

**IDA17 REPLENISHMENT - THIRD MEETING****October 14-15, 2013****Chairperson's Summary**

The third meeting of the IDA17 Replenishment, held in Washington from October 14-15, brought together the IDA Deputies and Borrower Representatives to discuss the proposed policy framework and financing scenarios for IDA17. The discussion focused on two documents, the "Updated IDA17 Financing Framework and Key Financing Variables" and the draft IDA17 Deputies' Report. Ms. Sri Mulyani Indrawati, Chief Operating Officer and Managing Director of the World Bank, chaired the meeting. The Chair welcomed Indonesia and Malaysia as new contributors to IDA, as well as Azerbaijan and Thailand, which are considering becoming IDA contributors. She also welcomed observers from other multilateral institutions, including the African Development Bank, the Asian Development Bank and the International Fund for Agricultural Development; a representative from the G7+ Secretariat; and staff from the WBG Executive Directors' offices.

Participants welcomed opening remarks from WBG President Jim Yong Kim, who discussed the strong endorsement of the new WBG strategy by the Development Committee during the World Bank/IMF Annual Meetings on October 12, 2013. In his remarks, President Kim highlighted key linkages between IDA17 and the WBG strategy and change process, including alignment towards the WBG goals; enhanced synergies across IBRD-IDA-IFC-MIGA; the Science of Delivery in IDA countries, including fragile and conflict-affected states (FCSs); and cost-effectiveness and efficiency. He also confirmed that economic, social and environmental sustainability are high on the Bank Group's agenda. Participants affirmed their strong support for the WBG goals to end extreme poverty by 2030 and promote shared prosperity in a sustainable manner. Several emphasized IDA's unique platform for development and highlighted IDA's critical role as the main instrument for achieving the WBG goals in the poorest countries.

Participants emphasized the importance of a robust IDA17 policy package focused on strong implementation towards maximizing development impact and stepping up support for the IDA17 special themes of inclusive growth, gender equality, climate change and FCSs. They welcomed Management's overview presentation on the IDA17 Results Measurement System (RMS), noting progress achieved towards increased cohesiveness across the four RMS tiers. Some speakers also highlighted the need for selectivity and cautioned against the proliferation of RMS indicators.

***IDA17 Financing Framework***

Participants reviewed the IDA17 financing framework and the three scenarios presented by Management. Most Participants supported the preferred scenario of SDR33.5 billion and broadly agreed with the composition proposed by Management, noting that this scenario would enable IDA to step up its efforts towards the WBG goals. Participants noted that stepping up efforts in FCSs is central to achieving the WBG goals. Several Participants stressed the need to also protect financing for non-FCSs in real terms under the preferred scenario. To ensure efficient utilization of IDA17 resources, some Participants recommended flexibility in terms of reallocating unused resources from the Crisis Response Window (CRW) and arrears clearance set aside, to be discussed at the IDA17 Mid-Term Review. Some participants asked for an increase in the size of the CRW, while others noted that the proposal was on the high side.

Participants discussed the importance of a smooth transition for IDA countries to IBRD-only status in the context of a coherent WBG approach to graduation. Given India's poverty challenge and constraints posed by the current IBRD Single Borrower Limit, Participants recognized the exceptional circumstances facing India related to graduation from IDA. In this context, Participants welcomed the concerted efforts to ensure strong continued WBG engagement in India, including stretching by India, through the Special Private Placement Bonds (SPPBs); by IBRD, through a possible increase of the Single Borrower Limit (SBL); and by IDA, through transitional support during IDA17. Some Participants noted that transitional support for India should not crowd out financing for core IDA countries and could be seen as associated with the availability of concessional partner loans. More broadly, some noted the importance of looking at the ability of the WBG to support countries following graduation from IDA.

Participants also discussed the revisions for implementing concessional loans in IDA17. Overall, they recognized that in the exceptional circumstances of the current environment - characterized by low interest rates, severe resource constraints for a number of contributing partners, the proposed transition support, and declining internal resources - the concessional loans provide an important contribution to the commitment authority of IDA17. At the same time, they underscored that grant contributions remain at the core of IDA's financing framework and noted that the circumstances present in IDA17 does not imply the use of concessional loans in future replenishments. Participants stressed the importance of the principles of transparency, equal treatment, additionality, and protecting IDA's long-term financial sustainability in the introduction of concessional loans for the IDA17 period. In this context, many underscored the importance of the limit on the share of financing provided in the form of concessional loans and of the 80/20 framework in structuring such loans as described in the financing framework paper prepared for the meeting. Some asked that the 80/20 framework should be referred to in the IDA Deputies' Report not solely by way of a reference to the financing framework paper.

While expressing a wide range of views, most Participants acknowledged that Management proposal for the discount rate – estimated to be 2.65 percent in SDR terms – strikes a reasonable balance between financial attractiveness and incentives for IDA to remain largely grant-based. Management assured Participants that grant providers would not bear the costs associated with concessional loans. Participants urged those countries which are considering the concessional loans to inform Management on the potential size of and terms of the concessional loans by the end of October; Management would then share the expected range and terms of loans, and confirm the discount rate well ahead of the December meeting.

Finally, most Participants agreed to use a standard nine year encashment schedule for IDA17 and to set the discount for accelerated encashment of partner contributions at 2.0 percent.

