

**IDA18 Third Replenishment Meeting**  
**Washington, D.C. – USA**  
**October 10-11, 2016**

**Co-Chairs' Summary**

1. IDA Deputies and Borrower Representatives (Participants) met in Washington D.C. for the third meeting of the IDA18 Replenishment. The meeting was co-Chaired by Mr. Kyle Peters, Interim 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. Reflecting IDA's efforts to strengthen clients' voice, Participants included fourteen borrower representatives. Observers from other multilateral development institutions joined the meeting (AfDB, AsDB, and IFAD). Philippe Le Houérou and Keiko Honda, the CEOs of IFC and MIGA, respectively, also joined the meeting. Joaquim Levy, Managing Director and Chief Financial Officer of the World Bank joined key sessions.

2. This third Replenishment meeting built on significant progress already made in meetings in March (Paris) and June (Myanmar) and **aimed to consolidate consensus on the proposed transformative IDA18 policy and financing package** to advance the 2030 Development Agenda. Overall, Participants applauded IDA's **historic triple-A credit rating**, which enables it to scale up financing to all IDA countries, particularly to those affected by fragility, conflict and violence. The meeting broadly welcomed the IDA18 policy package put forward by Management and there was near-unanimous consensus on the proposed US\$75 billion base scenario.

3. **President Jim Yong Kim** joined the meeting to express his sincere gratitude to the Participants for their time and effort in making IDA18 a success. While acknowledging a difficult global context of low growth, limited policy space, and challenging political economy of structural reforms which, in turn, are compounded by rising threats linked to climate change, forced displacement and pandemics, President Kim expressed optimism about innovations being made in IDA to respond to these pressing global challenges. In this context, he voiced excitement on behalf of client countries at IDA's triple-A Credit Rating that enables it to provide resources at scale to reduce poverty and boost shared prosperity. On the policy front, President Kim welcomed the innovative **Private Sector Window** that could help attract private capital to the world's poorest countries and create much-needed **jobs** to employ their burgeoning labor force, especially **women**. He also welcomed the focus on **climate change**, where IDA would play a key role in helping translate and implement ambitious global agreements like COP21 at the country level. He also underscored the importance of IDA's support to countries experiencing **fragility, conflict and violence**, including in innovative ways to deal with issues upstream to mitigate drivers of fragility. President Kim ended by calling for a renewed sense of urgency in IDA18 to deliver resources at a scale "that would transform situations for people living in poverty."

4. The discussions over the two days were **organized around four issues**: (i) The IFC-MIGA Private Sector Window; (ii) the operational and financial framework for IDA18; and (iii)

IDA18 themes and policy commitments; and, (iv) draft Deputies Report. Key points and conclusions in each area are summarized below.

### **IDA18 Private Sector Window**

5. The meeting kicked off with a discussion of the IFC-MIGA Private Sector Window (PSW). Participants welcomed the statements by Philippe Le Houérou and Keiko Honda on the strategic importance of the PSW in their institutions' efforts to expand engagements in the most challenging markets and their commitment to the success of the PSW. Participants reaffirmed their strong support for the US\$2.5 billion PSW Pilot in IDA18 to work with IFC and MIGA to expand private investment in IDA-only, non-gap countries, with a focus on Fragile and Conflict Affected States. Participants endorsed the proposed facilities and key parameters of the PSW, while also calling for Management's close monitoring and evaluation. Some encouraged a portfolio diversified across regions.

6. The discussion focused on **five critical elements**: additionality/results framework, enhanced development impact and market creation, governance, implementation and risk management.

