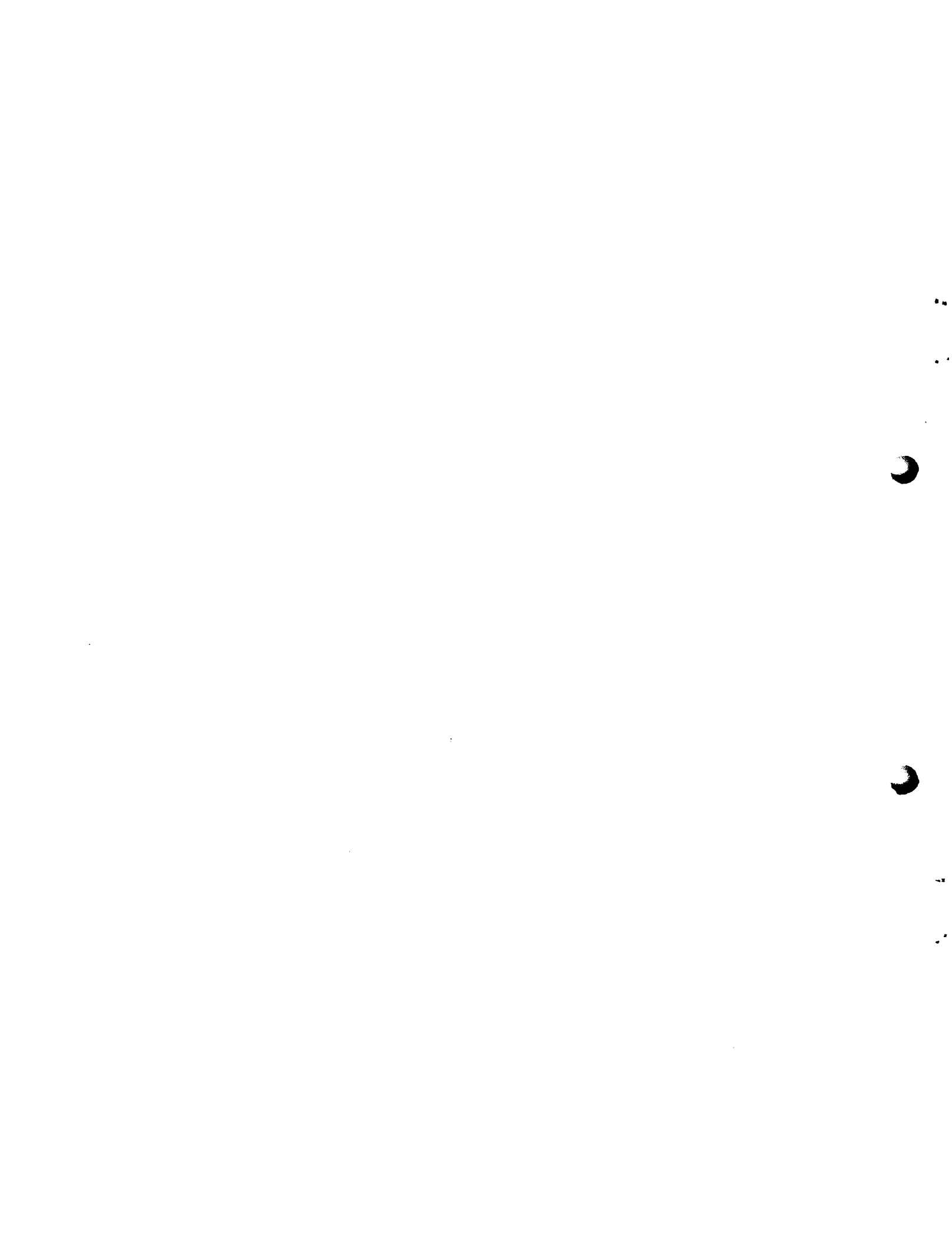


Table of Contents

	<u>Page</u>
Executive Summary.....	i-iv
Part 1: The Role of IDA and the Characteristics and Prospects of IDA-Eligible Countries	
Introduction.....	1
Economic Developments in IDA Recipient Countries....	2
Output and Income.....	3
Savings and Investment.....	5
External Accounts.....	6
Social Indicators.....	7
Future Economic Prospects and the Role of IDA.....	8
The Role of IDA7.....	9
Non-Financial Constraints to Development.....	11
Part 2: IDA Lending Program	
FY81-FY83 and Special Arrangements for FY84.....	12
The FY81-83 Experience.....	14
The Shortfall Effects in FY82.....	15
Arrangements for FY83.....	16
Special Arrangements for FY84.....	17
IDA6 Resource Allocation.....	18
Allocation Pattern.....	18
Lending Level Comparisons.....	19
Lending by Income Group.....	19
Lending by Region.....	19
Lending by Sector.....	21
Real Lending Levels.....	22
Real Per Capita Lending.....	22
Terms of Lending.....	26
The Concessionality of IDA Credits.....	26
IDA Cost Sharing.....	27
IDA Co-Financing Experience.....	28
Disbursements and Encashments.....	28
IDA6 Disbursement Profile.....	28
Projected Versus Actual FY81-83 Disbursements.	29
Estimated IDA7 Profile.....	30
Implications of Profile for Encashments.....	30
Part 3: The IDA7 Negotiations	
Introduction.....	31
Eligibility and Allocations Criteria.....	32
Terms and Conditions.....	34
The Size of the Seventh Replenishment.....	37
Burden-Sharing.....	39
Implementation Arrangements.....	41
Conditions of Effectiveness.....	41
Advance Contributions.....	41
Commitment Authority.....	42
Payments Arrangements.....	43
Maintenance of Value.....	44
Voting Rights.....	45
Other Issues.....	48



A STATUS REPORT ON IDA7

Executive Summary

1. During the last two decades, IDA has been the single most significant channel of concessional assistance, institution-building, and policy dialogue for low-income developing countries. Although some significant progress has occurred in the group of countries eligible for IDA credits, recent economic circumstances have served to retard, and in many cases reverse, past gains, particularly in Sub-Saharan Africa. The forced cutbacks in IDA lending over the course of the FY81-83 period therefore could not have come at a worse time. Including China, there are approximately 800 million people currently living in a state of absolute poverty in the IDA universe of countries.
2. Part I of this Status Report summarizes briefly the economic and social characteristics of IDA-eligible countries and discusses their performance and prospects. Particular emphasis is placed on the role of IDA7, not only in providing financing for countries with few options for securing external capital, but equally importantly, in assisting the creation of viable institutions and effective policies in order to achieve sustainable progress.
3. The negotiation of the Association's Seventh Replenishment follows the difficult experience of IDA6, in which commitment authority was severely curtailed and transitional arrangements for FY84 had to be instituted. The FY81-83 experience and the arrangements for FY84 are summarized in Part II. IDA6 resource allocation patterns are also reviewed in this section. The most salient features of the FY81-83 lending program are (i) the continued concentration of IDA credits on the poorest recipients, particularly in Africa and Asia; (ii) the continued emphasis on agriculture and the increased concentration on human capital investments and non-project lending; and (iii) the high degree of concessionality of IDA credits.
4. Despite these programmatic features, the most noteworthy aspect of IDA lending in the FY81-83 period was the reduction in commitments from a planned level of SDR 9,150 million (based on anticipated contributions) to SDR 8,127 million in actual lending. In real per capita terms, this meant an 11 percent decline compared to IDA lending in the FY78-80 period. Taking into account the eligibility of China for IDA resources, even the \$16 billion replenishment recommended by management would result in a 24 percent reduction in real lending per capita compared with FY81-83 actual commitments.
5. At the request of Deputies, an illustrative disbursement profile was prepared for FY85-87. However, country and sectoral allocations will ultimately depend upon the size of the replenishment and these variations could substantially alter the actual disbursement pattern. Bearing this in mind, an equally illustrative encashment schedule is presented in Part II.

6. The final section of the Status Report, Part III, reviews the following issues which will need to be addressed in the IDA7 Resolution: (a) eligibility and allocations criteria; (b) terms and conditions; (c) size of IDA7; (d) burden-sharing arrangements; (e) implementation arrangements, including conditions of effectiveness, advance contributions, and commitment authority limitations; (f) payment arrangements; (g) maintenance of value; (h) voting rights; and (i) other issues.

7. Deputies have generally endorsed the eligibility criteria used by management and have concurred with the continued use of three criteria--relative poverty, population size, and economic performance--in allocating IDA7 resources. It was felt that management should continue to apply these criteria flexibly. Deputies also agreed that a realistic maximum would need to be placed on lending to India and China, individually and jointly. While there were differences expressed as to the speed at which programmatic changes should ensue, it was generally felt that abrupt changes were to be avoided.

8. At the request of Deputies, a number of analyses were performed relating to changes in IDA's terms. It was found that shortening final maturities, while not reducing concessionality significantly, would add substantially to IDA's capacity to generate funds internally. Although Deputies expressed no enthusiasm for levying an interest charge on credits, there was some support for the more rapid recycling of IDA's resources which would result from shortened final maturities. It was thought best to revert to these issues only once the size of the grant pool of IDA7 resources became clear because the issue of terms was intimately related to the possibility of supplementing grant resources with borrowed funds, should these be available on a strictly additional basis.

9. On the issue of size, management has recommended a \$16 billion replenishment and Deputies have almost unanimously agreed that on the basis of need the case for \$16 billion has been established. A number of countries have indicated that they are prepared to support a \$16 billion replenishment. There was also recognition, however, that budgetary constraints, aggravated by exchange rate changes, limited the ability of many donors to contribute on that basis and that, realistically, a lower replenishment might ultimately emerge. There are differences of view on what a realistic funding level could be, with many donors supporting a \$16 billion figure or no less than that of IDA6 in real terms, others supporting a figure up to or close to the same nominal level as IDA6--\$12 billion--and yet others supporting agreement on a figure in between \$12 billion and \$16 billion. The largest donor has indicated that it would not be able to contribute more than \$750 million annually and would not accept a share in excess of 25 percent, implying, ceteris paribus, a \$9 billion IDA7 replenishment.

10. Views on the length of the replenishment period tended to converge, with almost all donors feeling that a three year replenishment was appropriate. The US preferred a five-year replenishment. Canada expressed

the view that a one year replenishment might also be worth considering if the negotiations yielded an inadequate volume of resources.

11. With respect to burden-sharing, donors have in the past been guided by their shares in previous replenishments and no strict formula basis has been used in determining shares or changes in shares. While Deputies continue to feel that no single indicator or combination of indicators should determine shares, most felt that GNP-based indicators provided the best guide for the ability of donors to contribute to IDA7. Deputies generally agreed that burden sharing should be measured at the time of the agreement and that drawdowns should continue to be calculated on a pro rata basis.

12. It has been agreed that conditions of effectiveness for IDA7 should remain as they were for IDA6 and that, in light of the desirability of beginning IDA7 on July 1, 1984, an advance contribution scheme would be important to prevent an interruption in commitment authority. With respect to commitment authority limitation, Deputies agreed that donors should continue to be entitled to pro rata reductions in commitments against their contributions if those providing qualified instruments of commitment fell behind in their notifications. This is aimed at ensuring that burden-sharing is adhered to by all donors.

13. With respect to payment arrangements, Deputies agreed that the practices followed under IDA7 should be continued. While donors should generally deposit notes in three equal installments, they should be able to avail themselves of the following options: (i) postponement of any installment by up to 12 months; (ii) payment in four equal installments instead of three; or (iii) payment in ascending rather than in three equal amounts. The Deputies also felt that the drawdown arrangements used in IDA6 should be applied in IDA7. Pro rata drawdowns should continue to be the ruling principle, but administered with some flexibility. Donors would continue to have the option of either quarterly calls or a fixed annual encashment schedule, with adjustments made during the following fiscal year.

14. Maintenance of value provisions would achieve the following objectives: stabilize the value of IDA's commitment authority during the replenishment period; ensure that IDA has sufficient funds to meet its disbursement obligations; maintain agreed burden-sharing among donors; and preserve equity in voting rights by ensuring that the effective costs of votes remain the same for all donors. However, donors have repeatedly stressed the complications and uncertainties that MOV would add to their budget planning. Therefore, after examining the issue and assessing alternatives, including both the reintroduction of full MOV provisions and exploration of partial MOV provisions, Deputies felt that it would be impractical to alter the present system. There remains a view, however, that since the SDR is the numeraire of credits to borrowers, it would be useful to negotiate the volume of IDA replenishments, including IDA7, in SDR terms as well.

15. The basic principles of the voting rights system have not been changed since IDA3 and they were once again endorsed by Deputies. Still, at the request of Deputies, analyses were performed with the objective of providing a greater incentive through voting for larger contributions to IDA7. It was found that even a radical reweighting of votes to favor IDA7 contributions would not significantly affect voting power. For these reasons, Deputies agreed that the same methods used to determine voting power in the Sixth Replenishment should apply in the Seventh.

16. Under Other Issues it is recalled, at the request of one Deputy, that the resolution establishing arrangements for FY84 noted that contributors were entitled to request that their Special Contributions be considered in the course of the next general replenishment, although it was understood that these contributions were being made without prejudice to any subsequent replenishment. It is noted that management's recommended size of IDA7 was based on the perceived needs for the FY85-87 period and did not reflect the transition year.

PART 1: THE ROLE OF IDA AND THE CHARACTERISTICS
AND PROSPECTS OF IDA-ELIGIBLE COUNTRIES

Introduction

1.1 During the past two decades, the International Development Association (IDA) has been the most significant single channel of concessional assistance to low-income developing countries. Following its establishment in 1960 with an initial subscription totalling almost \$1 billion, its resources have been augmented through six replenishments and today amount to \$29 billion by way of donors' contributions. Of the total amount available for commitment, \$17 billion had been disbursed by the end of FY83.

1.2 IDA's share of Official Development Assistance (ODA) to developing countries has risen from 3 percent in 1966 to 8 percent in 1970 and nearly 10 percent in 1981. IDA flows represented 33 percent of total multilateral assistance in 1981. The concessionality of its lending (i.e., the grant element of IDA credits) has risen over time as nominal interest rates increased. On standard DAC assumptions, IDA's grant element is 87 percent, significantly higher than the 58 percent average for official development assistance. Apart from its concessionality, IDA lending was judged by two major studies to have been highly effective, its projects yielding an 18 percent average rate of return.^{1/}

1.3 The universe of countries eligible for IDA assistance has changed considerably over the past twenty years. Some 27 countries with an aggregate population of 600 million (in 1981) have "graduated" from IDA, indicating that their economies have strengthened to the point where on income and creditworthiness grounds they no longer require IDA's highly concessional terms. As a result, IDA has been able to devote itself increasingly to the poorest developing countries^{2/}, mainly in Sub-Saharan Africa and Asia. In 1982, for example, these countries received 81 percent of IDA's disbursements but received only 29 percent of total net ODA flows in that year.

1.4 Since low-income developing countries tend to be heavily dependent on agriculture, IDA has concentrated its lending largely on agriculture and rural development, although IDA credits have also financed traditional infrastructure and social sectors. However, IDA's role is not limited to being merely a source of concessional finance. Policy dialogue with governments in areas of development strategy, price reforms and institution-building represents a feature of IDA lending which contributes to its unique effectiveness. As with the IBRD, IDA's lending operations are based on the principle that the transfer of resources, however

1/ See, for example, the US Treasury study on "United States Participation in the Multilateral Development Banks in the 1980s" (February 1982) and IDA in Retrospect (World Bank, Washington, D.C., 1982).

2/ This refers to those developing countries with 1981 per capita incomes below \$410.

valuable, is only one essential aspect of development assistance which needs to be complemented by the creation of viable institutions and effective policies in order to achieve sustained development progress.

