

IDA11

Additions To IDA Resources: Eleventh Replenishment

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INTRODUCTION

1. IDA is the world's most important channel for providing concessional financing to the low income developing countries. Its clients are the people and governments of the 78 poorest countries. As a multilateral fund financed mainly by the governments of [#] donor countries, IDA embodies the commitment of the richer countries to foster economic growth and better living conditions for people in the poorest countries. These donors have decided to replenish IDA's funding to finance its operations for the three years beginning July 1, 1996. This Report records the guidance of the donor governments' representatives, known as the IDA Deputies, on IDA's mission and priorities. The Deputies have reaffirmed that reduction of poverty continues to be IDA's overarching objective, and all its activities must be a means to that end. This main objective is complemented by two supporting objectives, namely economic growth, led by private sector investment, and environmental sustainability.

2. The IDA 11 Deputies have met [#] times under the chairmanship of Mr. Sven Sandström, Managing Director.¹ They have recommended a replenishment of SDR ___ billion. When combined with advance commitments against future repayments by IDA borrowers, this replenishment will give IDA a commitment authority of SDR ___ billion. This amount is expected to be augmented by annual transfers from IBRD net income as approved each year during the replenishment period by IBRD's Board of Governors. The Deputies place great importance on such transfers to IDA out of available IBRD net income, and note management's intention to recommend that high priority be given to these transfers, within current IBRD policy on the allocation of net income. They urge the Executive Directors of the Bank to continue to recommend to the Board of Governors the largest transfers feasible during the IDA11 period. The replenishment and additional resources are to fund development credits [and grants] [and guarantees] that will be committed during the period July 1, 1996 through June 30, 1999.

3. This report sets out the Deputies' guidance on IDA's priorities and activities during the replenishment period, the agreed burden sharing among the donors, and the recommended procedures for contributions and financial management.

¹ Their meetings were as follows:

Madrid, September 1994; Paris, February 1995; Washington DC, April 1995

Johannesburg, June 1995; Washington DC, October 1995; Luxembourg, November 1995...

1. COUNTRY ASSISTANCE STRATEGIES FOR IDA BORROWERS

4. IDA assists its borrowers by providing concessional financing, analysis and advice on economic policies, and technical assistance and training. IDA's assistance package is tailored, in consultation with the borrower, to the country's development needs, its capacity to implement projects, and its demonstrated commitment to sound policies. Country Assistance Strategies draw on IDA's wide-ranging cross country experience to assist the country in pursuit of sustainable poverty reduction combined with sustained, environmentally sound growth.

The Role of the Country Assistance Strategy Process

5. The Country Assistance Strategy (CAS) has evolved into IDA's main tool for planning its assistance programs and ensuring they are tailored to each country's needs. Much of IDA's analytical work serves as "building blocks" in the formulation of CASs. Such building blocks include Poverty Assessments, Public Expenditure Reviews, National Environmental Action Plans, and other economic and sector studies.

6. Deputies discussed the CAS process and noted the progress achieved to date. They particularly endorsed the following features of the process:

- It is **flexible**. It reflects each country's circumstances and permits IDA to develop a strategy tailored to the country's needs and plans.
- It is a **partnership** tool. IDA uses the CAS as the basis for its development policy dialogue with the borrower and as a basis for cooperation with donors to the country. IDA encourages borrowers also to use it as a way to involve local community groups and NGOs in discussions about the country's development strategy, and takes part in such discussions when invited.
- It identifies the priorities for IDA financing and explicitly links a country's **performance** to the amount it can borrow from IDA. It indicates how the amount and composition of lending would change if there is significant improvement or deterioration in performance. These criteria are monitored and revised in each successive CAS.

7. Deputies encouraged IDA management to strengthen its efforts to ensure that:

- IDA strategies are **selective** in the development issues they address, reflecting each country's development priorities. They should focus on the sectors and policies that are most crucial to accelerating growth and poverty reduction in each country.

- The strategies are explicitly linked to **key analytical building blocks** such as Poverty Assessments, Public Expenditure Reviews and National Environmental Action Plans.
- The Country Assistance Strategy **encompasses all the Bank Group's planned activities**, including those of IFC and MIGA, demonstrating how they address the country's priority development issues.
- The assistance strategy for IDA takes into account the activities and plans of **other donors**, with a view to maximizing the complementarity and effectiveness of donor assistance overall.

