given to relevant indicators of high quality with a focus on results and outcomes, instead of input indicators. Management agreed to continue the discussion on the RMS over the next weeks and encouraged Participants to provide input for the improvement of indicators.

Inclusive Growth. Participants welcomed the focus on inclusive growth as central to achieving the WBG twin goals of ending extreme poverty and boosting shared prosperity, emphasizing the need to identify and support country specific solutions and strategies. Overall, Participants supported the proposed focus on jobs, financial inclusion and natural resource wealth management. They highlighted the importance of the four-for-one approach and called for more ambition on policy commitments and RMS indicators to track progress and a better connection between the special themes. Several Participants emphasized the role of country diagnostics and welcomed the focus on data. They underscored the importance of operationalizing the 2013 WDR on jobs and taking into account the distributional aspects of inclusive growth through social protection, taxation and expenditure policies. They also welcomed the commitment to work closer with other international organizations, like the ILO on measurement, and noted the important role for IFC in the jobs agenda.

Gender Equality. Participants recognized the significant progress made in gender mainstreaming in IDA16. At the same time, they emphasized the need to increase the level of ambition in the policy commitments for IDA17, in particular by deepening the integration of gender into strategies and operations and placing greater emphasis on measuring the achievement of project gender equality objectives and the collection of gender disaggregated data. Some Participants felt that the gender informed standard was not sufficiently ambitious and requested clarification of what would constitute “follow up” on gender mainstreaming. Participants also stressed that more needs to be done to mainstream gender in lagging sectors and in FCS, on MDG5, and on women’s economic empowerment, as well as the importance of voice and agency. Several Participants urged a greater focus on addressing gender-based violence, particularly in FCS. They stressed the need to measure what works on the ground, and to use this feedback to scale up successful approaches, while working closely with other partners and leveraging WBG synergies. Several Participants emphasized the continued importance of country and regional solutions and the need to take account of cultural sensitivities.

Climate Change. Participants welcomed IDA’s focus on mainstreaming climate change, disaster risk management and low-carbon development in IDA countries, emphasizing the importance of sustainable development as a critical element for achieving the WBG twin goals. They acknowledged that IDA has a critical role to play in helping countries build resilient development. They also agreed on the need to scale up IDA’s efforts to help strengthen institutional capacity to manage climate and disaster risks, and emphasized the value of strong collaboration with other development partners and the private sector. They broadly supported the package of proposed policy commitments to deepen engagement in IDA17, particularly the commitment to integrate climate risk assessment in all new operations. They also called for even more ambition in certain aspects, particularly in relation to the quality of how climate and disaster-related risks are integrated in country strategies. In addition, they asked for more clarity on how IDA would scale up support to develop country-led plans and investments for managing climate risks, and for more clarity on the links to other sources of financing for climate change adaptation such as the Green Climate Fund. Some emphasized the costs of adaptation for IDA countries, the challenges posed by lack of affordable access to energy, as well as the incremental costs of low-carbon operations.

Fragile and Conflict-affected States. Participants welcomed the informal briefing on the preliminary findings of the Independent Evaluation Group on its ongoing evaluation of the Bank’s work in FCS, which was followed by Management’s presentation of the FCS policy agenda for IDA17. Participants welcomed the recent improvements in project portfolio performance, staffing and budgeting for FCS. Participants noted that IDA flows to FCS have been stagnating since IDA14 and that stepping up efforts in FCS is central to achieving the goal of ending extreme poverty. In that context, they expressed broad

support for the Bank's five-point reform agenda to increase its effectiveness in FCS, which includes efforts to improve the design of country assistance strategies, operational flexibility, knowledge and learning, human resources and enhanced financing for FCS. They emphasized the importance of improving risk management in fragile contexts. On security and justice, some Participants noted that IDA needs to partner with others rather than lead. There was also broad support for Management's proposed policy commitments for FCS, especially the commitments for joint business plans with IFC and MIGA in FCS. Several Participants called for better inclusion of fragility, jobs and gender in country assistance strategies for FCS. Others reiterated the importance of regional projects for FCS. They encouraged more emphasis on partnerships, including with the regional development banks and the UN which could be reflected in the RMS as appropriate. On the IDA resource allocation framework for FCS, there was broad support for creating a "turnaround" window in IDA17, raising the base allocation, and for stronger links between portfolio performance and allocation. Most Participants supported reducing the exponent of the country performance rating in the allocation formula from 5 to 4, while others expressed reservations. Participants requested a technical note elaborating implementation aspects of the "turnaround" regime as a key pillar for implementing the stronger focus on FCS. On the MDRI netting out mechanism, some Participants again expressed support for the proposed elimination while others emphasized the need to maintain the MDRI netting out to avoid moral hazard. There was no consensus on the elimination of the MRDI netting out.