1.5 The 1980-82 recession has resulted in a substantial deterioration of the economies of several IDA recipients, particularly in Sub-Saharan Africa. While industrialized economies are slowly recovering, most of IDA's recipients have yet to show signs of emerging from economic stagnation. Their needs for concessionary assistance remain very large. Until FY82 IDA was able to play a significant supportive role, since it received adequate financial support from donors, and made effective use of those resources. But in FY82, IDA's access to resources was suddenly and sharply disrupted at a time when the economic circumstances of its borrowers were particularly distressed and their requirements considerable. IDA's lending program in FY82 and FY83 had to be adjusted to meet these changed conditions and these adjustments have entailed costs in terms of both disrupted project pipelines and reduced transfers of much needed resources. The eligibility of China for IDA resources has added another dimension to this problem. In order to maintain its effective role in development assistance, the Association must at least avoid a diminution in its real capacity to lend in the course of the IDA7 period.

Economic Development in IDA Recipient Countries

1.6 With a few notable exceptions, the last ten years have marked little progress in the economic development of many IDA recipient countries. The disappointing performance of these low-income countries reflects, in part, their poor endowment of resources, deficiencies in their basic infrastructure, weaknesses in their institutions, and inadequacies in their domestic policies, especially in the IDA recipient countries of Sub-Saharan Africa. As noted above, prospects for growth have also been affected adversely by external factors such as high energy prices and global recession which has resulted in reduced demand and low prices of primary commodities as well as a substantial deterioration in the poor countries' terms of trade.

1.7 Slow economic progress in pure IDA recipient countries is seen in the sluggish growth of income and production, the decline in domestic savings and investments rates, and the increase in number of people in absolute poverty. In addition, stagnation in agricultural output has necessitated large-scale food imports, which, coupled with the fall in the volume of exports, has produced acute balance of payments deficits. Despite some progress in social sectors, other aspects of social welfare, such as literacy, health and nutrition, are still far below the average for developing countries as a whole. Furthermore, high rates of population growth have severely curtailed social and economic gains in the majority of IDA recipient countries.

1.8 Output and Income: Approximately 800 million people in the low-income developing countries were estimated to be living in absolute poverty in 1980. As illustrated in Table 1.1 below, per capita GDP was only \$252 in 1980 and has risen very little since then. Although growth of GDP per capita in these countries rose from an average of 2.0 percent in 1960-73 to 3.2 percent in 1973-80 before falling to an average of 1.8 percent in 1981 and 1982, these aggregate trends tend to reflect the relatively better growth performance of China, and, to a lesser extent India. In the low-income countries of Africa, on the other hand, GDP per capita grew more slowly in the 1960s and early 70s and then declined to an average of -1.4 percent in 1973-80 before falling back more sharply in 1981-82 period. The poorest countries of Asia, such as Bangladesh, tended to exhibit growth rates more similar to those in Africa than those of the Asian blend countries.

Table 1.1: Growth of GDP Per Capita

	Population 1980 (million)	GDP Per Capita (1980 dollars)	Average Annual Growth of GDP Per Capita (percent)			
			1960-73	1973-80	1981	1982
Low-income countries	2161	252	2.0	3.2	1.8	1.8
Africa	190	274	1.1	-1.4	-2.7	-2.1
Asia	1966	250	2.2	3.8	2.3	1.6
(India)	(673)	(236)	(1.2)	(2.0)	(3.2)	(1.3)
(China)	(977)	(290)	(3.6)	(4.5)	(1.5)	(2.5)
Middle-income countries	1139	1411	4.0	2.2	-1.0	-0.8

1.9 Low-income developing countries are heavily dependent on agriculture. The share of agricultural production in gross domestic product was 35 percent for current IDA recipients in 1980, as compared to only 21 percent for former recipients. (See Table 1.2). However, the overall structure of their economies varies substantially among the current recipient countries. Manufacturing has been growing rapidly in most of the Asian "blend" countries (countries that borrow from both IBRD and IDA) where development efforts over a longer time period have resulted in more skilled people, and stronger infrastructure and institutions. As shown in Table 1.2, agriculture's contribution in most of these countries fell from half of GDP in 1960 to one-third in 1980. This trend, however, did not extend to the pure IDA countries of Asia and Sub-Saharan Africa.

Table 1.2: Distribution of Gross Domestic Product
(percent)

	Agriculture		Industry		Manufacturing	
	1960	1980	1960	1980	1960	1980
Current IDA recipients	48	35	18	33	12	14
Pure IDA countries	53	47	9	14	5	6
Africa	56	53	12	14	6	7
Asia	52	51	8	13	5	8
IBRD/IDA Blend countries	46	33	21	38	14	18
Africa	27	25	32	29	11	17
Asia*	49	36	20	26	14	18
Former IDA recipients	35	21	23	35	15	17

* Including China.

1.10 While agricultural production in currently eligible IDA countries during 1960-80 was roughly on par with population growth, the trend during the last decade in the pure IDA countries in particular has been worrisome. Agricultural growth is slowing and population growth is rising, threatening to reverse past gains. During the 1960s, agricultural production in South Asia grew rapidly, mostly due to the Green Revolution and massive investments in irrigation and fertilizer production, but it slowed in the 1970s partly because of inauspicious weather and partly because of adjustments to volatile economic conditions and price movements. However, with agricultural production growing at 2.6 percent a year and population at 2.3 percent a year, small increases were registered in per capita food production.

Table 1.3: Average Annual Growth Rates
(percent)

	GDP		Agriculture		Industry		Manufacturing	
	1960-1970	1970-1980	1960-1970	1970-1980	1960-1970	1970-1980	1960-1970	1970-1980
Current IDA recipients	4.4	4.4	2.2	2.2	5.4	3.2	6.3	3.8
Pure IDA countries	3.2	2.6	2.5	2.0	4.4	3.0	5.3	3.6
IBRD/IDA Blend countries*	4.6	4.8	1.9	2.3	6.6	4.0	6.3	4.2
Former IDA recipients	5.3	6.4	3.0	3.1	8.2	8.3	6.7	7.2

* Including China.

1.11 In Africa, agricultural production grew 2.3 percent a year in the 1960s, roughly the same rate as population growth. In the 1970s, however, production dropped to 1.3 percent a year, while population grew at 2.7 percent. In the countries of Sub-Saharan Africa, agricultural growth was the slowest--one percent annually--resulting in substantially increased need for food aid. This sluggish agricultural growth was the principal factor underlying the poor economic performance of these countries.

1.12 Savings and Investment: Among the pure IDA countries especially, stagnating, or even declining, levels of income and standards of living resulted in domestic savings rates falling further below their already low levels. As indicated in Table 1.4, savings rates declined in all but the Asian blend countries, in which income growth was relatively higher during 1960-80. Nevertheless, many IDA countries managed to raise their investment rates with the help of external (mostly concessional) capital flows. IDA credits constituted a significant share of the domestic investment in "pure IDA" countries, particularly in Asia. IDA's ability to sustain the share of investment in these countries played a significant role in their maintaining growth of both income and output. On the other hand, between 1960-80, trends in the poorest IDA countries of the Sub-Sahara were discouraging, savings rates in these countries have steadily fallen, investment shares have declined, and the resource imbalances have soared.^{3/}

Table 1.4: Distribution of Gross Domestic Product
(percent)

	<u>Gross Domestic Investment</u>		<u>Gross Domestic Saving</u>		<u>Resource Balance</u>		<u>IDA as a Share of Investment</u>
	1960	1980	1960	1980	1960	1980	1980
Current IDA recipients	19	25	14	22	-5	-3	..
Pure IDA countries	13	14	9	7	-4	-7	4.5
Africa	14	11	12	5	-2	-6	3.8
Asia	8	19	8	7	0	-12	7.5
IBRD/IDA Blend countries	20	27	15	25	-5	-2	1.6
Africa	21	21	22	14	1	-7	2.1
Asia*	16	23	13	18	-3	-5	1.6
Former IDA recipients	15	25	14	23	-1	-2	0.2

* Excluding China.

^{3/} These problems are more thoroughly discussed in Accelerated Development in Sub-Saharan Africa (World Bank, Washington, D.C., 1981)

1.13 External Accounts: For IDA recipient countries, heavily dependent on the export of their primary products, the trade picture of the past two decades has produced growing balance of payments deficits which, without increased concessional flows, could become unsustainable. Their volume of exports has been growing very slowly (at an average rate of 4 percent annually since 1970) largely due to a reduction in demand for primary products as well as failures in domestic policies, especially in agriculture, which hindered supply. In the poorest countries of Sub-Saharan Africa there has actually been a decline in the volume of exports: of the 29 countries for which information is available, seven recorded a lower rate of export growth during the 1970s than in the previous decade and 19 had negative rates of export growth, compared with only one during the 1960s.

1.14 IDA countries also suffered a substantial decline in their terms of trade over the last decade. The prices of imports to these countries rose 16 percent annually in the period after 1970, but the prices of their exports increased only 11 percent. The terms of trade declined by almost six percent in the most recent period, and when combined with changes in the volume of exports, the low-income countries saw their purchasing power increase by only 10.8 percent in the 1979-82 period--an increase only one-third as large as in the 1973-76 period (See Table 1.5).

Table 1.5: Terms of Trade of Developing Countries, 1973-82
(1978 = 100)

	Change in Commodity Terms of Trade <u>a/</u> (percent)		Change in Purchasing Power of Exports <u>b/</u> (percent)	
	<u>1973-1976</u>	<u>1979-1982</u>	<u>1973-1976</u>	<u>1979-1982</u>
All developing countries	13.5	3.6	26.7	6.3
Low-income countries	1.0	-5.8	28.2	10.8
Africa	-15.3	-13.8	-18.7	-3.5
Asia	12.1	-3.2	58.5	15.7
Middle-income oil importers	-9.5	-10.7	4.5	2.5

a/ Ratio of export unit value index over import unit value index.

b/ Product of commodity terms of trade and export quantum index.

1.15 As a result of these deteriorating trends, low-income, oil importing countries experienced current account deficits which accounted for 4.7 percent of GNP in 1980, compared to 1.9 percent in 1970. This increased their need for private capital and official assistance. Official

Development Assistance (ODA), which covered more than 90 percent of the deficits of low-income countries in 1970 (with IDA representing 8 percent), covered only 65 percent (with IDA representing 16 percent) in 1980. This occurred despite an increase in ODA. As a result, these countries experienced cutbacks in their foreign exchange reserves and, ultimately, reductions in creditworthiness, which made the financing of current deficits much more difficult.

1.16 Social Indicators: Although IDA recipient countries' per capita income growth has lagged over the past twenty years, their levels of social welfare have, nevertheless, generally increased. But standards of living remain low, the number of people in absolute poverty has increased, and the gap between incomes of low and middle-income countries has widened. High rates of population growth—an average rate of 2.1 percent annually—has been a major obstacle to faster development over the past two decades. Mortality rates have declined much faster than birth rates, so that during 1960-80 in the pure IDA countries, the rate of population growth was 2.5 percent. (See Table 1.6). In the poorest countries of Sub-Saharan Africa, population grew at an average rate of 2.7 percent annually during the last decade, largely offsetting production gains and diminishing economic prospects.

1.17 Health, as measured by life expectancy, also increased during 1960-80 mainly as a result of greater access to health care, water supply and sanitation. The increase was specially marked in the IDA blend countries where life expectancy increased to an average of 58 years. However, lack of health care remains a serious problem in the pure IDA countries of Africa, not only because of constrained public resources, but also due to the poor distribution of health resources.

1.18 There have also been impressive gains in education; the adult literacy rate nearly doubled in most of the IDA recipient countries between 1960 and 1980. However, there is still a severe shortage of technically trained personnel, particularly in low-income African countries. In this connection it is worth emphasizing that between one-fifth and one-quarter of official aid finances the transfer of knowledge and skills to these countries. IDA commitments to education and technical assistance amounted to a total of \$2 billion by the end of FY83. More than half of this amount went to low-income Africa, where human capital investments are critical, and where the recurrent expenditures associated with those investments are overburdening public budgets.

Table 1.6: Social Indicators

	Average Annual Growth Rate of Population (percent)		Life Expectancy at Birth (years)		Adult Literacy Rate (percent) ^{a/}	
	1960-70	1970-80	1960	1980	1960	1977
	Current IDA recipients	2.2	2.1	42	57	26
Pure IDA countries	2.4	2.6	39	48	22	41
IBRD/IDA Blend countries*	2.1	2.0	44	58	28	52
Former recipients	2.5	2.4	46	57	43	60

^{a/} Percent of persons age 15 and above.

* Including China.

Future Economic Prospects and the Role of IDA

1.19 The recession that hit the world economy in 1980 seems to be ending in the United States, although recovery in other parts of the industrialized world is occurring at a slower pace than expected. The developing world is only beginning to emerge from a recessionary grip. With interest rates having fallen below their 1981 peaks, oil prices having declined, and some commodity prices beginning to show signs of firming, the prospects for the IDA countries are a little brighter now than in the past three years; however, considerable economic damage has been done in many low-income countries which will take many years to repair. The low-income countries of Africa, in particular, have suffered to the extent that their prospects are a matter of grave concern.

1.20 Low-income countries in Asia generally have had less difficulty adjusting to the recession, not being so heavily dependent on foreign trade and having made impressive progress in agriculture. Thanks to policy changes which have been undertaken with IDA assistance, they managed to increase their per capita income even during the 1980-82 period. In the low-income countries of Africa, on the other hand, economic conditions have continued to deteriorate in 1980-82, with GDP growth rate falling to 0.8 percent. (See Table 1.7). These problems have been exacerbated by falling demand and weakened prices for their primary exports and by inappropriate domestic policies. Governments in Africa have now increasingly recognized the importance of structural adjustment programs to bring public revenues in line with expenditures; appropriate domestic policies, especially in agriculture; and better public management, in particular with respect to indebtedness. They will, however, require help to do all this. Bank projections indicate that sustaining a growth rate of two percent in their per capita income during the current decade would require raising ODA from \$4.9 billion in 1980 to \$17 billion (in nominal terms) in 1990. IDA has

increased its lending to the low-income African countries over the past few years and accelerated its efforts to ensure efficient allocation and use of these resources. Continuation of these efforts will be given the highest priority in IDA's future programs.

Table 1.7: GDP Growth Performance
(average annual percent)

	<u>1960-73</u>	<u>1973-79</u>	<u>1980-83</u>
Low-income oil importers	4.5	5.1	3.9
Africa	3.5	1.5	0.8
Asia	4.6	5.6	4.2

1.21 The Role of IDA7: Although growth in the industrialized countries will eventually have a positive influence on developing countries, it is unlikely that global recovery alone will ameliorate to a large degree the problems which these countries confront. It is clear that their progress will continue to be compromised unless appropriate domestic policies are coupled with enlarged flows of external capital. IDA can play a critical role in their future development, both as the most effective available source of concessional financing and as a source of policy advice administered in a way which encourages its application.

1.22 The absence of sufficient infrastructure in virtually all IDA countries is a major obstacle to growth. Despite widespread improvement of transport systems, telecommunication networks, and other aspects of the infrastructure in the last decades, considerable further investments are needed, especially in rural areas. By FY83, IDA had made total commitments of \$9 billion to improving basic infrastructure, of which \$2.7 billion was committed in FY81-83 alone. Because of their special infrastructure weaknesses, the low-income countries of Africa have received 34 percent of IDA's total infrastructure lending with a concentration of effort on rural infrastructure building.

