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IDA16

IDA16 SECOND REPLENISHMENT MEETING

SUMMARY NOTE

SUPPORTING DEVELOPMENT RESULTS

INTERNATIONAL DEVELOPMENT ASSOCIATION

IDA RESOURCE MOBILIZATION DEPARTMENT (CFPIR)

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ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CRW	Crisis Response Window
FCCs	Fragile and Conflict Affected Countries
HIPC	Heavily Indebted Poor Country
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MTR	Mid-Term Review
PBA	Performance Based Allocation
RMS	Results Measurement System
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WDR	World Development Report

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IDA16 SECOND REPLENISHMENT MEETING

SUPPORTING DEVELOPMENT RESULTS

Bamako, Mali (June 15-18, 2010)

1. **At the meeting held in Paris in May 2010, IDA Deputies, joined by representatives of borrower countries, began discussions on the Sixteenth Replenishment of IDA resources (IDA16).** Participants discussed the strategic thrust for IDA16 which is set within the context of the broader World Bank Group Post-Crisis Directions. They acknowledged that the central challenge faced by IDA countries is to accelerate progress in achieving development outcomes, including the Millennium Development Goals (MDGs) and agreed that IDA16 should focus on development results as the overarching theme. Based on this guidance, Management has prepared six papers to inform the discussion during the second IDA16 replenishment meeting to be held in Bamako (Mali) on June 15-18, 2010. In these papers, Management presents proposals for enhancing IDA's effectiveness and focus on development results as well potential scenarios and related financing options for IDA16. This note summarizes the content and recommendations contained in these six papers.

Implementation Framework Report

2. **IDA countries have been making steady progress on development outcomes**, as measured by the most recent Tier 1 indicators in IDA's results measurement system (RMS). However, for many countries the rate of progress has been short of what is needed to achieve the MDGs. Moreover, due to lags in reporting, these indicators have not yet captured the impact of recent crises which have slowed and in some cases reversed development progress. The current RMS has a broad focus given the inherently multi-sectoral nature of the development process and is being complemented with an enhanced focus on progress in some critical development issues. In this context, gender mainstreaming, climate change and fragile and conflict affected countries are "frontier" issues where efforts need to be scaled up on the operational side.

3. **The "Implementation Framework Report" focuses on IDA's work to sharpen its results focus and enhance its effectiveness**, building on the extensive effort over the last decade. The paper briefly covers progress made in recent years (especially during the IDA15 period), discusses ongoing reforms and initiatives—those leading up to and setting the stage for IDA16 and describes work that will be carried out during the IDA16 period. It looks specifically at IDA's focus on results, the role it plays in the international community and the Bank's internal reforms.

4. **IDA's implementation framework has made progress across a wide range of areas.** The IDA Results Measurement System has been a central pillar of IDA, which has built a strong results culture in the institution. The RMS has been continually refined since its launch, to strengthen IDA's focus on results monitoring and measurement at the country, program and project levels. Management has also reformed the policy-based lending instrument (development policy lending) and articulated good practice principles for using conditionality

that not only govern Bank operations but also serve as a model for other development partners. The institution has continued to take a leadership role, in many important international initiatives, including those related to aid effectiveness; it has also frequently led by example, launching efforts that other agencies use as models (e.g., Access to Information Policy, results frameworks). Also, during the IDA15 period IDA completed a comprehensive assessment of internal controls over IDA operations and is implementing a robust plan of actions to address identified gaps.

5. **Management is currently engaged in a broad spectrum of efforts to increase both the effectiveness with which it uses IDA funding and its ability to deliver, monitor, and report on results.** First, it has continued to track results performance through the IDA15 period with the enhanced RMS launched in conjunction with IDA15. The strengthened results frameworks of the programs and projects funded by IDA have supported consistently high levels of satisfactory development outcomes. Also notable is the mainstreaming of results-based CASs and the introduction of core indicators in four sectors (education, health, roads, and water supply), which allow the aggregation of results achieved in IDA.

6. Second, to ensure that IDA programs are aligned with country priorities and serve as a vehicle to identify partner relationships at the country level, IDA continues to improve CAS donor mapping information and strengthen CAS results frameworks to monitor the results of all IDA resources and programs. The Bank is also conducting two studies—one of aid coordination in IDA countries, and one of collaboration in development policy operations—designed to develop recommendations to better define IDA’s collaborative roles at the country level, based on its comparative advantage.