- On **additionality / results framework**, Participants stated that additionality to existing instruments, both within and external to the WBG, is key for the PSW's success. Most Participants agreed with Management's proposed indicators for measuring PSW additionality (both in scale and particularly scope of activities), but emphasized the need for a more ambitious results framework with objective and verifiable indicators to track and report the value added of PSW operations, and link PSW with the IDA18 Special Themes.
- On **development impact**, they asked Management to consider the demonstration effect of PSW projects, including the extent to which they enable the creation of new markets and crowd in the private sector and to enforce the principles of minimum concessionality and transparency to avoid undesirable consequences, namely market distortion, including in the case of the local currency facility.
- On **governance**, including conflicts of interest, they endorsed Management's approach to balance robust governance arrangements with operational/cost efficiency and agility to ensure that existing processes are used to the maximum extent possible.
- On **implementation**, they urged Management to foster the success of PSW transactions by leveraging the unique collaboration between IDA, IFC and MIGA; ensure that IFC and MIGA step up their origination efforts; provide sufficient technical assistance to their clients; work with IDA as it continues to improve macroeconomic policy and the regulatory environment in these challenging markets; and improve staff incentives, support and outreach to develop opportunities in these markets. Participants also emphasized the importance of coordination with WBG country and sector programs.
- On **risk management**, they acknowledged and accepted the risks of the PSW, and asked Management to track how the risk of actual portfolio evolves. Several Participants emphasized the need for the PSW to take higher risks commensurate with its targeted

impact, even at the cost of some losses. Participants also emphasized the need to manage moral hazard and set appropriate incentives and risk sharing arrangements.

7. Management agreed to incorporate Participants' guidance in the Deputies' Report and respond in writing to several additional questions. In terms of finalizing the proposal, Management confirmed that the PSW proposal including aspects related to implementation, including a results measurement framework, would be presented to the Executive Directors of IDA for approval, together with IFC and MIGA Boards' approval of each institution's participation. Management will report on the PSW's progress at the IDA18 MTR, use the Spring and Annual Meetings to provide updates as appropriate, and commission an independent evaluation when appropriate.

### **IDA18 Operational and Financial Framework**

8. Participants re-affirmed their support for the integrated financial framework. They acknowledged that market access following IDA's recent triple-A credit rating, combined with donor contributions, provides IDA with **greater flexibility to scale-up support** to the poorest towards the 2030 goals, respond to crisis situations, expand the volume and menu of contingent financing, and enhance current financing products, while retaining a focus on concessional finance. Many Participants noted that **strong donor support and contributions** are an essential element of IDA's triple-A credit rating and the long-term financial sustainability of IDA. They expressed near-unanimous **consensus for the Base case** financing scenario against which donors will pledge in December. Some also indicated their support to the two higher scenarios. A few donors requested clarification of how deviations from the Base case scenario could be reflected in the various set asides. Several Participants confirmed their intention to at least maintain their IDA17 contributions in national currency and encouraged others to match the ambitions and needs associated with the 2030 agenda for the poorest countries.

9. Regarding **transitional support to graduates**, Participants broadly agreed that the revised proposal improved upon what was proposed in Myanmar and the discussion focused on three main issues.

- There was broad support for the revised proposal to provide **transitional support** for IDA18 graduates at reduced volumes compared to what was proposed in Myanmar. Participants urged Management to ensure a smooth transition for IDA18 graduates and support them in building sustainable market access. Some Participants expressed a view that further information on IBRD's ability to support these three countries was important to inform their assessment of the level of IDA18 transitional support. Management agreed to provide a note with more information on the current situation in the three graduating countries and the IDA/IBRD assistance to them in IDA18. Management also agreed that, within the constraints allowed by IBRD's current capital position, it will make best efforts to stretch IBRD lending to the three transition countries beyond levels currently planned for IDA18 subject to creditworthiness considerations. Many Participants underscored that the approach for supporting graduates in IDA18 is an IDA18 solution only and asked Management to put in place measures to ensure that

transition assistance is not front-loaded, ensuring that the review of transition support at the MTR (in light of possible decisions about IBRD capital) is most meaningful.

- Participants supported the temporary suspension of the decision to exercise the **acceleration clause** for IDA18 graduates until the IDA18 MTR. In response to concerns expressed by a few Participants about possible resumption of acceleration at MTR, Management clarified that FY20 would be the earliest point at which acceleration could take effect so that affected countries would have time to incorporate the impact in their budgets. Participants welcomed the proposal for a holistic review of graduation at IDA18 MTR with the goal of smoothing the transition for graduates, including further analysis of how to better utilize the blend period to ensure graduation readiness taking into account whether adequate debt management capacity, domestic resource mobilization, and public financial management, etc. is in place. It was agreed that at the same time, the cap on blends would also be discussed.
- Regarding the proposed IDA transition support, **India** announced at the beginning of the meeting that its preference as an IDA graduate was for an IBRD solution to meet its large financing needs from the World Bank, leaving scarce IDA resources for the poorest countries and for the IDA18 graduates. In its announcement, India highlighted the case of Sri Lanka, which has requested a higher transitional support. Participants applauded and congratulated India for this step while emphasizing the importance of continuing World Bank engagement in India through IBRD given the still large unfinished poverty reduction agenda.