1.23 Domestic policies conducive to increasing agricultural production are essential if economic growth is to accelerate. Agriculture is not only the main source of employment and income for the majority of the populaces, but it is also the main source of foreign exchange. Despite an increase in the rate of agricultural growth in a few countries, agricultural production has acutally declined in most, and food shortages have ensued. Faster agricultural growth will require better infrastructure, rehabilitation of irrigation facilities, concentration of resources on small-holders, and improvements in the pricing and distribution systems for agricultural products. Increased emphasis must be given to programs that will yield quick results in order to increase farm incomes. These will require large increases in investment and significant expansion in the number of technical and administrative personnel.

1.24 Agricultural growth will not approach the scale required without very large increases in long-term concessional finance. Over the past two decades, IDA has committed almost \$10 billion in activities ranging from irrigation to fertilizer distribution and research facilities. IDA's lending policy in recent years, however, has shifted toward raising the productivity and income of small farmers through increasing involvement in irrigation and drainage schemes, provision of agricultural credits, and expansion of extension services.

1.25 The most important problem in almost all of the low-income countries served by IDA is the high rate of population growth. The problem is most severe in the low-income countries of Africa, although high population density makes it an urgent issue in Asia as well. In the absence of a strong family planning program and a primary health care network, a large decline in fertility in Africa is unlikely in the near future. Extending and strengthening education through effectively designed projects and capable institutions will also play an important role in achieving this aim.

Table 1.8: Population Growth
(average annual percent)

	<u>1960-70</u>	<u>1970-80</u>	<u>1980-2000</u>
Low-income countries	2.2	2.1	1.8
Africa	2.4	2.7	2.7
Asia <u>a/</u>	2.1	2.0	1.6
Middle-income countries	2.5	2.4	2.3

a/ Including China.

1.26 Because of impressive improvements in education and adult literacy rates in the 1970s, the outlook for further gains from human capital investments is relatively bright. These gains reflect the priority that recipient governments have attached to education expenditures--these accounted for 15-25 percent of total public expenditures in the IDA recipient group in the 1970s. Recent projections indicate that if progress continues at recent rates, a literacy rate of 78 percent in the low-income countries can be achieved by the year 2000.

1.27 Progress in IDA countries, especially in Africa, will in large measure be affected by progress in the social sectors. IDA has played a role in the development of safe, cheap, and effective family planning services. Water and sewerage projects financed by IDA have had major effects on health standards. And IDA projects have had a great impact on primary education in rural areas. IDA's total lending to social services and water supply amounted to \$3.4 billion by the end of FY83.

1.28 The outlook for reducing poverty has deteriorated along with the reduced economic prospects of the poor countries. Projections indicate that even with a 3.0 percent growth rate in the low-income countries' GDP during 1980-90, the number of people in absolute poverty in traditional recipient countries would still number some 730 million in the year 2000. If China were included this number would increase to approximately one billion people. Even if low-income countries manage to grow by 4.1 percent in 1980-90, there would still be about 530 million people (perhaps as many as 730 million including China) living in absolute poverty in the year 2000. Although policies and programs to accelerate economic growth are crucial to the reduction of poverty over the long term, projects, programs and policies which are aimed directly at mitigating the current problems faced by the poorest segments of IDA recipient populations are indispensable if economic and social stability in these countries is to be maintained.

Non-Financial Constraints to Development

1.29 In recent years, it has become clear that slow economic development is not only related to poor resource endowments and structural bottlenecks, but also prominently to policies that lead to the inefficient use of resources. The problem is overwhelmingly a production problem, caused in large part by pricing and income structures which have provided inadequate incentives to producers, particularly in agriculture. Domestic pricing policies do not reflect the relative costs and scarcity of resources. In addition, trade and exchange rate policies, together with import restrictions, have led to the creation of high-cost domestic industries and have held back agriculture. Overcoming these problems will require major changes in government policies, such as allowing the free operation of markets, removing price distortions, and improving the allocation of scarce resources. Strong management will be needed to adopt policies which stimulate greater economic efficiency and to create a high quality public sector to execute these policies.^{4/}

1.30 IDA's lending at the project and sectoral levels--especially for agriculture and infrastructure--has been aimed at restructuring economic strategies to correct price distortions and surmount institutional weaknesses. However, operations have often suffered and projects have been delayed due to a scarcity of managerial and technical manpower. Consequently, IDA has become a prime force in the creation of new institutions and the reorganization of existing ones, as well as a major source of administrative and technical expertise.

1.31 In addition to discussions of sectoral policy with borrowers, IDA has helped to achieve macroeconomic reforms through its program lending. In the past, IDA's program lending was both a source of urgently needed

^{4/} These issues are discussed in detail in the World Development Report, 1983.

finance and the basis for basic economic reforms. In order to improve the effectiveness of program lending, it was decided in 1980 that IDA should deal more explicitly with macroeconomic reforms by offering structural adjustment credits. Although program lending had been relatively modest in the late 1970s (less than five percent of IDA's total commitments), it is now seen as a critical sector of lending and a key towards integrated policy reform measures, which are critical to the effective use of resources. During FY81-83, about 8 percent of IDA's credits were for structural adjustment programs.

PART 2: IDA LENDING PROGRAM

FY81-FY83 and Special Arrangements for FY84

2.1 The Sixth Replenishment of IDA's resources was agreed to by Deputies in December, 1979. Based on exchange rates prevailing on October 5, 1979, the agreement was for a replenishment totalling \$12 billion (SDR 9.15 billion). Together with reflows of resources from outstanding IDA credits and expected transfers from the IBRD it was expected that the Association would be able to commit \$12.4 billion between FY81-83; the lending program was developed and geared accordingly.

2.2 During the FY81-83 period, the Association experienced considerable difficulty, caused primarily by delays in fulfilling the effectiveness requirements, because of a late notification from the United States^{5/} coupled with the rephrasing of its contribution beyond the negotiated three-year period. In order to secure commitment authority for IDA pending the effectiveness of the Sixth Replenishment, advance contributions from donors other than the United States were needed. Several donors agreed to release their first installments (in most instances exceeding the 29 percent minimum) within the framework of a collective arrangement for advance contributions. These amounted to SDR 1.9 billion (at October 5, 1979 exchange rates). These actions enabled the Association to make commitments in FY81 at a level close to the original lending program, although some commitments had to be made on a conditional basis.

^{5/} Under the Sixth Replenishment effectiveness requirements, the replenishment would become effective when Instruments of Commitment and Qualified Instruments of Commitment totalling \$9,600 million, approximately 80 percent of the total replenishment, were deposited with the Association. This requirement meant in practice that for the replenishment to become effective the commitment instruments had to include an instrument (which could be qualified) for the United States. This instrument was not deposited until August 24, 1981 whereas IDA6 was to have become effective on October 8, 1980.

2.3 Application of the "pro rata provisions" negotiated under IDA6 ^{6/} to the rephrasing of the United States' contributions resulted in the prospect of the US shortfall being seriously exacerbated as other donors could now phase their contributions in line with the reduced level of the US' contributions. Had the pro rata provisions been strictly adhered to, the Association's lending program for FY82-83 would have been disrupted far more seriously than it actually was. Other donors recognized that the impact of these cuts would extend beyond mere reductions in net resource flows; they would disrupt the momentum behind project and sector development efforts which had been built up through sustained effort over several years.

2.4 Accordingly, with the Sixth Replenishment becoming effective, other donors, in an attempt to reconcile preservation of the principle of pro rata burden sharing in releasing commitment authority with the critical needs of recipient countries, agreed in September 1981 to provide commitment authority for FY82 on the basis of the following principles (the "Canadian formula"):

- (a) the pro rata provisions of the IDA6 Resolution would not be applied to the first installment (which many donors had provided as an advance contribution);
- (b) the pro rata principle would be applied to the release of donors' second and third installments.

A number of donors (the Nordic countries, virtually all Part II countries, and New Zealand) expressed their intention to go beyond these principles and release their second installment in full.

^{6/} Provisions under the last two replenishments have incorporated restrictions on the Association's ability to commit funds after the replenishment had become effective. This was triggered by the new practice of the United States, in accordance with its budgetary procedures, of providing an unqualified commitment only with respect to payment of a first installment; its agreement to pay the remainder being subject to obtaining the necessary appropriations. During the Sixth Replenishment the Association's commitment authority was divided into three successive tranches of (at least) 29 percent, (at least) 33 percent, and 38 percent (or the remaining balance). Since unqualified commitments under qualified notifications could be made for less than the minimum tranche amounts, it was provided that in such an instance the Association's commitment authority against the unqualified contributions of the other donors would be reduced pro rata. The objective of placing these restrictions on IDA's commitment authority was to ensure that the qualifications on payment by the United States would not seriously affect negotiated IDA burden sharing arrangements, at least in terms of proportional releases of commitment authority.

2.5 These funding difficulties while forestalling the virtual cessation of lending by IDA in FY82 nevertheless resulted in serious disruptions and reductions in the IDA lending program for FY82. Appreciating the severity of the impact of exercising, even partially, the pro rata provisions of IDA6, most donors eventually decided to waive these provisions completely and released their contributions on the original schedule.

The FY81-83 Experience

2.6 According to the IDA6 commitment authority arrangements, the United States was to have provided unqualified commitments in minimum amounts of \$940 million, \$1,070 million, and \$1,230 million in FY81-83. The incoming U.S. Administration, however, decided to rephrase the U.S. payments to IDA in graduated appropriations of \$540 million in FY81, \$850 million in FY82, and \$1,850 million in FY83. When subsequent legislation authorizing U.S. participation was passed by Congress, however, it set ceilings of \$850 million for FY82 and \$945 million for FY83, resulting in the commitment period for IDA6 being extended from three years to four years. This constituted an effective reduction of about 25 percent in the average level of IDA's annual commitments for the FY81-83 period.

2.7 Despite Administration requests and authorizations for higher amounts, the U.S. Congress actually appropriated only \$500 million for IDA6 in FY81, \$700 million in FY82, and \$700 million in FY83.^{7/} With a U.S. contribution of \$700 million for FY82, IDA incurred a shortfall of \$1.4 billion (or 34 percent) in its commitment authority for FY82, compared to the level that had originally been planned. (See Table 2.1 below). With only \$700 million for FY83, IDA then faced a further \$1.4 billion (or 29 percent) reduction in commitment authority for FY83.

Table 2.1: Shortfalls in the IDA6 Lending Program

	<u>\$ million</u>				<u>SDR million</u>			
	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>Total</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>Total</u>
Original Plan <u>a/</u>	3600	4100	4700	12400	2750	3130	3580	9460
Actual Commitments <u>b/</u>	<u>3482</u>	<u>2686</u>	<u>3341</u>	<u>9509</u>	<u>2719</u>	<u>2341</u>	<u>3067</u> <u>c/</u>	<u>8127</u>
Shortfall	118	1414	1359	2891	31	789	513	1333

a/ Based on a replenishment as negotiated in October, 1979.

b/ Using exchange rates at the time of credit approval.

c/ Includes SDR 36 million Special Fund credits.

7/ The Administration asked for an additional \$245 million for FY83; however, the supplemental appropriations bill that included the additional IDA6 request was not signed into law until August 6, 1983, thus becoming applicable instead to IDA's commitment authority in FY84.

2.8 Between FY81-83 IDA's program in South Asia suffered significant cutbacks. IDA lending to India declined from a peak of \$1.5 billion in 1980 to an average of \$1.0 billion in 1981-83, with India's share of IDA funds dropping from 40 percent in 1980 to 33 percent in 1982 and under 32 percent in 1983. Even in Bangladesh, despite a major effort to protect the program, lending declined by 6.3 percent between 1982 and 1983.

2.9 The Shortfall Effects in FY82: The planning assumptions for FY82 approved by the Board in June 1981 envisaged that FY82 commitments would amount to about \$4.1 billion (SDR3.13 billion).^{8/} By the end of 1981 a lending program based on these plans had reached an advanced stage. Field appraisal of all projects had been completed; appraisal documentation was in hand for 80 percent of the planned lending operations, and negotiations with borrowing governments on about one-third of these operations had entered the final stage.

2.10 The U.S. second installment of \$700 million, together with the second installment of other donor countries, resulted in a large reduction in IDA's commitment authority for FY82. The impact of the reduction and possible ways of alleviating its effects were discussed by the Association's Executive Directors on January 26, 1982.^{9/}

2.11 The revised plan attempted to sustain the momentum of development activity envisaged under the FY82 program and to cushion the impact of the shortfall through the following actions:

- (i) The substitution of IBRD for IDA funds through accelerated graduation of several lower middle-income countries which were at or near the per capita income eligibility limit (for example, Egypt);
- (ii) A temporary hardening of the IBRD/IDA blend to the maximum extent permitted by creditworthiness considerations in a number of countries where blending already existed or was planned;
- (iii) Supplementing IDA resources by way of expanded co-financing with bilateral aid agencies and special contributions from donors.

These actions were intended to offset up to \$1 billion of the shortfall. The remaining shortfall of \$400 million required further cutbacks which affected all IDA borrowers.

2.12 The lending pattern which resulted from reprogramming (summarized below) remained broadly consistent with the priorities of the Bank's

^{8/} Review of World Bank Group Financial and Operating Programs and FY82 Administrative Budgets, R81-113, May 5, 1981.

^{9/} Status of IDA6 - Issues for Board Consideration, IDA/R81-143, December 28, 1981.

country assistance plans and followed the policies set by the Board on the distribution of funding by country income groups. The bulk of FY82 commitment authority was still allocated to South Asia (61 percent), but the allocation to the poorest income group of this region was scaled down by 43 percent. Sub-Saharan Africa had the program to its least developed 12 countries reduced by about 12 percent.

Table 2.2: FY82 IDA Lending Program by Income Group

<u>Income Group</u>	<u>Amount (\$ million)</u>		<u>Percent of Total</u>	
	<u>Original Plan</u>	<u>Revised Plan</u>	<u>Original Plan</u>	<u>Revised Plan</u>
<u>Group I (Up to \$410)</u>	3569.7	2245.0	87.1	86.3
of which: Sub-Saharan Africa	658.8	580.0	16.1	22.3
South Asia	2772.6	1580.0	67.6	60.8
<u>Group II (above \$410)</u>	530.3	355.0	12.9	13.7
of which: Sub-Saharan Africa	424.1	304.0	10.3	11.7
<u>Total</u>	4100.0	2600.0	100.0	100.0
of which: Sub-Saharan Africa	1082.9	884.0	26.4	34.0
South Asia	2772.6	1580.0	67.6	60.8

Note: Amounts and percentages may not add to totals, due to rounding.

2.13 Arrangements for FY83: During FY83, the Deputies recognised that urgent action was needed to augment the levels of IDA's annual commitment authority above those that would have resulted if the adjusted pro rata adjustments agreed to in September 1981 remained in force. In the course of their deliberations, two approaches emerged: (a) releasing contributions in full in accordance with the original schedule; and (b) "relaxing" the adjusted pro rata arrangements. However, concern was expressed by several Deputies that such measures could only be taken after arrangements for FY84 had been put into place. In the absence of such arrangements, the stretching out of the U.S. contribution to IDA6 over four years in conjunction with the acceleration of other donors' resources would have resulted in a very substantial commitment authority gap in FY84 and would have forced the Association to reduce its lending program precipitously to a level of around \$1 billion for that year. Accordingly, it was only after measures for augmenting commitment authority in FY84 had been developed and agreed that the majority of donors decided to release the balance of their IDA6 contribution in full in FY83.