7. Third, a broad set of internal reforms is being implemented, which are intended to make the Bank function more efficiently and effectively—and thus deliver better results for clients. Investment lending (IL) reform will enable the Bank to respond more quickly and effectively to the changing needs of clients. Building on the reforms related to additional financing, processing of emergency lending, the framework for project restructuring and cancellation of IDA funds, the Bank is now rolling out a new risk-based approach to investment lending, and is beginning to streamline the policy framework for investment lending and to develop a new results-based investment lending option. Another important ongoing reform effort is in the area of decentralization, deepening the substantial progress already made in decentralizing staff and decision making authority to the field, especially in Sub-Saharan Africa where a new field-based Director level hub is being created to focus on Fragile and Conflict Affected Countries (FCCs).

8. **With this extensive package of reforms already under way, Management views the IDA16 period focusing on results through a process of consolidation, implementation and mainstreaming.** For example, investment lending reform is expected to be implemented and the results-based IL proposal developed; the new Knowledge Strategy and HR reforms to support decentralization should begin to bear fruit, and options to deepen decentralization will be proposed and implemented. Also, Management will focus on areas where progress continues to be needed, including the use of IDA guarantees, and the assessment, strengthening, and use of country systems. A central element during the IDA16 period will be the continued refinement of the IDA RMS, building on the institution’s strong results foundation. To ensure that the

indicators remain meaningful to guide IDA-funded operations, the RMS will be changed from a two-tier to a three-tier system (the first focusing on high-level country development progress, without attribution to IDA; the second capturing development results that are related to IDA programs, projects and activities; and the third focusing on indicators that show IDA's internal results orientation) as detailed in the paper. The IDA16 RMS will include additions to its Tier 1 indicators such as the share of women in wage employment in the non-agricultural sector; an expansion of the core sector indicators tracked under IDA; and adjustments to the indicators that will increase the results focus of IDA's programs and projects and ensure that managing for development results remains the driving force behind all IDA work.

Special Themes for IDA16: Gender, Climate Change, and Fragile and Conflict Affected Countries

9. **The “Special Themes for IDA16” paper discusses gender, climate change and fragile and conflict affected countries within the broader framework of achieving development results.** Building on recent experience and work already underway, management is proposing a number of actions to improve IDA's effectiveness in these special themes during the IDA16 period. Some of the recommendations include enhancements to IDA's RMS, including indicators to monitor agency-level effectiveness.

10. **Gender.** Addressing gender issues can help progress on all MDGs, including poverty reduction. Yet the progress of IDA countries towards gender-related MDG targets has been uneven across targets and has differed significantly across countries, regions and income groups – with FCCs lagging behind on all counts. IDA's gender-related efforts during IDA16 will focus on four areas that build on the efforts and lessons learnt from the Bank wide Gender Action Plan: (i) scaling up gender mainstreaming and efforts on gender-related MDGs including through the preparation by all Bank regions of regional gender action plans and review of their implementation at the IDA16 Mid-Term Review (MTR), implementation of the reproductive health action plan (including follow-up with 52 priority countries with high maternal mortality rates and total fertility rates), completion of the forthcoming Education Sector Strategy and subsequent implementation of a program for action with attention paid to gender issues in targeted countries, and improving integration of gender issues in CASs; (ii) strengthening the results framework for gender; (iii) intensifying capacity-building efforts; and (iv) articulating and disseminating the business case for gender mainstreaming around the 2012 World Development Report (WDR) on development and gender equity.

11. **Climate Change.** Climate change presents an urgent challenge to the well-being of all countries and particularly to the poorest countries. It is also increasing the cost of achieving the MDGs. Bank staff estimates that the cost for IDA countries of adaptation and mitigation will be around US\$24-26 billion per year over the next ten years. Estimates indicate that costs will rise to US\$40 billion per year by 2050. The steepest increases will take place in Sub-Saharan Africa (over a twofold increase). Meeting the climate challenge involves timely support for appropriate projects, policies and institutions, with a view to ensuring that development investments are made climate resilient. IDA is already making important contributions on climate change.