10. Participants agreed with Management's proposal to shift the additional resources freed up from transitional support relative to the proposal in Myanmar to the Scale-Up facility. Regarding the additional resources freed up by India, other options were also considered. In response to questions by some Participants on whether these freed-up resources would be better allocated to the Regional Window, Management highlighted that resources from SUF could also be used for Regional projects. Some Participants asked whether the freed-up resources could be moved to core concessional IDA. Management clarified that such a transfer to core concessional resources would require higher grant contributions from partners or a reduced commitment authority from the base case. Participants agreed to also shift additional freed-up resources from India transitional support to the **Scale-up Facility (SUF)**. With the resulting significant size of the SUF, the importance of monitoring countries' ability to absorb non-concessional resources, and making mid-course corrections was highlighted. In addition to the prioritization criteria proposed by Management, Participants supported a request to include **additional soft prioritization criteria** in the SUF related to an operation's ability to crowd-in resources including from the private sector and drive economic transformation –including through countries' Nationally Determined Contributions (NDCs) agreed as part of COP21 and to support resilience building – and/or deliver benefits beyond or across borders. Some Participants were supportive of the proposal to include a soft target of 70 percent of SUF resources for IDA-only countries. Others suggested a lower soft target, in consideration of the larger than expected envelope of the SUF while still others felt that blend countries should not be constrained in the use of SUF resources. Management agreed to provide a note to help guide the decision of whether or not, and at what level, any soft target would be appropriate.

11. Participants welcomed revisions to other aspects of the **operational framework** and the proposed **instruments**.

- Regarding **Syria**, on an exceptional basis, a few Participants suggested using the indicative national performance-based allocation for Syria in IDA18 for the benefit of Syrian refugees, while others felt that the Concessional Financing Facility was a more appropriate mechanism for such support.
- Participants supported the new windows including the **refugee sub-window** and **risk mitigation allocation regime**.
- On crisis-related proposals, Participants welcomed the increased focus on crisis management including through the adoption of the **Catastrophe Deferred Drawdown Option** (CAT-DDO) instrument. They also supported the alignment of the governance arrangements for responding to economic shocks under the **Crisis Response Window** (CRW) with the two-step process in place for natural disasters and health emergencies. For countries exposed to severe natural disasters leading to significant damage and losses of over a third of GDP, Participants supported the adjustment of IDA financing terms, if warranted, based on an updated debt sustainability analysis in the aftermath of the crisis.

12. Participants confirmed a **nine-year encashment profile** for IDA18 and the discount rate for accelerated encashment of donor contributions at 0.6 percent per annum. Participants also agreed with the final IDA18 framework for Concessional Partner Loans.

13. Finally, Participants emphasized the important links between the IDA18 framework and the role and capacity of other WBG institutions – particularly associated with **net income transfers**. Participants recognized the need for a pragmatic approach that balances solidarity with financial prudence. Participants noted the need for good coordination between IDA Deputies, the Boards of IBRD and IFC, and Management on this issue, as part of the IDA18 decision-making process and urged that Board decisions on the transfers be reached before the conclusion of the IDA18 replenishment. Management confirmed that transfers would be discussed at the Boards of IBRD and IFC ahead of the Fourth Replenishment meeting.

14. In light of the significant financial transformation of IDA, some Participants proposed a review of the IDA **voting rights arrangements** for further discussion at the IDA18 Mid-term Review while a few expressed concerns that this could have effects beyond IDA’s voting rights. Management agreed to reflect the request for a review in the draft Deputies’ Report.