Special Arrangements for FY84

2.14 IDA7 was originally expected to have become effective in FY84. As a result of the disruption and stretching out of the US' contributions to IDA6, these negotiations were deferred and it was decided by donors to treat FY84 as a transition year between the two replenishments. At their meeting in the Hague, July 1982, Deputies reviewed several options for augmenting IDA's commitment authority^{10/} in FY84, the year between the concluding stages of IDA6 and the beginning of IDA7. A consensus emerged that two options merited further consideration: the "FY84 Account" and the "Special Fund."

2.15 Agreement on these two options was reached in Toronto on September 4 and 8, 1982. Donors other than the United States agreed to make available Special Contributions to IDA in an amount, in general, equivalent to one-third of their total contributions to IDA6 through one of the two mechanisms. It was envisaged that the two schemes would operate in parallel, permitting donors to choose whichever mechanism best accommodated their concerns and facilitated approval for such special contributions in their respective legislatures.

2.16 Contributions to the FY84 Account differ from contributions to the Special Fund in that they are: (a) contributions to the resources of IDA; (b) do not involve limitations on participation by any IDA donor in procurement; and (c) offer the possibility that additional subscriptions carrying voting rights may be issued at the time of the next replenishment. Twelve donors, whose special contributions account for about 65% of the total to be provided in FY84, have, so far, decided to make their contribution through this account. Included in this group are Germany, Japan and the United Kingdom.

2.17 Special Fund ^{11/} contributions do not become part of IDA's general resources, and hence, no subscriptions carrying voting rights can be issued for them. However, since amounts repaid by borrowers for credits financed by the Fund would, at the time of repayment, flow back into IDA's general resources, voting rights could be provided on account of these reflows at that time. Procurement eligibility extends to participants in the Special Fund, Part II members of IDA, and contributors to the FY84 Account who have agreed that their contributions be treated in the same manner as Special Fund contributions for the purpose of any future adjustment of voting rights. Six countries (Canada, Denmark, France, Italy, Norway, and Sweden) have, to date, decided to make contributions,

^{10/} Five options were outlined in two papers prepared for the Hague meeting: "The Status of Contributions Released under IDA6 and Options for Augmenting IDA's commitment Authority in FY83-84," IDA/RPL/82-7; and "A Proposal for the Establishment of a Special Fund," IDA/RPL/82-8, both dated June 15, 1982.

^{11/} The Special Fund and the issues it raises are discussed in "A Proposal for the Establishment of a Special Fund" (IDA/RPL/82-8), dated June 15, 1982.

amounting to 25 percent of total FY84 Special Contributions, through the Special Fund. France decided to advance a part of its Special Fund contribution in FY83, representing the difference between a full release of their IDA6 contribution and the actual pro rata releases for FY82 and FY83.

IDA6 Resource Allocation

Allocation Pattern

2.18 In the period FY81-83, IDA made 310 credit commitments to 55 developing countries totalling SDR 8,127 million (\$8,680 million at exchange rates of June 30, 1983), a decrease of 5.4 percent in nominal and nearly 18 percent in real terms as compared with FY78-80. The pattern of lending in FY81-83 showed a strong shift towards the poorest developing countries of Sub-Saharan Africa; they received 32 percent of the credits, compared to 34 percent for India and 31 percent for other countries excluding China. The share of Africa in the total was rising and that of India falling. Thus, in FY83 Sub-Saharan African countries accounted for 38 percent of total credits, compared to 32 percent for India (see Table 2.3). In terms of per capita commitments also, Sub-Saharan countries were the largest recipients by far, receiving \$3.75 in annual average per capita commitments (in current dollars), compared to \$1.40 for India and \$3.22 for other countries.

Table 2.3: FY81-83: Allocation of IDA Resources
(SDR million)

	FY81		FY82		FY83		FY81-83	
	Amount	%	Amount	%	Amount	%	Amount	%
<u>Sub-Saharan Africa</u>								
Pure IDA	559	20.6	575	24.6	865	28.2	1,999	24.6
IBRD/IDA Blend	167	6.2	162	6.9	266	8.7	595	7.3
Sub-Saharan Africa	726	26.8	737	31.5	1,131	36.9	2,594	31.9
<u>Other Countries</u>								
Pure IDA	404	14.9	553	23.6	583	19.0	1,540	18.9
IBRD/IDA Blend	481	17.6	233	9.9	242	7.9	956	11.8
Other Countries	885	32.5	786	33.5	825	6.9	2,496	30.7
India	1,027	37.7	764	32.7	974	.7	2,765	34.0
China	81	3.0	54	2.3	137	.5	272	3.4
India and China	1,108	40.7	818	35.0	1,111	2	3,037	37.4
Total All Countries	2,719	100.0	2,341	100.0	3,067 ^{a/}	100.0	8,127	100.0

^{a/} Includes SDR 36 million Special Fund credits.

Lending Level Comparisons

2.19 Lending by Income Group: During the FY81-83 period, IDA increased the emphasis of its lending to the poorest countries. During the three-year period, 89 percent of total credits were committed to countries with 1981 GNP per capita of less than \$410—an increase of about 9 percentage points over the IDA5 period. Countries with 1981 per capita income of more than \$410 but less than \$795 received 10 percent of the FY81-83 credits, a decrease of about 8 percentage points compared with IDA5.

Table 2.4: Distribution of IDA Commitments by Per Capita Income of Recipients (percent)

<u>Per Capita Income of Recipients in 1981</u>	<u>FY61-71</u>	<u>IDA3-4 FY72-77</u>	<u>IDA5 FY78-80</u>	<u>IDA6 FY81-83</u>	<u>Total</u>
Below \$410	72	77	80	89	81
\$410 - \$795	14	16	18	10	14
\$796-\$1,275	4	4	2	1	3
Above \$1,276	<u>10</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total	<u>110</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

2.20 Lending by Region: FY81-83 lending decreased by \$492 million from those of IDA5, representing 5.4 percent decline in nominal terms. Sub-Saharan Africa increased its share of IDA lending from 24 percent of IDA5 to 32 percent in FY81-83, while total lending in the Middle East, Latin America, and East Asia and Pacific was reduced from 17 percent of IDA5 to 9 percent of FY81-83. The share of lending to South Asia remained unchanged at 60 percent. (See Table 2.5).

2.21 There is likely to be a major reallocation of resources in IDA7 with China's eligibility for IDA credits, which has doubled the IDA recipient population. To meet the concessional needs of China on the basis of existing allocations criteria will inevitably result in reductions in the shares of other regions. It is anticipated that Sub-Saharan Africa will continue to be a major priority along with the poor countries of South Asia. Actual allocations in any given year will, of course, depend on the amount of the replenishment and on operational considerations.

Table 2.5: IDA's Lending By Region
(Current \$ million) a/

Region	FY81		FY82		FY83		FY81-83		Memo Item FY78-80	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Sub-Saharan Africa	790	27.4	778	31.3	1,201	36.8	2,769	31.9	2,180	23.7
Eastern Africa	471	16.4	561	22.6	782	24.0	1,814	20.9	1,442	15.7
Western Africa	319	11.0	217	8.7	419	12.8	955	11.0	738	8.0
EMENA	224	7.5	59	2.3	73	2.1	356	4.2	722	7.9
LAC	29	1.0	22	0.9	62	1.9	113	1.3	177	1.9
East Asia and Pacific	110	3.8	73	3.0	155	4.8	338	3.9	686	7.5
South Asia	<u>1,751</u>	<u>60.3</u>	<u>1,568</u>	<u>62.5</u>	<u>1,785</u>	<u>54.4</u>	<u>5,104</u>	<u>58.8</u>	<u>5,407</u>	<u>59.0</u>
Total	<u>2,904</u>	<u>100.0</u>	<u>2,500</u>	<u>100.0</u>	<u>3,276</u>	<u>100.0</u>	<u>8,680</u>	<u>100.0</u>	<u>9,172</u>	<u>100.0</u>

a/ Regional distribution of commitments for FY81-83 period are calculated from PAB lending data and then are applied to the dollar equivalent of actual value of credits committed in SDR at June 30, 1983 exchange rates.

2.22 Of 310 lending operations during IDA6, Sub-Saharan Africa accounted for 173, or 56 percent of total, while 29 percent or 90 operations of total were in South Asia. (See Table 2.6).

Table 2.6: Number of IDA Lending Operations by Region
FY81-83

	<u>No. of Operations</u>	<u>% of Total</u>
Sub-Saharan Africa	173	55.8
Eastern Africa	98	31.6
Western Africa	75	24.2
EMENA	26	8.4
LAC	12	3.9
East Africa and Pacific	9	2.9
South Asia	<u>90</u>	<u>29.0</u>
Total	<u>310</u>	<u>100.0</u>

2.23 During the course of IDA6, three countries (Cameroon, Congo, and Nicaragua) graduated from IDA as scheduled, and one large borrower (Egypt) saw its graduation from IDA advanced due to: (i) an insufficiency of IDA6 resources; and (ii) offsetting availabilities of a significant volume of bilateral concessional resources. Due to deteriorating economic conditions, the creditworthiness of Tanzania and Liberia, former blend recipients, no longer justified access to IBRD lending and their eligibility was restricted to IDA funds. At the same time, Malawi, Senegal, and Kenya effectively had their access to IBRD loans reduced in proportion to IDA credits. Guyana and Papua New Guinea received their last IDA credits in the Sixth Replenishment and will not be eligible for credits under IDA7.

2.24 Lending by Sector: IDA continued its emphasis on lending for agriculture and basic infrastructure. However, during FY81-83 there was some increase in lending to industry and in non-project lending. Table 2.7 below presents a summary of IDA credits by sector for FY78-83. In FY81-83 credits committed to agriculture in IDA countries amounted to about \$3,256 million, or 37.5 percent. About 66 percent of total credits approved for agriculture and rural development during FY81-83 were made available to South Asia, while 26 percent went to Sub-Saharan African countries; increases of 3 and 6 percentage points over IDA5, respectively. Agriculture's share in FY85-87 is expected to increase because of the dire need to improve food self-sufficiency in IDA countries.

2.25 The second largest amount of IDA lending was for basic infrastructure. Total credits for this sector in FY81-83 amounted to \$2,452 million, representing 28.2 percent of total commitments. Within this rubric, energy credits for power generation, transmission, and distribution totalled \$1.1 billion, or 12.5 percent of total credits, a considerable reduction from IDA5. Transportation projects accounted for 11 percent of total lending during the period, with major emphasis on highway and road programs in South Asia (India in particular), and Sub-Saharan Africa.

Table 2.7: IDA Lending By Sector
(Current \$ million) a/

Sector	FY81		FY82		FY83		FY81-83		Memo Item FY78-80	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
	Agriculture and Rural Development	1,133	39.0	836	33.4	1,287	39.3	3,256	37.5	4,052
Basic Infrastructure	636	21.9	960	38.5	856	26.5	2,452	28.2	2,715	29.6
Energy	111	3.9	692	27.7	283	9.3	1,086	12.5	1,695	18.5
Transport	229	8.6	214	8.7	517	15.5	960	11.0	888	9.7
Telecommunications	296	9.4	54	2.1	56	1.7	406	4.7	132	1.4
Industry <u>b/</u>	462	15.8	232	9.0	160	4.2	854	9.8	466	5.0
Other Infrastructure	116	4.1	78	3.4	390	12.2	584	6.7	843	9.2
Water Supply and Sewerage	83	2.9	36	1.5	175	5.4	294	3.4	586	6.4
Urbanization	33	1.2	42	1.9	215	6.8	290	3.3	257	2.8
Human Resource Development	303	10.4	116	4.5	303	9.2	722	8.4	621	6.8
Education	303	10.4	96	3.6	249	7.5	648	7.5	413	4.5
Population, Health, and Nutrition	-	-	20	0.9	54	1.7	74	0.9	208	2.3
Non-Project Lending <u>c/</u>	254	8.8	278	11.2	280	8.6	812	9.4	475	5.2
Total	2,904	100.0	2,500	100.0	3,276	100.0	8,680	100.0	9,172	100.0

a/ Sectoral distribution of commitments for FY81-83 period are calculated from PAB lending data and then are applied to the dollar equivalent of actual value of credits committed in SDR at June 30, 1983 exchange rates.

b/ Includes development finance companies, industry, small scale enterprises, and tourism.

c/ Includes technical assistance.

2.26 Real Lending Levels: In constant 1980 dollars, IDA's annual commitments averaged \$1,921 million during the FY75-77 period, increased by 65 percent in FY78-80 to \$3,180 million, and then decreased by 17.7 percent in the following period. (See Figure 2.1).

2.27 Real Per Capita Lending: One measure of the importance of IDA transfers to recipients is the comparison of commitments made with the size of the population. According to this measure, IDA averaged \$1.41 per person in current dollars during the IDA4 commitment period, \$2.24 during IDA5 and \$2.37 in FY81-83, an increase of 5.8 percent in IDA6 over IDA5. In real terms, however, the average rose from \$1.78 per person in FY75-77 to \$2.33 in FY78-80, then dropped sharply to \$2.07 in the FY81-83 period. This trend is seen in Figure 2.2.

2.28 Taking account of China, a \$16 billion IDA7 replenishment would yield annual per capita commitments of \$2.19 in current dollars or \$1.57 in 1980 dollars. The decrease from FY81-83 would represent a drop of 24 per cent in real terms. To maintain the FY81-83 real per capita commitments level, \$2.07, a seventh replenishment of \$21.3 billion in current dollars would be required. Table 2.8 below illustrates the average real per capita commitments for FY75-83.

Table 2.8: IDA: Real Per Capita Commitments

	Average Annual Commitments		Population of Recipients (million)	Per Capita Commitments		Growth Rates (%)			
	in Current \$m	in 1980 \$m		in Current \$	in 1980 \$	Average Annual Commitments		Per Capita Commitments	
						in Current \$	in 1980 \$	in Current \$	in 1980 \$
IDA4 (FY75-77)	1,513	1,921	1,076	1.41	1.78	-	-	-	-
IDA5 (FY78-80)	3,057	3,180	1,366	2.24	2.33	102.1	65.5	58.9	30.9
IDA6 (FY81-83)	2,893 ^{a/}	2,617	1,223	2.37 ^{b/}	2.07 ^{b/}	-8.6	-17.7	5.8	-11.2
IDA7 (FY85-87) ^{c/}	5,333	3,805	2,430 ^{d/}	2.19	1.57	84.3	45.4	-7.6	-24.2

^{a/} June 30, 1983 dollar equivalent of average annual commitments.

^{b/} Excludes credit commitments to China: 3 percent for FY81, 2.3 percent in FY82 and 4.5 percent in FY83; but includes Special Fund commitments of \$40 million.

^{c/} Based on IDA7 size of \$16 billion.

^{d/} Includes population of China.