12. During the IDA15 period, IDA contributed to knowledge creation on climate change, provided core development finance, and served as a platform for leveraging additional resources. The capacity to combine these three functions is unique to IDA. They can be scaled up during IDA16, while a climate change financing platform is agreed upon at the UNFCCC level. Going forward, IDA would aim to promote climate resilient development by integrating knowledge, strategic work, investment and policy support and by leveraging finance from other sources. In particular, IDA would (i) build in climate resilience and capture mitigation opportunities in core development and maximize the leveraging of specialized funds for climate change; and (ii) strengthen monitoring and reporting of IDA resources used for mitigation and adaptation. Bank staff has estimated that climate proofing costs of around 6 percent of the total value of IDA investment projects (approximately US\$800-900 million) per year will be incurred. Given that these costs are embedded within development projects, the higher replenishment scenarios seek to include these incremental costs.

13. **Fragile and Conflict Affected Countries.** FCCs account disproportionately for gaps in achieving the MDGs. Also, political instability and armed violence in these countries can have negative spillover effects in neighboring countries. Successive IDA replenishments have proactively responded to the special needs and circumstances of these countries, including through enhanced operational and financial support, scaling up of activities and increased decentralization of staff. Much progress has been made but further efforts are needed. In this context, the following operational relevant measures will be implemented during the IDA16 period: (i) prepare a comprehensive assessment of financing for FCCs and specific proposals as warranted for consideration at the IDA16 MTR; (ii) complete an IEG evaluation of the Bank's work in FCCs; (iii) revise the current Operational Policy (OP) 2.30 on Development Cooperation and Conflict taking into account the findings of the WDR on FCCs; (iv) expand efforts to fully mainstream MDTFs for FCCs into the core Bank business; and (v) continue efforts to attract experienced staff, decentralize staff and decision making in fragile countries, and get the right balance of skills.

14. **Analytical work on gender, climate change and fragile and conflict affected countries.** Apart from continuing and intensifying work on the ground on these themes, ongoing efforts need to be complemented by more analytical work so as to improve understanding as well as translate research findings and lessons learned into new operational tools and policies, measurement of results and, ultimately, results on the ground. All three special themes are therefore the focus of intensive analytical efforts. For instance, each theme is addressed in a recently published or forthcoming World Development Report: climate change was the topic of the 2010 WDR; FCCs is the topic of the 2011 WDR, and as indicated in the paper, development and gender equity will be the topic of the 2012 WDR.

Crisis Response Window

15. **IDA Deputies began to consider the establishment of a systematic approach to severe crises within the IDA framework** at the first meeting of IDA16 in Paris in March 2010. At that meeting, participants requested that IDA management prepare a proposal for a permanent CRW within IDA drawing from the experience of the pilot-Crisis Response Window (CRW) approved by IDA's Board in December 2009 and Bank's experience in responding to natural

disasters and other crises. This window should “enhance IDA’s current ad-hoc capacity to respond to severe exogenous crises in a timely manner and with greater transparency and predictability”.¹ Most participants also agreed that the CRW should be limited in size, and should facilitate the streamlining of multiple trust funds created for the management of crises. The paper titled “Proposal for a Permanent Crisis Response Window” responds to these requests.

16. Over the years, IDA has been involved in different aspects of crises response. IDA has provided exceptional assistance most frequently to respond to various types of natural disasters, but also in cases of economic and other types of crises. IDA’s assistance is complementary to the roles of other organizations, including the UN and the IMF, both in post-disaster recovery and in the case of economic crises. In post-disaster situations, IDA assistance supports physical assets restoration and social and economic recovery. During economic crises, IDA support helps countries to protect core development spending and objectives in critical areas such as health, education and infrastructure and thus strengthens the structural foundations for growth and human development.

17. A key objective of a permanent CRW is to institute a more systematic approach for IDA to respond to “exceptional” crises caused by exogenous shocks. The main benefits of introducing a systematic approach to severe crisis, as opposed to the current *ad hoc* funding arrangements, include: (i) the enhancement of IDA’s crisis response through the availability of a rapid financing mechanism; (ii) the provision of flexible and needs-based resources additional to IDA’s regular country allocations; and (iii) a greater transparency and predictability of IDA’s funding for crisis response. To meet these objectives, the proposed design of the CRW presents a transparent process in which resources would be accessed only as a last resort for clearly exceptional crises, forming part of a concerted international response.