Participation in the Country Assistance Strategy Process

8. Deputies stressed that economic development and reform programs must—if they are to be legitimate and sustainable—be understood and broadly supported by civil society in the borrowing country. They noted and endorsed IDA's intensified efforts to ensure that governments seek broad participation in the design and implementation of its programs and projects. They welcomed IDA's encouragement of the use of participatory approaches and of social assessments in project development. They observed that an increasing proportion of new projects incorporate participation by stakeholders and beneficiaries, and stressed that the scope and quality of such participation must continue to improve. Special efforts should be made to promote the participation of women's groups.

9. Deputies felt that more effort is needed to increase participation in the development of country strategies and related work. Deputies agreed that the CAS document itself is not negotiated with borrowers' governments, insofar as it serves as a decision-making and resource allocation tool for IDA management. They also agreed that any difference of views between the government and IDA should be made explicit in the CAS document. They asked, however, that in the process of preparing the CAS, IDA make greater efforts to involve borrowers' governments, affected people and organizations and other donors in discussions of the issues and priorities determining the strategy. In particular, they urged that the key building blocks of the CAS, such as Poverty Assessments, economic studies, environmental plans and Public Expenditure Reviews, reflect active consultations within the borrowing country, taking into account local conditions and needs. They also recommended that IDA management encourage governments to make readily available the analysis of issues and priorities in the Country Assistance Strategy to interested groups in the country.

Poverty Reduction

10. Deputies reaffirmed that IDA's assistance strategy for each country must be centered on the reduction of poverty. No single IDA activity alone is adequate to address

poverty in a country. Rather, the totality of IDA's lending and other services in a country has poverty reduction as its overarching objective.

11. **Poverty Assessments.** Poverty Assessments, which IDA carries out in collaboration with each borrower, are a valuable tool in understanding the structure of poverty and in identifying the most urgent and effective development interventions. Deputies noted that Poverty Assessments are expected to be completed for all active IDA borrowers early in the IDA11 period. They recommended that wherever possible, participatory exercises be undertaken as a key element of Poverty Assessments. The Deputies urged that the findings of Poverty Assessments be more explicitly and systematically reflected in Country Assistance Strategies, and thereby in the composition of lending programs. Poverty Assessments, they noted, are typically followed up by additional studies, updating assessments or other analysis as appropriate.

12. **Poverty Monitoring and Analysis.** Deputies observed that reliable information about the incidence of and trends in poverty is scarce in many IDA borrowing countries. This has made it difficult to design and evaluate poverty reduction measures and the impact on the poor of economic policies. They urged that IDA, in collaboration with borrowers, local entities and bilateral donors, intensify its efforts to carry out and update household surveys and additional poverty analyses after an initial Poverty Assessment is completed. Strengthening of borrowers' institutions in this field should be a concomitant objective. They asked that the Bank's Annual Report on Poverty covering Fiscal Year 1996 outline a program of action and timetable for carrying out, in collaboration with borrowers and other donors, the highest priority poverty monitoring activities in IDA's key borrowing countries. Deputies noted that projects in IDA's Program of Targeted Interventions (PTI) usefully demonstrate how targeting can help project design to have an impact on poverty. They recommended that IDA build further on this experience and continue to monitor trends in lending for PTI projects. At the same time, they recognized that projects **outside** the PTI also benefit poor people, and noted the importance of effective monitoring of the impact of these projects as well.

13. **Public Expenditures for the Poor.** Deputies reaffirmed that economic growth is necessary but not sufficient to alleviate poverty on a wide scale. Investments in primary education, clean water, health services and basic infrastructure are also vital, not only to improve poor people's living standards, but also to increase their productivity and hasten their families' emergence from poverty. A country's public expenditures in these areas—whether financed by domestic or external sources—must, therefore, be structured appropriately to provide adequate services for the poor. Moreover, IDA-financed projects in these sectors can have a sustainable impact on poverty only when the overall pattern of spending and other policies in the sector also put priority on the needs of the poor.