FIGURE 2.1
IDA COMMITMENTS
FY75-FY83
(IN MILLIONS OF DOLLARS)

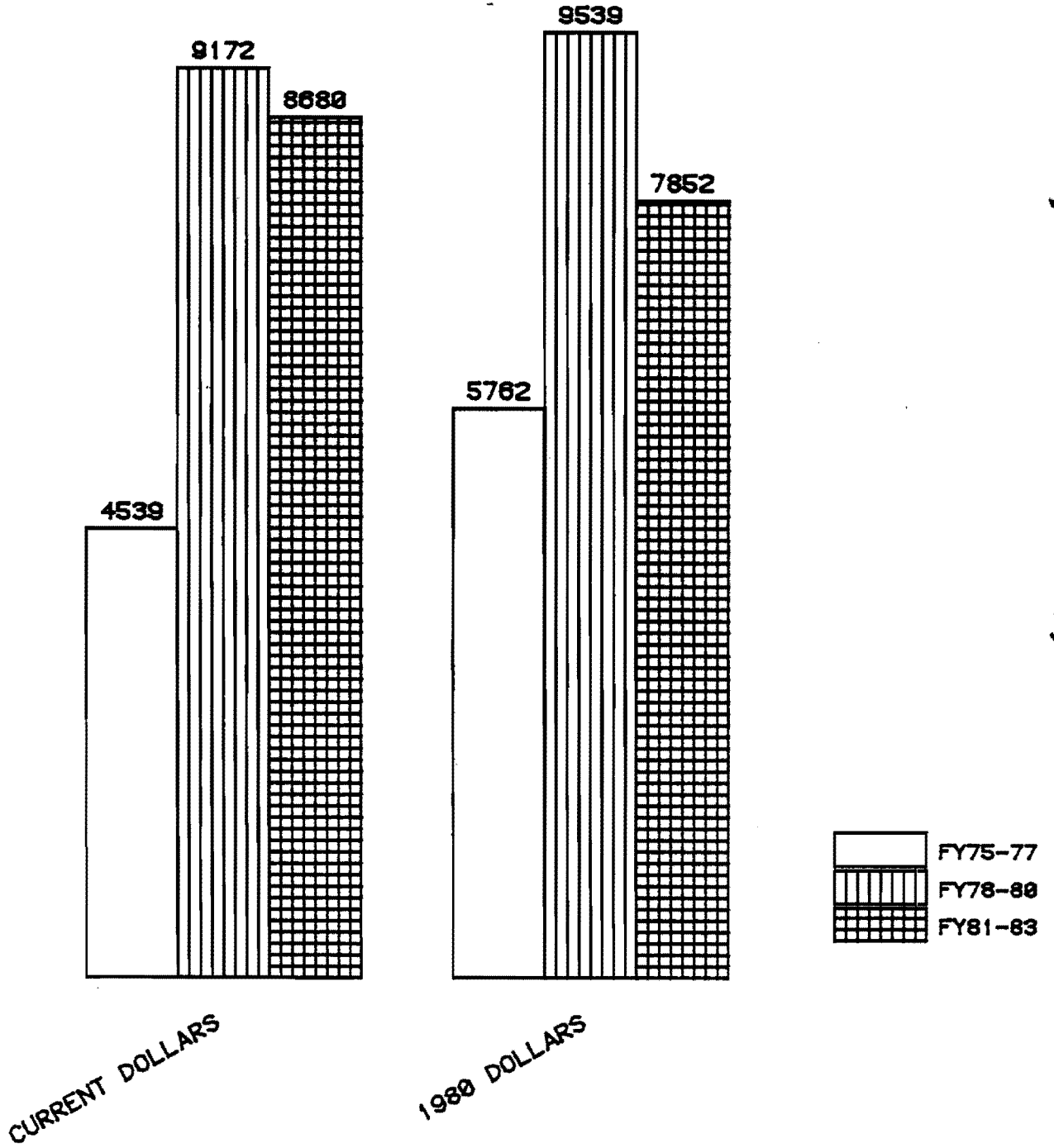
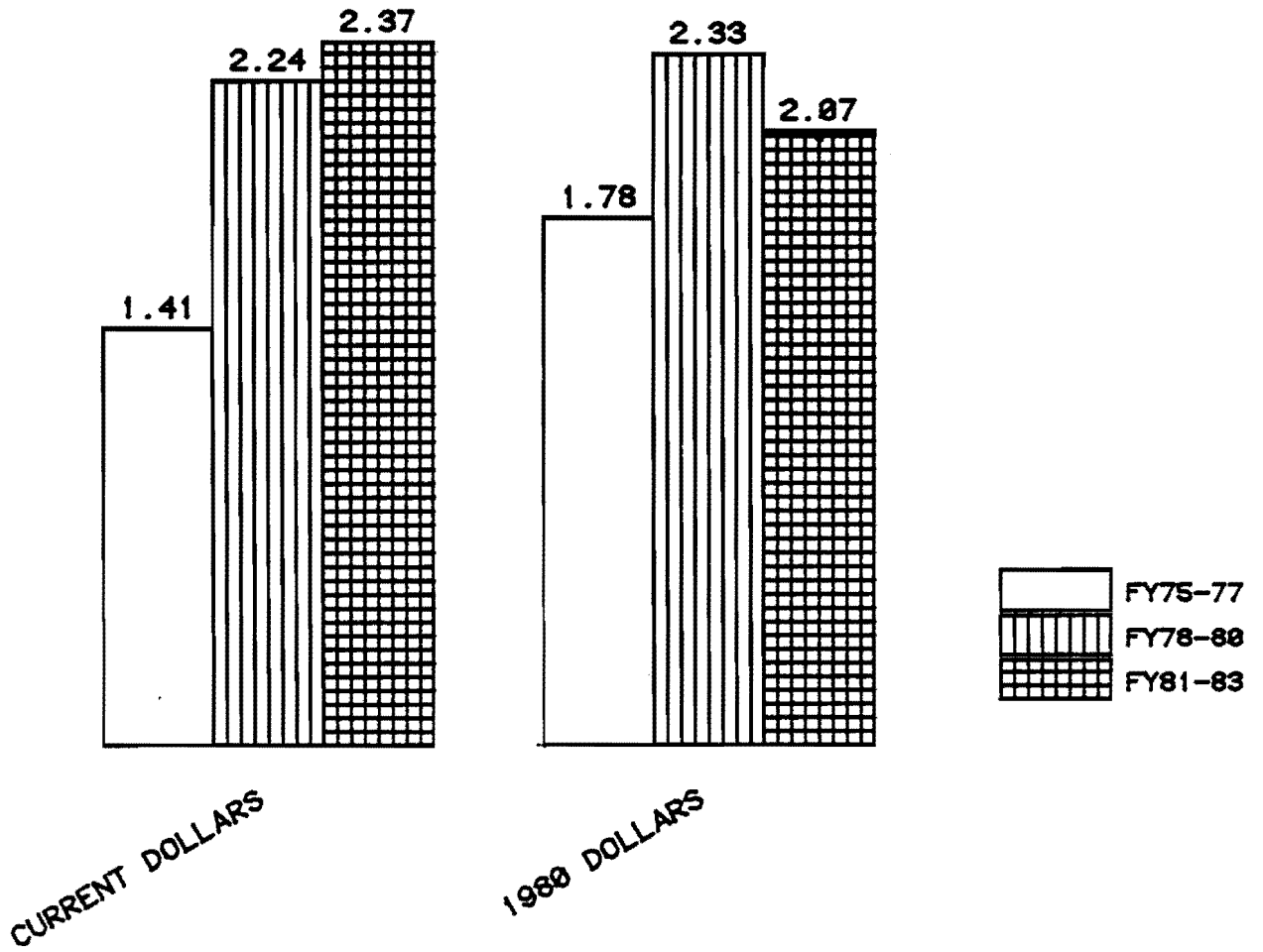


FIGURE 2.2
IDA PER CAPITA COMMITMENTS
FY75-FY83
(IN US\$)



Terms of Lending

2.29 The terms of IDA credits have remained essentially unchanged since 1961. Credits have a 50-year final maturity, and repayments begin 10 years after the credit is signed.^{12/} The loans carry no interest rate, although there is a service charge of 0.75 percent a year on the disbursed balance. In January 1982 a commitment fee of 0.5 percent a year on the undisbursed balance was established to bring IDA's income more into line with its administrative expenses. These terms were originally designed to make IDA credits, to the extent possible, the economic equivalent of grants.

2.30 The Concessionality of IDA Credits: The established measure of concessionality is the grant element, a comparison of the terms of a concessional loan to those prevailing in private capital markets. The grant element is defined as the difference between the face value of a loan and the discounted present value of service payments, usually expressed as a percentage of the face value of the loan.

2.31 The generally accepted practice has been to use grant elements to compare loans having different terms, using a discount rate of 10 percent.^{13/} At this rate, a standard IDA loan has a grant element of 87 percent. Table 2.9 below shows the historical grant element of IDA credits under various discount rates which reflect the average weighted cost of capital of donors. Since IDA's terms have remained essentially unchanged while market interest rates have risen, the concessionality of IDA's lending has increased.

Table 2.9: Grant Element of IDA Credits: 1961-82

<u>Year</u>	<u>Average Discount Rate</u> a/	<u>Grant Element</u> b/
1961	4.79	65%
1965	5.22	68%
1970	7.64	80%
1975	9.47	85%
1980	11.38	89%
1982	12.30	90%

a/ Weighted average cost of capital in donors' capital markets.

b/ Calculations based on IDA's actual repayment schedule, and immediate disbursement of credits.

^{12/} After this grace period, 1 percent of the credit is repaid in each of the next 10 years, and then 3 percent in each of the remaining 30 years.

^{13/} Based on the definition of the Development Assistance Committee of the OECD.

2.32 IDA Cost Sharing: To ensure the success of projects, it has been IDA's practice to encourage the participation of local governments and other financial institutions in project implementation. Experience has proved that the involvement of other organizations helps to assure success and reduces the risk involved. The extent to which IDA finances projects varies with the country, the sector, and, in particular, with the financial climate at the time of implementation. Table 2.10 summarizes IDA's share of project costs and Table 2.11 shows IDA's contribution to cost financing by income group of recipients. (See Annex Table 2 for a detailed actual breakdown).

Table 2.10: Summary of Cost Sharing for IDA Projects
By Region, FY78-83
(percent)

<u>Region</u>	<u>IDA5</u>			<u>IDA6</u>		
	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>
Eastern Africa	44	31	47	58	54	53
Western Africa	48	49	40	49	44	51
EMENA	32	25	25	44	38	47
LAC	48	39	11	49	73	83
East Asia and Pacific	49	44	48	34	36	27
South Asia	46	44	39	40	27	37
Total	44	40	37	43	33	41

Table 2.11: Summary of IDA Project Financing
By Income Group, FY79-83
(percent of total project cost)

<u>Income Group</u>	<u>IDA Contribution</u>	<u>Domestic Contribution</u>	<u>Other Cofinancing</u>	<u>Foreign Exchange Component</u>
Up to \$410	45	42	13	43
\$410-795	47	34	19	57
\$796-\$1,275	48	30	22	56
\$1,276-\$2,200	-	-	-	-
Total	45	41	14	45

IDA Co-Financing Experience

2.33 Table 2.12 shows official co-financing with IDA since FY78 in terms of the amount of resources made available for such operations. From FY78 to FY83 the Association concluded cofinancing arrangements in 300 out of a total of 665 projects. Over this period, official bilateral co-financing contributed \$3,757 million and IDA \$7,265 million. Since total IDA credits during the period amounted to \$18,681, this meant that about one-third of IDA lending was associated with financing from other sources. For official donors, however, co-financing with IDA accounts for only about 4-7 percent of foreign aid flows.

2.34 Since 1978-79, IDA has maintained a level of about 115 project commitments per year. However, the proportion of these involving official co-financing has fallen from the peak reached in FY77. Since FY80, the number of co-financed credits has been about 50 projects per year.

Table 2.12: IDA Cofinanced Projects

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983*</u>	<u>Total</u>
Total Cofinanced	1,355	2,685	3,180	2,310	2,373	1,594	13,497
of which:							
- IDA	763	1,134	1,605	1,496	1,227	1,040	7,265
- Other	592	1,551	1,575	814	1,146	554	6,232
Memo: IDA Cofinancing as % of Total IDA Commitments (%)	33	38	42	43	46	31	39
Memo: IDA Cofinancing as % of ODA Commitments (%)	3.7	7.3	7.3	5.7	-	-	-

* Preliminary

Sources: World Bank, OECD

Disbursements and Encashments

IDA6 Disbursement Profile

2.35 The disbursement pattern of an IDA replenishment is influenced by the project mix of the lending program and absorptive capacities of the recipients. Historically, the bulk (usually 85-90 percent) of disbursements is normally expended by the eighth year after the start of the replenishment but the profiles vary considerably, usually influenced more by the sectoral distribution than the country distribution (although country distribution do have a bearing on the sectors to which IDA funds flow).

2.36 Generally non-project, technical assistance and energy lending disburse extremely quickly. Basic infrastructure credits disburse at a moderate pace, although on a historical basis, even within this rubric, variations exist; namely, transportation and industry projects tend to disburse faster than urbanization or water projects. Agriculture tends to be slower and social sector projects, such as education, population, health, and nutrition projects, develop with the longest lags.

2.37 Projected Versus Actual FY81-83 Disbursements: The IDA6 disbursement projection was prepared on the basis of the proposed 3-year lending program (FY81-83) and the cumulative disbursement experience of the past 10 years. Because of the rephasing of IDA6 releases on the part of the US and the cutback in lending, however, the pattern of IDA6 commitments was changed in the second and the third year, and the difference is to be made up in the fourth year, FY84. Committing about 18 percent of the IDA6 resources in FY84 suggests a new disbursement pattern. The new disbursement curve is different from that originally projected in the sense that the pace of disbursements is slower (when measured as a proportion of total IDA6 lending) up to the seventh year after commitment (FY87) in the 4-year profile than the one originally projected. However, disbursements accelerate in the years beyond FY87, suggesting that donors can expect a higher level of calls in those years than previously anticipated. (See Table 2.13).

Table 2.13: IDA6 Disbursement Profile
(percent)

Year from Commitment	Fiscal Year	<u>Original Profile</u>		<u>March 1983 Profile</u>	
		<u>Based on a 3-Year IDA6</u>		<u>Based on a 4-Year IDA6 a/</u>	
		<u>Yearly Disbursement</u>	<u>Cumulative Disbursement</u>	<u>Yearly Disbursement</u>	<u>Cumulative Disbursement</u>
1	81	1.10	1.10	0.76	0.76
2	82	5.20	6.30	3.52	4.28
3	83	12.30	18.60	9.74	14.02
4	84	18.80	37.40	15.29	29.31
5	85	19.40	56.80	19.05	48.36
6	86	14.60	71.40	17.38	65.74
7	87	9.70	81.10	14.32	80.06
8	88	6.80	87.90	10.13	90.19
9	89	5.10	93.00	6.46	96.65
10	90	3.60	96.60	2.80	99.45
11	91	2.40	99.00	0.55	100.00
12	92	1.00	100.00		
		<u>100.00</u>		<u>100.00</u>	

a/ Based on FY81-84 IDA6 commitments of SDR 9,873 million.

Estimated IDA7 Profile

2.38 In order to derive a first-order approximation of the disbursement profile for commitments to be made under IDA7 in the FY85-87 period, a number of simplifying assumptions have been made: (i) the historical sectoral profiles for 1971-81 have been taken as the best available indicators of actual disbursements in the FY85-95 period; (ii) an illustrative sectoral breakdown for the FY85-87 lending program has been derived to reflect the planned sectoral priorities for commitments to be made under the Seventh Replenishment; and (iii) the IDA7 lending program assumed involves commitment of 30 percent of total IDA7 resources in FY85; 34 percent in FY86; and 36 percent in FY87. Table 2.14 shows, on the basis of these assumptions, what the disbursement profile for IDA7 might look like:

Table 2.14: IDA7 Estimated Disbursement Profile
(percent)

<u>Years after Commitment</u>	<u>Fiscal Year</u>	<u>Yearly Disbursement</u>	<u>Cumulative Disbursement</u>	Memo Item: <u>IDA6 Disbursement Profile</u>		
				<u>Fiscal Year</u>	<u>Yearly</u>	<u>Cumulative</u>
1	85	1.23	1.23	81	1.10	1.10
2	86	7.06	8.29	82	5.20	6.30
3	87	12.40	20.69	83	12.30	18.60
4	88	14.65	35.34	84	18.80	37.40
5	89	15.51	50.85	85	19.40	56.80
6	90	14.78	65.63	86	14.60	71.40
7	91	12.67	78.30	87	9.70	81.10
8	92	9.74	88.04	88	6.80	87.90
9	93	6.32	94.36	89	5.10	93.00
10	94	3.12	97.48	90	3.60	96.60
11	95	2.52	100.00	91	2.40	99.00
12				92	1.00	100.00

Implications of Profile for Encashments

2.39 The Association provides the donors with an estimated encashment schedule at the start of each replenishment to help in their budgeting processes. It is according to this encashment profile, modified in the light of actual experience with disbursements, that drawings will be made by IDA against resources contributed under that replenishment. This schedule should serve three purposes: (i) it should allow the Association to meet the disbursements against credits committed in the replenishment period; (ii) it should protect it against any unexpected disbursement acceleration or sudden exchange rate movement; and (iii) it should minimize the financial burden on the donors' budgets.