18. In the case of natural disasters, IDA would strengthen its current *ad hoc* procedures for responding to major natural disasters through exceptional allocations. Only disasters that are unusually severe and intense would be considered for CRW eligibility. The allocation process would build on current practice and include additional guidance. In the immediate aftermath of catastrophic natural disasters Management would review available impact data to form an early assessment regarding the need to access CRW resources. In a second stage, the initial impact data would be validated with outcomes of a Post-Disaster Needs Assessment or a Damage and Loss Assessment. The final decision on the size of the CRW allocation would also take into account characteristics of the crisis and the country and the availability of resources from all sources. IDA management would consult with the IDA Board shortly after the disaster occurs, and indicate its intention to access CRW resources. Management would subsequently seek Board approval for the crisis response operation.

19. In the case of crises of an economic nature, the proposed CRW would primarily target severe economic crises that affect *a group of countries*, thus reducing the potential for moral hazard. Access would be granted only in the context of additional support from other multilateral institutions. IDA would rely broadly on the processes that IDA Deputies endorsed for the pilot-CRW with the aim to protect core development spending affected by the fiscal impact of such crisis. Amounts allocated to eligible countries would be differentiated based on a

¹ See paragraph 6 of Chairperson’s summary of the IDA Deputies Meeting, March 3-4, 2010.

demonstrated impact of the crisis and, after meeting that threshold, on needs, including availability of other resources. CRW financed operations would be eligible for streamlined procedures for internal processing and Board approval.

20. **Management proposes that total CRW resources be capped at 5 percent of the total ID16 replenishment resources** to balance the need for IDA to be able to provide an appropriate and rapid response to potential future crises with the need to efficiently deploy available donor resources. Management also proposes that a “hybrid” financing structure be adopted for the CRW. Under this hybrid structure, the CRW would have paid-in resources in the form of regular IDA donor contributions. These *ex ante* resources would be drawn to respond to crises that, while severe, are limited in scale. The amount of this set-aside could range from none to SDR300 to SDR500 million (see potential IDA16 ask scenarios below). An additional SDR329 million could be added in case the proposed exceptional allocation for Haiti is financed from the CRW. Unused *ex ante* resources would be carried over to the subsequent replenishment. For crises of greater magnitude and for which the *ex ante* resources would be insufficient, IDA would rely on *ex post* funding up to the aggregate limit of 5 percent of total IDA16 resources. All contributions to the CRW, whether *ex ante* or *ex post*, would be burden-shared and would carry voting rights.

21. **IDA has refined its approach to funding the part of potential CRW assistance not covered by *ex ante* contributions.** A modality relying on IBRD short-term bridge financing is being developed. Other World Bank Group options for financing are being explored in parallel. IDA is also considering borrowing in private capital markets using IDA’s portfolio as collateral, or asking donors to lend resources or provide guarantees. These options will be explored further. Whichever option is eventually utilized it is important that the principle of *ex post* donor financing be established so that IDA can respond with additional resources in the event of a major crisis with the assurance that it will be able to repay the lender and/or guarantor of these resources with additional resources contributed by donors at the subsequent replenishment.

IDA’s Performance Based Allocation System

22. **IDA Deputies have requested Management to provide a comprehensive review of IDA’s allocation system.** In addition, several Deputies requested that the review also consider how the allocation system can be modified to respond to the needs of fragile and conflict-affected countries and small states. The paper titled “IDA’s Performance Based Allocation (PBA) System” responds to these requests. The paper concludes that overall the PBA system has continued to function well during the IDA15 period. The bulk of IDA resources— 84 percent – has been allocated either through the core PBA system or through capped allocations to blend countries with large populations. The rest has gone to exceptional allocations: 7.4 percent to post-conflict and re-engaging countries; 4.3 percent to regional projects; 3.7 percent to the pilot CRW (funded mainly through redeployment of arrears clearance funds and additional donor contributions) to help address the impact of the global economic crisis; and 0.5 percent to natural disaster-related exceptional allocations.