14. Deputies agreed with the conclusion of the 1995 Social Summit at Copenhagen that the efficiency, effectiveness and equity of social sector spending should be improved. They recommended that Public Expenditure Reviews focus particularly on whether the size and composition of public expenditures adequately and sustainably serve the

development needs of the poor. Public Expenditure Reviews should identify the investment and recurrent expenditure needs in each key development sector and estimate the implications for the budget as a whole. Where appropriate, the Reviews should also consider whether reallocations of military expenditures, subventions to state-owned enterprises and other non-productive spending could contribute to ensuring that the overall pattern of spending is consistent with this development objective. They noted that a number of IDA borrowers have recently sought IDA's advice and assistance in redeploying resources away from military activities, and expressed the hope that such initiatives will increase. In addition, Deputies urged IDA to integrate more fully the findings of Public Expenditure Reviews into Country Assistance Strategies, indicating how IDA intends to assist the borrower to implement needed changes in the size and pattern of development expenditures. Finally, they indicated that the Public Expenditure Review process should be used systematically to build long-term government ownership of and capacity for carrying out such reviews on an ongoing basis.

15. Deputies noted that projects for health, education, water and sanitation account for more than one third of IDA investment lending. Within these broad sectors, special emphasis is given to primary education, girls' education, primary health care and nutrition for children and mothers. Deputies saw these trends as indicative of IDA's increased commitment to poverty reduction, and urged that these types of operations continue to be given special emphasis. They recommended that each Country Assistance Strategy explicitly consider the appropriate role for IDA lending for these sectors in relation to the country's needs, capabilities and other sources of finance. Deputies observed that education for girls has been shown to have a uniquely catalytic effect on all other dimensions of development. They therefore urged that IDA's Country Assistance Strategies, lending programs and Public Expenditure Reviews place particular emphasis on opportunities to provide, in partnership with local communities, education to more girls.

16. Deputies endorsed IDA's intention to increase its use of integrated sector operations. In this new type of operation, IDA and bilateral donors work closely with each other and with borrower governments to design and finance long-term sector development plans. They observed that this type of operation can improve the effectiveness of donor financing while also increasing the borrower's ownership of and commitment to a coherent sector strategy. They recommended that IDA use such operations—and related discussions on sector policies, institutions and expenditures—as a tool to ensure that government can establish adequate and sustainable financing for these sectors.

17. ***Poverty Focus for IDA Borrowers with Limited IBRD-Creditworthiness.*** Some IDA borrowers are also creditworthy to borrow limited amounts from IBRD. Most of these countries also have access to other non-concessional sources of finance. The assistance strategies for these countries should ensure that IDA assistance promotes and supports poverty reduction through sustainable growth, human resource development, environmental protection and natural resource management.

Environmentally Sustainable Development

18. Deputies reaffirmed that the goals of sound environmental stewardship and sustainable resource use complement IDA's overarching goal of poverty reduction. IDA has financed a significant and growing number of projects specifically aimed at environmental objectives such as conservation, sustainable resource use and pollution management. Even more important than this targeted portfolio, Deputies felt, is IDA's continuing effort to thoroughly integrate environmental considerations across the spectrum of IDA projects and other activities. The objectives and design of IDA-financed agriculture, transport, infrastructure and water supply projects should increasingly seek to ensure that resource use is sustainable and efficient, and that local people have more control over and interest in natural resources. The Environmental Assessment process is IDA's key tool for ensuring that its operations meet a high environmental standard. Deputies urged that the quality of Environmental Assessments continue to improve. They particularly recommended expanded use of sectoral environmental assessments, which permit the assessment process to affect project design more effectively and at an earlier stage.

19. Deputies found that National Environmental Action Plans have proven to be an effective mechanism for fostering sustainable development, as well as a key building block of Country Assistance Strategies. They noted that all active IDA9 borrowers have completed National Environmental Action Plans (NEAPs), and that all new active borrowers in IDA10 have launched the process. They asked that efforts be further intensified to ensure that NEAPs are prepared with full participation by all affected parties. Most NEAPs include an agenda for policy changes, investments and administrative measures appropriate to the country's environmental situation. Deputies urged that the Country Assistance Strategy systematically reflect the findings and recommendations of the NEAP and indicate whether and how priority environmental investments are to be financed.