2.40 Bearing in mind the aforementioned characteristics for a desired encashment schedule, the IDA7 disbursement profile (Table 2.14) is used to estimate the drawdowns on IDA7 resources. A liquidity cushion equal to one-sixth (i.e., 2 months) of the following year's disbursements is provided in this analysis in estimating the level of drawdowns in each fiscal year.

Table 2.15: Estimated Drawings on Commitments to IDA7
(percent)

FY85	2.3
FY86	8.2
FY87	13.2
FY88	15.4
FY89	17.0
FY90	14.5
FY91	13.0
FY92	9.7
FY93	6.7
	<u>100.0</u>

PART 3: THE IDA7 NEGOTIATIONS

Introduction

3.1 The Seventh Replenishment of the resources of IDA is intended to provide funds for credit commitments between FY85-87. Negotiations for the replenishment entailed meetings of IDA Deputies in Washington (November 22-23, 1982), Paris (February 1-2, 1983), Copenhagen (March 29-30, 1983), Tokyo (July 19-21, 1983), and Washington (September 24, 1983). Policy issues on major aspects of IDA's lending have been considered, including some--such as the terms and conditions of IDA's lending--that have not been touched upon in recent replenishment negotiations. The main unresolved issues concern the size of the replenishment and the shares of individual donors, although in their discussions Deputies left open the possibility of reviewing again the terms of IDA credits, options for augmenting replenishment resources, and issues related to allocations.

3.2 This section of the Report is aimed at reviewing the status of the following issues: (a) eligibility and allocations criteria; (b) terms and conditions; (c) size of IDA7; (d) burden-sharing arrangements; (e) implementation arrangements, including conditions of effectiveness, advance contributions, and commitment authority limitations; (f) payment arrangements; (g) maintenance of value; (h) voting rights; and (i) other issues.

3.3 All official documents prepared for the negotiating sessions on the above-mentioned subjects are to be provided in a compendium document.

Eligibility and Allocations Criteria

3.4 The two standards used to determine eligibility for IDA credits, viz., per capita income^{14/} and lack of creditworthiness,^{15/} were reviewed again by Deputies who noted that the eligibility policies, should, as they have always been, remain a matter for final decision by the Association's Executive Directors. Deputies supported the sentiment of the Board, often expressed when it approved operational guidelines, that IDA management should exercise flexibility in applying eligibility criteria and take account of changing country circumstances.

3.5 The Deputies' general view was that the two eligibility criteria and their actual application by management had served the Association well. It was felt that there might be room for discussion as to the precise weight which should be attached to any particular measure or indicator; however, there was widespread agreement that eligibility could not be mechanically determined by quantitative criteria alone.

3.6 Assuming that the Association is funded at an adequate level through IDA7, the current cut-off point for per capita income eligibility criteria was deemed satisfactory. However, Deputies stressed that country eligibility for access to IDA should be based on a careful assessment of access to alternative sources of capital on the part of IDA borrowers.

3.7 In reviewing the criteria and patterns for IDA allocations Deputies noted that IDA7 would be funded under difficult economic circumstances and constrained aid budgets. The demand for IDA credits had to take into account China's eligibility for IDA credits under established criteria. Thus, it had to be recognized that, whatever the eventual size of the Seventh Replenishment, the level of resources available could be small in relation to overall requirements.

3.8 Deputies noted that allocation policies for committing IDA7 resources could only be determined by the Executive Directors. There was no precise formula that could be applied to derive in advance the amounts

14/ The present qualifying limit for IDA eligibility is a per capita income of \$795 (in 1981 dollars). This is a necessary but not a sufficient condition for eligibility.

15/ Creditworthiness, however, is not precisely measurable; it is largely a matter of careful assessment and judgment. Such factors as a country's degree of dependence on international trade, balance of payments performance and prospects, and potential access to alternative financing, including private investment, are relevant.

to be allocated to any country in the course of IDA7. Considerable judgment would need to be applied to determine actual allocations in any given year.

3.9 In reviewing allocations criteria, Deputies generally accepted the view put forward by management that the existing allocations criteria--namely, relative poverty, population size, and economic performance--should be used in IDA7 in the same way as they had been applied in the past.^{16/} As with eligibility, they noted that judgment would have to be exercised in applying these criteria flexibly. The principal elements which influenced, and should continue to influence, such judgments would be such factors as the robustness and sustainability of a country's growth, the quality of its economic management, and the ability of its economy to resist external shocks.

3.10 Deputies, in their discussions, felt that relative poverty should be given special prominence in determining allocations for IDA7. This factor has gained in importance because of the growing gap between IDA resources and the needs of IDA's borrowers. Lending over the FY85-87 period should concentrate IDA's resources on the countries most reliant on concessional sources of financing. In light of the recommendations of the recent World Bank report on Sub-Saharan Africa, high priority should be given to IDA flows to that region.

3.11 In the allocation of IDA7 funds, Deputies thought that the criterion of population size, while important, should be applied cautiously. Strict application of this criterion would result in allocations for India and China which together would preempt more than three-quarters of IDA's resources and thus cause an imbalance in the lending program. Deputies agreed that a realistic maximum would need to be placed on lending to India and China, individually and jointly.

3.12 A second allocation issue concerned the desirable pace of changes in lending. Management had noted that India has already been forced to adjust to much lower volumes of IDA funding, and at the same time to harder terms, somewhat faster than was desirable in the FY81-83 period. This would imply that a slower rather than faster adjustment towards a much lower IDA share would be appropriate. Management also argued that it was important for the Bank's relationship with China to respond quickly with an appropriate lending program for that country, which would imply a significantly increased share of IDA lending to China. While there were differences among Deputies concerning the exact speed of adjustment, it was generally felt that abrupt changes in the Association's commitments should be avoided, and that gradualism and continuity were important.

3.13 Finally, Deputies thought that economic performance should remain an important criterion for allocating scarce IDA resources. The ability of

^{16/} The history and use of these criteria are explored in detail in "IDA Eligibility and Allocations Criteria" (IDA/RPL/83-1, dated January 12, 1983).

borrowers to utilize IDA resources effectively was a critical factor in making allocation decisions although Deputies felt strongly that IDA had a special responsibility to support the efforts of the poorest countries to improve their economic performance. They stressed the importance of increasing IDA's technical assistance where weaknesses in economic management could otherwise hinder effective project implementation.

Terms and Conditions

3.14 The present terms for IDA credits were set in 1960, and have remained essentially unchanged since then, despite substantial increases in the opportunity cost of IDA funds.^{17/} These circumstances have resulted in a higher grant element for credits, although, at the same time, the economic situation of borrowers has generally worsened. In light of these developments, and the differences in financial conditions between pure IDA borrowers and IDA/IBRD blend borrowers, it was felt that a review of IDA's terms and conditions was necessary.

3.15 A number of arguments were put forward by management for adjusting IDA's terms in "An Approach to IDA7: Requirements, Terms and Conditions" (IDA/RPL/82-17, dated November 3, 1982). Among them were the need for greater terms differentiation among borrowers and for faster recycling of the Association's funds; however, the most important argument dealt with revising IDA's terms in order to accommodate the possibility of supplementing the Association's traditional method of funding.

3.16 Blending of IBRD and IDA funds is the normal method for differentiating terms to IDA borrowers. Transition toward a "harder blend" and eventually to graduation from IDA usually occurs gradually as creditworthiness improves. During the course of IDA6, however, because of an abrupt drop in IDA's resources, the blend was unexpectedly hardened for a number of countries, most prominently India. Since there is a need to limit the exposure of any single borrower in the IBRD's own portfolio, it is no longer possible to resort to the unrestrained use of blending as a device to vary the relative concessionality of total IBRD/IDA flows to larger borrowers.

3.17 Regardless of the final decision on the size of IDA7, many Deputies felt that the main rationale for reexamining IDA's terms should be based on the prospect that a change in terms would result in a significant increase in the volume of resource transfers to IDA borrowers. Thus, a finely balanced judgment needed to be made between the costs of such a change in terms and its benefits, chiefly increased donor support for

^{17/} IDA credits are provided with a 50-year final maturity and a 10-year grace period. No interest is charged, but an administrative fee of 0.75 percent is charged annually on disbursed and outstanding balances; since 1982, a 0.5 percent charge has been added on the undisbursed portion of credits.

funding the Association. If donor governments and legislatures were indifferent between supplying grant funds and providing highly concessional loans, no useful purpose would be served by borrowing; the hardening of terms in the absence of additional flows could have the perverse result of leaving borrowers worse off. If additional funds were generated, however, the Association's borrowers could well find it advantageous to borrow a greater volume of funds, even though a portion would be at less concessional terms. In order to be a realistic option, the Association would need assurances that borrowed funds would be considered additional to, and not substitutes for, grant funds.

3.18 Management presented a number of ideas concerning supplemental borrowing in its paper on Requirements, Terms, and Conditions. Borrowing would only be feasible if the terms of borrowing were somehow related to the terms of on-lending. Because direct borrowing would fundamentally alter the nature of the institution, it would be a measure of last resort, worthy of donors' consideration only in the event of a gross insufficiency of resources and a real possibility that borrowed funds would be available. Deputies therefore considered it premature to explore these issues until the size and shares of IDA7 were determined.

3.19 As part of the reexamination of IDA's terms, management analyzed a number of issues including the effect of harder terms on the debt servicing capacity of borrowers, the impact of changes in terms on the grant element of IDA credits, and the implications for the Association's finances of shorter maturity IDA credits. On the basis of several simulations (but subject to caveats with respect to the reliability of long-term debt service projections) it was found that hardened terms, in and of themselves, would not be likely to create unmanageable burdens for certain countries. On the other hand, for some major blend countries, access to non-concessional capital is enhanced by concessional borrowing, so that there is a clear linkage for them between the volume of borrowed funds and the terms which are sustainable.

3.20 The concessionalism of IDA credits depends on the final maturity, grace period, and interest charge on the loan, as well as the opportunity cost of capital. For illustrative purposes, Table 3.1 provides the grant element calculation for various combinations of terms, using a 12 percent discount rate^{18/} as well as other simplifying assumptions. With respect to the terms themselves, changes in interest rates were found to exert a

^{18/} This reflects approximately the weighted average cost of capital of major donors.

Table 3.1: Terms of Credits and Degree of Concessionalality

	Final Maturity of Credit (Years)									
	20		30		35		40		50	
	----- GRACE PERIOD (YEARS) -----									
	5	10	5	10	5	10	5	10	5	10
Interest Cost (%)	3/4	3/4	3/4	3/4	3/4	3/4	3/4	3/4	3/4	3/4
Grant Element (%)	69	74	76	82	79	84	81	85	84	87
Interest Cost (%)	3	3	3	3	3	3	3	3	3	3
Grant Element (%)	55	60	61	65	63	67	64	68	66	69
Interest Cost (%)	6	6	6	6	6	6	6	6	6	6
Grant Element (%)	36	40	40	43	41	44	42	44	43	45

N.B. Assuming a 12% discount rate, immediate disbursement and equal repayment of principal.

far larger impact on the grant element, and therefore the net grant transfer component of the credit, than reductions in final maturity or reductions in the grace period. For instance, current IDA terms entail an 87 percent level of concessionalality.^{19/} Establishing interest charges of 3 percent or 6 percent would lower concessionalality to 69 percent or 45 percent, respectively.

3.21 At the request of Deputies, analyses were performed which indicated that shortening final maturities would substantially strengthen IDA's capacity to rely on internally generated funds. Without considering the discount factor inherent in valuing future reflows, the table below indicates the increase in reflows which would be generated merely by a reduction in final maturity from 50 to 35 years.^{20/} Obviously, a further hardening of terms, such as those noted as possibly applying to creditworthy countries, would further increase the pace of reflows.

^{19/} This does not consider the disbursement lag of projects financed concessionalally.

^{20/} An IDA7 replenishment of \$16 billion was assumed, with successive replenishments increasing 10 percent.

Table 3.2: IDA Reflows: The Implications of Shorter Maturities
(\$ million)

FY	Existing Reflows of end-FY81 Commitments	Existing Maturity		Shorter Maturity		Cash-flow Differences	
		Reflows of FY82-96 Commitments	Total Reflows	Reflows of FY85-96 Commitments	Total Reflows	Net Difference	Cumulative Net Difference
1985	106	0	106	0	106	0	0
1990	236	0	236	0	236	0	0
1995	395	137	532	237	632	160	160
2000	593	420	1,013	1,428	2,020	1,008	3,456
2005	710	1,030	1,740	2,938	3,648	1,908	11,350

3.22 Reactions to these proposals for reform were generally cautious and somewhat mixed. While there was strong agreement against levying an interest charge on IDA credits unless it applied to borrowed IDA7 funds, there was some support for the more rapid recycling which would result from shortened maturities. But it was thought best not to pursue these proposals further until such time as the size of the grant pool of funds for the Seventh Replenishment was determined.

The Size of the Seventh Replenishment

3.23 The size of IDA7 can be viewed from three perspectives: the needs and circumstances of IDA's borrowers, the history of IDA lending, and donors' willingness to finance contributions to the Association out of their national budgets. There can be no doubt, and this was reaffirmed by Deputies, that economic prospects of the poorest countries are more precarious now than they were at the end of the 1970s when IDA6 was negotiated. Moreover, the experience of IDA6 was troubled and the Association's lending program for FY81-83 was cut by 14% (in SDR terms) below originally envisaged amounts. On the donor side, economic activity is just now beginning to emerge from a three year recession, but public expenditure levels are still considered too high, although total aid expenditures tend to account for less than one-half of one percent of public monies for OECD countries as a whole.

3.24 In its paper on "The Size of IDA7" (IDA/RPL/83-14, dated July 1, 1983), management recommended that the Seventh Replenishment should be no less than \$16 billion. The table below compares the allocations this would permit for major groups of recipients with the amounts planned and

Table 3.3: Minimum Estimated Requirements for IDA7
(\$ billion)

	<u>FY85-87</u>	<u>FY81-83</u>	
	<u>(Estimated)</u>	<u>Intended</u>	<u>Actual</u>
Sub-Saharan Africa	6.0	3.6	2.8
Other Pure IDA Countries	3.0	2.4	1.6
Other Blend Countries	<u>7.0</u>	<u>6.0</u>	<u>4.3</u>
Total All Countries	<u>16.0</u>	<u>12.0</u>	<u>8.7</u>

allocated during FY81-83. The suggested lending level for FY85-87 would essentially maintain in real terms the planned IDA6 lending level negotiated in 1979. Moreover, the inclusion of China in the group of IDA-eligible countries means that in real per capita terms, a \$16 billion replenishment would be about 25 percent lower than the actual FY81-83 lending and about 50 percent lower than planned IDA6 lending.