### ***Draft IDA17 Deputies' Report***

Participants welcomed the progress made in elaborating the Deputies' Report, which places IDA in the context of the evolving global development landscape and the operationalization of the WBG strategy. They acknowledged that the Deputies' Report and the policy commitments in the RMS reflect the guidance provided in Managua to strengthen the focus on implementation and outcomes.

*Maximizing Development Impact.* Participants noted that IDA will be the main instrument to implement the World Bank Group strategy in the poorest countries. Recognizing that the operationalization of the WBG strategy is ongoing, Participants called for the use of three “placeholders” in the areas of alignment, science of delivery and cost-effectiveness and efficiency.

Participants welcomed the proposed policy commitments for leveraging private resources, public resources and knowledge while enhancing results, cost-effectiveness and efficiency. Several Participants requested further elaboration in the Deputies’ Report on the role of IFC and IBRD in IDA countries, also underlining the continued need for strong collaboration with other development partners. Participants noted that the new Country Partnership Framework will be more evidence-based and selective while remaining closely aligned with countries’ own development priorities. They highlighted the need to advance the science of delivery in IDA countries, ranging from enhanced support for statistical capacity building to greater use of real-time feedback to make adjustments throughout the project cycle. In particular, several speakers underscored the importance of ensuring adequate resources to operationalize the science of delivery in FCSs given the proposed increase in financing for these countries. Management provided assurances that in the context of aligning resources with the WBG strategy, funding for the science of delivery was a key priority and recommended that progress in this area be assessed at the IDA17 MTR. In addition, Management agreed to include an indicator on the proportion of projects with monitoring and evaluation rated as satisfactory and higher.

*Inclusive Growth.* Participants noted that the special theme of inclusive growth focuses on the need to maintain the growth momentum in IDA countries while ensuring that the opportunities and benefits of growth are shared broadly throughout the population. To better assess the issue of inequality, many Participants requested the inclusion in the IDA17 RMS of an indicator on inequality to complement the indicator on income growth of the bottom 40 percent of the population. Management agreed to add a relative measure of inequality under the inclusive growth section of the IDA17 RMS, taking into account suggestions received during the meeting. Some Participants also recommended greater emphasis on the working poor and on social safety nets while others recommended selectivity in the use of EITI related indicators and restraint in the use of new diagnostic tools.

*Climate change.* Participants noted that IDA is uniquely positioned to play a critical role in helping countries shift towards a climate resilient path and access and blend finance from different sources. They noted the need for strong support from IDA as countries make a transition towards inclusive growth that reconciles economic growth with social inclusion and environmental sustainability, while tackling climate and disaster risks. Some Participants called for further discussion in the text of the Deputies’ Report on environmental sustainability and sustainable growth, in addition to the focus on resilience and adaptation. Some Participants called for the inclusion of a CO<sub>2</sub> emissions indicator in Tier 1 and Tier 2 of the RMS while other Participants objected to that noting that IDA countries account for a negligible share of emissions and that efforts should focus on renewable energy and energy efficiency. Participants broadly recognized that IDA’s focus would emphasize adaptation to climate change and highlighted the need for strong support for disaster resilience.

*Gender.* Participants welcomed IDA’s recent advances on gender commitments. They noted the need for continued efforts to monitor and report on the implementation of gender informed projects. In line with this guidance to further enhance quality and results,

Management agreed to introduce, by the MTR, a mechanism to strengthen learning and results through an assessment and rating of gender performance at project exit. Participants also welcomed Management's proposals that all IDA CPFs incorporate gender considerations into the analysis, content and results frameworks along with the commitment to track the percentage of projects that integrate gender into analysis, design and monitoring in the IDA RMS. Looking ahead, Management will develop a renewed Gender Strategy by the 2014 Annual Meetings – with more ambitious targets, a new methodology for measuring progress, and an agenda for pushing ahead on new frontiers with transformational impacts.

*Fragile and Conflict-affected States.* Participants noted that fragility is a critical development challenge for ending extreme poverty and promoting shared prosperity in line with the WBG strategy. Participants welcomed the Bank's five-point agenda, which will strengthen operational effectiveness in FCSs through enhanced risk management and improve responsiveness in these challenging environments. They called for more discussion of the five-point agenda in the Deputies' Report. In addition, several speakers underscored the importance of strengthening client feedback to measure perceptions of the extent of WBG collaboration with other partners. Some Participants also requested specific language on the Bank's work in support of the New Deal and the potential use of Peace and State Building indicators as they become available.

*Sections IV through VI of the draft Deputies' Report.* Most Participants agreed to the changes to the allocation framework for FCSs, including the change from 5 to 4 of the Country Performance Rating (CPR) exponent. Participants welcomed the proposed increase in support of regional projects. They also acknowledged the possible need for increased flexibility regarding the criteria for regional projects in some cases. Given the already high demand for limited regional project resources, they asked that Management adopt a two-step process, with an early consultation with the Board. Participants supported the continuation of the Crisis Response Window. While many agreed with the level of funding, others asked that it be increased from the proposed 2 percent of the replenishment. Towards efficient utilization of IDA17 resources, several Participants called for flexibility in reallocating unused resources from the CRW and arrears clearance set asides at the time of the IDA17 MTR. Participants called for a reference in the Deputies' Report to the possibility of reallocating these resources, with decisions to be taken at the IDA17 MTR.

Lastly, several Participants requested including a reference to IDA17 Working Groups in the Deputies' Report, including in relation to supporting IDA's focus on development results, promoting IDA's long-term financial sustainability and reviewing the governance of the IDA replenishment process.