Fostering Private Investment and Growth

20. Deputies affirmed that private sector economic activity is the cornerstone of job creation and poverty reduction. Yet, they noted, government policies in some countries have unnecessarily increased the risks and costs of doing business for private firms and farmers. The constraints to private business include an unstable macroeconomic environment, restrictions on trade and pricing, an excessive role of state-owned entities in economic activity and onerous regulations and licensing requirements. IDA assists its borrowers to improve the environment for private economic activity, as warranted by each country's circumstances, through its policy-based lending; through economic and sector studies, and through investment lending to strengthen institutions, upgrade infrastructure and train people.

21. Deputies recognized that an important constraint on private investment in many countries is the burden of state-owned enterprises that consume budgetary resources, drain the banking system and crowd out private competition and investment. Where applicable, IDA's Country Assistance Strategy should identify approaches to reducing this economic and fiscal burden. IDA's operations should continue to place high priority on measures to reduce or eliminate the economic efficiency losses such state-owned firms generate. Public Expenditure Reviews should, where appropriate, identify opportunities to release budgetary resources that may be needed to meet the development needs of the poor.

22. Deputies stressed the importance of small and micro-enterprises in job creation and income generation, especially for poor women. IDA finances projects to support small enterprises in a number of countries each year. Deputies asked that IDA assess the impact of these ongoing efforts and identify opportunities for future effective action. In particular, they stated that the Country Assistance Strategy and IDA's policy dialogue should address the economic, financial and structural issues affecting small enterprises, in countries where this is an important development issue. The Consultative Group on Assistance to the Poorest (CGAP) should, they said, serve as an important forum not only for mobilizing additional financing, but also for exchanging information and best practices in credit programs for such enterprises. They noted that the Executive Directors will receive periodic reports on the progress of CGAP, which will describe how the lessons learned from its operations can be integrated into IDA operations.

23. Deputies noted that infrastructure like roads, ports, water supply, electricity and other support services are vital for commercial activity to thrive. They endorsed IDA's approach of providing financing for such infrastructure, as appropriate in the context of Country Assistance Strategies.

24. **Guarantees.** Deputies, noting the growing use of IBRD guarantees, thought it possible that some IDA borrowers may, during the IDA11 period, identify projects for which an IDA guarantee could facilitate financing by private investors. Deputies discussed whether IDA should consider making available guarantees in certain specified circumstances. They recommended that the Board of Governors authorize the financing of guarantees from the IDA11 Replenishment on a limited basis. A proposal describing the key elements of such guarantees would be presented to Executive Directors for consideration as and when an initial IDA guarantee operation is proposed. Deputies said that any project proposed for guarantee financing should have a high priority within the Country Assistance Strategy and should contribute to the reduction of poverty. The proposed guarantee should catalyze private investment and should not substitute for support available from IFC, MIGA and private investors. IDA financing committed to any such operation would be counted toward the borrower's performance-based allocation of IDA resources. In view of these restrictive criteria for use of IDA guarantees, combined with the limited evidence of demand for them and the scarcity of IDA resources overall, Deputies expected the total amount of IDA11 resources committed to guarantees to be very limited.

Debt of Heavily Indebted IDA Borrowers

25. Deputies noted that 41 IDA borrowers are classified as Heavily Indebted Poor Countries (HIPC). They welcomed the existing special efforts under way to assist them, notably the Paris Club's adoption of the Naples Terms, and—within the World Bank—the Fifth Dimension program; the Debt Reduction Facility for IDA-only countries, and exceptional IDA allocations where warranted. They noted that the CAS document for each heavily indebted poor country now includes an analysis of the nature and severity of the debt problem, the expected impact of ongoing relief measures, and the sustainability of the debt service over the long term.

26. Deputies discussed whether it would be feasible and desirable for IDA to take additional measures to assist the HIPCs that are IDA borrowers. They generally agreed on the following key principles to guide further work on such measures. Given that IDA's fundamental objective is poverty reduction, debt related measures in a country should be carried out in support of an effective poverty reduction program, as reflected in the Country Assistance Strategy. Potential beneficiaries must have a track record of good policy performance. Each HIPC's debt situation should be analyzed and handled on a case-by-case basis within an overall framework and a consistent approach. The design of any new instruments should take account of the availability of resources. The long-term and secondary effects, including potential moral hazard, of any new instrument should be considered. Public concerns about multilateral debt should be considered in the selection of instruments and information should continue to be disseminated to explain both the debt problem and possible instruments. A broad multilateral approach to financing would be preferable to one confined to IBRD and IDA's roles. Finally, attention should be given to stock aspects of the debt problem as well as to flow aspects.