23. **The system has continued to direct more resources to better performing countries.** During IDA15, IDA countries in the top performance quintile received about 2.7 times in

allocations per capita than those in the lowest quintile. This is higher than the comparable ratio of 2.3 during IDA14, confirming that the performance orientation of the system has indeed slightly improved. Furthermore, countries with a higher per capita IDA allocation have on average experienced greater improvements in their development outcomes. At the same time, the system has continued to balance performance with needs by allocating, consistent with performance, about 50 percent of IDA15 resources to Sub-Saharan Africa, the region with the greatest needs for IDA resources. The capping of India and Pakistan more than doubles sub-Saharan Africa's share from 20 percent to 49 percent, while special allocations for the post conflict and reengagement countries further increase this share to 50 percent.

24. To support fragile and conflict-affected countries during IDA16, Management proposes three measures. *First*, it is proposed to extend the phase-out period either uniformly for post conflict countries (by two years) and re-engaging countries (by one year) or adopt a case-by-case approach where the phase-out period is extended for individual countries against a specified set of criteria. Either option will strengthen financing for post-conflict and re-engaging countries during IDA16. *Second*, it is proposed that the current three-country requirement for regional projects be relaxed to allow two countries, of which at least one is a fragile or conflict-affected country, to be eligible for financing for regional IDA projects, so as to help address the regional dimensions of fragility and conflict. *Finally*, four countries (Myanmar, Somalia, Sudan and Zimbabwe) have been in protracted arrears. Given the high uncertainty about their re-engagement, we assume that potentially only Sudan and Zimbabwe may become eligible for exceptional IDA support for arrears clearance during the IDA16 period, and supporting their re-engagement, including through arrears clearance operations, would be important.

25. Management also recommends two measures to support small states during IDA16, in light of the challenges they face owing to their higher vulnerability to economic shocks and natural disasters. *First*, it is proposed to eliminate the maximum per capita allocation ceiling, currently set at SDR19.8, which has constrained the allocations of several small states. *Second*, given the importance of the base allocation for small states, it is proposed that this be raised from the current SDR1.5 million per year to SDR3 million per year. Both steps would have little impact on the performance orientation of IDA's PBA system, but high benefits for several small states.

The Demand for IDA16 Resources and its Financing Framework

26. The IDA16 replenishment comes at a time of a difficult and uncertain international financial environment. This has created significant fiscal constraints in many donor countries and at the same time must be balanced against the need to support the fragile recovery in IDA countries and to redouble efforts towards the Millennium Development Goals.

27. Against this backdrop, IDA must scale up efforts toward the achievement of the MDGs, while helping to address additional challenges linked to crisis response and climate change. IDA's country-driven model and core strengths make it uniquely positioned to effectively support development efforts of recipient countries. IDA's platform role and un-earmarked resources ensure that its support is tailored to national development priorities and strengthens country ownership and systems. Its multi-sectoral perspective helps clients integrate

sectoral and thematic priorities in their programs, while its support for systems and capacity of governments and key stakeholders helps them scale up priority interventions. The predictability and scale of IDA's financial resources have achieved high levels of satisfactory development outcomes, including through: its performance-based system for allocating resources across countries; its results focus at the country and project levels; its integration of finance and knowledge in projects; and its convening power. As discussed in the "Implementation Report" mentioned above, a continuing focus on managing for results and implementation of the WBG internal reforms will underpin IDA's contribution to the aid effectiveness and results agenda during IDA16.

28. **Given the current extraordinary circumstances, Management is seeking the guidance of IDA Deputies by presenting several potential scenarios rather than recommending a specific "ask" and financing scenario (as was done for IDA15).** The five potential scenarios and related financing options presented in the companion papers ("The Demand for IDA16 Resources and Strategy for their Effective Use" and the "IDA16 Financing Framework") provide a broad range of options from keeping IDA 16 flat in real terms relative to IDA 15 (i.e., 5.72 percent increase in nominal terms) to incrementally higher scenarios of 10, 15, 20 and 25 percent which allow for progress to be made with regard to scaling up IDA to meet the MDGs as well as to address additional needs under IDA16.