3.25 In the judgment of management, an IDA7 of \$16 billion is the minimum necessary to permit the Association to help recipients effectively in the pursuit of macro-economic, sectoral and project objectives. The size of IDA7 will exert a major influence on the extent to which negative growth in Sub-Saharan Africa can be reversed, not only because of the high net transfer value of credits, but also because of the role IDA can play in promoting policy reforms. The level of IDA7's resources will also influence the extent to which progress in other pure IDA countries, especially in Asia, can be sustained. Finally, with respect to blend countries, especially India and China, unless IDA7 has sufficient funding, these borrowers will need to substitute high-cost, commercial borrowing, devoid of any policy advice, at a time when general creditworthiness is lagging and policy interactions could be most fruitful. Alternatively they would need to forego or defer their anticipated levels of development expenditures which would affect their ability to increase their presently modest rates of growth.

3.26 As in the past, the length of the replenishment period should be long enough to allow for country-wide and cross-sectoral planning and yet short enough to accommodate changes in the recipient universe or major changes in economic circumstances. The replenishment period should also be long enough to allow for adjustments on a periodic basis in burden-sharing arrangements among donors. Despite a suggestion that the IDA7 replenishment period be extended to 5 years, it was almost unanimously felt that a three-year period, as in the past, was appropriate, although another suggestion was offered to reduce the replenishment period to a one-year term in the event that the eventual size of IDA7 were considered too low for the FY85-87 period.

3.27 It was widely acknowledged by Deputies in the course of the negotiations that, based on the needs of IDA recipient countries, there was a persuasive case for a replenishment of at least \$16 billion. A number of countries have indicated that they are prepared to support a \$16 billion replenishment. There was also recognition, however, that budgetary constraints, aggravated by exchange rate changes, limited the ability of many donors to contribute on that basis and that, realistically, a lower replenishment might ultimately emerge. There are differences of view on what a realistic funding level could be with many donors supporting a \$16 billion figure or no less than that of IDA6 in real terms, others supporting a figure up to or close to the same nominal level as IDA6—\$12 billion—and yet others supporting agreement on a figure in between \$12 billion and \$16 billion. The largest donor has indicated that it would not be able to contribute more than \$750 million annually and would not accept a share in excess of 25 percent, implying, ceteris paribus, a \$9 billion IDA7 replenishment.

Burden-Sharing

3.28 Deputies reviewed a wide range of indicators which measure the ability of donors to contribute to the Seventh Replenishment, on the basis of management's paper, "Burden-sharing in IDA", (IDA/RPL/83-5, dated March 9, 1983). In negotiating shares of previous replenishments, donors have been guided to a large extent by the size of their past shares, and although there have been major adjustments over time, no strict formula involving a composite of factors has been used as a basis for determining shares or changes in shares.

3.29 As in the past, there was no single indicator or series of indicators which all donors could accept as a guide to changes in their relative shares. Most donors seem convinced, however, that GNP shares (perhaps adjusted for levels of per capita income) were the most acceptable and broadly representative measures of "ability to pay". Still, donors preferred to use the criteria only indicatively to gauge the appropriateness of their relative burden. It was recognized that the choice of exchange rate could have a significant impact on these calculations.

3.30 Burden-sharing can be measured in a number of ways. In one sense, donors agree at the time of a replenishment negotiation to a certain share of the cost and obligate themselves to shoulder a portion of the designated burden of a replenishment. While equitable drawdowns maintain the principle of burden-sharing, in the absence of maintenance-of-value provisions, these payments in national currency will constitute a variable share of actual disbursements over the course of a replenishment. And while burden-sharing can be measured at any time during the disbursement period, it can only be measured fully after all disbursements are completed, since exchange rates and therefore the value of encashed contributions will vary. In light of these considerations, Deputies

generally agreed that burden-sharing should be measured at the time of the agreement and that drawdowns should continue to be calculated on a pro rata basis.

3.31 The shares agreed to by donors for IDA6, as well as relative shares in total donor GNP for 1981 and 1982, are shown in Table 3.4 below.

Table 3.4: Revised Burden-Sharing Statistics
(percent)

	IDA6 Share	1981		1982	
		GNP Shares	GNP Shares	Adjusted <u>a/</u> GNP Shares	Adjusted GNP Shares
Argentina	0.21	0.81	0.80	0.19	0.19
Australia	1.91	1.85	1.94	1.94	2.06
Austria	0.68	0.86	0.82	0.83	0.75
Belgium	1.68	1.33	1.17	1.49	1.16
Brazil	0.42	3.02	3.15	0.63	0.68
Canada	4.30	3.06	3.10	3.22	3.28
Colombia	0.08	0.41	0.44	0.05	0.06
Denmark	1.20	0.74	0.70	0.89	0.81
Finland	0.60	0.57	0.58	0.55	0.58
France	5.38	7.35	6.98	8.36	7.52
Germany	12.50	9.28	8.51	11.76	9.83
Greece	0.05	0.50	0.46	0.21	0.18
Iceland	0.03	0.03	0.03	0.04	0.03
Ireland	0.11	0.20	0.20	0.10	0.09
Italy	3.85	4.40	4.34	2.81	2.81
Japan	14.65	13.72	13.04	13.29	12.02
Korea	0.03	0.75	0.77	0.12	0.13
Kuwait	1.67	0.42	0.36	1.02	0.70
Luxembourg	0.05	0.06	0.06	0.08	0.08
Mexico	0.17	1.82	1.82	0.38	0.38
Netherlands	3.00	1.78	1.74	1.86	1.77
New Zealand	0.08	0.28	0.28	0.20	0.20
Norway	1.20	0.64	0.65	0.83	0.87
Portugal	0.06	0.28	0.27	0.07	0.06
Saudi Arabia	3.50	1.34	1.73	1.60	2.59
South Africa	0.08	0.78	0.92	0.17	0.23
Spain	0.42	2.46	2.28	1.33	1.13
Sweden	3.00	1.36	1.31	1.85	1.73
United Arab Emirates	0.66	0.32	0.30	0.77	0.63
United Kingdom	10.10	5.64	5.89	4.74	5.18
United States	27.00	32.49	34.07	38.18	41.91
Venezuela	0.17	0.72	0.57	0.28	0.17
Yugoslavia	0.17	0.71	0.71	0.19	0.19
Unallocated	1.01	-	-	-	-
Total	100.00	100.00	100.00	100.00	100.00

a/ Adjusted GNP shares are constructs which reflect GNP shares as well as per capita GNP shares.

Source: World Bank Atlas

Implementation Arrangements

Conditions of Effectiveness

3.32 Conditions of effectiveness ensure that the Association will receive the contributions agreed upon during the negotiations, enabling it to plan its lending program while at the same time providing assurances to donors that the financial burden will be shared in the proportions agreed upon. As noted in "IDA7: Conditions of Effectiveness, Commitment Limitations and Methods of Payment", (IDA/RPL/83-10, dated June 9, 1983), up to and including the Sixth Replenishment, the effectiveness of every replenishment has been subject to the prior satisfaction of two conditions: (i) the Association must have received members' notifications to contribute in an aggregate amount of at least 80 percent (approximately) of the total replenishment amount; and (ii) such notifications must have been received from at least 12 Part I countries. This requirement meant in practice that notifications had to be received from major donors, including particularly the United States.

3.33 In discussing the effectiveness arrangements for IDA7, the Deputies agreed that the traditional IDA effectiveness trigger was satisfactory and it was therefore agreed that it should be retained. For the purposes of measuring whether the 80 percent test has been satisfied, IDA's practice of counting the full amount notified under a qualified instrument of commitment would be followed, even though such an instrument would have to include a firm and unqualified commitment only for a first installment, the remainder being subject to the necessary appropriations being obtained. A donor depositing a qualified instrument of commitment would have to include in such a notification an express provision that it would seek the necessary appropriations in accordance with the commitment schedule set forth in the Replenishment Resolution and that it would exercise its best efforts in doing so.

3.34 With respect to timing, it would be desirable for IDA7 to take effect as of July 1, 1984, so that IDA could commence its lending operations from the start of its fiscal year. Donor fiscal years, however, begin at different times. In particular, the fiscal year of the United States--the largest donor--begins on October 1. It was therefore agreed that the target date for effectiveness of the new replenishment would be October 31, 1984.

Advance Contributions

3.35 In the past, a hiatus in IDA's ability to commit resources prior to effectiveness (in the case of every replenishment since IDA2) has been avoided through the practice of other donors providing the Association with advance contributions. These were treated as contributions without voting rights and were authorized to be accepted by resolutions of the Executive Directors. Upon effectiveness of the replenishment, the advance contributions were counted as part of the respective members' subscriptions

and contributions under the replenishment and thus carried voting rights and became vested with all rights and obligations provided under the terms of the replenishment resolution.

3.36 Since IDA7 is not expected to become effective before the end of October 1984, and in view of past experience, it was felt that the Association should be able to start committing credits as soon as donors have deposited notifications in an aggregate amount of at least half (50 percent) of the total replenishment amount. It is hoped that this will occur by July 1, 1984, so as to provide the Association with uninterrupted commitment authority; however, for this to occur, many donors will need to submit budgetary requests to their parliaments by the end of 1983, or shortly thereafter. Some donors expressed the view that the timing of their budgetary procedures might prevent their participation in an advance contribution scheme despite their desire to do so.

3.37 Such an arrangement requires the integration of an advance contribution scheme into the Seventh Replenishment arrangements and would provide the Association with a necessary measure of commitment authority at an early date. In accordance with past practices, upon effectiveness, these contributions would be considered payments towards amounts due and votes would be given for these contributions as part of the first general adjustment of voting rights under IDA7. In the event that IDA7 has not become effective by March 31, 1985, at the latest, a meeting of the Deputies would be convened to consider what remedial action would seem appropriate at that time.

Commitment Authority

3.38 Under the IDA5 and IDA6 replenishment arrangements, limitations were placed, for the first time, on the authority of the Association after the replenishment had become effective to enter into new credits. This change was triggered by the new practice of the United States, in accordance with its budgetary procedures, of providing an unqualified commitment only with respect to payment of a first installment, its agreement to pay the remainder being subject to obtaining the necessary appropriations.

3.39 In the Sixth Replenishment, the Association's commitment authority was divided into three successive tranches of (at least) 29 percent, (at least) 33 percent, and 38 percent (or the remaining balance). Since commitments under qualified notifications could be made for less than the minimum tranche amounts, it was provided that in such instances the Association's commitment authority against the unqualified contributions of the other donors would be reduced pro rata. The objective of placing these restrictions on IDA's commitment authority was to ensure that the qualifications on payment by the largest donor would not seriously affect negotiated IDA6 burden-sharing arrangements, at least in terms of proportional releases of commitment authority. In the event, the principle of burden-sharing was maintained, at the expense of large pro rata cuts by other donors, when the United States rephased its contributions, and the

lending program was only restored, to a partial degree, by waivers by many donors of part or all of the pro rata commitment limitations against their contributions.

3.40 Management felt that the automatic invocation of pro rata reductions in commitments (and the subsequent need to waive those rights and authorize releases) was cumbersome; yet it was also recognized that donors required some assurance that burden-sharing with respect to notifications would be upheld. In other words, if donors providing a qualified instrument were not to maintain the agreed upon schedule of commitments, other donors should retain the ability to reduce their commitments by informing the Association of their desire to do so. Thus, in order to provide donors with a means to ensure that burden-sharing is observed at the commitment stage, the following arrangements have been agreed upon for IDA7.

3.41 The amount of commitment authority available to the Association upon effectiveness (to the extent not already available under the integrated advance contributions scheme outlined above) and each year thereafter, will amount to one-third of the aggregate amount notified under unqualified instruments of commitment plus the amount that has become unqualified under a qualified instrument of commitment. If by October 31 of the second and third replenishment years, the amounts available without qualification under a qualified instrument of commitment are less than two-thirds and 100 percent, respectively, of the total amount of such donor's contribution, other donors will be entitled, at their request, to a pro rata reduction in commitments against their contribution. In addition, a meeting of the Deputies would be convened to review the situation if, in the management's judgment, there was a substantial likelihood that the total amount of any donor's commitment under the replenishment could not be obtained in three years.

Payments Arrangements

3.42 The payment arrangements under previous replenishments have served essentially two objectives: (i) to achieve equitable burden-sharing through pro rata drawdowns on member contributions; and (ii) to ensure adequate cash for the Association to meet its disbursement obligations. A recent reassessment of payment arrangements under IDA6, "IDA7: Conditions of Effectiveness, Commitment Limitations and Methods of Payment" (IDA/RPL/83-10, dated June 9, 1983), showed that, in spite of non pro rata releases of commitment authority, it was still possible both to observe the fundamental principle of pro rata drawdowns and to meet the Association's cash requirements. The deposit of notes is made as flexible as possible to take account of varying legislative and budgetary procedures; however, the requirements of equity and adequate cash flow should not be sacrificed. Thus, the Deputies agreed that under IDA7, the practice followed with respect to note deposits in IDA6 should be continued. While donors will generally deposit notes in three equal installments, they will be able to

avail themselves of the following options: (i) postponement of any installment by up to 12 months; (ii) payment in four equal installments instead of three; or (iii) payment in ascending rather than in three equal amounts.

3.43 The Deputies also felt that the drawdown arrangements used in IDA6 should be applied in IDA7. Pro rata drawdowns should continue to be the ruling principle, but administered with some flexibility. Donors would continue to have the option of either quarterly calls or a fixed annual encashment schedule, with adjustments made during the following fiscal year. Due to exchange rate fluctuations and programmatic changes, disbursements will inevitably vary from estimated amounts. When calls exceeded estimates, donors experienced difficulties. Similarly, problems were created for the Association when its liquidity fell below prudent levels. In this connection, management will recommend that any Bank transfers approved by the Bank's Board of Governors during the IDA7 period be used, in exceptional circumstances, to bolster IDA's liquidity. This recommendation would not preempt the decision making process which determines the level of annual Bank transfers to IDA.

Maintenance of Value

3.44 The maintenance of value (MOV) provisions applicable to members' initial subscriptions under the Articles of Agreement were made applicable to the subscriptions and contributions under the first three replenishments, but not to subsequent replenishments. Maintenance of value provisions would achieve the following objectives: stabilize the value of IDA's commitment authority during the replenishment period; ensure that IDA has sufficient funds to meet its disbursement obligations; maintain agreed burden-sharing among donors; and preserve equity in voting rights by ensuring that the effective cost of votes remains the same for all donors.

3.45 The absence of maintenance of value in IDA4 and IDA5, coupled with wide fluctuations in the exchange rates of donors' currencies, caused large and unpredictable variations both in the resources available for credit commitments and in those available for disbursement. In an effort to stabilize IDA's financial position, the SDR was introduced in IDA6 as the numeraire for IDA credits. During the course of IDA6, it was tardy contributions rather than the volatility of exchange rates that exerted the major influence on commitment authority. The denomination of IDA credits in SDRs was found to be effective in dampening the effects of changes in the value of the contributions that were received, and it is intended that the SDR will remain the numeraire of IDA credits in the Seventh Replenishment.

3.46 As noted in the paper prepared for Deputies, "IDA7: Maintenance of Value", (IDA/RPL/83-11, dated June 9, 1983), experience shows that exchange rate movements over the course of the disbursement period can create substantial shortfalls (or gains) between amounts committed under a

replenishment and the value of resources available to meet disbursements. It is too early to assess whether resources for disbursement will match those committed under IDA6. However, based on the relatively small levels of fluctuations in the SDR value of IDA6 contributions to date, it is reasonable to expect that exchange rate fluctuations will not result in shortfalls or surpluses of the order of magnitude experienced under IDA5. To absorb the impact of exchange risks, the resources available to the Association under one replenishment may have to be used to meet shortfalls in financing disbursements arising under any previous replenishment.