27. Deputies considered a number of specific possible measures to enhance IDA's existing instruments. They noted that a change in the coverage or eligibility date of the Fifth Dimension program would not address the priority debt issues of the poorest HIPCs. They also concluded that softening the terms of IDA credits would not have a significant impact in the short or medium term on the debt burden of the HIPCs. Providing IDA resources on outright grant terms, however, could be helpful insofar as it would entail no increase in a country's debt stock. Deputies, therefore, recommended allowing for this possibility, as described in paragraph 30 below. They also agreed to the possible use of IDA resources for Debt and Debt Service Reduction Operations to reduce or restructure commercial debt for selected countries where other mechanisms prove unsuitable or inadequate. They emphasized, however, that the development and poverty reduction rationale for any such operations would need to be presented in the Country Assistance Strategy and that the IDA funding would need to be within the country's performance-based lending allocation.

28. In considering the possible need for additional forms of enhanced financing for HIPCs, Deputies took note of ongoing joint work to be presented to the Executive Boards

of the World Bank and the International Monetary Fund. This country-by-country analysis is expected to identify more precisely the countries where existing mechanisms do not appear to provide a reasonable path to debt sustainability. In this context, Deputies recognized that it will be useful for IDA to have sufficient flexibility to respond to a country's specific requirements. They, therefore, urged IDA's management to continue exploring additional possible measures to assist such countries, taking into account the outcome of the joint Bank/Fund work. Any exceptional IDA financing related to a country's debt situation should, in all cases, be provided in an explicit and transparent manner. Deputies noted that the design of any additional IDA financing mechanisms would necessarily have to take into account the availability of total IDA resources.

Terms and Conditions of IDA Credits

29. Deputies discussed whether to recommend changes in the maturity, interest charges, grace period or repayment arrangements for IDA credits. They concluded that current IDA terms remain appropriate in general and that, because of their high grant element, IDA credits generally do not significantly worsen borrowers' debt service problems. They also saw little scope for hardening the terms of IDA credits for broad groups of countries or types of operations.

30. Deputies noted that a few HIPC's are pursuing sound economic policies but nonetheless face external financing constraints because of their exceptionally high levels of IDA debt. For these borrowers, Deputies felt it might be helpful for IDA to be able to continue providing concessional assistance without adding further to their IDA debt stock. This would entail the use of grants. Deputies recommended that the Board of Governors authorize the Executive Board to approve such grants from the IDA11 Replenishment. Any such grants would be proposed only insofar as overall IDA resource availability permits. The rationale for any such proposed grants to a country should be consistent with the findings of the joint World Bank/IMF analysis described in paragraph 28 above. The rationale should be outlined in the Country Assistance Strategy, in the context of the overall evaluation of the country's debt position and sustainability.

31. The terms of IDA Credits already provide for accelerated repayments of credits by countries that subsequently graduate from IDA and attain a per capita GNP equivalent to the historical IDA income eligibility threshold for five consecutive years. Deputies noted that no country has met these criteria since the accelerated payment provision was introduced in Fiscal Year 1987. At the same time, they noted there are several IDA borrowers, including some countries of the former Soviet Union, that can be expected to experience very rapid economic growth and to graduate from IDA eligibility within the next few years. Such countries' changed circumstances should be more promptly reflected in their repayment obligations to IDA. They, therefore, recommended that IDA management propose to Executive Directors changes in the accelerated repayment provisions of Development Credit Agreements for future credits, so as to lower the

income threshold that triggers accelerated repayments and to further increase the size of semi-annual payments to effectively shorten the amortization period for these credits.

Measuring the Results of IDA Projects

32. Deputies reaffirmed that IDA's impact can be judged only by the results its operations achieve in the field. They stressed that sufficient attention must continue to be given to project performance and portfolio implementation, and that IDA's internal culture and rewards should reflect this emphasis on results. Deputies noted that IDA-supported projects typically take many years to implement and to produce measurable improvements in living conditions. Projects for human resource development, in particular, significantly improve a country's health and education levels only after considerable time. While this has in the past made it difficult to measure the impact of IDA projects, the Deputies noted with satisfaction that IDA has taken significant steps to better define and monitor the intended outcomes or results of its projects. For each new project, monitorable indicators related to its objectives are defined and recorded at the design stage. The implementation progress and final results of the project are judged against these same indicators. The new system is now being introduced and it is expected that by the time of the Annual Report on Portfolio Performance for Fiscal Year 1997, which Executive Directors will review in early 1998, reporting on project implementation will be fully consistent with this new approach. Deputies expect that this framework will make it easier to systematically assess the achievements of IDA operations.