29. **Financing the volume of the IDA16 replenishment** will partly depend on the volume of new financing commitments from donors and their compensatory contributions for IDA's debt relief and grant compensation, and the volume of internal resources including internal reflows and investment income, and transfers from IBRD's and IFC's net income. Other sources could be from changes in IDA's lending terms for blend, hardened and hard term credits and acceleration of the repayment of eligible, outstanding IDA credits of IDA graduates.

30. **The IDA16 replenishment would be enhanced by a strong World Bank Group internal resource mobilization effort** which would include IDA internal reflows (US\$9.5 billion), IBRD transfers (US\$2.0 billion), and proposed additional resources from adjustments to IDA's lending terms and accelerations of repayments on outstanding IDA credits (about US\$2.8 billion), if endorsed by IDA Deputies. This is a larger internal effort to support IDA's replenishment when compared to other ongoing replenishment negotiations, and larger than under IDA15. Increases in IDA's internal resource mobilization effort would absorb 100 percent or more of the increase in resources needed to meet the indicated volumes under the first two scenarios, thereby maintaining or lowering the level of donor contributions needed. For the upper three scenarios, IDA's internal resource mobilization effort would account for between 64, 48, and 38 percent, respectively, of the increase needed.

31. **Donor contributions in IDA16** presented under the five potential scenarios would equal between SDR19.6 billion to SDR24.9 billion (US\$29.8-37.9 billion). This represents between a decrease in overall donor contributions of 5 percent to an increase of 21 percent. The variable portion represents the donor basic contributions. The range of scenarios include donor basic contributions of between SDR13.5-18.8 billion (US\$20.5-28.6 billion), net of the structural financing gap. The remaining portion is the known portion for which donors are asked to provide resources as agreed under prior replenishments for covering IDA's cost of debt relief

(HIPC, MDRI and arrears clearance) and grant principal forgone on grants in IDA16 totaling SDR6.1 billion (US\$9.3 billion).

IDA16 Financing Framework

(in SDR million)	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Total Donor Resources	19,565	20,684	22,168	23,505	24,910
<i>% change over IDA15</i>	<i>-5%</i>	<i>0%</i>	<i>7%</i>	<i>14%</i>	<i>21%</i>
Total Financing Framework	28,911	30,030	31,514	32,851	34,257
<i>% change over IDA15</i>	<i>6%</i>	<i>10%</i>	<i>15%</i>	<i>20%</i>	<i>25%</i>

32. **The structural financing gap in IDA’s cost of debt relief and grants creates a real financial risk as IDA will not receive full donor compensation for such cost.** It is proposed that donors scale up their HIPC, arrears clearance, grant financing and MDRI burden shares *proportionally* to close the gap.

33. **During the first IDA16 meeting in Paris, IDA proposed adjusting the lending terms of IDA’s more economically developed borrowers** by hardening the blend, hardened and hard credit terms to reflect their stronger financial capacity. Most participants supported this proposal. As a follow-up to Participants’ recommendations, IDA has further consulted with affected countries, analyzed the impact, and compared the terms with other IFIs. Based on this review, Management reaffirms the proposal to: (i) adjust the lending terms of these credits to a final maturity of 25 years with a 5 year grace period along with instituting a 1.25 percent p.a. interest rate for blend and hardened credits; (ii) adjust the terms for the small island country exception from blend credit terms to regular credit terms; and (iii) expand access to ‘hard term’ credits to all blend countries.

34. **In addition to the options proposed to adjust the lending terms of the more economically developed countries, management aims to accelerate the repayment of eligible, outstanding IDA credits of IDA graduates** under a contractual clause of its financing agreements. In addition, outreach to potential new donors and options available under the voice reform program for countries to maintain voting power in IBRD potentially could increase the number of new donors to IDA16.

35. **Many innovative ideas for enhancing IDA’s financial sustainability have been put forward by Deputies, Executive Directors and in internal discussions by IDA management.** Many of these ideas include changes to IDA’s structure and will require time and consultation beyond the IDA16 discussions. Management suggests discussing further, at the Bamako meeting, the establishment of a working group to evaluate additional options for potential funding mechanisms for future replenishment periods and will report back at the IDA16 Mid-term Review.