### **IDA18 Results and Special Themes**

15. Participants welcomed the strengthened **overall policy and commitment package**, recognizing the progress made in response to feedback provided earlier. They acknowledged that many commitments were moving toward greater ambition, were more operational and better demonstrated the links across the themes. Across all of the themes, they encouraged still greater *ambition* and focus on *results* where possible, as well as careful attention to building resilience, mainstreaming these commitments into IDA’s ongoing work, and including better links between CPFs and SCDs and the policy commitments while acknowledging that IDA is driven by the country model. Participants also emphasized the critical importance of IDA *partnerships* and

cooperation and coordination with other multilateral and bilateral partners, such as the African Development Fund (ADF), as well as the value of South-South cooperation and regional cooperation. Participants welcomed WBG's emphasis on the *value for money* in the design and implementation of its operations and in its processes and organizational structure while leveraging its comparative advantages and financial capacity to maximize its development impact. Some Borrower Representatives called for balancing realism and ambition in the policy commitment package, pointing to limited implementation capacity in many IDA countries, underscoring the continued need for IDA to simplify, prioritize and remain client-driven.

16. Participants acknowledged that the **overall policy and commitment package** has been strengthened since Myanmar in all the five thematic areas.

- With regard to **Jobs and Economic Transformation**, Participants welcomed the significant progress made in terms of policy commitments, including on migration, youth and women employment programs, transformational infrastructure, and operationalizing lessons from the Jobs diagnostics. Participants acknowledged the greater operational focus, while some saw room to strengthen links between the PSW, the SUF and the Regional Window. Many Participants asked to see a more detailed account of existing partnerships, including with the ILO, with bilateral partners as well as with the private sector in the context of promoting quality jobs, and stronger recognition of the link between good governance and economic transformation. Where possible, Management agreed to reflect the relevant changes in the draft Deputies' report.
- On **Gender**, Participants noted the addition of the new commitments regarding urban transport and improving women's access to internet and ICT services, which are critical for improving women's economic opportunities. They also welcomed the new commitment to implement the recommendations of the World Bank Group's Global Task Force on Gender-based Violence. They took note that the Fragility, Conflict and Violence CCSA jointly own the commitments on gender-based violence with the Gender CCSA. Participants emphasized the importance of considering women as positive agents of change and encouraged ambition in addressing gender issues across all themes, for example, supporting women's voice and agency and economic empowerment in fragile contexts going beyond gender based violence. Management explained that the 2015 WBG Gender Strategy will be an important vehicle for this type of work to see how the design of operations can seek to improve women's participation, representation and access to services. Finally, the importance of data was also emphasized acknowledging the challenges to change systems and build statistical capacity for household data collection. Participants welcomed the new gender tag in Bank operations that aims to capture the gap between males and females and identify actions needed to close that gap, and indicators to measure progress.
- On **Climate Change**, Participants took note of the commitments and reiterated their appreciation for the adjustments and ambition already presented in Myanmar. They welcomed the approach to fully integrate climate change and disaster resilience into development programs to maximize the impact and leverage of the interventions, building on progress made in IDA17. They supported IDA's aim of explicitly referencing NDCs in SCDs and CPFs to shape development programs going forward with a climate and resilience lens. They welcomed the emphasis on supporting countries to integrate

NDCs into national budget and planning processes, together with other partners including the NDC Partnership. They asked Management to support a diverse group of countries to do this and share the experience broadly. To tackle climate change, Management agreed on the importance of planning across a range of interventions including the focus on climate smart agriculture, forests, deforestation, land restoration, and urban development. Management agreed on the need to promote energy access in IDA countries on an affordable basis, and continued attention to investments in renewable energy, and energy transmission, distribution, and efficiency.