2. THE ALLOCATION OF IDA RESOURCES

33. Deputies noted the increasingly central role of the CAS and the dominant role of performance in determining lending levels. They decided that the overall allocation of IDA resources should result from decisions on individual country allocations, which reflect each borrower's development strategy, financing needs and performance.

Allocation Based on Performance

34. Deputies emphasized that the allocation of IDA resources should continue to be influenced primarily by each borrower's performance in economic management, poverty reduction and project implementation. The growing scarcity of donor resources underlines the importance of linking lending to performance. One important determinant of good performance is whether the borrower's macroeconomic and structural policies significantly contribute to reducing poverty. Deputies asked IDA's management to ensure that the method for evaluating performance adequately emphasizes this criterion. They clarified that even exceptional financing to heavily indebted borrowers—as described in paragraph 28 above—should be considered only for borrowers with a satisfactory record of economic performance and portfolio implementation.

Regional Priorities

35. Deputies agreed that accelerating development in Sub-Saharan Africa remains IDA's greatest challenge. For African borrowers, as for all IDA borrowers, performance will continue to be the main criterion for determining the allocation of IDA resources. Deputies reaffirmed that African countries that perform well on a sustained basis should continue to receive priority in the allocation of IDA resources. IDA should assist each borrower to reduce any capacity limitations that may inhibit its effective use of IDA and result in an IDA allocation lower than its policy performance would otherwise justify. Deputies expect Sub-Saharan Africa as a whole to receive, in the IDA11 period, a higher share of total lending than it did in the IDA10 period, as long as the performance of individual countries warrants it. IDA management will closely monitor the actual share and the reasons for any significant deviation from the desired level.

36. Deputies reviewed IDA's approach to borrowers that are also creditworthy for IBRD lending—the "blends". They noted that these countries vary considerably in their economic development prospects and access to non-concessional funds. A traditional major borrower in this group, they were pleased to note, is well along the path to graduation from IDA eligibility. Some newer blend borrowers are expected to have significant but relatively short-lived requirements for IDA financing resulting from their emergence from political transformation or crisis. Noting the increasing limitations on overall IDA funding, and the primary importance of meeting the financing needs of the poorest countries, Deputies urged that the assistance strategies and lending allocations for the "blend" countries take into account these countries' creditworthiness for and access to

other sources of funds. They expect the share of total IDA lending to “blend” countries to continue to decline as a result of the above developments, and they asked that this share be closely monitored.

Eligibility

37. Deputies decided to retain the same criteria for eligibility for IDA11 as were used in IDA10. They decided not to adopt Purchasing Power Parity as the measure of national income for eligibility purposes, noting that to do so would entail methodological problems while not significantly changing the set of IDA-eligible countries.

3. SIZE AND BURDEN SHARING

38. [To be completed]. Contributions shown in the following Table reflect the final agreement reached among donors.

Table ___ : Contributions to the Eleventh Replenishment					
(Amounts in Million)					
(Basic Contribution)		Supplementary	Total	National	
SDR	Share(%)	Contribution	Contribution	Currency	Amount
SDR	Share(%)	SDR	SDR		
Australia					
Austria					
Belgium					
Botswana					
Brazil					
Canada					
Czech Rep.					
Denmark					
Finland					
France					
Germany					
Greece					
Hungary					
Iceland					
Ireland					
Italy					
Japan					
Korea					
Kuwait					
Luxembourg					
Mexico					
Netherlands					
New Zealand					
Norway					
Poland					
Portugal					
Russia					
Saudi Arabia					
South Africa					
Spain					
Sweden					
Switzerland					
Turkey					
United Kingdom					
United States					
TOTAL					

4. CONTRIBUTION PROCEDURES AND FINANCIAL MANAGEMENT

39. Deputies found that IDA's financial procedures are well established and meet the needs of both donors and the Association.