3.47 Donors have repeatedly stressed the complications and uncertainties that MOV adds to their budget planning. Moreover, since countries with depreciating currencies are also likely to be countries with weak balances of payments, it is felt that the maintenance of value obligation might place an additional burden on those least able to afford it. The only major alternative, therefore, is to accept the fact that the value of donor contributions, and thus effective shares, will continually change over the course of the replenishment. Similarly, the effective cost of votes will also reflect movements in exchange rates.

3.48 After examining the issue and assessing alternatives, including both the reintroduction of full MOV provisions and exploration of partial MOV provisions, Deputies felt that it would be impractical to alter the present system. There remains a view, however, that since the SDR is the numeraire of credits to borrowers, it would be useful to negotiate the volume of IDA replenishments, including IDA7, in SDR terms as well.

Voting Rights

3.49 The basic principles of the voting rights system have not been changed since IDA^{321/} and were once again endorsed by Deputies. However, in a recent paper, "IDA7: Voting Rights", (IDA/RPL/83-12, dated June 9, 1983), analyses were undertaken to assess the implications of altering the method by which Part I voting rights were allocated with the objective of

21/ There are four basic features of the voting rights system. First, Part I members' voting power is to reflect their relative shares in the sum of financial contributions to the Association (except for membership votes). Second, to enable Part II members to maintain their relative voting power and to exercise preemptive rights under IDA's Articles of Agreement, subscriptions are fixed at nominal cost and Part II countries can pay them entirely in local currency. Third, Part II members making contributions "in usable form" are given votes in the same number as would be accorded to a Part I member increasing its contribution to the replenishment by the same amount. Finally, to avoid dilution of the relative voting power of smaller members of the Association, additional membership votes are given for additional subscriptions so that the total of each country's membership votes is maintained at .25 percent of the total of potential subscription votes.

providing a greater incentive to contribute. It was found that even a radical reweighting of cumulative voting rights to give IDA7 contributions substantially larger importance would not significantly reapportion voting rights.

3.50 Similarly, management presented an analysis of the effective cost of IDA6 votes with prevailing exchange rates rather than those in effect at the time of the IDA6 negotiations. This showed some variations, even in SDR terms; however, significant technical and legal issues would be raised in attempting to readjust votes ex post facto to reflect changing exchange rates. Furthermore, it appears that the voting power distribution would not be materially affected in any case.

3.51 For these reasons, Deputies agreed that the same principles and methods used for determining voting power in the Sixth Replenishment should apply to the Seventh Replenishment. Voting rights as of July 29, 1983 are shown in Table 3.5. An initial adjustment of all votes will be carried out to reflect Special Contributions to the FY84 Account of donors which did not elect to avail themselves of the procurement provisions applicable to Special Fund contributions.

Table 3.5: IDA Voting Power
(As of July 29, 1983)

	<u>Voting Power</u>	
	<u>No. of Votes</u>	<u>Percent of Total</u>
Australia	69,115	1.46
Austria	29,657	.63
Belgium	58,076	1.23
Brazil	81,496	1.72
Canada	165,730	3.51
Denmark	45,928	.97
Finland	25,939	.55
France	179,648	3.80
Germany	342,586	7.25
Greece	19,656	.42
Iceland	10,658	.23
Ireland	13,702	.29
Italy	123,671	2.62
Japan	338,756	7.17
Korea	14,959	.32
Kuwait	54,021	1.14
Luxembourg	11,397	.24
Mexico	15,896	.34
Netherlands	96,098	2.03
New Zealand	13,410	.28
Norway	42,759	.90
Saudi Arabia	106,443	2.25
South Africa	15,065	.32
Sweden	114,958	2.43
United Arab Emirates	18,132	.38
United Kingdom	336,440	7.12
United States	873,571	18.49
Yugoslavia	29,446	.62
	<hr/>	<hr/>
Total	<u>3,247,213</u>	<u>68.71^{a/}</u>

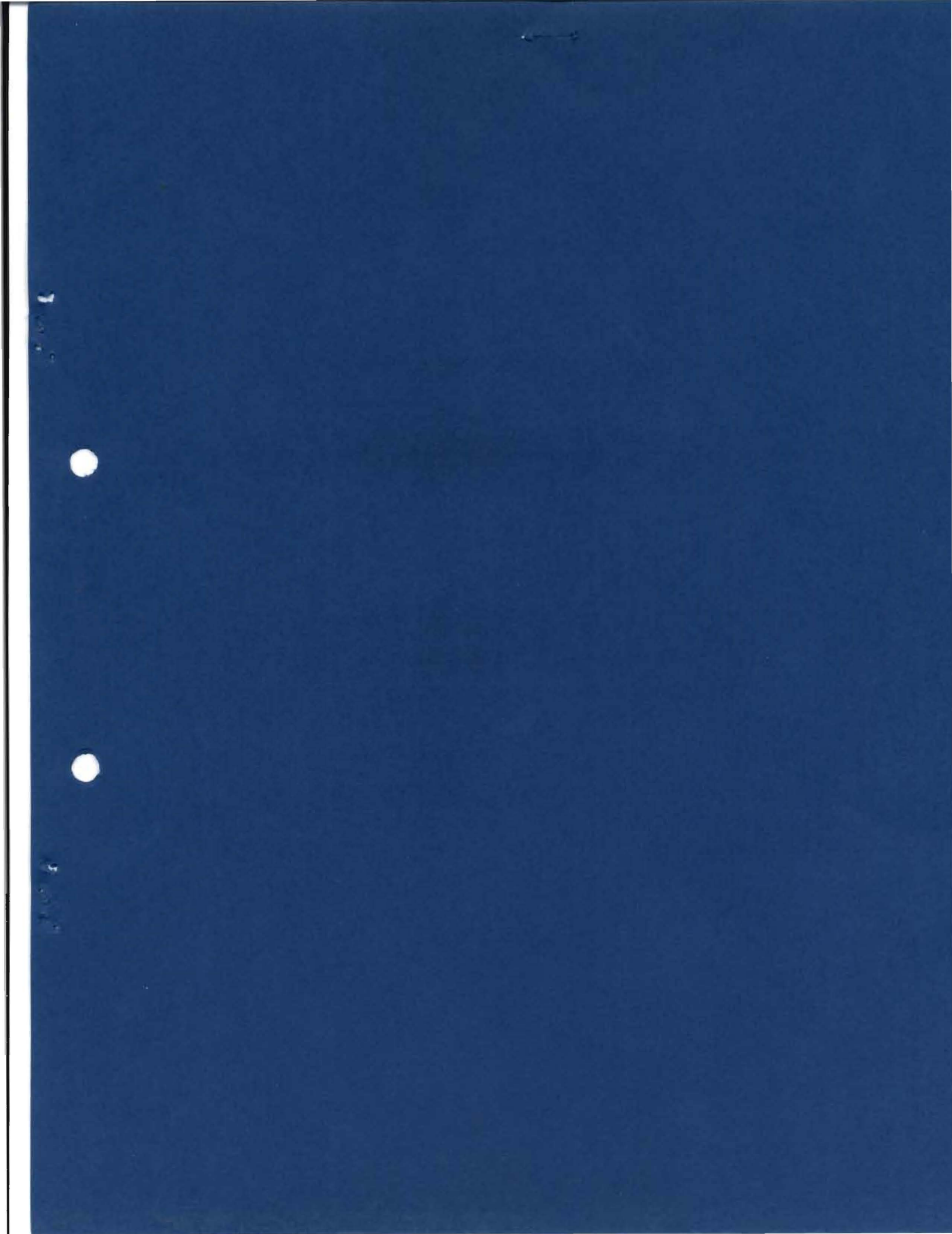
a/ The remaining 31.29 percent of voting power is shared by Part II countries, other than those included above.

Other Issues

3.52 At the request of one Deputy, reference is made to the Resolution which provided the Arrangements for Special Contributions (IDA/R82-117/2, dated November 3, 1982) which states, inter alia, that:

"Members are entitled to request that their Special Contributions be taken into account in the next general replenishment of the Association's resources, and any such request shall be considered in the course of the negotiations of such replenishment. It is understood that Special Contributions are to be regarded as without prejudice to any arrangements in connection with subsequent replenishments."

It should be noted in this connection that in focussing on the size of IDA7 management has estimated resource requirements for FY85-87 taking into account the feeling on the part of donors that contributions provided in FY84 were a special transitional arrangement to bridge a resource gap between replenishments. Management believes therefore that FY84 contributions be regarded as a separate contribution from any contributions that might be made by donors for IDA7.



Annex Table 1: IDA COUNTRIES: ECONOMIC AND SOCIAL INDICATORS

	GNP PER CAPITA		AGRICULTURE % OF GDP 1980	PRIMARY COMMODITIES* % OF EXPORTS 1980	EXPORTS AVE. ANNUAL GROWTH RATE (PERCENT) 1970-80	FOOD SHARE OF IMPORTS (PERCENT) 1980	SAVINGS % OF GDP 1980	INVESTMENT % OF GDP 1980	POPULATION (MILLIONS) MID-1980	AVE. ANNUAL GROWTH OF POPULATION (PERCENT) 1970-80	LIFE EXPECTANCY AT BIRTH (YEARS) 1980	ADULT LITERACY RATE 1980
	DOLLARS 1980	AVE. ANNUAL GROWTH RATE (PERCENT) 1960-80										
A. PURE IDA COUNTRIES	220	0.8	47	-	-	-	7	14	411.8	2.6	48	-
LAO PDR	-	-	-	-	-	-	-	-	3.4	1.8	43	41
BHUTAN	80	-0.1	-	-	-	-	-	-	1.3	2.0	45	-
CHAD	120	-1.8	57	-	-7.2	-	-14	13	4.5	2.0	41	15
BANGLADESH	130	0.0	54	34	-0.7	25	2	17	89.5	2.6	46	26
ETHIOPIA	140	1.4	51	92	3.6	8	5	10	31.1	2.0	40	15
NEPAL	140	0.2	57	69	-	4	7	14	14.9	2.5	44	19
SOMALIA	-	-	60	98	6.7	19	3	16	3.9	2.3	44	60
GUINEA-BISSAU	160	1.0	53	-	-	-	-23	32	0.8	-	42	28
BURMA	170	1.2	46	-	1.3	-	18	24	34.8	2.4	54	70
AFGHANISTAN	-	-	-	-	5.3	-	11	14	15.9	2.5	37	12
VIET NAM	-	-	-	-	-	-	-	-	54.2	2.8	63	87
MALI	190	1.4	42	-	7.1	-	-3	15	7.0	2.7	43	10
BURUNDI	200	2.5	55	99	-	13	0	14	4.1	2.0	42	25
RWANDA	200	1.5	48	-	0.4	-	3	16	5.2	3.4	45	50
UPPER VOLTA	210	0.1	40	89	7.3	21	-9	18	6.1	1.8	39	5
ZAIRE	220	0.2	32	-	-3.1	-	13	11	28.3	2.7	47	58
GAMBIA	250	1.7	26	-	-	-	-22	34	0.6	2.9	42	15
MALDIVES	260	1.3	-	-	-	-	-	-	0.2	2.9	47	82
HAITI	270	0.5	-	-	-	-	9	18	5.0	1.7	53	23
SIERRA LEONE	280	0.0	36	-	-4.4	-	6	15	3.5	2.6	47	15
TANZANIA	280	1.9	54	74	-8.1	13	8	22	18.7	3.4	52	79
GUINEA	290	0.3	37	-	-	-	14	11	5.4	2.9	45	20
CENTRAL AFRICAN REPUBLIC	300	0.9	37	74	1.9	21	-1	10	2.3	2.1	44	39
COMOROS	300	-0.1	-	-	-	-	-	-	0.4	3.6	47	-
EQUATORIAL GUINEA	-	-	-	-	-	-	-	-	0.3	1.3	47	-
WESTERN SAMOA	-	-	-	-	-	-	-	-	0.2	0.9	68	-
UGANDA	300	-0.7	76	-	-9.8	-	2	3	12.6	2.6	54	48
BENIN	310	0.4	43	-	-7.0	-	5	24	3.4	2.6	47	25
NIGER	330	-1.6	33	-	23.4	-	21	29	5.3	2.8	43	5
MADAGASCAR	350	-0.5	36	84	-2.5	9	9	21	8.7	2.5	47	50
SUDAN	410	-0.2	38	96	-5.2	26	3	12	18.7	3.0	46	32
GHANA	420	-1.0	66	-	-7.1	-	5	5	11.7	3.0	49	-
LESOTHO	420	6.1	31	-	-	-	-79	30	1.3	2.3	51	52
YEMEN, PDR	420	12.1	13	-	-	-	-	-	1.9	2.4	45	40
YEMEN ARAB REP.	430	4.5	29	49	-	-	-20	44	7.0	2.9	42	21
MAURITANIA	440	1.6	26	-	-0.3	-	14	51	1.5	2.5	43	17
SOLOMON ISLANDS	460	1.0	-	-	-	-	-	-	0.2	3.4	-	-
DJIBOUTI	480	-5.3	-	-	-	-	-	-	0.4	7.9	45	10
ST. VINCENT	520	0.2	-	-	-	-	-	-	0.1	-	-	-
DOMINICA	620	-0.6	-	-	-	-	-40	39	0.1	2.8	-	-
B. IDA/IBRD BLEND COUNTRIES	280	1.6	33	-	-	-	25	27	1795.9	2.0	58	-
MALAWI	230	2.9	43	90	5.9	8	10	22	6.1	2.9	44	25
INDIA	240	1.4	37	34	4.6	9	20	23	573.2	2.1	52	36
SRI LANKA	270	2.4	28	65	-1.5	20	14	36	14.7	1.6	66	85
CHINA	290	-	31	28	-	15	30	31	976.7	1.8	64	69
PAKISTAN	300	2.8	31	43	3.0	13	6	18	82.2	3.1	50	24
TOGO	410	3.0	26	32	1.5	14	14	26	2.5	2.5	47	18
KENYA	420	2.7	34	50	-1.9	8	15	22	15.9	3.4	55	50
SENEGAL	450	-0.3	29	46	-1.4	25	-2	15	5.7	2.8	43	10
LIBERIA	530	1.5	36	38	1.2	19	29	29	1.9	3.4	54	25
ZAMBIA	560	0.2	15	-	-0.2	-	18	23	5.8	3.1	49	44
ZIMBABWE	630	0.7	12	-	-	-	16	18	7.4	3.3	55	44
GUYANA	690	0.9	23	-	-	-	15	30	0.8	1.1	70	-
PAPUA NEW GUINEA	780	2.8	34	52	-	-	15	27	3.0	2.3	51	32

* Excluding minerals and metals.
- Not available.

Source: IDA in Retrospect, 1982 and The World Development Report, 1983.

Annex Table 2: Summary of IDA Project Financing
By Sector, FY79-83
(percent of total project cost)

<u>Sector</u>	<u>IDA Contribution</u>	<u>Domestic Contribution</u>	<u>Other Cofinancing</u>	<u>Private Cofinancing</u>	<u>Foreign Exchange Component</u>
Agriculture and Rural Development	48	39	13		36
DFC	70	18	12		87
Education	60	32	8		53
Industry	27	46	27		50
Non-Fuel Minerals	56	23	21		55
Power	33	50	17		42
Oil, Gas and Coal	54	28	18	1	79
Population Health and Nutrition	48	33	19		30
Program Loan and SAL	87	0	13		100
Small Scale Industry	60	36	4		49
Telecommunications	26	72	2		27
Transportation	44	34	22		64
Urbanization	55	45	0		24
Water Supply and Sewerage	48	43	9		35
Other	84	13	3		78
Total	45	41	14	0	45