- With regard to **Governance and Institutions**, Participants welcomed the increased focus on service delivery, transparency, open government, inclusion, and citizen engagement and the links to all the special themes, particularly Fragility, Conflict and Violence (FCV) and Gender. Participants supported the overall increase in ambition in policy commitments, and urged a strengthened focus on tackling Illicit Financial Flows and on risk assessments, as well as a commitment to identify and address institutional bottlenecks to service delivery and domestic resource mobilization. Management responded to these requests by explaining the increased ambition in these areas and agreed to better describe this in the revised draft Deputies Report. Some Participants requested attention to sub-national transfers, social and economic inclusion, improving the capacity of borrowers to strengthen the implementation of the WBG safeguards, and supporting IDA countries on transparency. In response to a request, Management agreed to provide a note from the legal department with assurance that the indicator on Open Government Partnership is consistent with IDA's Articles. Finally, some Participants urged timely attention to operationalizing the World Development Report (WDR) 2017 on Governance, after the Board discussion.
- As to **Fragility, Conflict and Violence**, Participants recognized the importance of building resilience and partnerships and welcomed the strategic approach to mitigating FCV risks by addressing the root causes of fragility. They welcomed ongoing partnerships with the UN and other actors in which each partner should focus on their areas of comparative advantage, as well as Management's intentions to further deepen these partnerships to provide comprehensive solutions in FCV situations. Participants supported the FCV Risk Mitigation regime, and welcomed the sharpened eligibility criteria and the commitment to prepare an implementation note to access financing through this regime. Participants also supported the implementation arrangements for the **Refugee Sub-Window**. Some stressed the importance to ensure that operations under the refugee sub-window genuinely benefit refugees by helping them integrate into the host communities. While Participants recognized the challenges faced by Internally Displaced Peoples, there was broad consensus that the refugee sub-window should focus on the needs of refugees. Instead, Participants noted that Risk and Resilience Assessments should better capture the development challenges related to Internally Displaced People and these could be addressed using the higher IDA18 performance-based country allocations. Some Participants called for attention to supporting the return of refugees to the country of origin. In response to the urging of some Participants to contemplate including "policy reforms" in support of refugees as a part of the eligibility criteria for the Refugee sub-Window, Management agreed to include a reference that would underscore the desirability of the window to promote such reforms without placing excessive burden on countries. In addition, also at the urging of some Participants,

Management indicated its willingness to adjust the threshold for eligibility to 25,000 refugees or 0.1 percent share of the population, which would add six countries to the list of eligible countries.

17. Finally, with regard to the IDA18 **Results Measurement System (RMS)**, Participants appreciated the higher level of ambition built into the IDA18 RMS targets, but sought further strengthening of the level of ambition given the likely size of IDA18. They also suggested ways to strengthen specific indicators and targets and urged Management to elaborate on the progress of the poorest relative to other groups. Management agreed to reflect changes, where relevant, in the draft Deputies' Report.

18. As a cross-cutting issue, the meeting discussed the **implementation plan for scaling up resources, particularly in the FCS context** covering staffing, security, budget and operational policy and flexibility. While the Participants were broadly pleased with the progress that management has made to date, they: (i) highlighted the importance of incentives and career management in delivering on the FCV agenda; (ii) asked for more information on the magnitude of the scaling up of in-country staffing envisaged, on how the plan will be financed and requested an update in advance of next replenishment meeting; (iii) urged the Bank to ensure that the financing and planned policy changes will be in place before IDA18 starts; (iv) welcomed the proposed expansion of the Project Preparation Facility and requested this to be fast-tracked to support the pipeline preparation for FCV in IDA18 and extended to implementation support; and (v) urged the Bank to increase the ambition of facetime index in FCS, particularly focusing on increased presence of Bank staff on the ground.

### **IDA18 Deputies Report**

19. Participants provided a number of suggestions for improving the Deputies Report both in written comments before the meeting as well as during the meeting which would be incorporated in a revised draft. In particular, they called for the report to strengthen its narrative of **ambition** and **value for money** that IDA financing, knowledge, and leveraging brings to the global community. In addition, they urged highlighting the importance of IDA's **partnerships**, and the necessary preparation underway to **implement** the scaled-up IDA18. The partnership between the ADF and IDA was underlined, including the need to for the Deputies Report to reflect the ongoing cooperation and collaboration outlined in the Background note presented in Paris. Participants agreed to the timeline for the Deputies Report including sharing the revised draft with Participants simultaneously with Civil Society Organizations (CSOs) on October 25.

### **Next Steps**

20. The Fourth IDA18 Replenishment meeting will be held in Yogyakarta, Indonesia on December 14-15, 2016.