Effectiveness and Advance Contribution Scheme

40. Past IDA replenishments were declared effective as soon as donor countries accounting for a specified share of the replenishment notified IDA that they would support the replenishment with the amount pledged. This threshold has been set at 80 percent of the total replenishment contributions. This effectiveness condition has meant in practice that the replenishments could become effective only after notification from the U.S. has been received. The U.S. notifications have been delayed from time to time by the U.S. legislative process. IDA10, for instance, became effective about six months after the start of the period covered by the replenishment. Commitment authority prior to this date was provided by the IDA10 Advance Contribution scheme, which became effective on July 1, 1993, at the start of the commitment period.

41. The Deputies recommended that IDA11, like previous replenishments, become effective when Instruments or Qualified Instruments of Commitment accounting for [#] percent of the total replenishment have been received by the Association. In order to avoid an interruption in IDA's ability to commit credits, they also recommended that an advance contribution scheme—similar to the one for IDA10—be put in place for IDA11. The IDA11 advance contribution scheme would become effective upon receipt of notifications by donors accounting for 20 percent of total contributions.

Payment and Encashment of Contributions

42. Donors will make their contributions available to IDA11 for commitment authority purposes in three equal annual tranches. This payment arrangement, which was also used for earlier replenishments, has proved satisfactory.

43. Encashments of donor contributions are expected to be made [over eight years as in IDA 10].

Valuation of Donor Contributions

44. Deputies agreed that donors can choose to denominate their contributions in their respective national currency or in SDRs or, with the approval of the Association, in the freely convertible currency of another member country. For the purpose of establishing the equivalence of value among different currencies and the SDR, donors agreed to use the average daily exchange rate for the period March 1, 1995 to August 31, 1995. Donors with domestic rates of inflation of 10 percent or higher during the 1992-94 period are to denominate their contributions in SDRs. This will help maintain the value of their contributions over time.

Arrangements to Encourage Timely Contribution and Contributions by New Contributors

45. Deputies considered possible incentives for donors to make their contributions on a timely basis. [To be completed]

46. Deputies also considered ways of encouraging countries to contribute that have not previously done so. [To be completed]

Payment of Subscriptions of Non-Contributing Members

47. Through IDA9, subscription payments from non-contributing members were collected in the same manner as donor contributions—generally, in equal installments over a three year period. Starting with IDA10, in order to lessen the administrative burden, subscription payments of non-contributing members were to be fully paid in one installment. Given the relatively small amounts involved, this new procedure has proven acceptable to the non-contributing members. The Deputies recommended that it be continued in IDA11. As at present, subscriptions in IDA11 would be made in local currency, either in cash or through note deposits.

IDA Voting Rights

48. The Deputies recommend the existing IDA voting rights system continue for the IDA11 period.

Further Harmonization of IBRD Shares with IDA Contributions

49. [To be completed]

Financial Management

50. The Deputies reviewed the financial management practices of IDA. They noted that IDA faces three kinds of financial risks: (i) The SDR value of donor resources could be less than at the time of commitment because of currency fluctuations; (ii) reflows might not materialize as expected because of borrower non-payment, and (iii) disbursements of IDA credits could be faster than anticipated. Deputies endorsed the practices through which IDA manages its resources in light of these risks. Commitment levels are set so that current and projected liquidity remain at prudent levels. Advance commitment levels are determined annually, to ensure flexibility. The currency composition of IDA's resources is managed so as to bring the mix closer to the composition of the SDR. This is done by holding liquid non-donor resources in currencies intended to balance the currency mix of expected donor contribution encashments.

Reporting

51. Deputies noted that during the past few years, the World Bank Group has substantially strengthened its systematic reporting on the priority objectives of IDA, in particular through the Annual Reports to the Executive Board on Poverty and on the Environment. These reports focus increasingly on the implementation and effectiveness of programs. The Annual Report on Portfolio Performance also is being significantly modified, as described in paragraph 31 above, to more effectively monitor and describe the results and impacts of projects. Deputies asked that these and other Bank Group documents continue to highlight IDA's activities wherever applicable. They also asked IDA management to inform the Executive Directors about additional subjects of emerging or special interest to donors.

5. RECOMMENDATION

52. The Deputies and the Executive Directors recommend that the Board of Governors adopt the draft Resolution annexed to this report.