The Demand for IDA Resources and the Strategy for their Effective Use. Deputies regarded the range of scenarios as realistic, reflecting on the one hand financing constraints for many contributing partners and on the other hand the need to deliver strong results toward achieving the WBG goals. Some noted that the proposed agenda for IDA17 was ambitious and would require an ambitious replenishment. Deputies provided useful guidance on their priorities and principles which will guide the preparation of three new financing scenarios. Based on this guidance, the range of financing scenarios would be narrowed from the five presented in Managua, to three new scenarios reflecting the principles and priorities discussed, with a financing volume in the range of scenarios 2 to 4 (ranging from US\$47 billion to US\$52 billion).

Among the principles outlined by Deputies, there was broad support for scaling up financing for FCS in all scenarios, including through the creation of the "turnaround" regime, while most also emphasized the need to protect resources for non-FCS at least in nominal terms relative to IDA16. Most Participants also expressed strong support for scaling up financing of regional programs, but expressed skepticism about proposed rule changes with several Participants requesting a case-by-case approach. Management agreed to prepare a short note on the proposed changes to the criteria for regional transformational project to address queries on this for the next replenishment meeting. On the Crisis Response Window (CRW), most Participants felt its continuation was important, and many indicated that its size could be lower than the proposed 3 percent of the total replenishment volume. Others recommended it be kept large but that it be recycled more effectively over the three years. On arrears clearance, most agreed with the level proposed by Management, but some suggested more flexibility in the use of this set aside if unused, and that these resources, as well as a share of unused CRW resources, could be reallocated at the IDA17 Mid-Term Review. On transitional support, Participants acknowledged the need for IDA to continue support for India in IDA17 and some indicated that such support should be included in all scenarios. Most indicated that the amount of the support would depend on the size of the replenishment and the availability of resources through concessional loans. Several Deputies strongly encouraged IBRD to lean forward to address the needs of India and the smaller IDA graduates, and urged early clarification on the possibility of an increase in the Single Borrower Limit by the IBRD Board in order to inform the decision on the volume of IDA transitional support. Several Participants also highlighted the importance of a smooth transition for graduating countries, including the further use of instruments such as guarantees.

On *IDA's financing sources*, many Participants welcomed the proposal to introduce concessional loans as a mechanism to provide additional resources to IDA countries and attract new partners and sources of

finance – particularly given the unique resource constrained environment for a number of partners, the expected drop in internal resources and the proposed transitional support – while several expressed cautious views. They noted that, without concessional loans, the overall IDA17 envelope would be extremely constrained. Most speakers underscored that grant contributions should remain at the core of IDA’s financing and noted the need to ensure additionality, transparency and IDA’s long term financial sustainability. Several supported the 80/20 reference baseline under which partners that want to contribute concessional loans to IDA17 would aim to provide at least 80 percent of their IDA16 basic contribution in the form of grants while providing loans with a grant element equivalent to at least the remaining 20 percent. Management noted the need for flexibility in the application of the framework, which most Participants supported. Participants discussed the proposed loan terms and some noted that concessional loans should be denominated in SDRs while others called for IDA to continue to explore options for non-SDR loans. There were divergent views on the appropriate discount rate that would calibrate incentives between loans and grants. While some favored a lower discount rate, others indicated the need for a discount rate higher than currently proposed by Management. Several Participants proposed that the loan providers should bear the credit risk associated with the provision of concessional loans and agreed that grant contributors should not provide additional resources to cover the debt service for loan providers. Management will revise its proposal on concessional loans to reflect the guidance received.

Most Participants endorsed the hardening of lending terms for IDA-only countries as illustrated in the financing scenarios. Management noted that this change is not expected to have a material impact on IDA countries’ debt sustainability ratings, even if applied by other MDBs.

Some Participants recognized the need to reduce the financing gap for debt relief costs under MDRI, HIPC, arrears clearance and grant principal foregone and that IDA would require full financing of these costs to achieve the objective of full donor compensation. Several Participants supported the introduction of a pilot program for project participation after the start of IDA17 and some noted that such participations should not benefit from preferred creditor status.